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Content last modified 6/05/2009.

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

January 10, 1973

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DOMESTIC NONFINANCIAL SCENE

January 10, 1973

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SELECTED DOMESTIC NONFINANCIAL DATA
AVAILABLE SINCE PRECEDING GREENBOOK
(Seasonally adjusted)

	Latest Data-1972			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	Dec.	1/5	87.3	4.1	1.3	2.5
Unemployment rate	Dec.	1/5	5.2	5.2 1/	5.5 1/	6.0 1/
Insured unemployment rate	Nov.	12/19	3.3	3.4 1/	3.4 1/	4.2 1/
Nonfarm employment, payroll (mil.)	Dec.	1/5	73.9	0.4	3.9	3.6
Manufacturing	Dec.	1/5	19.4	2.2	6.9	4.5
Nonmanufacturing	Dec.	1/5	54.5	-0.2	2.9	3.3
Private nonfarm:						
Average weekly hours (hours)	Dec.	1/5	37.2	37.2 1/	37.3 1/	37.1 1/
Hourly earnings ($)	Dec.	1/5	3.74	3.2	5.4	5.9
Manufacturing:						
Average weekly hours (hours)	Dec.	1/5	41.0	40.9 1/	40.8 1/	40.2 1/
Unit labor cost (1967=100)	Nov.	12/27	119.6	-3.0	-2.7	2.3
Wholesale prices (1967=100)	Dec.	1/9	123.2	19.6	9.3	6.5
Industrial commodities	Dec.	1/9	119.5	1.7	2.0	3.6
Farm products & foods and feeds	Dec.	1/9	133.4	62.5	27.2	14.4
Consumer prices (1967=100)	Nov.	12/22	126.9	3.2	4.2	3.5
Food	Nov.	12/22	126.3	13.4	7.7	5.4
Commodities except food	Nov.	12/22	121.0	7.0	3.7	3.0
Services 2/	Nov.	12/22	134.9	2.7	3.3	3.5
Personal income ($ bil.) 3/	Nov.	12/20	972.5	10.8	13.8	10.6
				(Not at Annual Rates)		
Plant & equipment expen. ($ bil.) 4/	1973	1/10	100.0	--	--	12.9
Mfrs. new orders dur. goods ($ bil.)	Nov.	1/3	37.9	3.1	6.1	21.1
Capital goods industries:	Nov.	1/3	11.7	2.9	9.0	17.6
Nondefense	Nov.	1/3	9.8	0.7	6.0	23.1
Defense	Nov.	1/3	1.9	15.3	27.4	-4.2
Ratio: Inventories to sales Manufacturing	Nov.	1/3	1.60	1.64 1/	1.66 1/	1.77 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	Nov.	1/3	.870	.876 1/	.894 1/	.944 1/
Retail sales, total ($ bil.)	Dec.	1/10	38.9	0.3	3.2	11.6
GAF	Dec.	1/10	10.0	-0.6	0.9	9.0
Auto sales, total (mil. units) 3/	Dec.	1/9	11.38	-2.8	-2.7	17.0
Domestic models	Dec.	1/9	9.89	-0.9	-3.1	15.3
Foreign models 5/	Dec.	1/9	1.49	-13.9	0.0	29.6
Housing starts, private (thou.) 3/	Nov.	12/18	244.5	0.4	-1.6	9.7
Leading indicators (1967=100)	Nov.	12/27	150.4	1.9	2.3	14.5

1/ Actual data. 2/ Not seasonally adjusted. 3/ Data at annual rate.
4/ Commerce survey, taken December 1972. 5/ Registrations.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Real GNP is now estimated to have risen at an annual rate of around 8-1/2 per cent in the fourth quarter rather than the 7-1/2 per cent projected four weeks ago. Strength was especially pronounced in private final purchases, with consumer spending expansive and business fixed investment and residential construction activity exceeding earlier expectations. The GNP deflator is estimated to have increased at an annual rate of 2.3 per cent, below the 2.9 per cent previously projected. But the private fixed weight index apparently increased at a 2.7 per cent rate, about as much as had been projected.

Industrial production is estimated to have risen appreciably further in December, but not as rapidly as in the past several months. For the quarter as a whole, the increase was at an annual rate of about 11-1/2 per cent. Nonfarm payroll employment rose only a little further in December from an upward revised November level; for the quarter the increase was at an annual rate of 3.4 million. The unemployment rate in December remained at the reduced 5.2 per cent reached in November.

Retail sales increased only a little in December, according to the advance report, but for the fourth quarter as a whole were up about 3-1/2 per cent from the third quarter. Sales of the GAF grouping (general merchandise, apparel, furniture and appliance stores) were about unchanged in December but were up substantially from a year earlier. Unit sales of new autos were maintained at very high rates, also well above a year earlier. Consumer instalment credit outstanding, which has expanded by record amounts in the past few months, will undoubtedly show another large increase for December.

The latest available data support earlier indications of continued strong expansion in business outlays for fixed capital. The Commerce survey, released today, shows an increase of 12.9 per cent in planned outlays for plant and equipment in 1973, a larger rise than indicated by any of the three private surveys taken last fall. Another sizable rise in output of business equipment is estimated for December. In November, manufacturers' new orders for nondefense capital goods increased further and square footage of contracts awarded for industrial and commercial building rose sharply to a new high for this year.

There was a large increase in wage rates in December, according to preliminary data. Since August the earnings index has risen at an annual rate of 7.8 per cent, well above the rate of advance earlier in the year. The consumer price index in November rose at a relatively moderate annual rate of 3.3 per cent, but in December there was a sharp rise in wholesale prices reflecting an exceptional increase in prices of farm products and foods. Prices of industrial commodities were up only a little.

Outlook. For 1973, the staff has again retained the basic monetary and price-wage control assumptions incorporated in the Chart Show projection, but is now assuming unified budget expenditures of $250 billion in fiscal 1973, rather than $253 billion. This change, however, is assumed to reflect mainly asset sales and technical transactions and therefore is projected to have relatively little effect on Federal purchases in the NIA accounts.

As may be seen from the table, current projections have been raised somewhat from those of four weeks ago. The upward modifications for 1973 as a whole reflect in part the carrying through of the greater strength now evident in the fourth quarter of 1972. Growth in real GNP is still projected to be as rapid in the first quarter as earlier projected, and to slow thereafter--but less markedly.

STAFF GNP PROJECTIONS

	Change in Nominal GNP $ billion		Per cent increase, annual rate: Real GNP		Per cent increase, annual rate: Private GNP fixed weight price index		Unemployment rate	
	12/13/72	Current	12/13/72	Current	12/13/72	Current	12/13/72	Current
1971 1/	74.0	74.0	2.7	2.7	4.5	4.5	5.9	5.9
1972 e/	101.4	101.7	6.4	6.5	3.2	3.2	5.6	5.6
1973	117.0	120.3	6.5	6.9	3.4	3.4	4.9	4.9
1972-I 1/	31.0	31.0	6.5	6.5	4.5	4.5	5.8	5.8
-II 1/	30.3	30.3	9.4	9.4	2.5	2.5	5.7	5.7
-III 1/	24.6	24.6	6.3	6.3	2.9	2.9	5.6	5.6
-IV e/	30.5	32.1	7.6	8.7	2.9	2.7	5.3	5.3
1973-I	33.0	33.3	6.8	6.8	3.6	3.6	5.1	5.1
-II	29.0	30.0	5.9	6.2	3.7	3.8	5.0	4.9
-III	26.0	28.5	4.4	5.4	3.9	3.9	4.9	4.8
-IV	26.0	26.5	4.3	4.4	3.9	4.0	4.8	4.7

1/ Actual.

So far as demands are concerned, the staff has raised somewhat its earlier projections of consumer purchases and inventory investment. Business fixed investment is now projected to rise 15 per cent for 1973 compared to an increase of 13 per cent shown four weeks ago. On the other hand, residential construction activity is now projected to decline

more rapidly in the closing quarter than in the projection of four weeks ago. This revision assumes some additional decline in starts late in the year resulting from moratorium on Federal subsidy programs.

The fixed weight price index is now projected to rise slightly more during the year than earlier shown, reflecting mainly prospects for higher food prices. The unemployment rate is expected to decline to 4.7 per cent by the fourth quarter, slightly lower than last time because of the somewhat more rapid real growth now anticipated.

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarterly figures at annual rates.)

	1972 Proj.	1973 Proj.	1972 III	1972 IV	1973 Projected I	1973 Projected II	1973 Projected III	1973 Projected IV
Gross National Product	1152.2	1273.3	1164.0	1196.1	1229.4	1259.6	1288.6	1315.6
Final purchases	1146.6	1259.9	1156.0	1187.1	1218.9	1247.1	1274.1	1298.6
Private	891.9	985.7	900.4	927.4	950.9	976.0	997.5	1018.4
Excluding net exports	896.0	987.9	903.8	930.6	953.7	978.7	999.8	1019.4
Personal consumption expenditures	721.7	795.8	728.6	748.5	767.5	788.7	805.3	821.7
Durable goods	116.1	130.9	118.6	121.0	125.5	130.5	133.0	134.5
Nondurable goods	300.3	333.1	302.0	313.5	321.0	330.0	336.8	344.4
Services	305.3	331.9	308.0	314.0	321.0	328.2	335.5	342.8
Gross private domestic investment	179.9	205.5	183.2	191.1	196.7	202.5	209.0	213.7
Residential construction	53.9	53.7	54.4	56.6	55.9	54.4	53.4	51.1
Business fixed investment	120.4	138.4	120.7	125.5	130.3	135.6	141.1	146.6
Change in business inventories	5.6	13.4	8.0	9.0	10.5	12.5	14.5	16.0
Nonfarm	5.3	13.4	7.9	9.0	10.5	12.5	14.5	16.0
Net exports of goods and services	-4.1	-2.2	-3.4	-3.2	-2.8	-2.7	-2.3	-1.0
Exports	73.5	84.4	74.4	79.0	80.8	83.3	85.4	88.0
Imports	77.6	80.6	77.8	82.2	83.6	86.0	87.7	89.0
Gov't. purchases of goods and services	254.7	274.2	255.6	259.7	268.0	271.1	276.6	281.2
Federal	106.0	106.4	105.4	104.7	107.5	105.7	106.4	106.1
Defense	76.2	76.4	75.1	74.5	77.0	77.0	75.9	75.6
Other	29.7	30.0	30.2	30.2	30.5	28.7	30.5	30.5
State & local	148.7	167.8	150.2	155.0	160.5	165.4	170.2	175.1
Gross national product in constant (1958) dollars	790.0	844.8	796.1	813.4	827.3	840.1	851.3	860.8
GNP implicit deflator (1958 = 100)	145.8	150.7	146.2	147.1	148.6	149.9	151.4	152.8
Personal income	935.3	1023.7	939.9	972.0	992.6	1012.3	1035.1	1054.9
Wage and salary disbursements	626.7	688.0	630.8	647.5	665.1	680.4	695.7	710.8
Disposable income	794.6	879.1	798.8	826.3	853.3	880.7	883.1	899.2
Personal saving	53.7	63.2	50.8	58.2	66.1	72.0	57.6	57.1
Saving rate (per cent)	6.8	7.2	6.4	7.0	7.7	8.2	6.5	6.4
Corporate profits before tax	93.9	109.3	95.7	100.0	101.8	107.3	112.1	115.9
Corp. cash flow, net of div. (domestic)	91.6	104.1	93.1	96.5	98.4	102.5	106.1	109.2
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	228.3	250.9	229.8	237.0	241.7	236.8	259.7	265.3
Expenditures	246.9	270.1	241.6	263.0	271.1	264.9	271.3	273.2
Surplus or deficit (-)	-18.6	-19.2	-11.8	-26.0	-29.4	-28.1	-11.6	-7.9
High employment surplus or deficit (-)	-1.0	-7.6	3.7	-13.6	-16.3	-14.8	-1.4	2.0
State and local government surplus or deficit (-), N.I.A. basis	12.5	11.6	9.4	18.7	17.2	10.0	10.1	9.1
Total labor force (millions)	89.0	90.7	89.2	89.6	90.1	90.6	90.9	91.3
Armed forces "	2.4	2.3	2.4	2.4	2.4	2.4	2.3	2.3
Civilian labor force "	86.6	88.4	86.8	87.2	87.7	88.2	88.6	89.0
Unemployment rate (per cent)	5.6	4.9	5.6	5.3	5.1	4.9	4.8	4.7
Nonfarm payroll employment (millions)	72.8	75.3	73.0	73.8	74.5	75.1	75.6	76.0
Manufacturing	18.9	19.6	18.9	19.3	19.4	19.6	19.7	19.7
Industrial production (1967 = 100)	114.1	124.1	115.0	118.3	120.9	123.3	125.4	127.0
Capacity utilization, manufacturing (per cent)	77.6	81.6	78.1	79.7	80.6	81.5	82.0	82.3
Housing starts, private (millions, A.R.)	2.38	2.07	2.36	2.36	2.25	2.15	2.01	1.87
Sales new autos (millions, A.R.)	10.76	11.50	11.26	11.50	11.60	11.60	11.40	11.40
Domestic models	9.32	10.00	9.90	9.90	10.10	10.10	9.90	9.90
Foreign models 1/	1.44	1.50	1.36	1.60	1.50	1.50	1.50	1.50

NOTE: Projection of related items such as employment and industrial production index are based on projection of deflated GNP. Federal budget high employment surplus or deficit (N.I.A. basis) are staff estimates and projections by method suggested by Okun and Teeters.

1/ Registrations.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1972 Proj.	1973 Proj.	1972 III	1972 IV	1973 Projection I	1973 Projection II	1973 Projection III	1973 Projection IV
	Billions of Dollars							
Gross National Product	101.8	121.1	24.6	32.1	33.3	30.2	29.0	27.0
Inventory change	2.0	7.8	3.0	1.0	1.5	2.0	2.0	1.5
Final purchases	99.8	113.3	21.6	31.1	31.8	28.2	27.0	25.5
Private	78.0	93.8	20.1	27.0	23.5	25.1	21.5	20.9
Excluding net exports	82.8	91.9	18.3	26.8	23.1	25.0	21.1	19.6
Net exports	-4.8	1.9	1.8	0.2	0.4	0.1	0.4	1.3
Government	21.9	19.5	1.5	4.1	8.3	3.1	5.5	4.6
GNP in constant (1958) dollars	48.2	54.8	12.2	17.3	13.9	12.8	11.2	9.5
Final purchases	46.5	48.8	9.8	16.4	12.5	11.9	9.6	7.9
Private	41.0	46.2	11.1	15.4	11.0	11.9	8.5	7.3
	Per Cent Per Year							
Gross National Product	9.7	10.5	8.9	11.0	11.1	9.8	9.2	8.4
Final purchases	9.5	9.9	7.6	10.8	10.7	9.3	8.7	8.0
Private	9.6	10.5	9.1	12.0	10.1	10.6	8.8	8.4
Personal consumption expenditures	8.5	10.3	8.5	10.9	10.2	11.0	8.4	8.1
Durable goods	12.2	12.7	16.5	8.1	14.9	15.9	7.7	4.5
Nondurable goods	8.0	10.9	6.5	15.2	9.6	11.2	8.2	9.0
Services	7.8	8.7	7.4	7.8	8.9	9.0	8.9	8.7
Gross private domestic investment	18.4	14.2	14.0	17.2	11.7	11.8	12.8	9.0
Residential construction	26.5	-0.4	12.1	16.2	-4.9	-10.7	-7.4	-17.2
Business fixed investment	13.8	15.0	5.0	15.9	15.3	16.3	16.2	15.6
Gov't. purchases of goods & services	9.4	7.7	2.4	6.4	12.8	4.6	8.1	6.7
Federal	8.4	0.4	-10.0	-2.7	10.7	-6.7	2.6	-1.1
Defense	6.7	0.3	-17.8	-3.2	13.4	0.0	-5.7	-1.6
Other	12.9	1.3	8.1	0.0	4.0	-23.6	25.1	0.0
State & local	10.1	12.8	11.5	12.8	14.2	12.2	11.6	11.5
GNP in constant (1958) dollars	6.5	6.9	6.3	8.7	6.8	6.2	5.4	4.4
Final purchases	6.3	6.2	5.0	8.3	6.2	5.8	4.6	3.7
Private	6.8	7.2	7.0	9.5	6.7	7.1	4.9	4.2
GNP implicit deflator	3.0	3.3	2.4	2.3	4.2 1/	3.6	3.8	3.9
Private GNP fixed weight index 2/	3.2	3.4	2.9	2.7	3.6	3.8	3.9	4.0
Personal income	8.6	9.5	7.5	13.7	8.5	7.9	9.0	7.7
Wage and salary disbursements	9.4	9.8	6.4	10.6	10.9	9.2	9.0	8.7
Disposable income	6.7	10.6	8.2	13.8	13.1	12.8	1.1	7.3
Corporate profits before tax	12.7	16.4	24.9	18.0	7.2	21.6	17.9	13.6
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.7	9.9	9.4	12.5	7.9	-8.1	38.7	8.6
Expenditures	11.8	9.4	-5.5	35.4	12.3	-9.1	9.7	2.8
Nonfarm payroll employment	3.0	3.4	2.5	4.4	3.8	3.2	2.7	2.1
Manufacturing	2.2	3.6	1.4	8.5	2.1	4.1	2.0	0.0
Industrial production	6.8	8.8	6.0	11.5	8.7	8.2	6.9	5.0
Housing starts, private	16.1	-13.0	16.4	0.0	-18.6	-17.8	-26.0	-27.9
Sales new autos	6.2	6.9	37.1	8.5	3.5	0.0	-6.9	0.0
Domestic models	7.4	7.3	44.4	0.0	8.1	0.0	-7.9	0.0
Foreign models 3/	-0.7	4.2	-9.5	70.6	-25.0	0.0	0.0	0.0

1/ Excluding Federal pay increase, 3.5 per cent annual rate.

2/ Using expenditures in 1967 as weights.

3/ Registrations.

Industrial production. Industrial production is tentatively estimated to have increased substantially further in December, although probably less than in November. The total index is estimated to have advanced at an annual rate of around 11-1/2 per cent from the third to the fourth quarter and to be about 10 per cent above a year earlier. Limited data now available indicate that gains in output were widespread among final products and materials.

Auto assemblies rose 7 per cent in December to an annual rate of 10.3 million units. Production schedules for January, however, indicate a decline to about a 9.7 million seasonally adjusted annual rate. In early December, output of most household appliances was maintained at the record level prevailing during most of 1972. Production worker manhour data suggest another large advance in output of business equipment. Among materials, production of raw steel increased 9.5 per cent and trade reports indicate another rise in output of aluminum. Production of crude oil and paperboard continued at high levels.

Retail sales. The value of retail sales in December was up only slightly from November, according to the advance Census report. Durable sales rose slightly with autos up by close to 2 per cent, but sales of furniture and appliances and other durables were off somewhat. Nondurable goods sales were about unchanged, as was the GAF grouping.

Despite the slight overall gain in December and a small downward revised November sales figure, for the quarter as a whole retail sales showed a strong gain of about 3-1/2 percent, Sales of the auto

group were particularly strong, up by over 4-1/2 per cent, but the 2-1/2 per cent gain in the GAF group was also notable considering the tendency for sales of this group to move counter to unusual gains in auto sales.

Unit sales of selected durables. December sales of new domestic-type autos were at a 9.9 million unit rate, the same as the average rate in the last half of 1972. Sales were particularly strong in the last 20 days of the month as all three major producers closed out sales contests. For 1972 as a whole, a record 9.3 million domestic type vehicles were sold; the previous record was 8.8 million in 1965. Dealer inventories were equal to a 45 day supply at the end of December, about the same as in the previous two months, but 15 per cent below a year earlier.

Sales of imported cars in December were at a 1.6 million unit annual rate, down 6 per cent from November, but a third above December 1971 sales which were depressed by dock strikes and currency uncertainties. For the fourth quarter, sales of imports averaged 1.5 million units, slightly above earlier quarters in 1972. Import sales for the year 1972 were 1.4 million units, slightly below last year's record. Total new auto sales amounted to a new record of 10.7 million units.

Sales of domestic-type trucks were at a 2.6 million unit rate in December, down 10 per cent from a month earlier, but 16 per cent above a year earlier. For the year 1972, a record 2.5 million domestic-type trucks were sold, 26 per cent above last year's record level.

Factory sales of major home appliances, TVs, and radios increased sharply in the first three weeks of December and were 15 per cent above the comparable November period. Sales of major appliances rose 9 per cent. TV sales by factories were a fourth above a month earlier, while radio sales (almost all imports) were 3 per cent below November.

FACTORY UNIT SALES OF HOME GOODS
(Seasonally adjusted, 1967=100)

	1971	1972			Per cent change	
	Dec.	Oct.	Nov.	Dec.	Month ago	Year ago
Total factory sales	133	129	136e	157e	15	18
TVs 1/	129	135	132	165	24	28
Radios 1/	93	84	97	95e	-3	3
Major appliances	139	130	142e	155e	9	12

1/ Includes foreign-made units sold under U.S. brand names; foreign brands not included.
e/ Estimated on basis of data through December 23.

Construction and real estate. Seasonally adjusted value of new construction activity, which was revised upward by more than 2 per cent for both October and November, remained at the new record annual rate of $129 billion in December--the same as the fourth quarter average. All major sectors showed essentially no month-to-month change in December. For 1972 as a whole, total outlays were $124 billion--14 per cent above a year earlier. The increase was nearly as large as in 1971 when pressures on available resources were appreciably less.

Construction costs in December, as measured by the Census composite index, were running 5 per cent above a year earlier, about the same as for 1972 as a whole. In each of the preceding two years, the average rise in such costs had been higher, approximating 7 per cent.

NEW CONSTRUCTION PUT IN PLACE
(Seasonally adjusted annual rates, in billions of dollars)

	1972				
	QIII(r)	QIV(p)	October(r)	November(r)	December1/
Total - current dollars	122.5	129.1	129.0	129.1	129.1
Private	93.1	97.4	96.2	97.9	98.1
Residential	54.4	56.6	56.3	56.8	56.8
Nonresidential	39.1	40.8	39.9	41.1	41.3
Public	29.4	31.7	32.8	31.1	31.1
State and local	25.1	27.2	28.4	26.6	26.6
Federal	4.2	4.4	4.4	4.5	4.4
Total - 1967 dollars	88.5	91.8	92.1	91.7	91.6

1/ Data for December 1972 are confidential Census Bureau extrapolations. In no case should public reference be made to them.

Seasonally adjusted private housing starts--revised upward slightly further for October--were about unchanged in November at the exceptionally high annual rate of 2.44 million units. Even if, as expected, some decline occurred in December, the rate in the fourth quarter as a whole apparently was close to the advanced third quarter average. Also, the total for the year most likely rounded up to 2.4 million units, compared with 2.05 million last year--the only other year in which starts exceeded 2 million units in the history of the series. These data exclude mobile home shipments which, based on present estimates for 1972, also rose--by 15 per cent, to 575,000 units.

PRIVATE HOUSING STARTS, PERMITS, AND COMPLETIONS
(Seasonally adjusted annual rates, in millions of units)

	QI	QII	QIII(r)	Sept.(r)	Oct.(r)	Nov.(p)
Starts	2.51	2.26	2.37	2.40	2.43	2.44
1-family	1.35	1.27	1.36	1.38	1.30	1.34
2-or-more-family	1.16	.99	1.01	1.02	1.14	1.10
Permits	2.09	2.04	2.20	2.26	2.22	2.16
Completions	1.98	1.90	1.95	1.94	1.95	n.a.
MEMO:						
Mobile home shipments	.57	.60	.54	.50	.54	.65 1/

p/ Preliminary.
n.a. Not available.
1/ Confidential until January 15.

Unlike 1971, the rise in starts in 1972 was entirely in nonsubsidized units. Subsidized starts are currently estimated at about 100,000 units below the record 448,000 of the previous year. A moratorium on future commitments for all of HUD's housing subsidy programs became effective at the close of business on January 5, and a similar moratorium affecting the related subsidy operations of the Farmers Home Administration was announced subsequently. However, given the backlog of commitments already made and other factors, the rate of subsidized starts will probably not be appreciably changed--at least over the near term.

Plant and equipment plans. The Commerce December survey of 1973 spending plans for new plant and equipment indicates that business expects to increase spending by 12.9 per cent as compared with the 9 per cent rise indicated for 1972. Manufacturers plan a 14 per cent gain in contrast with a 4 per cent increase in 1972--durable goods producers expect a larger increase than nondurable goods producers. In nonmanufacturing, plans are for a 1973 gain of 12.5 per cent, although transportation firms expect only a 2 per cent gain--largely due to a reduction in capital spending by airlines.

The results shown in this survey are more optimistic than those of earlier private surveys.

PLANT AND EQUIPMENT EXPENDITURES
(Per cent change from prior year)

	1971	1972 1/	1973 1/			
	(Actual)	Commerce (Nov.)	Lionel D. Edie (Oct.'72)	McGraw-Hill (Nov.'72)	Renfret-Boston (Oct'72)	Commerce (Jan. '73)
All business	1.9	9.0	10.0	10.6	9.1	12.9
Manufacturing	-6.1	3.9	12.5	13.8	13.3	13.6
Durable goods	-10.4	9.7	13.5	15.3	9.9	16.7
Nondurable goods	-1.9	-1.2	11.5	12.3	16.6	10.6
Nonmanufacturing	7.2	12.0	8.6	8.9	6.7	12.5
Transportation	-18.4	16.2	.4	-6.7	14.0	1.6
Electric util.	20.8	13.1	13.0	13.0	5.6	17.0
Communication	6.6	10.5 2/	11.5	9.0	10.4	17.6 2/
Commercial & Other	8.8	11.8 2/	9.2	10.0	4.2	9.8 2/

1/ Anticipated.
2/ Confidential, not published separately.

Manufacturers orders and shipments. New orders for durable goods rose 3.1 per cent (p) in November, up sharply from the (downward-revised) 0.2 per cent dip in October. Excluding defense, durable goods orders were up 2.5 per cent in November. New orders for nondefense capital goods rose 0.7 per cent in November following an October gain of 1.8 per cent. The October-November average for new orders for durable goods was up 4.7 per cent from the third quarter monthly average. This was a somewhat larger gain than from the second to the third quarter and was due largely to strengthening of orders for capital goods, household durables, and construction materials.

Durable goods shipments rose 2.1 per cent in November; backlogs of unfilled orders also rose with especially large increases in the primary metals, electrical machinery and non-electrical machinery industries, and in nondefense capital goods.

MANUFACTURERS NEW ORDERS FOR DURABLE GOODS: 1972
(Per cent changes)

	Nov. from Oct. (p)	Q III from Q II	Q IV from Q III 1/
Durable goods, total	3.1	3.0	4.7
Excluding defense	2.5	4.4	4.8
Primary metals	4.8	9.3	2.0
Motor vehicles & parts	1.9	10.6	6.0
Household durables	6.2	.6	7.1
Capital goods industries	2.9	-1.2	4.4
Nondefense	.7	2.9	4.9
Defense	15.3	-18.2	2.1
Construction & other durables	2.2	1.2	4.9

1/ Based on October-November average.

Inventories. Book value of manufacturers' inventories rose at a $6.1 billion annual rate in November, compared with $6.8 billion in October, and a third-quarter average rate of $7.7 billion. In October and November taken together, stocks of materials and supplies increased at a relatively high rate and the increase in work-in-process inventories accelerated further, but stocks of finished goods declined. By industry groups, the mild slowdown in book value growth in these two months was concentrated in consumer goods; inventory growth accelerated further for both defense and nondefense capital goods.

CHANGE IN BOOK VALUE OF MANUFACTURERS' INVENTORIES
(Seasonally adjusted annual rate, $ billions)

	1972			
	Q II	Q III	Oct. (Rev.)	Nov. (Prel.)
Manufacturing, total	4.2	7.7	6.8	6.1
Durable	3.3	5.6	6.0	5.3
Nondurable	.9	2.1	.9	.9

NOTE: Detail may not add to totals because of rounding.

Manufacturing shipments increased 3 per cent in November; this was relatively more than the rise in inventories and the inventory-shipments ratio declined further to 1.60, the lowest since the expansionary period in the spring of 1966.

Unfilled orders for durable goods rose 1.3 per cent in November, and as a result the ratio of durable goods stocks to unfilled orders declined slightly further, but this ratio remained well above levels in earlier expansionary periods.

MANUFACTURERS' INVENTORY RATIOS

	1971		1972	
	Oct.	Nov.	Oct. (Rev.)	Nov. (Prel.)
Inventories to shipments				
Manufacturing, total	1.82	1.77	1.64	1.60
Durable	2.20	2.14	1.92	1.89
Nondurable	1.38	1.34	1.28	1.23
Inventories to unfilled orders:				
Durable manufacturing	.953	.944	.876	.869

Cyclical indicators. The Census composite index of leading indicators rose a strong 1.9 per cent (p) in November. Revisions for previous months were negligible. The coincident and lagging composites rose by 1.5 and 1.7 per cent respectively in November.

Leading series increasing in November were the manufacturing workweek, initial unemployment claims (inverted), new orders for durable goods, industrial materials prices, common stock prices, and the ratio of price to unit labor cost. Series declining were contracts and orders for plant and equipment and housing permits. Since the preliminary index was compiled, a substantial increase has also been reported in the change in consumer installment debt.

CHANGES IN COMPOSITE CYCLICAL INDICATORS
(Per Cent Change from Previous Month)

	August	September	October	November (p)
12 Leading (trend adjusted)	3.1	- .1	.5	1.9
12 Leading, prior to trend adjustment	2.7	- .4	.1	1.5
5 Coincident	1.3	.9	1.8	1.5
5 Coincident, deflated	1.5	.4	1.8	n.a.
6 Lagging	.6	2.0	1.4	1.7

In December, common stock prices, industrial materials prices and the workweek rose further.

Labor market. The unemployment rate remained at 5.2 per cent in December after dropping 0.3 percentage point in November.

The household survey indicated substantial gains in both labor force and employment following a small employment advance and a sharp labor force decline in November. Preliminary payroll employment estimates for December show little gain over the month following an increase of 280,000 in November (revised upward by 100,000).

Expansion of labor demand has been especially rapid since mid-year. Much of the recent growth has been in manufacturing with large employment gains in metal and metal-using industries. The factory workweek also has increased and, at 41 hours, was up nearly one hour from December 1971. Outside of manufacturing, employment advances have continued large in trade, services, and State and local government.

NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted; in thousands)

	Dec. 1971-July 1972	July 1972-Dec. 1972	Nov. 1972-Dec. 1972
	Average Monthly Change		
Total	196	246	24
Government	35	44	55
Federal	-6	4	-2
State and local	42	40	57
Private			
Goods-producing	50	91	-55
Manufacturing	49	99	35
Service-producing	110	112	24
Trade	51	44	-21
Service	43	41	43

Unemployment and labor force. The number of jobless workers remained at 4-1/2 million, seasonally adjusted, in December as both total employment and the civilian labor force increased by 300,000. Unemployment rates for most groups showed little movement over the month, with no change for men 25 years and over, married men and heads of households. The rate for young men 20 to 24 declined, but the teenage rate rose.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1971	1972		
	December	April	November	December
Total	6.0	5.9	5.2	5.2
Men age:				
20-24 years	10.5	10.7	8.7	8.4
25 and over	3.5	3.3	2.7	2.7
Women 20 years and over	5.8	5.4	5.0	5.1
Teenagers	17.3	17.3	15.4	16.0
Household heads	3.8	3.4	2.9	2.9
White workers	5.4	5.4	4.6	4.6
Negro workers	10.4	9.6	9.8	9.6

Although the total labor force increased substantially in December, the advance from a year earlier was only about 1-1/2 million--smaller than the increases earlier in the year.

Earnings. The hourly earnings index (average hourly earnings adjusted for inter-industry shifts and manufacturing

overtime) has risen at a faster pace since August than earlier in the year. The preliminary estimate for December shows a sharp increase in the index for all private nonfarm industries and the estimates for the preceding two months were also revised up. However, for the entire period since January 1972 wage rate increases in the private nonfarm sector averaged 5.9 per cent--significantly less than in the pre-freeze period.

HOURLY EARNINGS INDEX*
(Per cent change; seasonally adjusted, annual rate)

	Jan. 1971-Aug. 1971	Jan. 1972-Dec. 1972	Aug. 1972-Dec. 1972	Nov. 1972-Dec. 1972
Total	6.6	5.9	7.8	10.7
Manufacturing	6.0	6.1	7.7	13.9
Mining	8.3	5.7	7.5	30.4
Construction	3.8	6.7	10.3	17.9
Transportation	8.2	9.2	8.3	4.7
Trade	6.2	4.8	6.1	9.7
Finance	7.1	4.5	5.8	10.7
Services	5.5	4.7	8.8	8.1

*Average hourly earnings adjusted for inter-industry shifts and, in manufacturing only, for overtime hours.

Wholesale prices. Seasonally adjusted wholesale prices rose 1.6 per cent between November and December, as prices of farm and food products soared and those for industrial commodities moved slightly higher.

The index of farm and food products rose 5.2 per cent over the month; higher prices were widespread with particularly large increases for livestock, meat, grains, oilseeds, manufactured animal feeds, and raw cotton. The rise was largely the result of unusual weather conditions this fall according to the Department of Labor--cold and snow, then melting snow and rain--which held up the harvesting of crops and the marketing of livestock. Also affecting farm and food prices were increased domestic requirements for feed, strong export demand for grains, and a smaller supply of foreign fishmeal which competes with domestic animal feeds based on oilseeds.

The industrial commodities index increased at a seasonally adjusted rate of only 0.1 per cent. Substantial seasonally adjusted increases were reported for motor vehicles and equipment, textile products, fuels, and metals and metal products. But these were virtually offset by price declines--the first in about a year--for hides, skins, and leather products, lumber and wood products, and machinery and equipment.

The BLS weekly index of prices of raw industrial materials rose more than one-fourth from December 1971 to December 1972 to its

WHOLESALE PRICES
(Percentage changes at seasonally adjusted annual rates)*

	1972			Pre-Stab. period	Phase II
	Dec. 1971 to June 1972	June to Dec.	Nov. to Dec.	Dec. 1970 to Aug. 1971	Nov. 1971 to Dec. 1972
All commodities	4.9	8.1	21.5	5.2	6.6
Farm products 1/	5.9	23.6	83.9	6.5	14.7
Industrial commodities	4.5	2.6	1.7	4.7	3.5
Crude materials 2/	9.2	12.6	.9	3.3	10.3
Intermediate materials 3/	5.2	3.0	2.0	6.5	4.0
Finished goods 4/	3.2	1.2	2.8	2.7	2.4
Producer 4/	4.1	.2	.0	3.7	2.3
Consumer 4/	2.7	1.8	4.3	2.2	2.4
Consumer finished foods	3.2	12.9	29.3	6.8	8.8

*/ At compound rates.
1/ Farm products and processed foods and feeds.
2/ Excludes crude foodstuffs and feedstuffs, plant and animal fibers, oilseeds, and leaf tobacco.
3/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.
4/ Excludes foods.

highest level since the Korean War period. The increase reflects strengthening world economic activity as well as short supplies of such agriculturally-based commodities as high-grade cotton, wool, and hides. Metals rose 11-1/2 per cent over the year, mainly because of a rise in prices of steel scrap which reflected increasing activity in both domestic and foreign steel industries. The textile and fibers group of the index increased nearly 25 per cent, reflecting an increase of more than 150 per cent for wool tops and a sharp rise in prices of cotton print cloth. Among other raw materials, prices

of cow hides rose more than 150 per cent in 1972, and tallow, rubber, and rosin also showed substantial increases.

Consumer prices. Consumer prices rose in November at a seasonally adjusted annual rate of 3.3 per cent to a level 3.5 per cent above November 1971, as food costs spurted once more. Other commodity prices advanced at a 1 per cent rate and service costs increased less than 3 per cent.

The CPI continues to perform considerably better than in the pre-stabilization period if mortgage costs are excluded. Since June, food costs have risen rapidly but this has been offset to some extent by the recent counter-seasonal and, presumably, temporary drop in auto prices. The most important reason for the slowing in the CPI has been reductions in the rate of rise in major services such as rent and medical care.

The recent rise in food prices has been unexpectedly sharp. Beef and pork prices usually show substantial seasonal declines in November, but this year beef prices rose and pork fell much less than expected. Fresh vegetable prices rose sharply and there was a much less than seasonal drop for eggs. In the twelve-month period ending November, meat prices jumped more than 12 per cent and accounted for nearly half of the total rise in food costs; combined with the 10 per cent climb in fresh fruit and vegetable prices, more than 60 per cent is accounted for.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	Relative Importance Dec. 1971	Pre-stab. period	1972			Phase II
		Dec. 1970 to Aug. 1971	Dec. 1971 to Aug. 1972	Aug. to Nov.	Oct. to Nov.	Nov. 1971 to Nov. 1972
All items	100.0	3.8	3.2	4.2	3.3	3.5
Food	22.2	5.0	4.2	8.0	14.3	5.4
Commodities less food	40.4	2.9	2.8	1.7	1.0	2.5
Services1/	37.4	4.5	3.6	3.3	2.7	3.5
Addendum:						
All items less mortgage costs2/	96.3	4.6	3.2	4.2	3.9	3.6
Service less home finance1/ 2/ 3/	31.0	6.7	3.2	3.4	3.7	3.3
Commodities less food, used cars, home purchase3/	32.2	2.5	2.2	2.4	3.1	2.2

1/ Not seasonally adjusted.
2/ Home financing costs excluded from services reflect property taxes and insurance rates as well as mortgage costs, which in turn move with mortgage interest rates and house prices.
3/ Confidential.

Among other commodities, significant advances in November for apparel and gasoline were offset in part by a further decline in new car prices following the large drop in October. The main effect of the increases in car prices approved by the Price Commission in December may not appear in the index until January, when car prices usually drop seasonally. Price increases to cover 1972 cost increases, apart from those associated with Government-mandated safety and anti-pollution equipment, are not expected before mid-February.

The index for services in November included a sharp increase for residential gas charges to a level about 5-1/2 per cent above that in November 1971.

Price change in the CPI and the GNP price indexes. During the first 12 months of Phase II, from November 1971 to November 1972, the CPI rose 3.5 per cent, somewhat below its rate of rise in the eight months prior to the freeze. Some other broad indicators have shown more deceleration in the rate of price rise and lower rates of increase in recent months.

The GNP deflator, after a first-quarter surge reflecting a Federal pay raise, increased at an average annual rate of about 2 per cent in the succeeding three quarters. However, shifts in weights have tended recently to lower the deflators, and the rise of the fixed-weight index for GNP averaged about 3 per cent. In the same three

PRICE CHANGES, 1972
(Per cent change at seasonally adjusted annual rates)

	QI	QII	QIII	QIV 1/	QIV 1971 to QIV 1972 1/
GNP implicit deflator	5.1	1.8	2.4	2.3	2.9
GNP fixed wt. index	6.1	3.0	3.1	2.9	3.8

1/ Confidential BEA projection for QIV.

quarters the fixed-weight index for the gross private product (which excludes Government employee compensation) rose at a rate of under 3 per cent, close to the rise in its major component, the fixed-weight index for personal consumption expenditures.

Over the year ending in the fourth quarter of 1972, the fixed-weight index for PCE increased about 3 per cent, compared with a 3.5 per cent rise in the CPI (November to November).

PRICE CHANGES, 1972
(Per cent change at seasonally adjusted annual rates)

	QI	QII	QIII	QIV 1/	QIV 1971 to QIV 1972 1/
GNP fixed-wt. index	4.5	2.5	2.9	2.7 1/	3.2 1/
PCE fixed-wt. index	3.6	2.5	3.1	2.9 1/	3.0 1/
CPI - all items	3.9	2.5	3.6	4.2 2/	3.5 3/

1/ Confidential.
2/ August to November 1972.
3/ November 1971 to November 1972.

A considerable part of the discrepancy lies in the broader coverage of the CPI in the consumer durables area. In the gross private product, only the margins on used car purchases are included and homeownership costs are not reflected directly; instead the rent index is used as a proxy for the cost of imputed services of owner-occupied homes. The CPI, however, includes, with substantial weights, the prices of both houses and used cars, and these rose faster than other components. (The November 1972 used car index, for example, was 5.3 per cent above its level 12 months earlier.) If used cars and home purchase are excluded, the 12-month increase in the CPI index for durable goods (confidential), of 1.3 per cent, is the same as the four-quarter increase in the consumer durables component of the private GNP fixed-weight index.

1972 PRICE CHANGE IN CPI AND PCE COMPONENTS
(Per cent)

	CPI Nov. 1971 to Nov. 1972	PCE1/ QIV 1971 to QIV 1972
Durable goods	2.5	
Excl. used cars and home purchase 2/	1.3	1.3
Nondurable goods	3.9	3.7
Services	3.5	
Less home finance 2/	3.3	2.9

1/ Based on confidential QIV 1972 BEA projection, fixed-weight indexes with 1967 expenditure weights.
2/ Confidential.

The CPI component for services also rose faster than the PCE measure. This results in part from the inclusion--as part of home-ownership costs--in the CPI of property taxes (up 10 per cent over the twelve months ending November 1972) and of mortgage interest costs (which rose in response to rising house prices). In addition, discrepancies between the two indexes arise from other differences in coverage and from the related use of additional data sources to measure price change for PCE.

DOMESTIC FINANCIAL SITUATION

II-T-1

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator	Latest data Period	Latest data Level	Net change from Month ago	Net change from Three months ago	Net change from Year ago
Monetary and credit aggregates			SAAR (per cent)		
Total reserves	December	31.4p	15.5	10.8	10.6
Reserves available (RPD's)	December	28.9p	15.7	14.3	10.0
Money supply					
M1	December	246.7p	15.3	8.4	8.1
M2	December	514.1p	13.9	9.8	10.6
M3	December	809.9p	13.0	10.9	12.8
Time and savings deposits (Less CDs)	December	267.4p	12.7	11.1	13.1
CDs (dollar change in billions)	December	43.7p	2.4	3.4	10.3
Savings flows (S&Ls + MSBs)	December	295.8p	11.5	12.8	16.7
Bank credit (end of month)	December	556.8	10.7	14.4	14.0
Market yields and stock prices			Percentage or index points		
Federal funds	wk. endg. 1/3/73	5.61	.44	.46	2.04
Treasury bill (90 day)	" 1/3/73	5.16	.22	.56	1.46
Commercial paper (90-119 day)	" 1/3/73	5.63	.35	.50	1.28
New utility issue Aaa	" 1/5/73	--	--	--	--
Municipal bonds (Bond Buyer)	1 day 1/4/73	5.08	.12	-.14	.05
FNMA auction yield	wk. endg. 1/8/73	7.68	.01	-.03	.07
Dividends/price ratio (Common stocks)	" 1/3/73	2.65	-.06	-.22	-.32
NYSE index (12/31/65=50)	end of day 1/8/73	65.35	.87	4.89	9.12

Credit demands		Net change or gross offerings: Current month 1972	Current month 1971	Year to date 1972	Year to date 1971
Business loans at commercial banks	December	0.9	-0.7	14.1	5.4
Consumer instalment credit outstanding	November	1.7	1.2	14.2	8.1
Mortgage debt outst. (major holders)	October	4.7	3.7	46.0	33.6
Corporate bonds (public offerings)	October	1.8	1.9	27.2	32.0
Municipal long-term bonds (gross offerings)	October	2.2	1.7	19.9	20.6
Federally sponsored Agcy. (net borrowing)	December	0.4e	0.5	3.1e	1.1
		1973	1972	1973	1972
U.S. Treasury (net cash borrowing)	January	1.7e	0.1	1.7e	0.1
Total of above credits		13.4	8.4	126.2	100.9

e - Estimated
p - Preliminary.

DOMESTIC FINANCIAL SITUATION

The Federal funds rate has risen about 30 basis points since the December Committee meeting, but this has been accompanied by quite moderate increases in most other short- and long-term rates. A significant proportion of the early January Treasury bond financing was acquired by dealers, rather than permanent investors, but this overhang of securities appears from the most recent figures to have been materially reduced.

The modest impact of tighter money market conditions on short-term rates apparently reflects increased demands for short-term financial assets emanating from reinvestment by State and local governments of revenue sharing payments, year-end window dressing by institutions, and investor demand for liquid assets associated with uncertainty about the interest rate outlook. From the credit demand side, except for Treasury borrowing and probable strong consumer credit demands in December, there appears to have been little intensification of market pressures. Not only was there the normal holiday lull in capital markets, but loan demands on banks also were less strong than in recent months.

Outlook. Given the higher than expected end-of-year Treasury balance and an assumed reduction in Federal outlays to the $250 billion level, Treasury net cash borrowing through April is now expected to be about $4 1/2 billion, about $2 billion less than earlier anticipated. While such borrowing would still be above average for similar past periods, if the lower figure actually materializes, the Treasury's near-term demands will not place as much pressure on credit markets as thought at the time of the December Committee meeting.

In private securities markets, the forward calendar of issues continues to indicate modest capital market demands over the next couple of months, although there are scattered reports of a possible build-up in the corporate calendar for March-April. Financial markets in the near-term may also be buoyed by reinvestment of the early January revenue sharing payment. And, in February, the beginning of larger than normal refunds to individual income taxpayers is expected to spill over into somewhat larger deposit growth and reduced net expansion of consumer credit.

These factors tending to moderate interest rate pressures must be balanced against the projected strong--and perhaps increasing--short-term business credit demands at banks and a possible step-up in commercial paper borrowing by nonfinancial corporations. Moreover, the continued rapid rate of growth in economic activity could sustain the recent strong demand for money, tipping the balance toward higher short-term rates. The extent of any sympathetic response of long-term rates to a rise in short rates will be influenced by the specific proposals in the forthcoming budget message of the President, by the current Paris negotiations on Vietnam, and by how wage-price and interest and dividend control programs evolve. Further increases in market interest rates could produce increasing caution in mortgage commitment policies of thrift institutions, as the sustainability of the recent pace of deposit inflows comes into question.

Monetary Aggregates. After showing relatively modest expansion during the preceding four months, preliminary data indicate that M_1 growth accelerated to a record annual rate of 15.3 per cent in

December. Contributing in part to the rapid December growth--perhaps about 3 percentage points--was a large contraseasonal increase in demand deposits held by State and local governments, apparently attributable to the Federal revenue sharing funds disbursed in early December. Results from an informal Reserve Bank telephone survey of commercial banks, which will be discussed more fully in an appendix to the Greenbook Supplement, suggest that little, if any, of the December expansion can be attributed to the recent change in Regulation J or the implementation of regional check processing centers. Thus, while factors. other than revenue sharing, accounting for the December acceleration in M_1 cannot be readily pinpointed, a significant part of the increase was undoubtedly associated with increasing transaction needs for money stimulated by rapid economic expansion. The December growth brings the fourth quarter rate of expansion in M_1 to 8.4 per cent, marginally above the 8.1 per cent rate of increase for the year as a whole.

Inflows of funds into consumer type time and savings accounts also picked up significantly in December, expanding at a 12.7 per cent rate. As a result, M_2 increased at its most rapid pace since January of last year. But for the fourth quarter as a whole the growth rate of M_2 was 9.8 per cent--only a little above the third quarter rate and considerably below the strong first quarter pace. In addition, net sales of negotiable CD's increased sharply in December, despite a large volume of scheduled maturities over the December 15 tax payment date. Increased interest by banks in selling CD's may have reflected in part the decline in their holdings of Treasury deposits. Some of the increased CD sales in December, as well as part of the growth in other time accounts,

MONETARY AGGREGATES

(Seasonally adjusted changes)

	1972					
	QI	QII	QIII	QIV	Nov.	Dec.p
	Per cent at annual rates					
M_1 (Currency plus private demand deposits)	9.3	5.3	8.5	8.4	6.4	15.3
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	13.3	8.6	9.3	9.8	7.6	13.9
M_3 (M_2 plus savings deposits at mutual savings banks and S&L's)	15.5	10.8	11.6	10.9	9.1	13.0
Adjusted bank credit proxy	11.3	11.1	10.7	11.6	11.8	13.8
Time and savings deposits at commercial banks						
a. Total	14.8	15.7	13.2	14.1	9.9	20.4
b. Other than large CD's	17.1	11.8	10.1	11.1	8.7	12.7
	Billions of dollars 1/					
Memorandum:						
a. U.S. Government demand deposits	-.1	-.8	--	1.1	1.8	-1.4
b. Negotiable CD's	-.1	3.7	3.2	3.4	.6	2.4
c. Nondeposit sources of funds	-.3	--	.3	.3	--	.1

p - Preliminary and partially estimated.

1/ Month-to-month and last-month-in-quarter to last-month-in-quarter changes in averages not annualized.

also may have stemmed from deposits of revenue sharing funds by State and local governments.[1/]

The December decline in Treasury deposits was more than offset by accelerated growth in demand and total time deposits, so that the bank credit proxy expanded at a 13.8 per cent rate during the month--only slightly below the high rates reached in the spring.

Bank Credit. Growth in bank credit, as measured on a last-Wednesday-of-the-month basis, decelerated somewhat from the very high rate registered in recent months to a seasonally adjusted rate of 11.3 per cent in December, as loan growth and purchases of securities, other than those of the U.S. government, slowed. The decrease in loan growth was concentrated primarily in business loans, which rose at an annual rate of 8.3 per cent in December following unusually strong growth in November. Despite the slowing, however, loans to public utilities and metals firms continued to expand rapidly at larger banks, after rough allowance for seasonal influences, while loans to retail and wholesale trade concerns were off only slightly.

The erratic pattern of month-to-month changes in business loans since May suggests that the December slowdown is transitory. For the fourth quarter as a whole, business loan growth accelerated to an annual rate of 15.2 per cent from 12.4 per cent in the previous quarter.

1/ At the larger banks during December, the increase in State and local holdings of CD's and other time deposits attributable to revenue sharing appears to have been relatively small. But, smaller banks may have experienced more of an effect than the larger banks, since revenue sharing checks were widely spread geographically, and many checks were relatively small in amount.

With continued growth anticipated for the economy generally, business loan expansion is expected to remain strong.

Real estate loans and consumer loans continued to expand in December at the high rates of other recent months. But there were modest declines in security loans associated with a reduction in security dealer inventories, and in loans to nonbank financial institutions reflecting increased reliance by finance companies on commercial paper financing.

COMMERCIAL BANK CREDIT ADJUSTED
FOR LOANS SOLD TO AFFILIATES 1/

(Seasonally adjusted changes at annual percentage rates)

	1972					
	QI	QII	QIII	QIV	Nov.	Dec.
'otal loans and investments 2/	15.7	9.5	13.6(13.0)3/	14.4(15.0)3/	20.6(19.9)5/	10.7(11.3)5/
U.S. Treasury securities	10.5	5.8	-7.6	--	14.0	27.7
Other securities	16.8	6.2	9.8	8.1	19.1	5.2
Total loans 2/	16.3	11.2	18.8(17.9)3/	18.7(19.5)3/	21.8(20.8)5/	9.9(10.8)5/
Business loans 2/	10.6	8.0 4/	12.4	15.2	15.9	8.3
Real estate loans	18.7	19.2	17.5	17.6	20.3	15.0
Consumer loans	11.9	14.2	18.0	19.0	r 17.6	19.0

/ Last Wednesday of month series.
/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
/ Adjusted to exclude an $800 million matched sale-purchase transaction by the Federal Reserve on the last Wednesday of September.
/ Second quarter figures have been adjusted to exclude a reclassification of loans by a major New York City bank in June.
/ Adjusted to exclude a $300 million matched sale-purchase transaction by the Federal Reserve on the last Wednesday of November.

In the investment component of bank credit, banks significantly increased their holdings of U.S. government securities, mainly reflecting two Treasury financings during the month, both authorizing full credit to tax and loan accounts. Available data suggest that banks outside New York acquired a larger proportion of the new issues than New York banks. Bank holdings of other securities showed only a slight rise in December.

Nonbank thrift institutions. According to sample data, net savings flows at nonbank depositary intermediates were maintained in December at about the same pace recorded in the previous month. Deposit flows at S&L's continued to slow in December, with California institutions experiencing an appreciable moderation--reportedly reflecting depositor needs for funds to pay real estate taxes--and these S&L's increased borrowings from the FHLB more than seasonally. December inflows at mutual savings banks, however, accelerated somewhat. Over the fourth quarter as a whole deposit growth remained high historically, although net inflows moderated at both S&L's and mutual savings banks. This moderation in flows appears to reflect the growing relative attractiveness of yields on short-term market instruments and perhaps the improved climate for equity investment.

DEPOSIT GROWTH AT NONBANK THRIFT INSTITUTIONS
(Seasonally adjusted annual rates, in per cent)

	Mutual Savings Banks	Savings and Loan Associations	Both
1971 - QI	16.3	24.6	21.9
QII	15.0	18.4	17.3
QIII	9.6	15.7	13.7
QIV	10.6	13.8	12.8
1972 - QI	14.3	23.4	20.5
QII	11.1	16.0	14.5
QIII	11.1	17.8	15.7
QIV e/	9.8	12.8	11.9
October	9.5	15.3	13.5
November p/	8.8	12.0	11.0
December e/	11.0	10.9	10.9

p/ Preliminary.
e/ Estimated on the basis of sample data.

Early and limited reports indicate that the thrift institutions are experiencing a relatively favorable reinvestment period. New York mutual savings banks had only small net outflows during the three grace days of December and the first business day of January.

Commercial paper outstanding. With outstandings down much less than usual, commercial paper rose by a substantial $1.3 billion in December on a seasonally adjusted basis. While all categories of commercial paper contributed to this expansion, most of the increase was in nonbank directly placed paper issued by finance company subsidiaries of manufacturers, reflecting continued strong sales of autos and other durables and apparently reduced reliance upon bank financing. In the previous month both nonbank directly placed and dealer placed paper had declined.

COMMERCIAL PAPER OUTSTANDING
Seasonally adjusted in billions of dollars

	Outstanding 1/	Change in: 1/		
	Dec. 31 1972	December 1972	QIV 1972	Year 1972
Total commercial paper outstanding	34.6	1.3	1.8	2.0
Bank-related	2.7	.1	.3	.7
Nonbank-related	31.9	1.2	1.5	1.3
Dealer placed	12.2	.1	.5	.4
Directly placed	19.6	1.1	1.0	.9

NOTE: Details may not add to total due to rounding.
1/ Estimated.

As a result of the sizable advance in commercial paper outstanding in both October and December, the fourth quarter increase of $1.8 billion accounted for the bulk of the total increase of $2.0 billion for the year as a whole. In 1971, there was a decline of similar magnitude.

Consumer credit. Reflecting the further strength in consumer expenditures in November, growth in total consumer credit outstanding increased at a new record seasonally adjusted annual rate of $25.5 billion. This growth was nearly 11 per cent larger than the previous record in October, mainly because of increases in the instalment credit sector.

Growth in instalment credit at a record seasonally adjusted annual rate of $21.0 billion was broadly based, with increases in automobile and nonautomotive consumer goods credit reaching new highs. Extensions of auto credit, reflecting the advanced level of unit sales and the larger size of sales contracts, were up more than 3 per cent from October and 16 per cent from November 1971. Gains in nonautomotive consumer goods financing were even larger with the year-over-year increase in extensions amounting to 20 per cent in November. Contributing to their growth were a sharp jump in the average size of contract on mobile home financing and further expansion in the volume of home furnishings and appliance financing along with the rise in housing completions.

Customer finance rates on new cars financed through dealers by major finance companies have edged up only slightly from their midsummer lows. The weighted average customer rate on new car contracts in November was 11.89 per cent, compared with 11.84 per cent in July and 12.06 per cent in November 1971. The recent advance has led to a

widening of the "dealer rate spread" because the average creditor finance rate--the rate charged by the finance company on contracts purchased from dealers--eased to a low of 9.33 per cent in both October and November. In the case of used cars, customer rates have advanced nearly all year while rates charged dealers have declined, with dealer margins advancing over the past 12 months by 54 basis points.

FINANCE RATES ON AUTOMOBILE INSTALMENT CREDIT CONTRACTS
PURCHASED FROM DEALERS BY MAJOR FINANCE COMPANIES
(Annual percentage rate)

Month	New Cars			Used Cars		
	Customer rate	Creditor rate	Rate spread	Customer rate	Creditor rate	Rate spread
1971						
November	12.06	9.56	2.50	16.16	11.59	4.57
1972						
February	11.99	9.51	2.48	16.27	11.83	4.44
May	11.86	9.36	2.50	16.47	11.72	4.75
July	11.84	9.34	2.50	16.57	11.71	4.86
August	11.85	9.34	2.51	16.62	11.71	4.91
September	11.88	9.35	2.53	16.71	11.70	5.01
October	11.86	9.33	2.53	16.67	11.63	5.04
November	11.89	9.33	2.56	16.78	11.67	5.11

Other long-term security markets. Yields on most types of long-term securities continued to drift upwards over the last four weeks in spite of the holiday lull in new issue activity. The rate advances reflected mainly uncertainty about the war situation, expectations of tighter monetary policy, and moderately heavy dealer inventory positions.

There have not been any new readings on the FRB Aaa utility index since mid-December because of the lack of new issues, but judging from movements in secondary market rates and reoffering yields on new issues early this week, the yield on a newly issued Aaa utility bond would probably be around 7.30 per cent, an increase of about 10 basis points since the December FOMC meeting. New issue volume in both the corporate and municipal markets has been seasonally light over the last 4 weeks, so the level of market rates will be better tested as the market again becomes active in the next few weeks.

Yields on municipals are up only about 5 basis points on balance. Casualty companies continue to support the market in the longer maturity range, but commercial bank purchases are reported to have moderated recently. Yields on intermediate and long-term Treasury issues are also about 5 to 10 basis points higher, although most recently the sizable volume of newly issued Treasury bonds awarded to non-permanent investors and the resulting weakness in the issue have also generated some market concern.

The fluctuating probabilities of peace in Vietnam again appeared to be a major determinant of stock price movements. The market rally which had begun in mid-October came to a halt in mid-December, with the stalemate in negotiations and the resumption of massive bombing in Nort Vietnam. The usual pattern of tax sales in December was probably also a factor in the stock price decline. Following the announcement of a temporary cease-fire on December 28, the market began to advance again.

SELECTED LONG-TERM INTEREST RATES
(Per Cent)

	New Aaa utility bonds 1/	Long-term State and local bonds 2/	U.S. Gov't. (10-year constant maturity
1971	7.02 (2/5)	4.97 (10/21)	5.42 (3/26)
Low	8.26 (7/30)	6.23 (6/24)	6.89 (7/20)
High			
1972			
Low	6.99 (11/24)	4.96 (12/7)	5.87 (1/14)
High	7.60 (4/21)	5.54 (4.13)	6.61 (9/28)
Week ending:			
Dec. 1 1972	7.05	4.99	6.29
8	7.15	4.96	6.31
15	7.21	5.03	6.35
22	--	5.10	6.40
29	--	5.11	6.40
Jan. 5 1973	--	5.08	6.42p

p/ Preliminary
1/ FRB series
2/ Bond Buyer (mixed qualities)

Trading volume on the major exchanges was tapering steadily after mid-December but rebounded on the last trading day of the year with the NASDAQ setting a new daily volume record of 14.4 million shares; on the NYSE, 27.6 million shares were traded.

Corporate bond volume has not built up so rapidly as expected in January, and the staff now estimates that public bond offerings for this month will total about $1.3 billion. Because of an unusually low level of utility bond filings for February, it is likely that volume in that month will not be much higher than $1 billion. Underwriters report some large industrial offerings are tentatively scheduled for

March or April, and it is anticipated that public bond volume may increase appreciably in the early Spring. All indications point to a continued high level of private placement activity. Although filings of new stock issues appear to have moderated somewhat in the December-January period, February volume is expected to be close to the $1 billion level again.

RECENT CHANGES IN STOCK PRICES

	Level of prices as of:			Per cent change from:	
	Dec. 15	Dec. 21	Jan. 8	Dec. 15 - 21	Dec. 21 - Jan. 8
NYSE	64.63	63.01	65.35	-2.5	3.7
D-J	1,027.24	1,000.00	1,047.86	-2.6	4.8
NASDAQ	133.53	131.08	136.02	-1.8	3.8
AMEX	26.53	26.19	26.70	-1.3	1.9

Long-term debt offerings by State and local governments did not show as much seasonal decline in December as expected. On the basis of present schedulings the staff estimates that January volume will also be about $1.8 billion, but the February total may be slightly lower.

In spite of a run-off in public short-term debt securities in both October and November, there was an estimated increase of about $200 million in net short-term debt sales by State and local governments over the fourth quarter. The net increase for the year 1972 is estimated at about $2 billion, significantly less than in any of the preceding three years, with improved revenues and capital market conditions undoubtedly major contributing factors.

CORPORATE AND MUNICIPAL LONG-TERM SECURITY OFFERINGS
(Monthly or monthly averages, in millions of dollars)

	1971	First 10 months 1972	1972 Nov.e/	1972 Dec.e/	1973 Jan.f/	1973 Feb.f/
Corporate securities						
Total	3,743	3,386	3,050	2,650	2,800	2,700
Public bonds	2,066	1,583	1,350	950	1,300	1,100
Privately placed bonds	605	692	650	1,000	700	700
Stock	1,072	1,111	1,050	700	800	900
State and local government securities	2,080	1,986	1,800	1,750	1,800	1,600

e/ Estimated
f/ Forecast

Mortgage market. Growth in mortgage debt outstanding accelerated in the fourth quarter to a seasonally adjusted annual rate of more than $67 billion, according to preliminary estimates, bringing the year-end total close to $565 billion. For the full year 1972, mortgage debt outstanding rose by nearly 13 per cent--the largest percentage increase since 1955. Most of the fourth quarter expansion apparently continued to be in residential mortgage debt, with mutual savings banks and Federally related agencies slightly increasing, and S&L's and commercial banks slightly decreasing, their respective shares.

Costs of construction financing and mortgage warehousing credit generally have moved up recently along with other short-term interest rates. In the primary market for long-term mortgage credit, average contract interest rates on home loans may have edged slightly higher in December, based on fragmentary field reports and other

information. In the secondary market--as measured by the latest (January 8) FNMA bi-weekly auction of forward purchase commitments on government underwritten home mortgages--yields averaged 7.68 per cent, up only 1 basis point from the previous two auctions. The volume of bidding in the auction was quite low.

FNMA PURCHASE AUCTION

	Amount of total offers		Per cent of offers accepted	4-month commitments	
	Received (millions of dollars)	Accepted (millions of dollars)		Discount (points)	Private market yield (per cent)
72 - High	365(5/1)	336(5/1)	92(5/1, 7/24)	5.9(10/16, 10/30)	7.72(10/16)
Low	61(11/27)	36(11/27)	42(3/20)	4.4(3/20)	7.74(3/20)
Oct. 16	271	225	83	5.9	7.72
30	186	163	87	5.9	7.72
Nov. 13	79	49	62	5.8	7.71
27	61	36	60	5.6	7.69
Dec. 11	82	42	52	5.5	7.67
26	109	66	61	5.5	7.67
73 - Jan. 8	74	61	82	5.6	7.68

TE: Average secondary market yield after allowance for commitment fee and required purchase and holding of FNMA stock, assuming prepayment period of 15 years for 30-year 7 per cent Government-underwritten mortgages. Implicit yields shown are gross, before deduction of 38 basis point fee paid by investors to servicers.

Short-term interest rates. Despite a significant firming in the money market which has resulted in a Federal funds rate that recently averaged a little over 5-5/8 per cent--about 30 basis points higher than at the time of the December committee meeting--a calm atmosphere has prevailed in markets for short-term securities, and short-term rates generally have displayed only a sluggish response to the higher funds rate. Indeed, the market rate on the 3-month Treasury bill, after declining somewhat following the Committee meeting, has only returned to its level at the time of the meeting, and the rate on the 6-month bill has increased only 5 basis points. Private short-term rates advanced 1/8 to 1/4 of a percentage point with the 90-119 day commercial paper rate rising to 5-5/8 per cent. This latter change triggered a rise to 6 per cent in the prime rate posted by banks adhering to a floating rate policy. And, subsequently, most other major banks also increased their prime rate to 6 per cent.

Several factors appear to account for the relatively modest reaction of short-term rates to tighter money market conditions. Demands for short-term securities appear to have been strengthened by continued investment of revenue sharing funds and year end window dressing. Also, investors may now perceive a greater probability of a rise in long term interest rates. There is the additional possibility that the market has not yet fully adjusted to the advancing funds rate,

with the holiday season and year end churning tending to obscure trends in market conditions.

SELECTED SHORT-TERM INTEREST RATES
(Per cent)

	1972			1973	Change
	Dec. 18	Dec. 22	Dec. 29	Jan. 8	Dec. 18-Jan. 8
Treasury bills					
3-month	5.17	5.12	5.14	5.13	-.04
6-month	5.37	5.34	5.39	5.40	+.03
1-year	5.22	5.27	5.45	5.42	+.20
Federal agency 1-year	5.79	5.85	5.84	5.89	+.10
Commercial paper 90-119 days	5.50	5.50	5.63	5.63	+.13
Large negotiable CD's 1/					
60-89 days	5.13	5.25	5.38	5.38	+.25
90-119 days	5.25	5.38	5.50	5.50	+.25
Bank prime rate-most prevalent	5.75	5.75	6.00	6.00	+.25
	Statement Week Ended				Change--week ending Dec. 20 to week ending Jan. 9
	Dec. 20	Dec. 27	Jan. 3	Jan. 9 2/	
Federal funds (daily average)	5.38	5.34	5.61	5.69	+.31

1/ Rate is for closest preceding Wednesday.
2/ Average for first 6 days of the week.

Treasury coupon market. Yields on Treasury coupon issues have edged higher since the December FOMC meeting, with increases recorded on intermediate-term issues of as much as an eight of a percentage point and on longer-term issues of about half this amount. Recent developments in this sector of the market have been influenced mainly by the Treasury's auctioning of $625 million of a 20-year bond on January 4. All allotments in this auction were awarded at the 6.79 per cent stop out yield. This was somewhat below earlier expectations of what the auction yield likely would be, reflecting an unexpectedly strong demand for the issue, particularly from government securities dealers and other financial houses which together were awarded nearly half the issue. The unexpected size of these awards caused the yield on the issue to rise to about 6.85 per cent in secondary market trading. Just preceding the payment date, bonds still in professional hands appear to have been reduced to about $100 million.

Prior to its bond auction, the Treasury had gotten an early start in meeting its first quarter cash needs by auctioning $2 billion of a 2-year note on December 20. With full tax and loan account credit allowed, commercial banks acquired the bulk of this issue on which the auction yield averaged 5.83 per cent. This was somewhat below the yield in the previous 2-year note auction, reflecting a fairly enthusiastic market reception of the issue. However, the yield on the issue has since risen to somewhat above 6 per cent in secondary

market trading, even though banks are reported to have retained a large proportion of their allotments.

Apart from continuing additions to the weekly Treasury bill auctions, no additional Treasury cash financing is now expected until early March. In February, however, there will be a quarterly refunding operation involving $4.8 billion of maturing issues held by the public. The terms for this financing will be announced around the end of January.

Federal finance. In view of the Administration's evident determination to hold fiscal year 1973 outlays to $250 billion, we have lowered our expenditure projection for the unified budget to that level from $252 billion. Our receipts projection remains unchanged at $226.5 billion leaving an estimated deficit in the unified budget of $23.5 billion for fiscal year 1973. Most of the change in our projection of expenditures is on a unified budget basis. Of the $2 billion reduction in outlays only $.4 billion appears as a reduction in expenditures on an NIA basis, which are now projected at $260.2 billion.

Specific information as to the precise methods by which the Administration will attain its fiscal 1973 expenditure target is not yet available. Recent Administration announcements and press reports indicate that the new budget will propose reductions in programs involving space, health services, and agricultural assistance. It is

not clear how much these reductions will affect outlays prior to the end of this fiscal year. However, some impact on fiscal 1973 outlays is expected from the recently announced freeze on HUD commitments for subsidized housing and major community development programs. As reported in the December Greenbook, continued asset sales are also likely to play a major role.

The end-of-December Treasury cash balance was $11.1 billion, $4.3 billion higher than estimated by the staff a month ago. About $2.3 billion of this unexpected increase was attributable to a combination of lower spending and increases in checks outstanding (i.e. Treasury float). The other $2 billion of the overshoot occurred because the Treasury's two year quarterly note was paid for in late December rather than in early January, as had been anticipated. While the magnitude of the implied December expenditure shortfall exceeded that necessary to achieve the $250 billion ceiling, the fact that January expenditures are running high indicates that some of the December reduction may be due to delays in spending rather than to absolute reductions.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Dec.	Jan.	Feb.	March
Total net borrowing	4.1	1.7	-0.6	2.6
Weekly and monthly bills	.7	1.0	0.1	0.1
Tax bills	2.5	--	--	--
Coupon issues	2.0	0.6	--	--
As yet unspecified new borrowing	--	--	--	2.5
Special issues to foreigners	-0.4	--	--	--
Agency transactions, debt repayment, etc.	-0.7	0.1	-0.7	--
Plus: Other net financial sources[a/]	0.4	1.3	-0.1	1.6
Plus: Budget surplus or deficit (-)	-1.7	-4.3	-2.2	-5.8
Equals: Change in cash balance	2.8[b/]	-1.3	-2.9	-1.6
Memoranda: Level of cash balance, end of period	11.1[b/]	9.8	6.9	5.3
Derivation of budget surplus or deficit:				
Budget receipts	18.6	19.5	17.5	15.6
Budget outlays	20.3	23.8	19.7	21.4
Maturing coupon issues held by public	1.2	--	4.8	--
Net borrowing by gov't-sponsored agencies	0.4	0.3	0.1	0.5

a/ Checks issues less checks paid and other accrual items.
b/ Actual
c/ In the August prefunding, $1.1 billion was exchanged for the December maturity, leaving $1.2 billion to be redeemed in cash.

FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS
(In billions of dollars)

	Fiscal Year 1972*	Fiscal Year 1973 Adm. 1/ Estimate	Fiscal Year 1973 F.R. Board	Calendar Years F.R. 1972	Calendar Years Estimates 1973	F.R.B. Staff Estimates Calendar Quarters 1972 III*	1972 IV	1973 I	1973 II	1973 III	1973 IV
Federal Budget											
Surplus/deficit	-23.2	-23.5	-23.5	-18.3	-20.2	-2.0	-11.4	-12.3	2.4	-1.5	-8.8
Receipts	208.6	226.5	226.5	221.0	245.1	55.6	50.0	52.6	68.3	65.5	58.7
Outlays	231.9	250.0	250.0	239.5	265.3	57.6	61.5	64.9	65.9	67.0	67.5
Means of financing:											
Net borrowing from the public	19.4	n.a.	19.0	15.2	15.2	5.0	12.3	3.7	-2.0	4.0	5.5
Decrease in cash operating balance	-1.3	n.a.	4.1	0.2	4.1	0.3	-1.3	5.8	-0.7	-1.0	---
Other 2/	5.1	n.a.	0.3	2.9	0.9	-3.3	0.4	2.8	0.3	-1.5	-0.7
Cash operating balance, end of period	10.1	n.a.	6.0	11.1	7.0	9.8	11.1	5.3	6.0	7.0	7.0
Memo: Net agency borrowing 3/	4.7	n.a.	n.e.	3.1	n.e.	0.7	0.8	0.9	1.7	n.e.	n.e.
National Income Sector											
Surplus/deficit	-22.1	n.a.	-23.9	-18.6	-19.3	-11.8	-26.0	-29.4	-28.1	-11.6	-7.9
Receipts	211.0	n.a.	236.3	228.3	250.9	229.8	237.0	241.7	236.8	259.7	265.3
Expenditures	233.1	n.a.	260.2	246.9	270.1	241.6	263.0	271.1	264.9	271.3	273.2
High employment surplus/deficit (NIA basis) 4/	4.1	n.a.	-10.2	-1.0	-7.6	3.7	-13.6	-16.3	-14.8	-1.4	2.0

*Actual e--projected n.e.--not estimated n.a.--not available

1/ Revised Administration estimates of $225.0 billion in receipts and $250.0 billion in outlays were disclosed by Secretary Shultz in testimony before the House Ways and Means Committee on September 18, 1972. Receipts were revised upward to $226.5 as a result of higher social security taxes incorporated in HR-1.

2/ Includes such items as deposit fund accounts and clearing accounts.

3/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

4/ Estimated by F.R. Board Staff.

INTERNATIONAL DEVELOPMENTS

III -- T - 1
U.S. Balance of Payments
(In millions of dollars; seasonally adjusted)

	1971	1972p/			
	Year	1H	3Q	Oct.*	Nov.*
Goods and services, net 1/	727	-2,789	-896		
Trade balance 2/	-2,689	-3,635	-1,588	-453	-585
Exports 2/	42,770	23,236	12,307	4,323	4,420
Imports 2/	-45,459	-26,871	-13,895	-4,776	-5,005
Service balance	3,416	846	692		
Remittances and pensions	-1,530	-772	-357		
Govt. grants & capital, net	-4,422	-1,574	-819		
U.S. private capital (- = outflow)	-9,782	-3,302	-2,345		
Direct investment abroad	-4,765	-1,366	1,132		
Foreign securities	-909	-747	227	23	44
Bank-reported claims -- liquid	-566	-221	-449	367	-113
" " " other	-2,372	-650	-745	-397	-542
Nonbank-reported claims -- liquid	-506	-255	-118		
" " " other	-664	-63	-128		
Foreign capital (excl. reserve trans.)	-4,551	4,322	1,489		
Direct investment in U.S.	-68	-10	259		
U.S. corporate stocks	849	860	379	294	490
New U.S. direct investment issues	1,161	1,062	372		
Other U.S. securities (excl. U.S. Govt.)	272	101	-74		
Liquid liabilities to:	-6,691	1,743	396	830	801
Commercial banks abroad	-6,908	1,456	282	593	641
Of which liab. to branches 3/	(-4,942)	(200)	(34)	(98)	(-530)
Other private foreigners	-465	334	148	194	-77
Intl. & regional institutions	682	-47	-34	43	237
Other nonliquid liabilities	-74	566	157		
Liab. to foreign official reserve agencies	27,417	3,902	4,678	852	195
U.S. monetary reserves (increase, -)	3,065	554	122	-96	6
Gold stock	866	544	3	--	--
Special drawing rights 4/	468	7	--	--	--
IMF gold tranche	1,350	184	-15	-5	-5
Convertible currencies	381	-181	134	-91	11
Errors and omissions	-10,927	-341	-1,872		
BALANCES (deficit -) 4/					
Official settlements, S.A.		-4,456	-4,800		
" " , N.S.A.	-30,482	-3,957	-5,544	-756	-201
Net liquidity, S.A.		-5,723	-4,629		
" " , N.S.A.	-22,719	-6,122	-5,274		
Liquidity, S.A. 5/		-6,199	-5,196		
" , N.S.A.	-23,791	-6,738	-5,765	-1,586	-1,002

* Monthly, only exports and imports are seasonally adjusted.
1/ Equals "net exports" in the GNP, except for latest revisions.
2/ Balance of payments basis which differs a little from Census basis.
3/ Not seasonally adjusted.
4/ Excludes allocations of SDRs as follows: $717 million on 1/1/71 and $710 million on 1/1/72.
5/ Measured by changes in U.S. monetary reserves, all liabilities to foreign official reserve agencies and liquid liabilities to commercial banks and other foreigners.

INTERNATIONAL DEVELOPMENTS

Summary and outlook. As the year ended there was the usual flurry of capital inflows to meet year-end positioning requirements. Nevertheless, the official settlements deficit probably amounted to about $1-1/2 billion (seasonally adjusted) for the fourth quarter and $10-1/2 billion for the year. Activity in the exchange markets during December was relatively uneventful. The market for the yen seemed to cool off and the forward premium was reduced.

During the fourth quarter there were two main offsetting features in the U.S. balance of payments. The first was the increase in the trade deficit in November, which was a matter for concern mainly because imports of manufactures showed some increase after having levelled off during the summer. On the other hand, foreign net purchases of U.S. corporate stocks may have reached $1 billion in the fourth quarter, a record pace.

In the year past there were several major shifts in trade balances among countries. The trade deficit of the U.S. increased sharply, of course, as did that of the U.K. Most other industrial countries increased their exports relative to imports, including Japan and Germany whose revaluations were the largest. However, the trade surplus of the industrial countries as a whole with the rest of the world, which had been above normal in 1971 as a result of

cyclical slack in demand, fell sharply in 1972, spurred by a cyclical upturn that was well under way by the latter part of 1972 in Europe and Japan.

In the period ahead the principal focus of attention will be the U.S. trade balance. It remains to be seen whether the November setback is a temporary interruption in the trend of improvement since June, or instead, reflected the start of a new surge in imports stemming from the faster increase in U.S. overall demand. Similarly, the pace of foreign purchases of U.S. corporate stocks since September is so far above previous experience that it may not be sustainable much longer, though inflows should be substantial as long as the U.S. economic performance looks relatively good and confidence in the dollar holds steady.

Foreign exchange markets. Exchange markets were fairly quiet over the past few weeks, with the dollar generally firmer against major foreign currencies, particularly during the first week of January, following a rise in dollar interest rates.

The French franc weakened considerably during December, primarily on the basis of political opinion polls in France which showed the leftist coalition stronger than the current government. In early January, however, the polls reported a turnaround in favor of the government, and the franc responded by posting a moderate advance in the exchanges. President Pompidou, in a press conference on January 9, cited the basic strength of the French balance of payments

and noted that the government had, in fact, considered a revaluation of the franc as part of its anti-inflation program announced in early December. This "talking up" of the franc seemed to have the desired effect, as the franc firmed sharply on that day and continued its advance the next day.

The Swiss franc firmed steadily in the last two weeks of December in response to a more-than-seasonal tightening of the Swiss money market, this despite the $1.2 billion in swap operations conducted by the National Bank over year-end. The Swiss franc moved to very near its upper limit on December 27, and though it eased subsequently, it is still within 1/4 per cent of its ceiling rate.

The Italian lira declined rather sharply against the dollar in early January, dragging the Belgian franc and the Danish krona along with it as a result of intervention under the EC narrow band arrangement. (The exemption which had permitted the Bank of Italy to support the lira while still above the floor of the "tunnel" with sales of dollars rather than other EC currencies expired on December 31.) Intervention support of the lira against Belgian francs and Danish krone amounted to roughly $40 million equivalent in the first week of January.

The Canadian dollar, which had reached a low of around 99.80 U.S. cents on December 7, rebounded by nearly a full cent over the following two weeks, then dropped back below 100 U.S. cents briefly in early January as U.S. dollar interest rates rose. Between December 7 and January 9, the Bank of Canada purchased, net, U.S. $123 million.

The Japanese yen moved off its ceiling in late December for the first time in several months. On January 4, it moved back to the ceiling only to ease off again. In recent days the Bank of Japan has sold a nominal amount of dollars. To the extent that the increased demand for dollars in Tokyo has reflected increased U.S. dollar interest rates, this newfound strength of the dollar may not be long-lasting. On January 9 the Bank of Japan increased reserve requirements of domestic commercial banks, a move prompted by the acceleration of inflation in Japan.

Euro-dollar market. Interest rates in the Euro-dollar market have been subjected to further upward pressure in the past four weeks, caused by the rise in short-term rates in the United States as well as continued increases in money market rates in Britain and France. However, the movement of Euro-dollar rates of different maturities has been quite mixed. The overnight rate moved up markedly in the last week of December, and averaged 5.89 per cent in the week ending January 10 compared with 4.69 per cent in the week of December 13. This rise considerably exceeded the rise in the U.S. Federal funds rate. As a result, on most of the first ten days of January the cost to U.S. banks (including agencies and branches of foreign banks) of reserve-free overnight Euro-dollars was above the Federal funds rate, the first time since last August that the differential has been in this direction.

In contrast to the overnight rate, the rates for 1-month and 3-month Euro-dollars have declined slightly since the first week of

SELECTED EURO-DOLLAR AND U.S. MONEY MARKET RATES

Average for month or week ending Wednesday	(1) Over-night Euro-$ 1/	(2) Federal Funds 2/	(3) Differ-ential (1)-(2)	(*)	(4) 1-month Euro-$ Deposit 1/	(5) 30-59 day CD rate (Adj.) 3/	(6) Differ-ential (4)-(5)	(*)
1972 - July	5.20	4.55	0.65	(1.95)	5.34	4.72	0.62	(1.96)
Aug.	4.47	4.80	-0.33	(0.79)	5.18	4.73	0.45	(1.75)
Sept.	4.54	4.86	-0.33	(0.79)	5.15	4.96	0.19	(1.48)
Oct.	4.77	5.05	-0.28	(0.91)	5.10	5.10	0.00	(1.28)
Nov.	4.74	5.05	-0.31	(0.88)	5.08	5.01	0.07	(1.34)
Dec.	4.75	5.33	-0.58	(0.61)	6.05	5.25	0.80	(2.31)
Nov. 29	4.76	5.03	-0.27	(0.92)	5.27	5.06	0.19	(1.53)
Dec. 6	5.00	5.17	-0.17	(1.08)	6.15	5.21	0.94	(2.48)
13	4.69	5.29	-0.60	(0.57)	6.13	5.26	0.87	(2.40)
20	5.02	5.35	-0.33	(0.93)	5.99	5.40	0.59	(2.09)
27	5.16	5.34	-0.18	(1.11)	6.11	5.52	0.59	(2.12)
Jan. 3	5.09	5.63	-0.54	(0.73)	5.60	5.52	0.08	(1.48)
10p	5.89	5.66	0.23	(1.70)	5.75	5.52	0.23	(1.67)

1/ All Euro-dollar rates are noon bid rates in the London market; overnight rate adjusted for technical factors to reflect the effective cost of funds to U.S. banks.
2/ Effective rates.
3/ Offer rates (median, as of Wednesday) on large denomination CD's by prime banks in New York City; CD rates adjusted for the cost of required reserves.
*/ Differentials in parentheses are after adjustment of Euro-dollar rates for the 20 percent marginal reserve requirement (relevant to banks with borrowings in excess of their reserve-free bases).
p/ Preliminary.

December, in accordance with the normal seasonal pattern, although in the latest week they did firm slightly. With CD rates in the United S ates advancing, the higher cost of 1- and 3-month Euro-dollars relative to comparable maturities of CD's has diminished.

U.S. banks' liabilities to their own foreign branches were reduced from a daily average of $2.0 billion in the first half of December to $1.8 billion in the week ended January 4. Foreign liabilities of New York agencies and branches of foreign banks were also sharply lower on January 3 compared with Wednesday levels in December.

Balance of payments. Large capital inflows occurred in the closing days of 1972 as U.S. corporations brought back funds from abroad to comply with OFDI regulations. A large reduction in liabilities to foreigners reported by U.S. agencies and branches of foreign banks may also reflect year-end adjustments of positions. Also, the U.K. made its year-end debt service payments. As a consequence, the overall balances on both the official settlements and liquidity bases recorded large surpluses in the week ended January 3.

For the fourth quarter, the seasonally adjusted balances were in deficit -- about $1-1/2 billion on the official settlements basis and about $2 billion on the liquidity basis. For the year 1972 it appears that the official settlements deficit was over $10-1/2 billion and the liquidity deficit about $13-1/2 billion. The difference between the two deficits is largely accounted for by borrowings from their head offices by U.S. agencies and branches of foreign banks.

These deficits, large though they were, remained far below the extraordinarily high levels of 1971, when the deficits on the official settlements and liquidity bases were $30 billion and $24 billion, respectively. The main difference, of course, was the absence of massive recorded and unrecorded capital outflows in 1972; the balance on goods and services worsened by about $5 billion. The 1972 balance on current account and long-term capital was apparently of the order of magnitude of $8 to $10 billion, or about the same as in 1971, and larger than in any earlier year.

There are few details available on fourth quarter developments. As noted below, the trade deficit in October-November was only marginally less than in the third quarter. A major positive element in the fourth quarter was the large amount of U.S. corporate stocks purchased by foreigners. Purchases in October were nearly $300 million and then rose to nearly $500 million in November. December purchases are tentatively estimated to have been about $300 million. The estimated $1 billion of U.S. stocks purchased by foreigners in the fourth quarter would be equal to total purchases in the first three quarters of 1972. (The heavy purchases in recent months may include an element of catch-up from the rather low rate of foreign purchases in the March-July period.)

On the side of capital outflows, U.S. bank-reported claims on foreigners increased sharply in November, including a sizable increase in claims on Japan largely by Japanese agencies in the United States. Of the increase in claims by banks reporting under the VFCR program, a sizable part was customers' funds. Weekly data show further large increases in claims on foreigners in December.

U.S. foreign trade. The U.S. trade deficit in November rose steeply, reversing the gradual month-to-month decline in the deficits that had begun in June. The rise in imports in November accelerated to 5 percent, while exports increased by a more moderate 2 percent. For the two months October-November, the trade deficit was at an annual rate of nearly $6-1/4 billion (balance of payments basis), about the same level as in the third quarter. For January-November the deficit

was at an annual rate of $6-3/4 billion, about $4 billion more than in calendar 1971.

The rise in November imports was much more broadly based by commodity categories than in recent months. Imports of industrial materials continued to advance, but, in addition, imports of finished goods, which had leveled off since mid-year, turned up sharply. Imports of capital equipment were particularly strong, and imports of both durable and nondurable consumer goods were also higher. Monthly trade movements are typically volatile, and the November import spurt may not be sustained. However, there is a question whether the continuing rapid growth in U.S. economic activity, while foreign suppliers still have ample capacity, may now be triggering increased imports not only of industrial materials but also of manufactured goods. One important domestic development in November, and also in December, was the rise in sales of imported cars in the U.S. market. This was apparently not yet reflected in November imports, but may show up in December.

The increase in exports in November was about equally divided between agricultural and nonagricultural goods. The value of shipments of agricultural commodities rose to an extraordinarily high annual rate of nearly $11 billion, boosted by further price increases in wheat, rice, corn and soybeans. Exports to the Soviet Union did not increase and were at the same value as in the two preceding months. Only about

20 percent of the estimated $1-1/4 billion of grains and soybeans purchased by Russia has been exported through November. An acceleration in shipments was reported in December, however, following the Maritime Agreement reached at the end of November. It is questionable whether transportation facilities will permit much further expansion in the volume of total agricultural exports in the coming months above present rates; the value of shipments, however, may continue to increase because of higher prices.

Machinery exports rose in November, continuing their advance of the past several months. Foreign orders for U.S. machinery dipped in November from the very high average level of the four preceding months but were still relatively large. Exports of industrial materials in November fell back from the high October level and shipments of automotive equipment to Canada were unusually low in November, but these two categories of exports should increase in the coming months as output abroad expands, and as assemblies of cars in Canada (with U.S. components) increase in response to the boom in U.S. car sales.

OECD balance of payments in 1972: current account. The combined current account surplus of OECD countries (OECD Europe, Japan, Australia, Canada, and the United States) with the non-OECD world appears to have dimished sharply in 1972 by nearly $4 billion, from about $7-1/4 billion in 1971 to about $3-1/2 billion last year. The figures for 1972 are based on estimates made by the OECD Secretariat in November 1972, together with revisions we have made in the light of more recent data. (See Table 1.) This swing reflects mainly the 1970-71 recession in the industrial countries, followed by renewed expansion in those countries in 1972.

Three OECD countries--the United States, the United Kingdom, and Canada--experienced sharp increases in imports relative to exports in 1972. The current account deficit of the United States rose from less than $3 billion in 1971 to over $8 billion last year. Britain's current account surplus of about $2.5 billion in 1971 gave way to approximate balance last year. In Canada, the current account moved from a surplus of $340 million in 1971 to a deficit of about $700 million in 1972.

While over half of these negative changes was counterbalanced by positive changes for Japan, Australia, and Continental European countries, the substantial remainder reflected relative growth of exports of non-OECD countries.

In several instances, current account movements last year were in the opposite direction from that which the realignment of

Table 1. CURRENT ACCOUNT BALANCES FOR OECD COUNTRIES, 1968-72[a/]
($ billion, seasonally adjusted)

	Average 1968-70	1971	1972 Year[e/]	1972 I	1972 II[e/]	Change 1971-1972
United Kingdom	.66	2.54	0	.35	-.35	-2.54
United States	-.39	-2.85	-8.20	-4.70	-3.50	-5.35
France	-1.00	.45	.70	.25	.45	.25
Germany	1.69	.17	.30	.17	.13	.13
Italy	1.92	1.85	1.82	1.52	.30	-.03
Belgium-Luxembourg	.51	.65	1.20	.65	.55	.55
Netherlands	-.14	-.17	1.00	.50	.50	1.17
Canada	.02	.34	-.69	-.34	-.35	-1.03
Japan	1.72	5.80	6.43	2.53	3.90	.63
Australia	-1.07	-.90	.20	0	.20	1.10
Other OECD North	-.40	-1.15	0	0	0	1.15
Other OECD South	-.52	.49	.60	.30	.30	.11
Total	3.00	7.22	3.36	1.23	2.13	-3.86
Total without Australia	4.07	8.12	3.16	1.23	1.93	-4.96

e/ Preliminary estimates.

a/ The current account balance includes the balance on goods and services and private and official transfer payments.

Source: OECD. The 1971 and 1972 figures are from the OECD Economic Outlook, December 1972. The OECD estimates for the second half of 1972 for the United Kingdom, the United States, Japan, Italy, and Canada have been revised by the staff. The figures for the first half of 1972 for the United States and Japan are later figures than those appearing in the Outlook.

exchange rates at the end of 1971 was intended to produce over the long run. This resulted from a combination of cyclical factors and the initial perverse terms of trade effect following parity changes. Because of movements in the trade balance, Japan's surplus, and that of Germany, rose following the net revaluation of the yen and the mark, while the U.S. deficit increased after the devaluation of the dollar. In the case of Britain, the deterioration of the trade balance was a major factor in the abandonment of the central rate for sterling--the pound was floated at the end of June--established by the Smithsonian agreement.

As is evident from Table 1, the decrease in the current account surplus of the OECD countries with the rest of the world in 1972 restored the balance to a level more in line with the average in recent years. But this reduction was accomplished by an exceptionally large increase in the trade deficit of the OECD with the rest of the world, reflecting both a surge in the volume of imports from non-OECD countries--resulting mainly from the cyclical upturn in much of the OECD area, and particularly in North America, last year--and steep rises in the dollar prices of major commodities exported by these countries. The worsening of the trade balance was also associated with a slowing in the growth of OECD exports to the rest of the world last year. This development was possibly a consequence of the reduced export earnings in 1971 of the non-oil producing countries outside the OECD, attributable in part to the steep fall in commodity prices in that year.

The trade deficit of the OECD exclusive of Australia--which in the next several paragraphs will be counted as a non-OECD country because of lack of necessary statistical data--rose to an annual rate of about $6 billion for the first three quarters of 1972 from only $1.2 billion in 1971. (These figures are calculated from exports f.o.b., imports c.i.f. for Europe and Japan, and imports f.o.b. for the United States and Canada.) However, a significant amount of this change reflected a decline in exports to Australia and the increase in the dollar value of Australian exports to the OECD. The OECD trade account with the less developed countries alone--that is, non-OECD countries excluding Australia, New Zealand, South Africa, Eastern Europe, the Soviet Union and China--deteriorated by only a little over $3 billion between 1971 and 1972--approximately $1 billion accounted for by OECD Europe, $1.5 billion by the United States, $500 million by Canada and $200 million by Japan.

The dollar value of OECD imports from the rest of the world was 16 per cent higher in the first three quarters of 1972 than in the corresponding period of 1971. The increase in such imports between 1970 and 1971 had been only 11 per cent. The rise in imports from non-OECD countries was most marked in the United States and Canada, where demand was expanding fastest. In both cases the increase from January-September 1971 to January-September 1972 was about 20 per cent. OECD European and Japanese imports from non-OECD countries rose by 14 and 16 per cent, respectively, between these two periods.

The rate of growth of exports from the OECD to the rest of the world fell from 11 per cent in 1971 over 1970 to 8 per cent for the first three quarters of 1972 compared to the first three quarters of 1971. OECD exports to the LDC's--which account for the bulk of the OECD's exports to the rest of the world--increased by only about 7-1/2 per cent between these two periods, compared to an increase in 1971 of over 12 per cent.

Canadian and American exports to non-OECD countries increased the least, rising by less than 1 per cent between January-September 1971 and January-September 1972, down from an increase of almost 4 per cent in 1971. Over this same period, Japanese exports outside the OECD increased by 11 per cent as compared with 23 per cent a year earlier. The rate of growth of OECD Europe's exports to the rest of the world appears to have held steady at about 11 per cent in both 1971 and 1972.

A brief summary of important balance-of-payment developments in major OECD countries follows:

The German current account surplus increased slightly in 1972--to about $300 million from $170 million in 1971--but remained much smaller than in earlier years.

The deficit on services and transfers increased substantially in 1972, but this change was more than offset by a rise in the trade surplus of about $1.6 billion.

The seasonally adjusted current account registered a large surplus in the first quarter but fell to a position of approximate

balance in the second and third quarters, as the trade surplus declined and services and transfers continued to record large deficits. However, reflecting mainly a surge in exports dating from August, the seasonally adjusted current account returned to surplus in the fourth quarter. Virtually all of the rise in exports in the second half was attributable to increases in volume.

German foreign exchange reserves increased by about $5 billion in 1972--exceeding the current account surplus by a large margin. The difference was due to heavy net capital inflows--most of which took place during the sterling and dollar crises of mid-June to mid-July. Since mid-July, German official reserves have declined, as capital began to flow out in the second half of the year. The restoration of confidence in the dollar in conjunction with earlier measures by the German authorities to discourage or prohibit capital inflows of various sorts played a major role in bringing about the turnaround in the capital account.

The deterioration in the United Kingdom's current account in 1972 was reflected almost entirely in a change in the trade account from a surplus of about $700 million in 1971 to a deficit of about $1.6 billion last year. The surplus on invisibles was quite stable, falling probably by less than $200 million.

The trend of British imports, as economic activity recovered sharply in that country, was very steep in 1972, so that imports for the year as a whole were about 16 per cent higher than in 1971. The

trend of exports, meanwhile, was relatively flat (abstracting from temporary factors), with exports in 1972 only 4 per cent above the previous year. The poor trade performance reflected a loss of competitiveness arising from the high rates of price inflation, and also weak demand in the sterling area.

A price freeze was imposed in November which, in conjunction with the downward float of the pound, was designed to stop--if not reverse--the deterioration of Britain's competitive position.

The French current account is thought to have improved last year by about $250 million, mainly through a rise in the trade surplus. The trade surplus actually decreased in the first half--primarily because of a bunching of imports of aircraft and oil--but is estimated to have improved in the second half. The third quarter results were slightly better than the average for the first half, and large surpluses were achieved in October and November.

Italy's current account surplus in 1972, measured on a transactions basis, apparently was little changed from the surplus in 1971 of $1.85 billion. The seasonally adjusted surplus totalled about $1.5 billion during the first half, but fell sharply thereafter. This resulted mainly from a slackening in the rise in exports, and a decline in recorded tourist receipts and emigrant remittances. Tourists and Italian workers abroad have purchased larger quantities of Italian banknotes abroad since early July, when it was ruled that exported

banknotes could no longer be returned to Italy for conversion. The current account deterioration caused by this development is thus matched by a reduction in recorded capital outflows, so that the overall balance of payments is unaffected.

The 1972 current account surplus on an exchange-record basis was almost certainly lower than in 1971. In July-October, the trade account in exchange-record terms was very adversely affected by an acceleration of import payments, caused by fear that the lira might be devalued. Such fear also stimulated heavy capital outflows in the second half, so that the overall Italian balance of payments was in deficit last year. Italian official net foreign assets fell by about $800 million during the year.

The current account of the Netherlands is estimated to have improved by almost $1.2 billion in 1972, to a surplus of about $1 billion from a deficit in 1971 of $170 million. There was a rise in the surplus in services, but the bulk of the change was accounted for by an enormous improvement in the trade account. Imports in the first nine months of 1972 increased by 12-1/2 per cent over the same period in 1971, while exports rose by 19 per cent between these two intervals. The rapid expansion of exports reflects the revival of economic activity in the Netherlands' main markets. The slow rate of import growth may have reflected the low level of capital investment last year.

Belgium's current account surplus (on a transactions basis) may have increased by about $500 million last year, from $650 million in 1971. This resulted mainly from merchandise trade, which during the first nine months of last year was in surplus by almost $300 million compared to a deficit of about $200 million in the same period in 1971. Despite the higher trade balance, Belgium's overall balance of payments surplus last year was apparently considerably lower than the $400 million surplus in 1971. There was a sharp fall last year in foreign direct investment and a large increase in net purchases of foreign securities by Belgian residents.

Japan's current account surplus appears to have been almost $6-1/2 billion last year, up from the 1971 surplus of about $5.8 billion. The trade surplus probably rose by about $1 billion. The dollar value of exports rose by an estimated 18 per cent, compared to an average of 23 per cent in 1968-71. The increase in volume was only about 8 per cent, however, only half the 1968-71 average. The slowdown reflects the impact of both the revaluation and the voluntary export restraints instituted in Japan last year.

The dollar value of imports rose by an estimated 20 per cent in 1972 compared to 1971--well in excess of the 14 per cent annual average increase in 1968-71. The high rate of increase last year resulted in part from the rise in the dollar prices of imports in the wake of the revaluation and increases in commodity prices, particularly

wool. It was also a reflection of the recovery from the cyclically reduced level of imports in much of 1971.

In line with the post-war trend, the deficit on invisibles rose again last year, by about $400 million. The increase included extra payments for freight during the seamen's strike and a special payment to the United States for certain physical facilities in Okinawa.

Japanese foreign exchange reserves as officially reported rose by $3.1 billion during 1972, but it is believed that the Japanese authorities under-reported reserve gains by $4 or $5 billion.

The decline in the Canadian current account from a surplus of $340 million in 1971 to a deficit of about $700 million last year was almost entirely accounted for by a deterioration in the trade surplus from $2.2 billion to an estimated $1.3 billion. Imports in 1972 were about 20 per cent higher in 1972 than 1971, while exports increased by about 11 per cent.

The rapid expansion of the Canadian economy contributed to the large rise in imports. Furthermore, the decline in the trade surplus may indicate the delayed impact on Canadian trade of the appreciation of the Canadian dollar since the initiation of the float in May 1970.

Australia apparently registered an increase of about $1.1 billion in its current account last year, moving from a deficit of about $900 million to a surplus of about $200 million. The change was brought about by an increase in the trade surplus, attributable to an exceptional

absolute decline in imports of about 4 per cent--reflecting the Australian recession last year--and a rapid expansion of exports of about 17 per cent.

The current account improvement was accompanied by a continuation of heavy capital inflows. As a result, Australia's foreign exchange reserves increased by $2.4 billion last year, bringing total reserves to almost $6 billion.

In response to the large balance of payments surplus and the vast accumulation of reserves, the new Australian government revalued the Australian dollar on December 22 by an effective 7.05 per cent. Existing measures to control capital inflows were strengthened at the same time.