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Content last modified 6/05/2009.

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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

June 13, 1973

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	May	6/1	88.4	0.7	3.8	2.3
Unemployment rate	May	6/1	5.0 1/	5.0 1/	5.1 1/	5.8 1/
Insured unemployment rate	Apr.	5/24	2.7 1/	2.8 1/	2.7 1/	3.6 1/
Nonfarm employment, payroll (mil.)	May	6/1	75.2	2.4	2.7	3.7
Manufacturing	May	6/1	19.7	1.0	3.1	4.6
Nonmanufacturing	May	6/1	55.5	2.9	2.6	3.4
Private nonfarm:						
Average weekly hours (hours)	May	6/1	37.3	37.3 1/	37.2 1/	37.1 1/
Hourly earnings ($)	May	6/1	3.84	3.1	6.3	6.1
Output per manhour (1967=100) r/	QI	5/25	115.3	4.4	--	4.9
Compensation per manhour (1967=100) r/	QI	5/25	147.3	10.5	--	7.2
Unit labor cost (1967=100) r/	QI	5/25	127.7	5.9	--	2.2
Manufacturing:						
Average weekly hours (hours)	May	6/1	40.8	41.0 1/	41.0 1/	40.5 1/
Unit labor cost (1967=100)	Apr.	5/29	122.1	15.9	3.6	2.7
Industrial production (1967=100)	May	5/15	123.4	5.9	7.6	9.0
Consumer goods	May	5/15	130.5	8.3	6.9	6.8
Business equipment	May	5/15	118.6	12.3	12.9	15.7
Defense & space equipment	May	5/15	79.4	-13.4	-5.0	1.5
Materials	May	5/15	126.8	2.8	9.0	9.7
Consumer prices (1967=100)	Apr.	5/22	130.7	7.6	8.9	5.1
Food	Apr.	5/22	136.4	16.9	23.3	11.5
Commodities except food	Apr.	5/22	122.4	4.9	5.0	3.2
Services 2/	Apr.	5/22	137.0	3.5	3.8	3.5
Wholesale prices (1967=100)	May	6/7	133.3	24.5	21.6	12.9
Industrial commodities	May	6/7	125.6	14.5	15.0	7.0
Farm products & foods & feeds	May	6/7	154.3	49.4	37.7	29.1
Personal income ($ bil.) 3/	Apr.	5/15	1008.9	9.1	9.3	9.7
				(Not at Annual Rates)		
Plant & equipment expen. ($ bil.) 4/	1973	6/5	100.12	--	--	13.2
Mfrs. new orders dur. goods ($ bil.)	Apr.	5/31	41.7	-1.5	5.9	22.7
Capital goods industries:	Apr.	5/31	13.1	-0.8	5.9	21.7
Nondefense	Apr.	5/31	10.8	-1.2	3.5	22.9
Defense	Apr.	5/31	2.3	0.9	19.1	16.1
Inventories to sales ratio:						
Manufacturing and trade, total	Apr.	6/11	1.41	1.41 1/	1.43 1/	1.52 1/
Manufacturing	Apr.	6/11	1.54	1.56 1/	1.57 1/	1.67 1/
Trade	Apr.	6/11	1.28	1.25 1/	1.29 1/	1.36 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	Apr.	6/11	.798	.817 1/	.855 1/	.925 1/
Retail sales, total ($ bil.)	May	6/11	41.6	1.4	0.8	12.0
GAF	May	6/11	10.9	3.0	0.9	10.6
Auto sales, total (mil. units) 3/	May	6/6	11.93	2.1	0.3	11.3
Domestic models	May	6/6	10.06	2.8	1.6	9.5
Foreign models	May	6/6	1.87	-1.5	-6.2	22.2
Housing starts, private (thous.) 3/	Apr.	5/16	2,103	-6.5	-15.8	-4.6
Leading indicators (1967=100)	Apr.	5/29	161.5	-0.6	2.9	15.7

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate. 4/ Commerce survey taken May 1973

DOMESTIC NONFINANCIAL DEVELOPMENTS

The staff is now projecting expansion of over $36 billion in nominal GNP this quarter--$2 billion more than four weeks ago, and an annual rate of increase of almost 12 per cent. The upward revision reflects a considerably more rapid rate of price increase than assumed earlier. Projected expansion in real GNP has been reduced somewhat--to an annual rate of 5.7 per cent.

A slowing in the pace of real growth from the 8 per cent annual rate of the two preceding quarters is suggested by the recent course of industrial production and developments in the labor market. The rise in the April index of industrial production has been revised down slightly and the May advance is estimated at an annual rate of 6 per cent. In the first quarter, industrial production had increased at an 8.5 per cent annual rate. But gains in output were still widespread in May among consumer goods--both durable and nondurable--business equipment, construction products, and nondurable materials. Growth in nonfarm payroll employment has moderated considerably in the last two months, following an exceptionally rapid rise over an extended period.

Consumer spending is projected to rise about $19 billion this quarter, following a remarkable first quarter increase of $28 billion. The advance retail sales estimate for April has been revised to show a sharper decline than first reported; in May, despite an increase of 1.5 per cent, sales were only about one-half per cent above the first quarter monthly average. Unit auto sales in May were at an annual rate of 12.0 million (10.1 domestic), a little below the first quarter average.

The long-predicted decline in residential construction activity is clearly under way, with both housing starts and permits down appreciably further in April. On the other hand, net exports of goods and services are now expected to improve further in the second quarter.

Business demands continue strong. A number of indicators suggest continued expansion in business fixed capital outlays. Newly approved capital appropriations by manufacturers rose 15 per cent further in the first quarter, and the unspent backlog also rose sharply. Manufacturers' new orders for durable goods have continued generally expansive, despite a small decline in April. The square footage of commercial and industrial construction contracts has remained at advanced levels. Prospective strength in business demands for inventories is suggested by the prevailing, unusually low inventory/sales ratios. But we have reduced somewhat our earlier estimate of second quarter inventory investment, partly on the basis of the quite moderate increase in April book values, which apparently reflected to some extent delays in deliveries.

The rise in wage rates slowed in May after some pick-up in the two preceding months. Since last November, the hourly earnings index has increased at a 5.4 per cent annual rate. Recent wage settlements in the rubber and electrical machinery industries on the whole appear relatively moderate.

The rise in wholesale prices of farm products and foods accelerated sharply in May, following a slowing in April. Prices of industrial commodities rose 1.2 per cent, about the same rapid pace as in the preceding three months. Increases were widespread among crude and intermediate materials and finished goods. Over **the past 6 months**, the wholesale price index has increased 10 per cent, not at an annual rate, with prices of farm products and foods up 21.5 per cent and industrial commodities up over 5 per cent.

Outlook. For the last half of 1973, our GNP projection continues to assume growth in the monetary aggregates at rates consistent with longer-term expansion in M_1 at about 5-1/4 per cent, and some further rise in market interest rates from current levels. The assumptions with respect to Federal expenditures and tax policies remain unchanged. The Administration is reportedly considering new stabilization actions but, we have no basis as of this writing for changing our assumptions as to price and wage restraints.

Increases in both nominal and real GNP in the second half of the year are now expected to be somewhat smaller than in the projection of four weeks ago. Real GNP is now projected to rise at an annual rate of 3.5 per cent in the fourth quarter, rather than 3.9 per cent. The rise in the GNP private fixed weight price index is still projected to slow to a 4.7 per cent annual rate in the fourth quarter.

The downscaling in GNP reflects in part a somewhat smaller increase than projected five weeks ago in business spending for fixed capital. The latest Commerce survey taken in May, indicates an increase of around 13 per cent in business spending for plant and equipment this year, about one-half per cent less than in the March survey, and we have taken this change into account in our current projection. The Commerce increase is appreciably smaller than indicated by the McGraw-Hill survey taken a few weeks earlier, but we have discounted most of this because of several differences between the two surveys. A second factor in making for a smaller rise in nominal GNP is that with improvement in the trade surplus coming earlier than had been anticipated, a smaller increase is now projected for the second half.

The accompanying summary table contains projections only through 1973 but the detailed green tables show staff projections for the four quarters of 1974. These longer-run projections will be discussed in the course of the FOMC presentation next week.

STAFF GNP PROJECTIONS

	Change in nominal GNP $ billion		Per cent increase, annual rate: Real GNP		Per cent increase, annual rate: Gross private product fixed weighted price index		Unemployment rate	
	5/9/73	Current	5/9/73	Current	5/9/73	Current	5/9/73	Current
1971 1/	74.0	74.0	2.7	2.7	4.5	4.5	5.9	5.9
1972 1/	101.4	101.4	6.4	6.4	3.3	3.3	5.6	5.6
1973	131.3	134.4	6.8	6.7	4.6	5.0	4.8	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 1/	30.9	30.9	8.0	8.0	3.1	3.1	5.3	5.3
1973-I 1/	40.6	43.0	7.9	8.0	6.7	7.4	5.0	5.0
-II	34.5	36.5	6.0	5.7	5.3	6.3	4.9	5.0
-III	29.5	28.3	4.8	4.3	4.4	4.5	4.8	4.8
-IV	28.0	27.0	3.9	3.5	4.7	4.7	4.7	4.8
Change: 1971-IV to 1972-IV	116.8	116.8	7.6	7.6	3.3	3.3	- .6	- .6
1972-IV to 1973-IV	132.6	134.8	5.7	5.4	5.3	5.8	- .6	- .5

1/ Actual.

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

	1972	1973	1972		1973			
						Projected		
		Proj.	III	IV	I	II	III	IV
Gross National Product	1151.8	1286.2	1164.0	1194.9	1237.9	1274.4	1302.7	1329.7
Final purchases	1145.9	1273.0	1156.0	1184.6	1231.0	1261.9	1286.7	1312.2
Private	891.3	997.6	900.4	925.3	964.3	989.6	1009.1	1027.4
Excluding net exports	895.5	997.8	903.8	928.8	966.5	989.5	1009.0	1026.3
Personal consumption expenditures	721.0	799.7	728.6	745.7	773.6	792.5	808.9	823.8
Durable goods	116.1	133.8	118.6	120.8	130.4	133.4	135.0	136.5
Nondurable goods	299.5	334.9	302.0	310.4	322.6	332.5	339.2	345.4
Services	305.4	331.2	308.0	314.5	320.6	327.6	334.7	341.9
Gross private domestic investment	180.4	211.3	183.2	193.4	199.7	209.5	216.1	220.0
Residential construction	54.0	57.1	54.4	57.0	59.4	58.4	56.1	54.5
Business fixed investment	120.5	141.1	120.7	126.1	133.5	139.0	144.0	148.0
Change in business inventories	5.9	13.2	8.0	10.3	6.8	12.5	16.0	17.5
Nonfarm	5.6	13.0	7.9	10.1	6.5	12.5	16.0	17.0
Net exports of goods and services 1/	-4.2	-0.2	-3.4	-3.5	-2.2	0.1	0.1	1.1
Exports	73.7	93.3	74.4	79.6	87.6	92.0	95.0	98.5
Imports	77.9	93.5	77.8	83.1	89.8	91.9	94.9	97.4
Gov't. purchases of goods and services	254.6	275.4	255.6	259.3	266.8	272.3	277.6	284.9
Federal	105.8	108.3	105.4	104.0	106.6	107.8	108.6	110.2
Defense	75.9	74.8	75.1	73.2	75.0	74.5	74.6	74.9
Other	29.9	33.6	30.2	30.8	31.6	33.3	34.0	35.3
State & local	148.8	167.1	150.2	155.2	160.1	164.5	169.0	174.6
Gross national product in constant (1958) dollars	789.5	842.6	796.1	811.6	827.3	839.2	848.3	855.8
GNP implicit deflator (1958 = 100)	145.9	152.6	146.2	147.2	149.6	151.9	153.6	155.4
Personal income	935.9	1026.4	939.9	974.6	993.9	1017.2	1036.7	1057.6
Wage and salary disbursements	627.0	690.2	630.8	648.8	668.1	683.5	697.3	712.0
Disposable income	795.1	877.0	798.8	828.2	850.4	872.4	884.1	900.9
Personal saving	54.8	56.3	50.8	62.8	56.5	59.2	54.0	55.5
Saving rate (per cent)	6.9	6.4	6.4	7.6	6.6	6.8	6.1	6.2
Corporate profits before tax	94.3	122.7	95.7	101.5	113.1	123.0	125.0	129.5
Corp. cash flow, net of div. (domestic)	91.7	109.6	93.1	97.1	103.4	109.2	111.2	114.5
Federal government receipts and *expenditures, (N.I.A. basis)*								
Receipts	228.6	262.1	229.8	238.4	252.5	256.2	266.7	273.1
Expenditures	246.8	266.0	241.6	262.7	260.0	264.8	267.3	271.8
Surplus or deficit (-)	-18.1	-3.9	-11.8	-24.3	-7.5	-8.6	-0.6	1.3
High employment surplus or deficit (-)	-1.9	-2.0	2.5	-13.5	-2.2	-4.7	-1.7	0.6
State and local government surplus or deficit (-), N.I.A. basis	12.7	12.2	9.4	19.5	14.5	12.6	11.7	9.8
Total labor force (millions)	89.0	90.8	89.3	89.6	90.0	90.7	91.1	91.5
Armed forces "	2.4	2.3	2.4	2.4	2.4	2.3	2.3	2.3
Civilian labor force "	86.5	88.5	86.9	87.2	87.6	88.4	88.8	89.2
Unemployment rate (per cent)	5.6	4.9	5.6	5.3	5.0	5.0	4.8	4.8
Nonfarm payroll employment (millions)	72.8	75.4	73.0	73.8	74.6	75.2	75.7	76.1
Manufacturing	18.9	19.8	19.0	19.3	19.6	19.7	19.8	19.9
Industrial production (1967 = 100)	114.4	124.1	115.0	118.4	121.0	123.5	125.3	126.5
Capacity utilization, mfg. (per cent)	77.9	82.1	78.4	80.2	81.3	82.2	82.5	82.4
Major materials (per cent)	89.6	94.4	90.6	92.2	93.6	94.3	94.7	94.9
Housing starts, private (millions, A.R.)	2.38	2.12	2.37	2.40	2.40	2.14	2.05	1.90
Sales new autos (millions, A.R.)	10.94	11.71	11.53	11.69	12.23	12.10	11.50	11.00
Domestic models	9.32	10.01	9.91	9.90	10.27	10.25	10.00	9.50
Foreign models	1.61	1.70	1.61	1.79	1.96	1.85	1.50	1.50

1/ GNP exports and imports estimates for 1972 have not been revised to reflect revised Balance of Payments estimates incorporating new seasonal factors; these revised estimates for 1972 and corresponding projections for 1973 are:

	1972	1973 Proj.	1972 III	1972 IV	1973 I	1973 II	1973 III	1973 IV
Net exports of goods and services	-4.2	0.7	-3.5	-2.6	-1.4	1.0	1.0	2.0
Exports	73.5	93.8	73.9	80.1	88.1	92.5	95.5	99.0
Imports	77.8	93.1	77.3	82.7	89.4	91.5	94.5	97.0

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

	1974 Proj.	1974 Projected I	II	III	IV
Gross National Product	1385.1	1354.6	1376.0	1395.2	1414.7
Final purchases	1372.9	1339.6	1363.0	1383.7	1405.2
Private	1070.2	1046.1	1063.1	1078.0	1093.4
Excluding net exports	1066.7	1043.5	1059.5	1074.4	1089.3
Personal consumption expenditures	862.1	839.8	856.0	869.7	882.8
Durable goods	138.9	137.5	139.0	139.5	139.5
Nondurable goods	363.7	353.3	361.0	367.2	373.3
Services	359.5	349.0	356.0	363.0	370.0
Gross private domestic investment	216.9	218.7	216.5	216.2	216.0
Residential construction	50.6	52.7	50.5	49.7	49.5
Business fixed investment	154.0	151.0	153.0	155.0	157.0
Change in business inventories	12.3	15.0	13.0	11.5	9.5
Nonfarm	12.3	15.0	13.0	11.5	9.5
Net exports of goods and services 1/	3.5	2.6	3.6	3.6	4.1
Exports	104.6	101.5	104.0	105.5	107.5
Imports	101.2	98.9	100.4	101.9	103.4
Gov't. purchases of goods and services	302.7	293.5	299.9	305.7	311.8
Federal	115.2	113.8	115.0	115.6	116.2
Defense	77.5	76.9	77.2	77.7	78.2
Other	37.7	36.9	37.8	37.9	38.0
State & local	187.6	179.7	184.9	190.1	195.6
Gross national product in constant (1958) dollars	864.0	859.8	863.0	865.4	867.7
GNP implicit deflator (1958 = 100)	160.3	157.5	159.4	161.2	163.1
Personal income	1108.2	1081.2	1099.8	1116.5	1135.1
Wage and salary disbursement	745.7	727.6	740.2	751.0	764.1
Disposable income	945.2	922.4	939.8	951.9	966.7
Personal saving	60.7	60.6	61.5	59.6	61.0
Saving rate (per cent)	6.4	6.6	6.5	6.3	6.3
Corporate profits before tax	128.8	131.0	130.0	128.0	126.0
Corp. cash flow, net of div. (domestic)	116.0	116.3	116.3	115.9	115.5
Federal government receipts and expenditures, (N.I.A. basis)					
Receipts	284.0	278.8	282.5	285.6	289.1
Expenditures	289.1	281.3	286.0	292.1	296.9
Surplus or deficit (-)	-5.1	-2.5	-3.5	-6.5	-7.8
High employment surplus or deficit (-)	5.0	1.2	4.2	6.0	8.4
State and local government surplus or deficit (-), N.I.A. basis	5.9	7.6	6.0	5.0	5.0
Total labor force (millions)	92.5	91.9	92.3	92.7	93.1
Armed forces "	2.3	2.3	2.3	2.3	2.3
Civilian labor force "	90.2	89.6	90.0	90.4	90.8
Unemployment rate (per cent)	5.2	4.9	5.1	5.3	5.5
Nonfarm payroll employment (millions)	76.8	76.4	76.7	77.0	77.2
Manufacturing	19.7	19.8	19.7	19.6	19.5
Industrial production (1967 = 100)	128.0	127.4	127.9	128.2	128.4
Capacity utilization, mfg. (per cent)	81.4	82.1	81.7	81.1	80.5
Major materials	94.3	94.7	94.5	94.2	93.9
Housing starts, private (millions, A.R.)	1.80	1.85	1.80	1.78	1.77
Sales new autos (millions, A.R.)	10.19	10.75	10.25	10.25	9.50
Domestic models	8.69	9.25	8.75	8.75	8.00
Foreign models	1.50	1.50	1.50	1.50	1.50

1/ Exports and imports projections for 1974 on Balance of Payments basis corresponding to revised estimates for 1972 and corresponding projections for 1973 are:

Net exports of goods and services	4.4	3.5	4.5	4.5	5.0
Exports	105.1	102.0	104.5	106.0	108.0
Imports	100.7	98.5	100.0	101.5	103.0

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1972	1973 Proj.	1972 III	1972 IV	1973 I	1973 Projection II	1973 Projection III	1973 Projection IV
	---------	---------	---------	Billions of Dollars	---------	---------	---------	---------
Gross National Product	101.4	134.4	24.6	30.9	43.0	36.5	28.3	27.0
Inventory change	2.3	7.3	3.0	2.3	-3.5	5.7	3.5	7.5
Final purchases	99.2	127 1	21.6	28.6	46.4	30.9	24.8	25.5
Private	77.4	106.3	20.1	24.9	39.0	25.3	19.5	18.3
Excluding net exports	82.3	102.3	18.3	25.0	37.7	23.0	19.5	17.3
Net exports	-4.8	-4 4	1.8	-0.1	1.3	2.3	0.0	1.0
Government	21.8	20.8	1.5	3.7	7.5	5.5	5.3	7.3
GNP in constant (1958) dollars	47.8	53.1	12.2	15.5	15.7	11.9	9.1	7.5
Final purchases	45.8	48.2	9.8	13.8	18.8	8.2	6.1	6.1
Private	40.6	46.6	11.1	13.8	18.6	7.2	5.3	4.5
	---------	---------	---------	Per Cent Per Year	---------	---------	---------	---------
Gross National Product	9.7	11.7	8.9	11.0	15.2	11.8	8.9	8.3
Final purchases	9.5	11.1	7 6	9.9	15.7	10.0	7.9	7.9
Private	9.0	11.9	9.1	11.1	16.9	10.5	7.9	7.3
Personal consumption expenditures	8.4	10.9	8.5	9.4	15.0	9.8	8.3	7.4
Durable goods	12.2	15.2	16.5	7.4	31.8	9.2	4.8	4.4
Nondurable goods	7.7	11.8	6.5	11.1	15.7	12.3	8.1	7.3
Services	7.8	8.4	7.4	8.4	7.8	8.7	8.7	8.6
Gross private domestic investment	18.7	17.1	14.0	22.3	13.0	19.6	12.6	7.2
Residential construction	26.8	5.7	12.1	19.1	16.8	-6.7	-15.8	-11.4
Business fixed investment	13.9	17.1	5.0	17.9	23.5	16.5	14.4	11.1
Gov't. purchases of goods & services	9.4	8.2	2.4	5.8	11.6	8.2	7.8	10.5
Federal	8.2	2.4	-10.0	-5.3	10.0	4.5	3.0	5.9
Defense	6.3	-1.4	-17.8	-10.1	9.8	-2.7	0.5	1.6
Other	13.7	12.4	8.1	7.9	10.4	21.5	8.4	15.3
State & local	10.2	12.3	11.5	13.3	12.6	11.0	10.9	13.3
GNP in constant (1958) dollars	6.4	6.7	6.3	8.0	8.0	5.7	4.3	3.5
Final purchases	6.2	6.1	5.0	7.0	9.4	4.0	3.0	2.9
Private	6.7	7.3	7.0	8.5	11.3	4.2	3.1	2.6
GNP implicit deflator	3.0	4.6	2.4	2.8	6.6 1/	6.0	4.5	4.7
Private GNP fixed weight index 2/	3.3	5.0	2.9	3.1	7.4	6.3	4.5	4.7
Personal income	8.6	9.7	7.7	14.8	7.9	9.4	7.7	8.1
Wage and salary disbursements	9.4	10.1	6.6	11.5	11.9	9.2	8.1	8.4
Disposable income	6.8	10.3	8.3	14.7	10.7	10.3	5.4	7.6
Corporate profits before tax	13.2	30.1	17.9	24.2	45.7	35.0	6.5	14.4
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.8	14.7	8.7	15.0	23.7	5.9	16.4	9.6
Expenditures	11.8	7.8	-8.0	34.9	-4.1	7.4	3.8	6.7
Nonfarm payroll employment	3.0	3.6	2.8	4.5	4.4	3.1	2.7	2.1
Manufacturing	2.2	4.6	2.6	6.9	5.3	2.8	2.0	2.0
Industrial production	7.1	8.5	6.7	11.8	8.8	8.2	6.0	4.4
Housing starts, private	14.1	-10.8	15.1	6.4	-0.5	-44.0	-16.1	-29.3
Sales new autos	6.8	7.1	41.9	5.7	18.5	-4.3	-19.8	-17.4
Domestic models	7.4	7.3	44.9	-0.5	15.2	-0.9	-9.8	-20.0
Foreign models	3.0	5.5	27.9	44.1	36.9	-21.7	-75.7	0.0

1/ Excluding Federal pay increase, 5.8 per cent annual rate.

2/ Using expenditures in 1967 as weights.

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1974 Proj.	1974 Projection I	II	III	IV
	----------Billions of Dollars------------				
Gross National Product	98.9	24.9	21.4	19.2	19.5
Inventory change	-0.9	-2.5	-2.0	-1.5	-2.0
Final purchases	99.9	27.4	23.4	20.7	21.5
Private	72.6	18.7	17.0	14.9	15.4
Excluding net exports	68.9	17.2	16.0	14.9	14.9
Net exports	3.3	1.5	1.0	0.0	0.5
Government	27.3	8.6	6.4	5.8	6.1
GNP in constant (1958) dollars	21.4	4.0	3.2	2.4	2.3
Final purchases	21.2	5.7	4.5	3.1	3.2
Private	16.7	4.7	3.3	2.2	2.4
	---------Per Cent Per Year---------------				
Gross National Product	7.7	7.5	6.3	5.6	5.6
Final purchases	7.8	8.4	7.0	6.1	6.2
Private	7.3	7.3	6.5	5.6	5.7
Personal consumption expenditures	7.8	7.8	7.7	6.4	6.0
Durable goods	3.8	2.9	4.4	1.4	0.0
Nondurable goods	8.6	9.1	8.7	6.9	6.6
Services	8.5	8.3	8.0	7.9	7.7
Gross private domestic investment	2.7	-2.4	-4.0	-0.6	-0.4
Residential construction	-11.4	-13.2	-16.7	-6.3	-1.6
Business fixed investment	9.1	8.1	5.3	5.2	5.2
Gov't. purchases of goods & services	9.9	12.1	8.7	7.7	8.0
Federal	6.4	13.1	4.2	2.1	2.1
Defense	3.6	10.7	1.6	2.6	2.6
Other	12.2	18.1	9.8	1.1	1.1
State & local	12.3	11.7	11.6	11.2	11.6
GNP in constant (1958) dollars	2.5	1.9	1.5	1.1	1.1
Final purchases	2.5	2.7	2.1	1.4	1.5
Private	2.4	2.7	1.9	1.3	1.3
GNP implicit deflator	5.1	5.6 1/	4.8	4.5	4.5
Private GNP fixed weight index 2/	4.9	4.8	4.8	4.5	4.5
Personal income	8.0	8.9	6.9	6.1	6.7
Wage and salary disbursements	8.0	8.8	6.9	5.8	7.0
Disposable income	7.8	9.5	7.5	5.2	6.2
Corporate profits before tax	5.0	4.6	-3.1	-6.2	-6.3
Federal government receipts and expenditures (N.I.A. basis)					
Receipts	8.4	8.3	5.3	4.4	4.9
Expenditures	8.7	14.0	6.7	8.5	6.6
Nonfarm payroll employment	1.9	1.6	1.6	1.6	1.0
Manufacturing	-0.5	-2.0	-2.0	-2.0	-2.0
Industrial production	3.1	2.2	1.6	0.9	0.7
Housing starts, private	-15.2	-10.5	-10.8	-5.6	0.0
Sales new autos	-13.0	-9.1	-18.6	0.0	-29.3
Domestic models	-13.2	-10.5	-21.6	0.0	-34.3
Foreign models	-11.8	0.0	0.0	0.0	0.0

1/ Excluding Federal pay increase, 4.8 per cent annual rate.

2/ Using expenditures in 1967 as weights.

Industrial production. Industrial production rose 0.5 per cent further in May and at 123.4 per cent of the 1967 average it was 9 per cent above a year earlier. Gains in output were widespread among consumer goods, business equipment, and materials.

Auto assemblies continued at record levels and were at an annual rate of 10.0 million units. Production schedules for June and the third quarter are also set at this 10 million unit rate. Production of some appliances, furniture, and consumer chemical and paper products increased further. Production of both industrial and commercial equipment increased further but output of trucks remained at about capacity levels. Production of aircraft also was unchanged but at a reduced level. Among materials, output of steel and other durable materials was maintained at record levels while production of textiles, chemicals, and paper rose further.

Retail sales. Retail sales rose 1.4 per cent in May, according to the advance report, but April sales have been revised to show a decline of 2.4 per cent instead of 1.4 per cent first reported. Altogether, retail sales for May were only 0.6 per cent above the sharply advanced level of the first quarter. However, they were 12 per cent above May 1972.

INDUSTRIAL PRODUCTION
1967=100, seasonally adjusted

	1972 May	1973 March	April	May	Per cent change from Month ago	A year ago
Total index	113.2	122.0	122.8	123.4	.5	9.0
Consumer goods	122.2	129.4	129.6	130.5	.7	6.8
Autos	111.3	130.8	128.1	129.8	1.3	16.6
Home goods	124.3	138.3	138.2	139.0	.6	11.8
Apparel & staples	121.0	125.2	126.0	126.9	.7	4.9
Business equipment	102.5	115.8	117.4	118.6	1.0	15.7
Defense equipment	78.2	79.9	80.3	79.4	-1.1	1.5
Intermediate products	119.3	127.6	127.9	129.2	1.0	8.3
Construction products	118.0	127.3	128.3	129.7	1.1	9.9
Materials, total	115.6	125.0	126.5	126.8	.2	9.7
Durable	111.1	124.1	125.9	125.8	-.1	13.2
Steel	108.3	117.9	117.8	117.7	-.1	8.7
Nondurable	121.3	126.4	128.0	128.4	.3	5.9

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RETAIL SALES
(Seasonally adjusted, percentage change from previous period)

	1972 Q III	Q IV	1973 Q I	Feb.	March	April	May
Total sales	2.6	3.7	5.7	1.3	1.8	-2.4	1.4
Durable	3.9	5.4	8.2	1.2	1.4	-2.4	1.6
Auto	4.6	6.0	7.8	.8	2.3	-2.4	1.8
Furniture and appliance	2.0	3.2	9.1	3.0	- .3	- .8	.3
Nondurable	1.9	2.8	4.4	1.4	2.0	-2.4	1.3
Food	1.7	1.7	3.7	- .8	.3	1.3	.3
General merchandise	2.6	2.0	6.3	2.5	5.7	-6.1	3.0
Total, less auto and nonconsumption items	1.9	2.9	4.7	1.4	1.8	-2.2	1.2
GAF	1.9	2.8	6.9	2.7	5.0	-6.7	3.0
Total in constant prices	1.6	2.7	3.8	.6	.6	-3.3	n.a.

<u>Unit sales of consumer durables</u>. Sales of new domestic-type autos were at a seasonally adjusted 10.1 million unit annual rate in May, equaling the average of the first 5 months of 1973, and a tenth above a year earlier. Auto stocks at the end of May continued low--at a 46 day supply, slightly below a month earlier and 15 per cent below a year earlier

Foreign car sales in May were at a 1.9 million unit annual rate, about the same as a month earlier and a fifth above a year ago. The import share of total sales came to 15.7 per cent, moderately above a year earlier.

In May, unit factory sales of major appliances, TVs, and radios are estimated to have fallen slightly below April levels but were about 14 per cent above a year ago. Seasonally adjusted appliances sales were down 1 per cent from April, with all 9 items in the index equal to or below a month earlier. A decline in color TV sales in May was offset by an increase in monochrome sales. Radio sales continued to decline.

UNIT SALES OF SELECTED CONSUMER DURABLE GOODS
Seasonally adjusted

	1972	1973			Per cent change from	
	May	March	April	May	Month ago	Year ago
Auto sales,						
millions of cars	10.7	12.6	11.7	12.0	3	12
Domestic	9.2	10.6	9.8	10.1	3	10
Foreign	1.5	2.0	1.9	1.9	0	22
Home goods, factory						
sales, 1967=100	133	150	153	152e	-1	14
TVs 1/	131	154	158	158e	0	21
Radios 1/	88	96	81	75e	-7	-15
Major appliances	138	153	157	155e	-1	12

e/ Estimated from data through May 26.
1/ Includes foreign-made units sold under domestic labels; foreign-label units not included.

Consumer surveys. The March-April Conference Board report indicated a sharp drop in consumer optimism, but a surprisingly large increase in plans to purrchase autos, major appliances and homes within the next 6 months. Among the attitudinal questions, evaluations of business and employment conditions during the next 6 months showed the most deterioration. The proportions of favorable appraisals of present business and employment conditions also declined from the previous bimonthly survey, but were still well above a year earlier. Income expectations drifted downward slightly for the third consecutive quarterly survey.

In contrast, purchase plans for homes were at a record high and plans to purchase autos recovered to the high level of the

September-October survey. (In apparent contradiction to the volume of actual auto sales in recent quarters, buying plans for autos were low in the Conference Board survey earlier this year.) Purchase plans for major appliances were up sharply from the previous survey to the highest level in over a year.

The increased uneasiness about the future indicated in the Conference Board survey is consistent with the more pessimistic trend in attitudes continuously reported by the Michigan Survey Research Center since last December. In their second quarter survey covering the April-May period, the index of sentiment declined another 4.8 points to the general level maintained during the 1970 recession. Attitudes about the trend in personal financial situations and expectations for business conditions during the next 12 months were less favorable, and there was also a slight decline in the number of households who thought that it was "a good time to buy" household durables. Although this latter question is still at a relatively high level and indicative of inflationary expectations, this is the first indication that "buying in advance of price increases" might become less important. Michigan reported that appraisals of the market condition for houses and autos turned down more than for household durables.

CONFERENCE BOARD
CONSUMER EXPECTATIONS AND INTENTIONS
Seasonally adjusted
(Per cent)

	1972		1973	
	March-April	November-December	Janury-February	March-April
	-----Appraisal of Present Situation--------			
Business Conditions				
Good	21.3	32.4	31.8	28.9
Bad	20.3	11.3	10.3	11.7
Employment				
Jobs plentiful	10.2	16.7	19.4	17.6
Jobs not so plentiful	52.3	57.9	56.9	55.8
	----Expectations for Six Months Hence------			
Business Conditions				
Better	25.9	24.9	22.1	19.8
Worse	7.4	6.5	9.0	10.1
Employment				
More jobs	20.1	20.5	17.2	15.9
Fewer jobs	16.0	12.7	20.1	21.2
Income				
Increase	24.3	28.0	26.2	27.0
Decrease	6.4	5.6	5.1	7.4
	-----Plans to Buy Within Six Months--------			
Automobile				
Yes	7.3	8.1	8.1	9.2
New	4.3	5.1	5.0	5.5
Home				
Yes	3.7	3.5	3.1	4.4
Major appliances				
Total plans	32.8	34.3	30.9	37.5

<u>Construction and real estate</u>. Seasonally adjusted value of new construction put in place changed little in May from the revised April level, and was just below the peak which apparently was passed in March. Outlays for private residential construction dipped for the second successive month. Among the other major groups, only outlays for private nonresidential construction were holding at earlier highs.

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

	1972	1973		Per cent change in May from:	
	QIV(r)	QI(r)	May 1/	April 1973	May 1972
Total-current dollars	129.0	135.3	135.2	--	+ 10
Private	97.4	102.2	102.3	--	+ 10
Residential	57.0	59.0	58.8	- 1	+ 11
Nonresidential	40.4	43.2	43.6	--	+ 9
Public	31.6	33.2	32.9	+ 1	+ 10
State and local	27.2	28.0	28.1	--	+ 11
Federal	4.4	5.2	4.8	+ 5	+ 7
Total-1967 dollars	90.4	93.4	91.6	--	+ 3

1/ Data for May 1973 are <u>confidential</u> Census Bureau extrapolations. In no case should public reference be made to them.

Rising construction costs have continued to be an important factor in the level of current dollar outlays this year. In May, the composite cost index continued to edge upward -- to 148 per cent of the 1967 average. On a year-to-year basis, the increase amounted to

8 per cent as compared with an upward revised increase of about 7 per cent--year-over-year--in the first quarter as well as in 1972 as a whole.

Seasonally adjusted private housing starts dropped 6 per cent further in April to an annual rate of 2.10 million units. Some recovery in starts may have occurred in May. Even so, the accelerated downtrend in residential building permits and other factors indicate a second quarter average appreciably under the near-record rate of 2.40 million units in the first quarter, with starts of both single- and multifamily units declining. Meanwhile residential completions, which lag starts, have continued to rise.

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

	1972	1973			Per cent change in April from:	
	QIV	QI(r)	March(r)	April(p)	Mo. ago	Year ago
Permits	2.24	2.16	2.07	1.79	- 15	- 10
Starts	2.40	2.40	2.25	2.10	- 6	- 5
1-family	1.28	1.36	1.25	1.19	- 4	- 2
2-or more-family	1.12	1.04	1.00	.91	- 9	- 8
Completions	2.02	2.10	2.12	n.a.	(+ 4)1/	(+ 7)1/
Memorandum:						
Mobile home shipments	.61	.68	.74	.68	- 8	+ 10

p/ Preliminary.
n.a. Not available.
1/ Per cent changes shown based on March 1973.

<u>New capital spending plans</u>. The Commerce May survey of planned spending for new plant and equipment indicates an increase of 13.2 per cent for 1973--down slightly from the Commerce March survey and substantially below the 19 per cent rise reported in the McGraw-Hill spring survey. The downward revision in 1973 spending plans from the March Commerce survey results from a shortfall of $0.5 billion of actual from planned spending in the first quarter and a scaling down of planned spending in the second quarter.

EXPENDITURES FOR NEW PLANT AND
EQUIPMENT BY U.S. BUSINESS
(Per cent change from prior year)

	1971	1972	1973 McGraw-Hill (Nov. 1972)	1973 McGraw-Hill (May 1973)	1973 Commerce (Jan. 1973)	1973 Commerce (Mar. 1973)	1973 Commerce (May 1973)
			------------Anticipated				--------------
All Business	1.9	8.9	10.6	19.3	12.9	13.8	13.2
Manufacturing	-6.1	4.5	13.8	29.2	13.6	18.1	18.5
Durable goods	-10.4	10.5	15.3	38.1	16.7	19.6	21.7
Nondurable goods	-1.9	- .8	12.3	20.2	10.6	16.5	15.4
Nonmanufacturing	7.2	11.5	8.9	13.9	12.5	11.4	10.3
Transportation	-18.4	16.0	-6.7	8.9	1.6	-2.4	.7
Electric utilities	20.8	12.6	13.0	16.0	17.0	16.5	14.9
Communication	6.6	10.4	9.0	14.0	17.6 1/	12.8	10.5
Commercial and other	8.8	11.2	10.0	14.0	9.8 1/	10.4	7.9

1/ *Confidential, not published separately.*

The first quarter shortfall occurred in nonmanufacturing and in nondurable goods manufacturing, while spending by durable goods producers just matched plans. Second quarter plans have been revised downward substantially--mainly in nonmanufacturing. There are differences in compilation that may account for some of the apparent disparity between the Commerce and McGraw-Hill surveys. It appears, however, that this latest Commerce survey may prove to have underestimated somewhat the strength of business capital spending, especially in manufacturing. New orders for capital goods have been quite strong and unfilled orders are rising. Also, newly approved capital appropriations rose 15.5 per cent in the first quarter according to the Conference Board, supporting the reports of continued strong spending plans by manufacturing firms. (Historically, appropriations tend to be spent in about two to three quarters.) Excluding the volatile petroleum industry, the first quarter rise was 21.7 per cent. Backlogs of unspent appropriations also rose sharply in the first quarter and could now support spending at the first quarter rate for another four quarters.

Manufacturers orders and shipments. New orders for durable goods declined 1.5 per cent in April (p) following a 5.6 per cent rise in March. The April level was 2.7 per cent above the first quarter average. Nondefense capital goods orders edged off slightly in April and primary metals orders--mostly for steel--fell by 7.8 per cent after rising 12.7 per cent in March.

Shipments of durable goods were up sharplyiin April, and backlogs of unfilled orders continued to increase rapidly, suggesting further strength in investment.

MANUFACTURERS NEW ORDERS FOR DURABLE GOODS
(Per cent changes)

	1972	1973		
	Q IV from Q III	Q I from Q IV 1972	March from February	April from March (p)
Durable goods total	4.6	8.8	5.6	-1.5
Excluding defense	4.8	8.5	5.2	-1.6
Primary metals	2.1	15.7	12.7	-7.8
Motor vehicles and parts	4.0	9.7	-2.1	.7
Household durables	5.6	5.2	- .8	5.3
Capital goods industries	5.2	7.8	9.8	- .8
Nondefense	6.1	6.3	8.8	-1.2
Defense	.2	16.1	14.8	.9
Constructions & other durables	5.4	6.9	3.3	-1.2

<u>Inventories</u>. Book value of business inventories rose at an $8.7 billion annual rate in April (p), down sharply from the first-quarter average rate of $22.2 billion. The decline from the first quarter results mainly from a negligible April rate of book value growth at manufacturing. The April manufacturing figure may reflect some involuntary decumulation, resulting from continued rapid growth in sales, but it also appears in part to result from a seasonal adjustment problem, suggesting that May could well show a resumption of book value growth at manufacturing.

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

	1972	1973		
	Q IV	Q I (Rev.)	March (Rev.)	April (Prel.)
Manufacturing and trade	14.9	22.2	18.3	8.7
Manufacturing, total	6.4	10.2	14.1	0
Durable	5.2	7.2	9.9	2.1
Nondurable	1.2	3.0	4.2	-2.0
Trade, total	8.5	12.0	4.2	8.6
Wholesale	4.3	6.1	2.3	2.5
Retail	4.2	6.0	1.9	6.1

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

The inventory-sales ratio for manufacturing and trade remained at a low 1.41 in April. There was a rise in the retail ratio, reflecting the April decline in retail sales, but a further decline in the manufacturing ratio. The ratio of inventories to unfilled orders at durable goods manufacturing ratio. The ratio of inventories to unfilled orders at durable goods manufacturers dropped further.

INVENTORY RATIOS

	1972		1973	
	March	April	March (Rev.)	April (Prel.)
Inventories to sales:				
Manufacturing and trade	1.53	1.52	1.41	1.41
Manufacturing, total	1.70	1.67	1.56	1.54
Durable	2.04	1.98	1.86	1.83
Nondurable	1.30	1.30	1.20	1.18
Trade, total	1.36	1.36	1.25	1.28
Wholesale	1.22	1.22	1.13	1.13
Retail	1.44	1.46	1.34	1.38
Inventories to unfilled orders:				
Durable manufacturing	.931	.925	.817	.798

Cyclical indicators. The preliminary Census composite index of leading indicators declined 0.6 per cent in April, following 21 straight months of increase at an average monthly rate of more than 1 per cent. The coincident and lagging indexes increased.

The leading index is usually somewhat irregular, so that it is quite possible that April's mild decline will be reversed when later data become available. Even if March turns out to have been a peak, such a peak--based on past performance--could foreshadow changes in the economy ranging from a mild slowdown to a full-fledged recession.

CHANGES IN COMPOSITE CYCLICAL INDICATORS
(Per cent change from previous month)

	Jan.	Feb.	Mar.	Apr. (p)
12 Leading (trend adjusted)	1.9	1.8	1.6	-.6
12 Leading, prior to trend adjustment	1.5	1.4	1.3	-.9
5 Coincident	1.3	1.3	1.1	.8
5 Coincident, deflated	.9	.8	.5	.5
6 Lagging	1.7	2.3	1.0	2.2

Leading series decreasing in April were initial claims for unemployment insurance (inverted), new orders for durable goods, contracts and orders for plant and equipment, housing permits, common stock prices, and the ratio of price to unit labor cost. Series increasing were the manufacturing workweek and industrial materials prices.

Since the preliminary April index was compiled, new orders and contracts and orders have been revised upwards somewhat, but a decrease was reported in the change in consumer installment debt.

In May, common stock prices and the workweek declined while industrial materials prices rose further.

Labor market. Growth of employment has moderated in the past two months following an exceptionally rapid increase which began in mid-1971. Total employment and the labor force changed relatively little in May and the unemployment rate remained at 5 per cent, where it has held since the start of the year. Insured unemployment and initial claims for unemployment compensation also have leveled off since early this year.

Preliminary payroll employment estimates for May show an increase of 150,000 following a similar gain in April. This compares with an average monthly increase of about 285,000 in the preceding ten months. The recent slowing has appeared in all sectors except construction and State and local government. The number of manufacturing jobs in May was little changed, following virtually continuous growth from December 1971 to April 1973. The factory workweek fell 0.2 hour to 40.8 hours in May, mainly reflecting a sharp cutback in overtime at transportation equipment producers and widespread reductions in hours in nondurable goods industries.

CHANGES IN NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted, in thousands)

	May 1972-May 1973*	May 1972-March 1973	March 1973-May 1973
		Annual rate	
Total	2,691	2,856	1,848
Private	2,302	2,483	1,416
Goods producing	952	1,027	600
Manufacturing	872	935	582
Construction	85	86	78
Service producing	1,350	1,456	816
Trade	591	647	324
Services	510	557	258
Government	389	373	432
Federal	- 34	- 41	0
State and local	423	414	432

* Based on not seasonally adjusted data.

Unemployment. The over-all unemployment rate remained unchanged in May, and there was also little or no change among most major labor force groups. Over the past year, however, the number of unemployed persons has decreased by 550,000. All of the decline has been among persons who lost their jobs--a typical cyclical pattern--while the number unemployed for other reasons (i.e. labor force entrants, re-entrants, and job leavers) has remained the same. Job losers comprise about 36 per cent of all unemployed in May, as compared with 43 per cent a year ago.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1972	1973		
	May	January	April	May
Total	5.8	5.0	5.0	5.0
Men 20 years and over	4.1	3.3	3.4	3.4
Women 20 years and over	5.7	5.3	4.7	4.6
Teenagers	15.7	14.3	15.4	15.4
Household heads	3.5	2.9	3.0	2.9
White	5.2	4.6	4.5	4.4
Negro and other races	10.3	8.9	9.1	9.4
White-collar	3.5	3.2	3.1	2.8
Blue-collar	6.7	5.6	5.4	5.4

Earnings. The index of hourly earnings of production workers in the private nonfarm economy rose at a 3.2 per cent annual rate in May, after larger increases in March and April. The index, which tends to move unevenly on a monthly basis, was up by 5.7 per cent over the year ending in May but has risen at a slightly slower rate over the past six months. Virtually all of the slowing has occurred in the heavily unionized construction and transportation and public utilities categories and may partially reflect the irregular timing of contract settlements. In manufacturing, as well as in the relatively less unionized trade and service sectors, there has been some speed-up in the rate of earning increases in the past six months.

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

	May 1971- May 1972	May 1972- May 1973	May 1972- Nov. 1972	Nov. 1972- May 1973
Total	6.1	5.7	5.9	5.4
Manufacturing	6.2	5.4	5.2	5.6
Construction	6.6	5.4	5.9	4.9
Transportation	10.4	7.8	10.2	5.4
Trade	4.5	5.8	5.5	6.0
Services	5.3	5.4	5.1	5.7

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

Industrial productivity and labor costs. Although industrial production continued to rise in April and May, gains in industrial productivity have slowed, and with continuing strong increases in labor compensation there have been further increases in industrial unit labor costs. The latter rose at an annual average rate of about 6.5 per cent, as compensation per manhour increased at a rate of over 8 per cent and estimated industrial productivity gains were at a rate of about 1.7 per cent. Compared with the same period a year ago, labor costs in April-May were up 4.0 per cent with compensation up about 8 per cent and productivity 3.8 per cent.

INDUSTRIAL PRODUCTIVITY AND LABOR COSTS[1/]

Series	1972			1973	
	QII	QIII	QIV	QI	Apr.-May
	Per cent change from previous quarter at annual rate				
Output per manhour	4.5	5.6	4.4	2.6r	1.7 2/
Compensation per manhour	5.7	5.9	8.5	10.5r	8.3 2/
Unit labor costs	1.4	.7	3.8	8.1r	6.5 2/
	Per cent change over previous year				
Output per manhour	3.3	4.1	4.9	4.4r	3.8
Compensation per manhour	5.7	6.5	7.3	8.0r	8.0
Unit labor costs	2.7	2.0	2.8	3.5r	4.0

1/FRB estimates. For a description of these series see the "Supplement to Current Economic and Financial Conditions," April 13, 1973.
2/Per cent change from previous 2-month period at annual rate.

<u>Minimum wage</u>. The House passed a minimum wage bill June 6 which would raise the nonfarm minimum to $2.20 an hour by 1975, extend coverage to about 5 million government employees and 1 million domestic workers, and bring farm workers' minimum wages into parity with non-agricultural employees over the next four years. The legislation provides increases for those covered by the Fair Labor Standards Act before 1966 from $1.60 an hour to $2.00 an hour, effective when signed into law, and to $2.20 an hour in 1974. For those workers covered by the 1966 FLSA amendments and those newly covered by the Act, the minimum wage would increase to $1.80 an hour this year, $2.00 an hour next year, and $2.20 in 1975.

The House bill does not provide the youth differential wage which the Administration had recommended and still desires, but would authorize wages for full time students below the hourly minimum--a provision considerably milder than sought by the Administration. The package is estimated by the Labor Department to add directly about $1.5 billion to the wage bill this year, about $1.7 billion next year, $0.7 billion in 1975 and $0.3 billion in 1976. It is also likely to have repercussions on wage rates above the minimum wage.

In the Senate, hearings began last week on minimum wage legislation. Although two bills have been introduced, one by Senator Dominick and one by the Chairman of the Senate Labor Committee, Senator Williams, the final Senate version is expected to resemble closely the

Williams version. This measure is very similar to the House-passed bill in extensions of coverage and increases in the statutory minimum, and thus in cost. Last year the Senate passed a bill similar to that introduced this year by Senator Williams.

Industrial relations. General Electric and the two major electrical workers' unions reached tentative agreement on a new contract covering about 100,000 workers. This agreement is scheduled for a membership vote shortly. Negotiations between the unions and Westinghouse continue on a day to day basis.

The General Electric settlement could provide an increase in wages of up to 88 cents, or 22 per cent, over the life of the three year contract, depending on cost-of-living adjustments. First year wage adjustments will total about 7.5 per cent: a 6.3 per cent increase retroactive to May 28 and a 1.2 per cent cost-of-living raise guaranteed on November 26, 1973. In the second and third contract years the workers could receive up to 7.0 per cent and 6.1 per cent, respectively, in wage increases. The contract provides a maximum of 14 cents an hour in cost-of-living adjustments in the second contract year, of which 10 cents an hour is guaranteed, and there is a 12 cents an hour cap (maximum) on cost-of-living raises in the third year. The escalator formula provides a 1 cent an hour raise for each 0.3 per cent rise in the Consumer Price Index. Thus, the maximum payment would require at least a 4.2 per cent rise in the CPI during the second contract year and at least a 3.6 per cent increase in the third year.

New fringe benefits provided under the new agreement include increased pension benefits, retirement at age 62 and supplemental unemployment compensation. The estimated cost of these benefits is not yet available.

G. E. SETTLEMENT
(Cents per hour)

	Wage adjustment	Guaranteed cost of living	Possible cost of living	Maximum total	Per cent
1973	.15	.15	--	.30	7.5
1974	.16	.10	.14	.30	7.0
1975	.16	--	.12	.28	6.1
Total				.88	20.6

In other industrial relations developments, the United Rubber Workers ended a three week strike against B. F. Goodrich by ratifying a new three year contract June 3. The settlement provides wage increases identical to the moderate increases in the Goodyear contract which was ratified last month but it differs in providing a larger increase in fringe benefits. Specifically the Goodrich settlement increases pensions for those retiring in the first contract year from $7.75 to $9.50 a month for each year of service, to $9.75 a month for those retiring in the second contract year and to $10 in the third year. Goodyear had agreed to an increase of 75 cents to $8.50 for all three years of the contract. The Goodrich agreement also offers early retirement at age 55 after 30 years of service, but unlike Goodyear, the Goodrich settlement does not reduce pension benefits for early retirees.

Consumer prices. Consumer prices climbed further in April--at a seasonally adjusted annual rate of nearly 8 per cent--to a level about 5 per cent above April 1972. Food prices continued to rise extremely rapidly while advances for other commodities accelerated to an annual rate of 5 per cent. Service costs continued to increase at the first quarter rate.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	Relative Importance Dec. 1972	1972		1973	
		Dec. 1971 to June 1972	June to Dec.	Dec. 1972 to March 1973	March to April
All items	100.0	2.9	3.9	8.6	7.8
Food	22.5	3.3	6.3	28.6	18.4
Commodities less food	40.1	2.6	2.5	4.0	5.0
Services1/	37.4	3.7	3.5	3.6	3.6
Addendum:					
All items less mortgage costs2/	96.3	3.0	3.9	8.5	9.7
Services less home finance1/ 2/ 3/	30.9	3.5	3.1	4.0	4.6
Commodities less food, used cars, home purchase3/	31.8	2.1	2.0	4.1	7.2

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.

A further large increase in meat prices. although less spectacular than in previous months, contributed to the climb in food costs as did substantial advances for most food groups, particularly fresh fruits and vegetables and eggs. Retail food prices in May may rise more moderately, in view of the small increase that month at wholesale. In the following months, although meat prices will be restrained by ceiling levels, further substantial advances are likely for many other foods including eggs processed fruits and vegetables, coffee, bakery products and perhaps broilers.

The acceleration of price rises for other commodities is seen more clearly in the series excluding used cars and home purchase, this series has increased since January at a rate of about 6 per cent compared with 2 per cent during 1972. Apparel and gasoline were of major importance in the recent advance, and household durables and new cars rose substantially in April.

Among services, rents were up less in April than in the previous three months but this was offset by larger increases for medical and other service costs. When costs associated with home-ownership--mainly mortgage interest and property taxes--are excluded from services, the rate of rise since January shows a marked acceleration to 4.6 per cent, in contrast to 3.3 per cent during 1972. This reflects the recent advances in rents as well as a faster rise in most other services.

Wholesale prices. Wholesale prices rose 2 per cent between April and May or 27.5 per cent at a seasonally adjusted annual rate. Price increases were widespread as prices for farm and food products rose sharply after slowing in April, and prices of industrial commodities continued to rise at a very rapid pace for the fourth consecutive month.

In the first four months of Phase III, the WPI increased more than three times as fast as in Phase II.

WHOLESALE PRICES
(Percentage changes at seasonally adjusted annual rates)

	Phase II Nov. 1971 to Jan. 1973	Phase III Jan. 1973 to May 1973
All commodities	6.9	22.8
Farm products[1/]	16.1	43.2
Industrial commodities	3.5	14.9

1/ Farm products and processed foods and feeds.

In May the index of farm and food products increased 4.1 per cent, 62.3 per cent at a seasonally adjusted annual rate, as sharply higher prices were posted for manufactured animal feeds, soybeans, grains, cotton, fluid milk, and fats and oils. Declines were few, but included somewhat lower prices for meat, poultry, and dairy products.

Prices of industrial commodities rose 1.2 per cent, 15.5 per cent at a seasonally adjusted rate. Of major influence were increases for fuels and electric power, metals and metal products, lumber and wood products, machinery, and textile products. Since mid-May, the BLS raw industrial materials index has continued to move higher with prices of scrap metals and raw cotton and wool tops of particular importance. Some strengthening, perhaps temporary, in prices of lumber and plywood products has been noted recently, but prices are not expected to return to their recent peaks. The increase in prices of steel sheet and strip expected by producers to be effective in mid-June, if permitted by the Cost of Living Council, will be reflected in the July WPI. A major producer of copper has increased its price and another has requested approval of a sizable price increase.

Although the increase in consumer foods last month was the smallest in about a year, other consumer goods continued to rise at a high rate, reflecting advances for heating fuel, apparel, gasoline, passenger cars, jewelry, and carpets.

Producer finished goods rose at a rapid rate for the fourth consecutive month, reflecting higher seasonally adjusted prices for machinery and equipment, metal commercial furniture, and motor vehicles.

WHOLESALE PRICES
(Percentage changes at seasonally adjusted annual rates)

	1972		1973		
	June to Sept.	Sept. to Dec.	Dec. 1972 to March 1973	March to May	April to May
All commodities	7.2	9.4	21.1	19.7	27.5
Farm products	19.2	27.7	51.9	27.9	62.3
Industrial commodities	3.4	2.4	10.2	16.2	15.5
Crude materials	10.6	14.2	11.8	33.1	33.2
Intermediate materials	3.1	4.1	12.4	15.9	15.2
Finished goods	3.2	- .1	6.4	13.3	12.0
Producer	2.4	- 1.0	4.7	8.2	8.1
Consumer	3.6	.4	7.2	15.9	14.0
Consumer finished foods	11.8	13.2	44.2	10.3	3.4

Note: Farm products include farm products and processed foods and feeds. Crude materials exclude crude foodstuffs and feedstuffs, plant and animal fibers, oilseeds, and leaf tobacco and intermediate materials exclude intermediate materials for food manufacturing and manufactured animal feeds. Data for the finished goods total are estimated and exclude foods. Consumer finished foods are foods in their final state ready for use by consumers and include some commodities in the farm products group and most commodities in the group for processed foods and feeds.

Agriculture. After substantial increases during the month ending May 15, prices of cattle, corn and soybeans have continued their rise into early June, and eggs, broilers, hogs and wheat have also turned upward. During the first week in June, prices of the major feed items, corn and soybeans, reached levels two and three times those in November 1972.

High prices of feedstuff result from heavy demand, limited stocks, and prospects for a continued tight situation, at least for corn, in the new crop year. With planting not quite complete, an early estimate of corn production is 5.9 million bushels, 7 per cent above last year but 5 per cent less than had been hoped for earlier. If no further delays occur in soybean planting, now half complete, the crop may be relatively ample at 1.5 million bushels, 11 per cent above last year.

Harvest of the excellent winter wheat crop has begun and production is expected to be 11 per cent above last year. Exports of the new crop will probably be as large as the 1972 crop; world demand is likely to keep prices strong.

Red meat production increased moderately in May from the sharp boycott-associated April decline. But output was still 6 per cent below the January-March level reflecting partly large winter death losses of cattle and pigs. Slaughter volume is running below expectations based on recent surveys of the livestock numbers on farms and feedlots, so there has been increased doubt concerning the validity of the survey data. In addition to the reduced volume of red meat production, supplies of broilers, eggs, and milk are below the levels of last year and are not expected to expand until the feed supply and price situation improves.

<u>Farm land values and farm credit</u>. New data from the Department of Agriculture have underscored the boom in farm land prices and transfer activity. The national index of farm real estate prices on March 1 was 13 per cent higher than a year earlier (confidential until publication about June 18), sharply above the average annual gain of 5.8 per cent during the preceding 10 years. Price strength was widespread, with only four states showing increases of less than 10 per cent.

The total value of farm land transferred in the year ending March 1, 1973 was $10.6 billion, far above the former record of $6.8 billion set the preceding year. Eighty-six per cent of the transfers involved credit financing, and in these sales the debt averaged 78 per cent of purchase price--both new highs for these series. (Confidential until publication in late July.)

Department of Agriculture analysts state that the land boom reflects several factors: rising farm income since 1970; readily available mortgage credit, particularly from Federal Land Banks, at stable interest rates; and the accelerated movement of land into nonfarm recreation and housing uses. Of the farm real estate brokers, bankers, and other reporters surveyed on March 1, 71 per cent expected price increases exceeding 5 per cent during the next 12 months, compared to 48 per cent a year earlier.

Demand for farm production loans has been strong this spring, as expected in view of the Department of Agriculture estimate that farm production expenses will be $6 billion, or 12 per cent, higher than in 1972. Through April, new loans at production credit associations were running 24 per cent above last year; however, repayments have continued strong, and outstanding volume on May 1 was only 9 per cent above a year earlier. Loans at rural banks are also up, but these banks generally continue in a relatively liquid position as rising farm income has swelled deposits.

DOMESTIC FINANCIAL SITUATION

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		May	32.4	3.7	9.5	8.2
Reserves available (RPD's)		May	30.1	8.0	10.9	10.1
Money supply						
M1		May	260.5	10.7	5.9	6.9
M2		May	540.6	9.9	7.6	9.1
M3		May	851.8	8.8	9.7	10.9
Time and savings deposits (Less CDs)		May	280.0	8.6	9.1	11.2
CDs (dollar change in billions)		May	61.7	3.0	12.9	24.9
Savings flows (S&Ls + MSBs)		May	311.2	7.0	8.9	14.2
Bank credit (end of month)		May	600.0	22.6	16.1	15.7
Market yields and stock prices				Percentage or index points		
Federal funds	wk. endg.	6/6/73	8.43	1.00	1.41	3.95
Treasury bill (90 day)	"	6/6/73	7.03	0.79	1.20	3.17
Commercial paper (90-119 day)	"	6/6/73	7.68	0.55	1.28	3.20
New utility issue Aaa	"	6/8/73	7.64	--	--	0.37
Municipal bonds (Bond Buyer)	1 day	6/7/73	5.13	0.03	-0.06	-0.18
FNMA auction yield (FHA/Va)		5/31/73	8.00	0.08	0.27	0.37
Dividends/price ratio (Common stocks)	wk. endg.	5/30/73	3.02	0.06	0.16	0.19
NYSE index (12/31/65=50)	end of day	6/11/73	56.13	-1.30	-4.89	-3.27

Credit demands		Net change or gross offerings: Current month 1973	Current month 1972	Year to date 1973	Year to date 1972
Business loans at commercial banks	May	3.1	1.3	17.9	5.7
Consumer instalment credit outstanding	April	1.4	1.0	7.4	4.3
Mortgage debt outst. (major holders)	March	5.2	4.2	12.7	10.2
Corporate bonds (public offerings)	March	1.3	1.7	2.9	5.4
Municipal long-term bonds (gross offerings)	March	2.4	2.2	5.8	6.0
Federally sponsored Agcy. (net borrowing)	June	1.1	0.6	6.8	1.9
U.S. Treasury (net cash borrowing)	June	-2.6e	-3.4	2.0e	-2.2
Total of above credits		11.9	7.6	55.5	31.3

e - Estimated

DOMESTIC FINANCIAL SITUATION

Short-term interest rates have been under considerable upward pressure since the last Committee meeting, largely in reflection of recent monetary policy actions. Treasury bill rates have shown the largest increases as the supply of bills to be absorbed by nonbank investors has been augmented by Federal Reserve operations, foreign central bank activity, and commercial bank liquidation of bills in order to meet loan demands. With private short-term credit demands remaining strong, other short-term market rates -- including the prime rate -- have increased about 50 basis points in the intra-meeting period.

In longer-term markets corporate bond rates have risen 25 basis points, while yields on tax exempts have been essentially unchanged. In May, yields on home mortgages in the primary market edged higher, with reports of reduced credit availability and more restrictive commitment policies associated with continued reduced deposit inflows to nonbank thrift institutions. Yields in the FNMA auction of FHA/VA loans have been rising steadily since the first of the year, advancing about 35 basis points over this period.

Bank credit during May expanded rapidly, with all loan categories strong. Despite the cessation of run-offs of dealer placed commercial paper by nonfinancial corporations, business loan expansion continued to be quite rapid.

Outlook. The near-term outlook for interest rates depends importantly on the content of any new Administration initiative in the wage-price area. Over the longer-run, though with nominal GNP growth continuing to be relatively strong as projected, interest rates are expected to be under further upward pressure, assuming moderate growth in the monetary aggregate.

The spread between the bill rate and the Federal funds rate is still quite large, despite sharp increases in the bill rate in recent weeks, suggesting further increases ahead. Early in the summer, when the Treasury is not expected to be a significant factor in the market, bill rate increases could once again be moderated by a relatively scarce supply of bills. But borrowing by housing and other agencies and Treasury asset sales are expected to be sizable. Private credit demands in short-term markets are also expected to be strong, and CD and commercial paper rates -- as well as the bank prime rate -- seem likely to remain under upward pressure.

Longer-term market rates have continued to fluctuate in a quite narrow range despite increases of 2 to 3 percentage points in money market rates in the last six months. During this period, corporations have relied heavily on short-term sources of credit and their own cash flows to finance their activities. No significant shift in financing patterns are apparent at this time, but there are reports that some investment bankers have been counseling corporations to accelerate their planned capital market borrowings on the expectation that fundamental economic factors are leading toward higher long-term rates.

There have been some indications of commercial bank efforts to limit loan expansion and some unconfirmed reports that borrowers who shifted their financing from the commercial paper market to banks in the spring are being asked, as these loans mature, to pay them down. Such policies would bring upward rate pressures on the commercial paper market and -- to the extent that they contribute to a shift toward capital market financing -- on longer-term rates as well.

Residential mortgage activity is likely to continue to moderate in line with the reduced inflow of funds to thrift institutions -- assuming no change in the regulatory ceiling on deposit rates. Savings and loan association borrowing from the Federal Home Loan Banks -- already large -- is expected to rise further this summer, contributing to sustained borrowing by that Agency at a time when borrowing by FNMA and other housing credit agencies is also expected to remain large. In this environment, the combination of State usury and FHA/VA rate ceilings can be expected to result in a step-up in the non-price rationing of new residential mortgage credit. CID restraints are also working in that direction, at least insofar as banks are concerned.

<u>Monetary aggregates</u>. Preliminary data indicate that M_1 increased at a 10.7 per cent annual rate in May, bringing the growth rate for the April-May period close to that of the fourth quarter of 1972. Some acceleration in M_1 growth was to be expected in the second quarter in light of the continued strong pace of economic activity and the unusually slow growth in the first quarter. In April and May, however, large income tax refunds may have contributed temporarily to the more rapid growth of demand balances. Growth in M_2 accelerated in May to about a 10 per cent annual rate. While this acceleration reflected solely the faster growth in M_1, inflows of time deposits other than large CD's have remained surprisingly strong despite increasingly higher yields available on competing market instruments.

The larger M_2 growth in May than in April was offset by a smaller increase in net sales of negotiable CD's and a decline in U.S. Government deposits, seasonally adjusted; as a result, the adjusted bank credit proxy slowed to an 11.5 per cent annual rate of growth.

The $3 billion increase in net sales of CD's in May was almost $1 billion below the average increase over the preceding four months. This slower growth apparently reflected both the larger volume of maturing CD's and the reluctance of some banks to pay the increasingly higher costs needed to sustain the net inflows at the rapid pace of previous months. Even though banks were free to bid for longer-term CD's after suspension of the ceilings on May 16--and the offering rates on such instruments increased 25 to 75 basis points from their below-market levels--preliminary data suggest that the average maturity of CD's sold over the entire month remained essentially unchanged from that in April.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1972		1973			
	QIII	QIV	QI	Mar.	Apr.	May p
			Per cent at annual rates			
M_1 (Currency plus private demand deposits)	8.2	8.6	1.7	- .5	7.5	10.7
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	10.3	10.2	5.7	4.8	8.1	9.8
M_3 (M_2 plus savings deposits at mutual savings banks and S&L's)	12.4	11.5	8.6	6.9	8.4	8.8
Adjusted bank credit proxy	9.8	12.1	15.0	19.7	13.1	11.5
Time and savings deposits at commercial banks						
a. Total	14.0	14.4	23.1	30.9	21.0	18.2
b. Other than large CD's	12.3	11.6	9.5	9.6	8.7	8.6
			Billions of dollars 1/			
Memorandum:						
a. U.S. Government demand deposits	- .4	.5	.3	.2	-1.6	-1.2
b. Negotiable CD's	.8	1.1	3.9	6.1	3.8	3.0
c. Nondeposit sources of funds	.1	.1	.2	.4	.2	.3

p - Preliminary and partially estimated.
1/ Month-to-month change in levels or monthly averages of last-month-in-quarter to last-month-in-quarter changes, not annualized.

As growth in CD's decelerated in May, banks obtained additional funds by liquidating $1 billion in Treasury security holdings. They also raised approximately $300 million from non-deposit sources--primarily through issuance of bank related commercial paper, but also through increased Eurodollar borrowings. Since the beginning of the year, however, funds obtained from non-deposit sources have increased by only $1 billion, as rate differentials have made these funds generally more expensive than funds acquired through CD sales.

Bank credit. Following moderate growth in April, total loans and investments of commercial banks (last Wednesday-of-the-month series, seasonally adjusted) expanded at a 22 per cent annual rate in May, above the very strong first quarter pace. Most of the increase in bank credit reflected a sharp expansion in loans, although, for the first time this year, there was also a sizable increase in bank holdings of "other" securities, primarily State and local tax warrants and agency issues acquired late in the month. The increase in "other" securities was partially offset by a large reduction in bank portfolios of Treasury securities.

A sharp expansion in loans to non-bank financial institutions in May in part reflected increased borrowing by finance companies, apparently induced by both the favorable spread between bank rates and commercial paper rates and the high level of consumer credit demands. At the same time, finance companies continued to add substantially to the volume of their directly-placed commercial paper outstanding. Borrowings at banks by other non-bank financial institutions, which have been extremely high all year, showed another large gain in May. In a special Reserve

COMMERCIAL BANK CREDIT ADJUSTED FOR
LOANS SOLD TO AFFILIATES 1/
(Seasonally adjusted changes at annual percentage rates)

	1972 3/	1973 3/		
	QIV	QI	April	May
Total loans and investments 2/	16.4 (17.0)	18.4	6.4 (4.9)	22.6 (21.8)
U.S. Treasury securities	2.6	-11.6	--	-19.8
Other securities	12.0	1.0	-6.1	21.6
Total loans 2/	20.3 (21.2)	28.6	10.6 (8.5)	29.4 (28.3)
Business loans 2/	15.5	39.1	21.7	24.6
Real estate loans	19.2	15.9	12.9	17.5
Consumer loans	19.0	17.6	9.8	13.0

1/ Last-Wednesday-of-month series.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
3/ Data revised on basis of December 31, 1972, Call Report. Details of revision will be available in Supplement.

Note: Data in parentheses are adjusted to exclude System matched sale-purchase transactions.

Bank survey, several large commercial banks indicated that real estate investment trusts had been drawing more heavily on bank lines of credit rather than using commercial paper because of relative rate considerations. Also, some respondents reported an increase in short-term credit to mortgage companies to finance increased inventories. Only a few banks reported that savings and loan associations had increased their bank borrowing as a result of reduced deposit inflows.

Business loans in May increased at a 25 per cent annual rate. For the first time in several months, the rapid expansion in business borrowing at banks was not associated with a shift out of commercial paper financing, as shown in the table, thus indicating continued strong short-term credit demands by business. Faced with heavy loan demands and rapidly increasing costs of funds, banks in recent weeks have begun to implement more stringent lending practices. Under the new CID guidelines, the prime loan rate charged large corporations was adjusted upward three times in one-quarter point steps from 6-3/4 at the end of April to 7-1/2 per cent in early June. Furthermore, the April 15th Quarterly Survey of Changes in Bank Lending Practices indicates a general across-the-board tightening of non-price lending practices by banks, including more careful screening of applicants, greater reluctance to make term loans, and stricter compensating balance requirements. In addition, a survey of loan commitments taken at selected large U.S. banks revealed a greater reluctance by respondents to extend new loan commitments; in the three month survey period ending in mid-April, there was no increase in the volume of outstanding commitments at these banks. A more detailed analysis of the results of these surveys will be presented in the forthcoming Supplement.

CHANGES IN BUSINESS LOANS AND COMMERCIAL PAPER 1/
(Amounts in billions of dollars, seasonally adjusted monthly changes)

	Business loans at all commercial banks 2/3/	Dealer-placed commercial paper	Total 3/	Annual percentage rate of change in total 3/
		Average monthly changes		
1972--QI	1.0	--	1.0	9.9
QII	.8	.3	1.1	10.0
QIII	1.3	- .4	.9	8.3
QIV	1.6	.2	1.8	15.7
1973--QI	4.3	-1.3	3.0	24.6
January	3.9	- .2	3.7	31.0
February	5.3	-2.0	3.3	27.0
March	3.6	-1.8	1.8	14.4
April	2.6	- .3	2.3	18.2
May	3.0	--	3.0 e/	23.3 e/

1/ Changes are based on last-Wednesday-of-month data.
2/ Adjusted for outstanding amounts of loans sold to affiliates.
3/ Data revised on basis of December 31, 1972, Call Report.
e/ Partially estimated.

Nonbank financial institutions. Revised data indicate that deposit growth in April at savings and loan associations was at an annual rate of 7.2 per cent--somewhat higher than originally estimated. Sample data for May show a continuation of reduced deposit flows relative to the first quarter, although deposit growth was slightly stronger than in April. The large volume of tax refunds disbursed in April and May--more than double the amount refunded a year ago--may have bolstered recent inflows to the savings and loans.

Analysis of S&L balance sheet data for April, the latest available, provides some insight into recent developments. For the first time in over a year, deposits held in passbook accounts decreased considerably, while certificate accounts continued to attract additional funds. Moreover, reflecting the slowdown in deposit growth together with increased seasonal demand for takedowns of mortgage commitments, S&Ls increased their borrowings substantially in April. Net advances from the FHLB Banks increased by $1 billion and borrowings from other sources rose by $0.4 billion. However, there was little change in liquid asset holdings during April, with the ratio of liquid assets to savings and short-term borrowings at about 9.4 per cent for insured S&Ls--moderately above the 7 per cent legally required at that time. In early May, the FHLBB reduced this required ratio to 6.5 per cent, and indications are that some associations drew down liquid assets during the month. In addition, borrowings from the Home Loan Banks rose by about $700 million. Since the beginning of 1973, these borrowings have increased by over $2 billion, with the level of advances outstanding topping $10 billion at the end of May.

The 5 per cent annual growth rate previously estimated for mutual savings banks in April appears to have been confirmed by more recent reports. Preliminary data for May indicate that deposit growth slowed further. Savings banks located in financial centers (particularly New York City) fared less favorably than their suburban counterparts, but over-all savings flows were down sharply from a year ago.

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

	Mutual savings banks	Savings and loan associations	Both
1972 - QI	13.6	22.5	19.7
QII	10.7	15.9	14.3
QIII	11.6	18.2	16.2
QIV	11.0	14.2	13.2
1973 - QI	8.1	16.0	13.6
1973 - March	7.5	13.5	11.7
April p/	5.0	7.2	6.6
May e/	3.5	9.5	8.0

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

Consumer credit. The April increase in total consumer credit outstanding amounted to $20.9 billion at a seasonally adjusted annual rate, considerably less than the $25.7 billion average annual rate of growth during the preceding six months but still high by historical standards.

Slowing from March was most pronounced in instalment credit, where extensions declined and repayments again rose. Growth in automobile credit slowed along with auto sales, and large income tax refunds apparently dampened the rise in personal instalment loans. Other instalment consumer goods credit and charge account balances showed larger increases than in March.

Finance rates on consumer instalment loans have shown little net change in recent months despite substantial increases in most other market interest rates. For example, rates on new car contracts purchased by the major automobile finance companies, although up 3 basis points in April to 11.88 per cent, were about unchanged from the year-earlier level. At commercial banks, rates on direct loans for new car purchases remained about unchanged in May at levels near those prevailing since last summer.

The gradual trend toward longer maturities on new car contracts may have been accelerated by the dip in auto sales during April. At finance companies, 2.3 per cent of the new car contracts had maturities over 36 months, up slightly from March and considerably above the 0.7 per cent in April 1972. The weighted average maturity for all new car contracts acquired by the major auto finance companies reached a new high of 35.2 months in April.

Short-term markets. The marked further tightening of money market conditions since the May meeting has been reflected in steep rate advances on short-term market securities. The yield on 3-month Treasury bills--which had been unusually depressed relative to the rest of the short-term rate structure--has risen nearly a full percentage point to around 7-1/8 per cent, and rates on other short-term instruments have advanced 50-70 basis points. Most of the rate increases occurred before the June 11 hike in the System's discount rate to 6-1/2 per cent. The relatively mild market response to the discount rate change was attributable, in part, to widespread anticipation of imminent Administration moves to strengthen wage-price controls.

The rise in bill rates relative to other short term rates developed partly because earlier shortages in the market supply of bills were alleviated. The concentration of three Treasury bill auctions in the last week of May (the regular weekly and monthly auctions, plus a pre-holiday weekly auction) added substantially to dealer positions, particularly because bidding by other investors was cautious in the face of tightening money market conditions. In addition, a sharp decline in the Treasury's balance was in progress and this led to the System supplying bills to absorb reserves. In the last week of May the Desk sold almost $200 million of bills into the market and ran-off $600 million of bills in the auctions. At the same time commercial banks and foreign official accounts were adding to market bill supplies. In general, when foreign official accounts were selling bills their orders (amounting to some $680 million) were executed in the market, but when these accounts were buying bills the Desk met such orders (totaling $330 million) directly out of the System's Account. Taken together, this combination of influences swelled dealer inventories substantially at a time when their financing costs were also rising, and this contributed importantly to the general rise in bill rates. More recently, market expectations of some strengthening of the wage-price control program, the imminent redemption of June tax bills, and the projected absence through July of Treasury financing have all contributed to a stabilization of bill yields. Moreover, the current higher yields on shorter than on longer maturity bills may indicate that the market is expecting that short rates are near their peaks.

The general intensification of monetary pressure over the intra-meeting period was also evident in the markets for negotiable bank CD's and commercial paper. Bank offering rates on CD's with 3-6 month maturities moved up to about 8 per cent while the 90-119 day commercial paper rate rose to 7-7/8 per cent. With corporate tax liabilities large in June and the amount of maturing tax bills outstanding smaller than usual, it is possible that tax (and dividend) payments out of maturing CD's and bank loans could be sizable. Facing such a prospect, many banks have raised CD offering rates in order to minimize the impact of possible CD run-offs. Reflecting the higher cost of funds and continued strong demand for credit some banks have also raised the prime rate on business loans to 7.50 per cent.

INTEREST RATES ON U.S. TREASURY SECURITIES
(Per cent)

	Daily rates					Change
	May 15	May 22	May 29	June 5	June 12	May 15-June 12
Treasury bills						
3-month	6.17	6.60	6.84	7.13	7.14	+.97
6-month	6.40	6.84	6.95	7.13	7.13	+.73
1-year	6.42	6.80	6.91	6.98	6.93	+.51
Notes and Bonds (Constant Maturity)						
1-year	6.71	7.00	7.10	7.23	7.21	+.50
5-years	6.78	6.86	6.80	6.70	6.62	-.16
7-years	6.78	6.88	6.89	6.81	6.75	-.03
10-years	6.86	6.90	6.93	6.95	6.86	0
20-years	6.98	7.02	7.03	7.07	7.02	+.04
	Statement week ended					Change--week ending May 15 to week ending June 12
	May 16	May 23	May 30	June 6	June 12 1/	
Memorandum:						
Federal funds (daily average)	7.81	8.06	7.95	8.43	8.32	+.51

1/ Average for first 6 days of the week.

SELECTED SHORT-TERM INTEREST RATES
(Per cent)

	Daily rates					Change
	May 15	May 22	May 29	June 5	June 12	May 15-June 12
Commercial paper						
90-119 day	7.25	7.38	7.50	7.75	7.88	+.63
4-6 month	7.25	7.38	7.50	7.75	7.88	+.63
Large negot. CD's 1/						
Just under 3 mos.	7.50	7.63	7.70	8.00	8.10	+.60
6 mos.	7.00	7.70	7.75	8.00	8.00	+1.00
Bankers accepts.						
61-90 day	7.38	7.50	7.63	8.00	8.13	+.75
150-180 day	7.50	7.63	7.75	8.00	8.13	+.63
Federal agencies						
1-year	7.08	7.29	7.39	7.53	7.51	+.43
Bank prime rate						
(most prevalent)	7.00	7.00	7.25	7.25	7.50	+.50

1/ Highest quoted new issue.

Long-term private securities markets. Yields on long-term corporate securities have begun to advance in recent weeks, in response to sharp advances in short-term rates and the consequent rising cost of financing dealer inventories, the weakening of the dollar, continued evidence of inflation, and a potential increase in long-term borrowing by corporations. The FRB index of yields on newly issued Aaa utility bonds rose almost one-quarter of a percentage point since the May Greenbook, while market yields on recently offered bonds increased 14 basis points on balance over this period. The rise in the latter index would have been greater but for a brief and vigorous rally in the middle of last week which was sparked by expectations of action by the Administration on additional anti-inflationary measures.

SELECTED LONG-TERM INTEREST RATES
(Per cent)

	New Aaa utility 1/ bonds	Recently offered Aaa utility 1/ bonds	Long-term state and local 2/ bonds
1971			
High	8.26 (7/30)	8.19 (1/2)	6.23 (6/24)
Low	7.02 (2/5)	7.14 (12/31)	4.97 (10/21)
1972			
High	7.60 (4/21)	7.46 (4/21)	5.54 (4/13)
Low	6.99 (11/24)	7.12 (12/1)	4.96 (12/7)
1973			
High	7.64 (6/8)	7.60 (6/1)	5.35 (3/23)
Low	7.29 (1/12)	7/28 (1/5)	5.00 (1/19)
1973			
May 4	7.40	7.42	5.10
11	--*	7.45	5.10
18	7.45	7.50	5.14
25	7.61	7.55	5.20
June 1	7.55	7.60	5.22
8	7.64p	7.59p	5.13

p/ Preliminary.
* No observations available for new issues rated A or higher that meet the criteria for inclusion in the series.
1/ FRB series.
2/ Bond Buyer.

Public bond volume in June has picked up to an estimated $1.3 billion, primarily because of a build-up in the utility calendar, but total public offerings for the second quarter as a whole have been contraseasonally low. On the basis of present scheduling, the staff estimates that the July total will be less than $1 billion. However, there is a potential for sudden growth in the calendar. Many investment bankers now expect long-term interest rates to rise over the rest of the year and are encouraging borrowers with 1973 needs to accelerate their issues. Should prices and interest rates continue to rise substantially, the build-up in the corporate calendar could be large.

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

	1972	1973 QI	May e/	June f/	July f/
Corporate securities total	3,398	2,741	2,525	3,000	2,050
Public bonds	1,528	981	1,000	1,300	900
Privately placed bonds	780	469	650	800	500
Stock	1,087	1,324	875	900	650
State and local gov't. securities	1,970	1,937	1,750	1,900	1,600

e/ Estimate.
f/ Forecast.

Life insurance company data on commitments and the proposed pattern of takedowns over the first half of 1973 suggest a continued high level of activity in the private placement market, although commitment policy might tighten later in the year should cash flows come under pressure from rising policy loans, which recently showed an upturn. New equity issues appear to be tending down. The staff estimates that June volume will be about $900 million, and July volume probably will be considerably lower. In addition to the usual summer slackening in new issues, scheduled issues by utilities for that month are light.

The decline in corporate stock offerings appears to reflect in part general deterioration in equity markets. Offerings of shares by bond funds have been smaller than in the first quarter, and a number of smaller companies have postponed issues because of the prolonged slump in stock market prices. Stock prices fluctuated widely during May and June but on balance declined. Most recently, however, prices have moved up, as in bond markets, reflecting anticipations of strengthened price control measures. Volume on the major exchanges has been light.

Yields on long-term, tax-exempt bonds have edged up only 3 basis points on balance since the May Greenbook. The total volume of new issues has tapered somewhat in the second quarter, with the volume of general obligation bonds declining more rapidly than the total. Commercial banks, which are the principal purchasers of general obligation bonds, have been able to absorb this reduced volume readily.

While casualty companies are reported to be somewhat more selective in their buying in recent weeks, they continue to make heavy purchases of longer-term bonds and revenue offerings.

RECENT STOCK PRICE DEVELOPMENTS

	Per cent change	
	Jan. 11 - May 25	May 25 - June 7
NYSE	-13.0	-1.5
D-J IND	-11.5	-1.7
AMEX	-15.0	- .8
NASDAQ	-23.1	-2.0

Mortgage market. Lenders appear to have cut back new commitments for home mortgages somewhat further during the past few weeks, according to trade reports. These sources suggest that S&L's in particular have reduced their mortgage purchases in the secondary market and have concentrated their lending on established customers, due to uncertainties about future net savings inflows and to the exceptionally large volume of mortgage commitments outstanding. By the end of April (latest available data), the backlog of mortgage commitments (including loans in process) at insured S&L's totaled a near record $21 billion--equivalent to about 4 months of S&L lending, as measured by the volume of loans either closed or purchased in April.

Interest rates on home mortgages in the primary market appear to have been edging higher. Effective yields on conventional first mortgages closed during early May averaged 7.72 per cent for new-home loans (up 1 basis point from early April) and 7.77 per cent for existing-home loans (up 7 basis points), according to the FHLBB series. The extent of the increase in average credit costs in this sector has been restrained in part by expanded GNMA purchases of certain FHA/VA mortgages at prices designed to limit the number of discount points paid by sellers, and by usury ceilings that have begun to inhibit high loan-to-value ratio lending on conventional mortgages.1/

1/ Fourteen States, mainly in the East and South, have 8 per cent usury ceilings, and 4 others have 7-1/2 per cent ceilings. These usury limits generally are applicable only to conventional home mortgages.

In the secondary market, yields on home mortgages have continued to increase, judging by FNMA's auction of its forward purchase commitments for Government underwritten loans that are too large in size to qualify for GNMA discount subsidy.2/ The average yield on these FHA/VA loan commitments in the latest bi-weekly auction (June 11) was 8.04 per cent, up 4 basis points from the preceding auction and the highest level since July 1971. The yield in FNMA's associated auction of high-ratio, privately-insured conventional mortgage commitments has been somewhat higher (8.44 per cent on June 11), although offerings have remained relatively small.

2/ Under its so-called Super Tandem Plan, GNMA stands ready to purchase regular FHA and VA mortgages of $22,000 or less ($24,500 if 4 bedrooms or more) at 96 (new homes) or 95 (existing homes).

FNMA PURCHASE AUCTIONS
(FHA/VA HOME MORTGAGES)

	Received (millions of dollars)	Accepted (millions of dollars)	Per cent of offers accepted	Yield to FNMA 1/ (per cent)
1972 - High	365 (5/1)	336 (5/1)	92 (5/1, 7/24)	7.74 (10/30)
Low	61 (11/27)	36 (11/27)	42 (3/20)	7.53 (3/20)
1973 - Feb. 5	129	65	51	7.71
20	110	72	65	7.73
Mar. 5	171	108	63	7.75
19	297	169	57	7.81
Apr. 2	235	146	62	7.86
16	217	191	88	7.89
30	261	186	71	7.92
May 14	258	188	73	7.96
29	212	140	66	8.00
June 11	185	142	77	8.04

1/ Data show gross yield to FNMA on 4-month commitments, before deduction of 38 basis point fee paid for mortgage servicing, assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA charges for commitment fees and stock purchase and holding requirements.

<u>Federal finance</u>. In its mid-session review of the 1974 budget, released on June 1, the Administration projects unified budget deficits of $17.8 billion for the current fiscal year and $2.7 billion for fiscal year 1974. These estimates are respectively $7 billion and $10 billion smaller than those presented in the January budget. The revisions are due entirely to higher estimates for receipts, which are now set at $232 billion for fiscal 1973 and $266 billion for fiscal 1974.

Most of the revenue increases are in personal and corporate income taxes. For 1974, estimates of revenues from each of these sources have been raised by $4.5 billion, partly because of larger expected growth in personal income and corporate profits, and partly because experience with tax collections thus far this year suggests that receipts at a given level of GNP are higher than previously estimated. There have been some minor changes in the projected composition of spending, but no change has been made in total estimated outlays of $249.8 billion for fiscal year 1973 and $268.7 billion for fiscal year 1974.

Current Board staff projections differ little from the mid-year budget review. For fiscal 1973 our receipts estimate is $500 million higher and our unified budget deficit consequently lower. On the expenditure side we have not changed our fiscal year 1973 forecast. It should be noted, however, that in earlier years shifts in the timing of expenditures between June and July have often produced unanticipated changes in the fiscal year total amounting to as much as $2 billion.

For fiscal 1974, we are forecasting receipts $3.8 billion larger than the Administration estimate, due mainly to higher corporate income tax projections; but our expenditure forecast also exceeds that of the Administration, by $1 billion, because we are assuming the release of some impounded funds for grants to States and local governments.

The staff is now projecting a high employment budget deficit (NIA basis) of $4.5 billion for the current fiscal year and a surplus of $1.1 billion for fiscal year 1974. The extended outlook, as shown by our half-year projections in the following table, indicates a steadily increasing move toward restraint through calendar year 1974. The Administration's revised estimates--which are on a unified budget basis and hence differ from the NIA approach in regard to timing and coverage--also indicate a shift toward surplus from this fiscal year to the next.

HIGH EMPLOYMENT BUDGET SURPLUS/DEFICIT
(Billions of dollars)

	Fiscal year			Calendar half years					
				1972		1973		1974	
	1972	1973	1974	I	II	I	II	I	II
Administration[1/]									
Jan. estimate	-3.9	-2.3	.3						
June estimate	-3.9	-1.8	5.3						
Staff estimate[2/]	3.3	-4.5	1.1	1.8	-5.5	-3.5	- .6	2.7	7.2

1/ These estimates are on a unified budget basis and are not available for calendar half years. The shift in budget position resulting from over-withholding is not recorded in the Administration figures, but is recorded in the staff figures.
2/ These estimates are on a N.I.A.basis.

The end-of-May Treasury cash balance was $8.2 billion, $0.6 billion less than we had projected in the May Greenbook. Refund checks issued in May were about $2 billion higher than we had estimated, raising total refunds for the month to about $6.6 billion. However, refunds in June are falling off more sharply than we had projected, and it now looks as if total refunds for the year will be about $22 billion, $1 billion more than estimated in the May Greenbook. (Some of the large May refunds, however, were being cashed early in June.)

Given our projected pattern of outlays and receipts, it now appears likely that the Treasury will need $1 to $2 billion in additional funds during August, either in the form of net cash borrowing or by monetizing the capital gains obtained from the revaluation of gold. A factor that might provide some pressure to hold down the size of Treasury borrowing during the summer and fall is the adoption by the Ways and Means Committee of a five-month extension of the $465 billion debt limit ceiling. This ceiling is $20 billion lower than that requested by the Administration. If enacted, it will encourage the Treasury to aim for low levels in its cash balance and, perhaps, to defer some outlays and schedule additional asset sales.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	May	June	July	August
Total net borrowing	-1.8	-2.6	0.6	1.5
Weekly and monthly bills	- .2	- .4	.2	--
Tax bills	--	-2.5	--	--
Coupon issues	--	--	--	-.7
As yet unspecified new borrowing	--	--	--	2.2
Special foreign series	- .2	--	--	--
Agency transactions, debt repayment, etc.	-1.4	.3	.4	--
Plus: Other net financial sources[a/]	0.6	0.5	-1.3	-1.3
Plus: Budget surplus or deficit (-)	-4.8	5.9	-4.9	-0.1
Equals: Change in cash balance	-6.0[b/]	3.8	-5.6	0.1
Memoranda: Level of cash balance, end of period	8.2[b/]	12.0	6.4	6.5
Derivation of budget surplus or deficit:				
Budget receipts	16.5	28.9	17.8	21.7
Budget outlays	21.3	23.0	22.7	21.8
Maturing coupon issues held by public	1.7[c/]	--	--	4.5
Sales of financial assets	0.7	0.2	0.4	0.1
Budget agency borrowing	*	--	0.4	--
Net borrowing by government-sponsored agencies	1.6	1.1	2.0	0.9

a/ Checks issued less checks paid and other accrual items.
b/ Actual
c/ In the May refunding, the Treasury sold $2.7 billion of notes and bonds to the public, leaving a paydown of $1.7 billion.

n.e.--not estimated
* -- less than $50 million

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

	Fiscal 1973 e/		Fiscal 1974 e/		Calendar Years		F.R.B. Staff Estimates				
							Calendar Quarters				Half-Yr.
	Adm. Est. 6-1-73	F.R. Board	Adm. Est. 6-1-73	F.R. Board	1972 Actual	1973 FRBe/	1973 I*	II	III	IV	1974 Jan-June
Federal Budget											
Surplus/deficit	-17.8	-17.3	-2.7	0.1	-17.4	-10.8	-9.5	4.7	0.5	-6.5	6.0
Receipts	232.0	232.5	266.0	269.8	221.5	250.0	55.2	71.3	65.8	57.7	146.1
Outlays	249.8	249.8	268.7	269.7	239.0	260.8	64.7	66.6	65.3	64.2	140.1
Means of financing:											
Net borrowing from the public	19.2	19.2	5.5	-0.1	15.2	7.4	8.4	-6.6	2.1	3.5	-5.7
Decrease in cash operating balance	n.a.	-1.9	n.a.	1.0	0.2	1.9	-1.8	0.9	-0.6	3.4	-1.8
Other 1/	n.a.	0.0	n.a.	-0.9	2.0	1.5	2.9	1.0	-2.0	-.4	1.5
Cash operating balance, end of period	n.a.	12.0	n.a.	11.0	11.1	9.2	12.9	12.0	12.6	9.2	11.0
Memo[2/]: Sales of financial assets[3/]	n.a.	4.5	n.a.	n.e.	3.1	n.e.	1.2	1.2	1.0	n.e.	n.e.
Budget agency borrowing 4/	n.a.	0.3	n.a.	n.e.	0.8	0.2	0.1	-0.7	0.4	0.4	n.e.
Sponsored agency borrowing 5/	n.a.	8.5	n.a.	n.e.	3.5	12.7	2.0	4.8	3.5	2.4	n.e.
National Income Sector											
Surplus/deficit	n.a.	-16.9[6/]	n.a.	-0.9	-18.1	-3.1	-7.5[p]	-7.0	0.1	2.0	-2.8
Receipts	n.a.	240.4[6/]	n.a.	275.7	228.6	262.9	252.5[p]	257.8	267.4	273.8	280.9
Expenditures	n.a.	257.3	n.a.	276.6	246.8	266.0	260.0	264.8	267.3	271.6	283.7
High Employment surplus/deficit (NIA basis) 7/	n.a.	-4.5	n.a.	1.1	-1.9	-2.0	-2.2	-4.7	-1.7	0.6	2.7

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

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

2/ The sum of sponsored and budget agency debt issues and financial asset sales does not necessarily reflect the volume of debt absorbed by the public, since both the sponsored and budget agencies acquire a portion of these issues.

footnotes continued

3/ Includes net sales of loans held by the Commodity Credit Corporation, Farmers Home Adm., Government National Mortgage Assn., Federal Housing Adm., and Veterans Adm. Receipts from these sales are netted against Federal Budget Outlays shown above.

4/ Includes, for example, debt issued by the U.S. Postal Service, Export-Import Bank, and Tennessee Valley Authority, which is included in the Net Treasury Borrowing from the Public shown above.

5/ 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.

6/ Quarterly average exceeds fiscal year total by $4.2 billion due to spreading of wage base and refund effect over calendar year.

7/ Estimated by F.R. Board Staff.

INTERNATIONAL DEVELOPMENTS

STRICTLY CONFIDENTIAL (FR) 6/13/73

III -- T - 1

U.S. Balance of Payments
(In millions of dollars; seasonally adjusted)

	1972	1 9 7 3 p/			
	Year	QI	Feb.*	Mar.*	Apr.*
Goods and services, net 1/	-4,219				
Trade balance 2/	-6,816	-918	-423	-68	175
Exports 2/	48,840	15,343	5,000	5,355	5,435
Imports 2/	-55,656	-16,261	-5,423	-5,423	-5,260
Service balance	2,597				
Remittances and pensions	-1,556				
Govt. grants & capital, net	-3,575				
U.S. private capital (- = outflow)	-8,339				
Direct investment abroad	-3,339				
Foreign securities	-619	45	48	110	-161
Bank-reported claims -- liquid	-733	-1,198	-1,197	88	329
" " " other	-2,780	-2,033	-1,664	-557	-523
Nonbank-reported claims -- liquid	-406	-422	-407	7	
" " " other	-462				
Foreign capital (excl. reserve trans.)	10,488				
Direct investment in U.S.	322				
U.S. corporate stocks	2,463	1,265	453	347	140
New U.S. direct investment issues	1,974	457			
Other U.S. securities (excl. U.S. Treas.)	64	69			
Liquid liabilities to:	4,816	-1,861	-1,887	170	236
Commercial banks abroad	3,905	-1,881	-1,992	160	57
Of which liab. to branches 3/	(178)	(-578)	(-544)	(33)	(-34)
Other private foreign	809	14	77	-2	182
Intl. & regional organizations	102	6	28	12	-3
Other nonliquid liabilities	849				
Liab. to foreign official reserve agencies	10,265	9,998	7,686	2,797	-727
U.S. monetary reserves (increase, -)	742	220	128	-5	27
Gold stock	547	--	--	--	--
Special drawing rights 4/	7	--	--	--	9
IMF gold tranche	153	-13	-4	-5	18
Convertible currencies	35	233	132	--	--
Errors and omissions	-3,806				
BALANCES (deficit -) 4/					
Official settlements, S.A.		-10,218			
" " , N.S.A.	-11,007	-9,980	-7,814	-2,792	700
Net liquidity, S.A.		-6,737			
" " , N.S.A.	-14,684	-6,478	-4,323	-3,057	
Liquidity, S.A. 5/		-8,357			
" , N.S.A.	-15,823	-8,157	-5,927	-2,962	464

* 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 allocation of $710 million of SDRs 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. In the past month there have again been flurries of speculation against the dollar. The dollar has depreciated against a weighted average of major currencies by almost 3-1/2 percent since May 9. The market has responded nervously to news of political difficulties and continuing rapid inflation in the United States, and exchange rates fluctuated widely. The German mark, in particular, has been under upward pressure, strengthened by a severe tightening of monetary and fiscal policy and a rising trade surplus.

Helping to support the dollar during May was the report of a sharply better U.S. trade balance for April; together with the generally better trade results for the first quarter, the improving trend seemed to confirm the view that the devaluations would have a substantial effect. Contrary to earlier expectations, agricultural exports seem likely to remain high for quite some time, though they may slow between crop years. Improvement in the U.S. trade balance is being facilitated by an accelerated expansion of trade generally, as a broad upswing in world demand generates gains in both volume and value terms. The pattern of trade shifts that is emerging tends to support the impression that the exchange rate changes are pushing trade balances in an equilibrating direction. The main exception seems to be the growing German trade surplus.

For the month of April the official settlements balance registered a surplus of about $700 million -- mainly reflecting market intervention and investment of reserves by Japan. In May the speculation that developed was reflected almost entirely in the appreciation of other currencies against the dollar -- there was perhaps a small deficit on the official settlements basis for the month. Such data as are available do not suggest major capital outflows from the United States in April or May. Foreign investors purchased, net, about $140 million of U.S. corporate stocks in April, and reportedly were also on the buying side in May. Bank-reported claims on foreigners were up moderately in April -- by about $200 million -- and weekly data do not indicate a significant outflow in May.

Relatively complete data now being compiled for the first-quarter balance of payments show a surprisingly large jump in outflows by U.S. direct investors at that time, probably involving flows of funds to affiliates to enable them to hedge against exchange rate movements. This was partly offset by a rise in income receipts and inflows of foreign investment capital. There apparently were large net unrecorded outflows for the quarter.

Although the appreciation of some exchange rates against the dollar since early May has been considerable, the movement of rates tended to head off cumulative speculation, suggesting that the market was not convinced that rates were greatly out of line. It seems that sentiment could readily shift in favor of the dollar if further strong actions are taken against inflation in the United States and the trade figures continue to indicate that the realignments are working as expected.

Foreign exchange markets. The dollar came under strong selling pressures in May, principally against the currencies of the European snake. Nearly all of this pressure, at least against the currencies of the other G-10 countries and Switzerland, was reflected in a decline in exchange rates for the dollar, rather than central bank intervention. The dollar depreciated by some 3-1/2 per cent on a weighted average basis against those currencies between early May and early June. Against the snake currencies, the depreciation averaged about 7 per cent.

Against the background of growing concern over the U.S. "energy crisis" and the emergence of Watergate as a cause celebre, the dollar weakened in early May when rumors circulated in the markets that a part of the then forthcoming German anti-inflation package would be a revaluation of the mark. Subsequently, the concern over the political and economic outlook in the United States, fueled by continuing new revelations in the Watergate investigations and accelerating U.S. inflation, came to the fore as factors in the dollar's weakness. The dollar was buoyed on May 24 and 25 by the release of favorable U.S. trade figures, but this rally was short-lived. A further tightening of monetary policy in Germany at the end of May put additional pressure on the dollar. In recent days the dollar has held fairly steady pending the expected announcement of new anti-inflation measures in the United States.

During much of the latter part of May and early June, market conditions were quite hectic, some would say "disorderly." Rates moved over a range of as much as two per cent on several days, apparently on little volume. In recent days, however, rate movements have been fairly small, with the dollar moderately above its lows of early June.

SPOT RATES AS A PER CENT OVER MAY, 1970 PARITIES

(Average for week)

Period		£	C$	DM	SF	NG	Lira	FF	BF	Yen
May	2	3.7	7.7	29.0	34.9	22.3	5.9	21.6	24.1	35.7
	9	4.0	7.9	28.8	34.8	22.6	5.8	22.0	24.3	35.7
	16	5.6	8.0	30.5	37.2	24.8	6.2	23.7	26.7	36.5
	23	6.6	8.1	32.9	40.9	26.9	6.2	25.7	28.9	36.6
	30	6.4	8.3	33.7	40.8	27.4	6.3	26.2	29.4	36.1
June	6	7.2	8.5	38.4	42.7	30.5	7.3	29.4	32.1	36.8
	13	7.3	8.3	39.5	42.3	30.2	4.6	28.8	31.8	36.3

The European band did not experience any severe strains in May as the snake currencies moved up and down in general uniformity. The Netherlands Bank did have to sell moderate amounts of European currencies to support the guilder. After the German discount rate increase on May 30, the German mark began firming relative to its European partner currencies, and currently is at the top of the band. On June 12, the guilder required a substantial amount of central bank support against the mark, perhaps as much as $50 million equivalent.

While the dollar showed its largest declines against the European band currencies, it showed relatively small changes vis-a-vis sterling and the yen, in part because of central bank intervention. The pressure on the dollar in Japan was reflected in a cessation of Bank of Japan sales of dollars, which had been very heavy from mid-March through early May and had kept the yen appreciated above levels it would otherwise have reached. In the case of sterling, the Bank of England purchased some $300 million during May in market intervention and added another $300 million to its reserves from direct conversions of Euro-dollar borrowings by local authorities in the United Kingdom.

The gold market experienced an orgy of speculative fervor in May and early June, reflecting the worldwide concern over the U.S. political and economic situation and, indeed, rampant world inflation. The price in London rose from $90.70 on May 1 to a peak of $127.00 on June 5 before falling back to around $117.00 on June 13.

Euro-dollar market. Euro-dollar interest rates have firmed over the past four weeks under the influence of a general increase in interest rates both in the United States and abroad. The widespread nature of this increase in rates is indicated by the number of countries whose central banks announced discount rate increases during this period. These included Germany, the Netherlands, Japan, Canada and the United States. The increases in Euro-dollar rates during the past month have not been as large as the increases in U.S. market rates of comparable maturity. The excess of rates on one- and three-month Euro-dollar deposits over comparable U.S. CD rates averaged less than 1/2 percentage point in the week ended June 13 compared to nearly 1 percentage point in the week ended May 16. The overnight Euro-dollar rate has been below the Federal funds rate almost continuously over the past four weeks, by an average of nearly 1/2 percentage point in the period June 1-12. U.S. banks' borrowing from their foreign branches continued to show substantial day-to-day fluctuation but little trend on average over the period.

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-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)
1973-Jan.	5.72	5.94	-0.22	(1.21)	5.97	5.79	0.18	(1.67)
Feb.	9.03	6.58	2.45	(4.71)	7.70	6.35	1.35	(3.28)
Mar.	9.19 4/	7.90	2.10	(4.40)	8.79	7.20	1.59	(3.79)
Apr.	7.43	7.12	0.31	(2.17)	8.00	7.27	0.73	(2.73)
1973-May 2	8.32	7.43	0.89	(2.97)	7.85	7.37	0.48	(2.44)
9	7.03	7.60	-0.57	(1.19)	7.92	7.37	0.55	(2.53)
16	7.22	7.81	-0.59	(-0.04)	8.34	7.37	0.97	(1.70)
23	7.25	8.06	-0.81	(-0.18)	8.21	7.63	0.58	(1.29)
30	7.84	7.95	-0.11	(0.57)	8.49	7.63	0.86	(1.60)
June 6	7.45	8.43	-0.98	(-0.33)	8.59	8.26	0.33	(1.08)
13 p/	8.29	8.32	-0.03	(0.69)	8.65	8.53	0.12	(0.87)

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 (mdeian, as of Wednesday) on large denomination CD's by prime banks in New York City. CD rates are adjusted for the cost of required reserves, using a marginal reserve requirement rate of 5 per cent through June 6 and 8 per cent thereafter.

4/ 8.07 excluding March 29. A technical anomaly involving a quarter-end squeeze on dollar balances raised overnight Euro-dollar borrowing to 60 per cent on that date.

*/ Differentials in parentheses are after adjustment of Euro-dollar rates for the marginal reserve requirement relevant to banks with borrowings in excess of their reserve-free bases. This reserve requirement was at a marginal rate of 20 per cent through May 9, after which it dropped to 8 per cent.

p/ Preliminary

U.S. balance of payments. The overall balance on the official settlement basis in May is estimated to have been slightly in deficit; in April there was a surplus of $700 million. While there was renewed pressure on the dollar during May, there was only limited market intervention by foreign central banks. The pressure on the dollar was therefore largely reflected in exchange rate changes, with the dollar depreciating by about 3-1/2 percent against major currencies on the average.

The liabilities of U.S. agencies and branches of foreign banks increased substantially (by about $700 million) in May as overnight interest rates abroad were below the Federal funds rate. Liabilities of U.S. banks to their foreign branches also increased in May -- by about $300 million.

Foreign purchases of U.S. stocks dipped in April to a net of $140 million, compared with a monthly average of over $400 million in the first quarter. In view of the weakness in the U.S. stock market and concern about the dollar, these purchases still appear quite strong. Net purchases in May are expected to be close to the April level and brokers report a pickup in purchases in the early part of June. However sales of U.S. bonds (mainly Eurobond issues) to private foreigners dropped off sharply in May, following a strong showing in the first four months of the year.

U.S. bank-reported claims on foreigners increased about $200 million in April, mainly in export credits which are exempt from the VFCR program. Claims subject to the program declined. Weekly data for May indicate only a small increase in bank claims on foreigners in that month.

A full set of accounts for the first quarter balance of payments is still not available but early estimates have been made for some major items. Receipts of income and fees from direct investments abroad appear to have been particularly strong, generating a surplus in the service component about large enough to offset the trade deficit for the quarter. (Figures shown in the standard tables in this Greenbook do not yet reflect this information.) In the capital accounts, the outstanding feature seems to have been a sharp rise in outflows of direct investment capital to well over $2 billion, compared with a quarterly average of about $800 million last year. On the other hand, there was a moderate inflow of foreign capital for direct investment in the United States, in addition to the sizable inflows to purchase American securities which had already been apparent in the monthly data. It still appears that there were substantial net outflows from the United States that were unrecorded and that the negative errors and omissions for the first quarter was roughly $4 billion.

U.S. foreign trade. In April the United States had a trade surplus of $2 billion at an annual rate (balance of payments basis) the first monthly surplus in about a year and a half. This followed a large improvement in March, when the trade deficit dropped to a deficit rate of less than $1 billion. For the first four months of 1973 the trade balance was a deficit of $2-1/4 billion at an annual rate, compared with deficits of $6-3/4 billion in the fourth quarter of 1972 and in calendar 1972.

The improved U.S. trade position this year -- particularly in March and April -- stemmed from a combination of continuing large advances in exports while imports, which had also increased very sharply in January, leveled off in February-March and then declined in April. Exports in January-April were at an annual rate of $62-1/4 billion, 18 percent higher than in the fourth quarter of 1972; imports were at a rate of $64-1/2 billion, 8 percent over the fourth quarter rate. The values of both exports and imports have been buoyed by rising prices. Import prices accelerated very sharply in April, rising by over 5 percent from March, largely a reflection of the February devaluation. The volume of exports has expanded, particularly in March and April, while the volume of imports has trended downward since January.

Shipments of agricultural products accounted for about one-half of the increase in the total value of exports from the fourth quarter of 1972 to the first four months of this year. In April, however, although the value of agricultural exports held at a $16 billion annual rate (compared with less than $11 billion in the fourth quarter), the volume of such exports fell for the first time since last September because of supply limitations, mainly of soybeans. Further rises in prices of agricultural exports are expected to offset to a considerable degree any temporary decline in the volume of exports of agricultural commodities until new crops become available.

Although overshadowed by the spectacular rise in agricultural exports, nonagricultural exports have also increased sharply this year. With foreign economic activity on the rise, particularly in Japan and Europe, exports of machinery and nonagricultural industrial materials have been exceptionally strong. While foreign orders for U.S. machinery fell quite sharply in April, the level of such orders remains high and the backlog continues to grow. Exports of nonfood consumer goods (other than automobiles), small and relatively stable in the past, have also been strong in January-April, rising by 15 percent over the value of exports in the fourth quarter to a level nearly $1 billion greater (at an annual rate) than in calendar 1972. The increase in these exports was widespread by commodities, including both durable and nondurable types, and to all major areas.

The flattening in the value of <u>imports</u> since January is particularly pronounced in industrial materials (other than fuels) and consumer goods (other than automobiles). The slowdown in imports of industrial materials -- paper, lumber, steel and nonferrous metals -- is puzzling in view of the upsurge in domestic economic activity in the first quarter. One possible explanation is that the world-wide economic boom has resulted in some supply shortages abroad. It is also possible, of course, that inventories of these imported goods had been built up in January and earlier months with a subsequent slowdown in imports while inventory holdings were being reduced. The downturn in imports of consumer goods (other than autos) may be related to the increasing effectiveness of the Smithsonian realignment.

Imports of foreign cars (in numbers) have been generally flat, and have been below the level of U.S. sales of these cars since December 1972. This has resulted in a sizable reduction in inventories. To the extent that there is need to replenish inventories of imported materials, cars and other imported products, particularly in view of the projected continued strength in domestic economic activity through the third quarter, imports can be expected to rise somewhat in the coming months.

The improved over-all trade balance so far this year has resulted from a more favorable trade balance with the developed countries, particularly Japan. The trade deficit with Japan in January-April was down to an annual rate of a little over $2 billion, compared with rates of over $4 billion in each quarter of 1972.

In March-April the deficit shrank further to a $1 billion rate. Exports to Japan have risen steeply -- particularly agricultural products and industrial materials -- while imports from Japan have leveled off, with significant slowdowns in autos, steel and motorcycles. The share of Japan in U.S. imports, which had risen steeply since the early 1960's, declined in the first four months of the year.

Our trade balance with Western Europe in January-April was a substantial surplus of about $1-1/2 billion at an annual rate, compared with deficits throughout most of last year, as exports (mainly agricultural commodities but also aircraft and machinery) rose more sharply than imports. However, the U.S. trade deficit with Germany remains about as large as it was last year. The entire improvement has been with other EC countries, mainly the Netherlands but also France and Italy. Our trade surplus with Eastern Europe increased, largely reflecting heavy grain deliveries to the Soviet Union.

Our trade deficit with Canada increased moderately in January-April; imports (largely automobiles and industrial materials) increased at a faster pace than exports (largely automobile components and machinery).

The U.S. trade balance with the developing countries, in total, changed very little in January-April compared with the corresponding period of a year earlier. There was an improvement in our balances with the developing Asian countries but this was just about offset by a worsening in our trade position with the African countries.

Trade Developments in Other Industrialized Countries. International trade has expanded at an accelerating pace since the low point around the end of 1971. The average export growth of industrial countries, which had slowed to an annual rate of only 5-1/2 per cent (measured in local currencies) in the second half of 1971, was at a 16 per cent rate in the second half of 1972 and is projected to accelerate to a rate of over 18 per cent in the first half of this year.

This acceleration results in part from the general upswing in economic activity in the industrial countries, the resumption of more rapid growth in import demand on the part of the less-industralized countries, and recently, to a significant extent, from price increases. But volume growth also shows a considerable acceleration -- almost tripling from a 4-1/4 per cent annual rate in the second half of 1971 to an estimated 12-1/2 per cent in the first half of this year.

This near-record growth of trade in recent quarters should help to accommodate the expected adjustment of trade flows in response to the changes in relative price and cost positions resulting from the exchange rate changes which have occurred during the past two years. The difficulties of disentangling the various factors explaining shifts in trade flows are well-known. At this point, cyclical developments and above-average price changes appear to predominate, but some shifts in longer-run trends are becoming discernible.

In terms of volume, U.S. exports in recent months appear to have grown somewhat faster than those of most other major industrial countries. And the growth of U.S. import volume has moderated considerably, despite the very fast expansion of economic activity. In contrast, the volume of imports in other industrial countries in the first quarter of this year rose at an accelerating rate -- to a level more than 20 per cent higher than a year earlier. A notable exception may be Germany, where March-April data show only a small increase in import volume despite increasingly high levels of economic activity.

These recent changes in the volume of trade appear to foreshadow some shift in the longer-term trends which are not as yet clearly apparent in the value data because of the distorting effects of price changes resulting from exchange rate changes. Still, the geographical composition of the value changes (no volume data by region are available) lends support to the hypothesis that shifts in underlying trends may have contributed materially to the recent changes in trade flows. In trade with the non-OECD area in recent months, the United States has maintained its market share and even increased it marginally -- a basic shift from the trend towards declining U.S. shares in the markets of these countries. And in European markets the U.S. share has stabilized, and may now be rising slightly. However, the shares of Japan and Australia in European imports have increased considerably more, albeit from a much smaller base. The increasing Japanese market share reflects a shift of Japanese exports away from the U.S. market to those of other industralized countries. Such a shift clearly is associated with the fact that the revaluation of the yen was considerably larger vis-à-vis the U.S. dollar than vis-à-vis the European currencies. But the Japanese voluntary export restraint programs also would tend to work in that direction.

Trade trends in Japan, in addition to the factors mentioned above, have reflected the strong upsurge in domestic activity which has stimulated imports and created restraints for exports. The rise in industrial production and the associated upward swing in the inventory cycle have greatly increased demand for imports of various commodities, in particular of lumber, wool, steel scrap and soybeans, all which have sharply increased in price as well. Other factors contributing to the import expansion include past actions to lower tariffs and reduce nontariff barriers. The decontrol of gold imports for private use in April has added further impetus to the growth of imports -- for the year ending next March, this action may increase Japan's import bill by almost $0.5 billion.

Import volumes, thus, have grown sharply during the past nine months, rising from a year-to-year rate of increase of 18 per cent in the second half of 1972 to a 21 per cent rate in the early months of this year. Preliminary data indicate that this acceleration continued through May. Export volumes, though rising, have grown much less than imports: by 9 per cent, year-over-year, in the second half of 1972 and by 14 per cent early this year.

With export unit values only rising marginally and average import values accelerating considerably after an initial fall associated with the revaluation of the yen, the trade surplus, in yen terms, began to decrease in the third quarter of 1972. In U.S. dollar terms, it was down from a seasonally adjusted annual rate of $5-1/4 billion in the third quarter of 1972 to about $2-1/2 billion in April, 1973. In May, according to preliminary reports, the surplus was further reduced. Although some part of this reduction results from temporary factors, such as supply shortages of various commodities, some part reflects the beginning adjustment to the changed cost and price relationships vis-à-vis the United States following the revaluations of the yen.

In the United Kingdom, the volume of exports remained relatively unchanged, when measured in terms of half-yearly averages, from mid-1971 through the end of 1972. In the first quarter of this year, however, export volumes (seasonally adjusted) averaged 12 per cent higher than in the last half of 1972. The growth in exports this year has been widely distributed among the various commodity groups, with major gains in food, textiles, chemicals and metals. The most recent acceleration in export growth seems to reflect mainly increased sales to North America and to the EC. This is due in part to the effective devaluation of the pound vis-à-vis the EC currencies from mid-1972, as well as to the entry of the U.K. into the EC.

The volume of imports has been increasing at an accelerating rate since early 1972. In the first quarter of this year it was 8 per cent above the average volume during the second half of last year. In contrast to last year when imports of finished manufactured goods rose most rapidly, the fastest rate of growth this year has been in imports of basic materials.

Changes in the value of trade have been affected significantly by price developments with export unit values rising much less than import unit values. During the first quarter of this year, exoort and import unit values were 3 and 11 per cent higher, respectively, than in the second half of 1972. The increase in import unit values reflected both higher world prices for many commodities and the dcwnward float of the sterling exchange rate.

As a result of these developments, the trade deficit has tended to increase since early in 1972. In terms of U.S. dollars, it rose from an annual rate of $2-1/2 billion in the second half of 1972 to almost $3 billion in the first four months of this year.

In Germany, the volume of both exports and imports has risen more or less in line with total OECD trade, but in recent months export growth has accelerated substantially, while imports seem to have flattened out.

Prices of exports and imports (in DM) changed only slightly between 1971 and 1972. In recent months, however, import prices have risen sharply -- by 6.4 per cent between the end of 1972 and April 1973 -- and export prices by a larger, but more moderate, 4.8 per cent.

Reflecting these price developments, the German trade surplus, measured in DM, has risen somewhat less than volume change would indicate.

In U.S. dollar terms, the trade surplus has risen from an annual rate of about $6-1/2 billion in 1972 to around $8 billion in February-March of this year. Large increases in export orders indicate that exports are likely to continue to expand at a rapid rate. But given the high rate of economic activity, it also would seem likely that import growth will accelerate in coming months.

In France, the volume of trade rose sharply in the first half of 1972 and began to rise further towards the end of the year. Buoyed by rising exports of agricultural products and automobiles, export volume in the last half of 1972 was 13.3 per cent higher than in the same period a year earlier. The volume of imports also rose substantially, particularly those of consumer goods and agricultural products from outside the EC. Import volume in the second half of 1972 was 14.6 per cent higher than in the same period a year earlier. In contrast with developments elsewhere, export and import unit values were virtually unchanged at the end of 1972 from year-earlier levels.

In U.S. dollar terms, the trade deficit has grown from an annual rate of less than $50 million in the second quarter of 1972 to a $1.7 billion rate in the first quarter of 1973. Most of this deterioration was in trade with the United States, but some part also reflected a relatively faster growth of imports from other European countries as compared with the expansion of exports to that area. The latter development, in particular, reflects rising internal demand which tends to pull in imports and to put some constraint on export supplies.

In Italy, the volume of exports and imports accelerated last autumn, with imports rising moderately faster than exports. After remaining relatively stable during 1971 and the first nine months of 1972, imports rose sharply in the fourth quarter to a level 19 per cent higher than in the same period a year earlier. The surge in imports resulted from a rebuilding of inventories, a new upturn in fixed investment spending, and a sharp climb in food imports because of a fall in agricultural output last year.

Exports rose moderately during 1971 and the first nine months of 1972, but in the fourth quarter increased to a level 16 per cent higher than in the same period a year earlier. All of the increase in exports last year was due to non-food items, with foodstuff exports remaining relatively stable due to supply problems.

Export unit values (measured in local currency) remained virtually stable during 1971-72, and import unit values increased only slightly. In contrast with the experience of most other countries, the stability in average trade values was maintained through the second half of 1972.

As a result of these developments, the trade deficit (in terms of lire with imports c.i.f.) has been increasing since the second quarter of 1972. In terms of dollars, it increased from a seasonally adjusted annual rate of $0.2 billion in the first quarter of 1972 to $1.9 billion in the December 1972-January 1973 period. In the coming months, rising economic activity should result in continuing increases in imports. But the large effective devaluation of the lira since the beginning of this year should be reflected both in an upward movement of exports and a damping down of imports some time hence.

In Canada, the volume of imports during most of 1972 and into early 1973 has been rising faster than that of exports. This reflects largely the fast expansion of domestic activity in Canada. Because export and import unit values rose only moderately, and more or less at the same rate, during 1972, the Canadian trade surplus was reduced during the year.

The strength in the value of merchandise imports in 1972 was widespread, with the largest increases being recorded in purchases of consumer goods and machinery and equipment, including agricultural equipment. Purchases from the United States rose by about 17 per cent, but those from Japan and Europe rose even faster.

The growth of Canadian exports, other than that of agricultural products, was largely concentrated in sales to the United States, being partly a reflection of the virtually unchanged exchange relationship between the Canadian and the U.S. currencies, and partly a reflection of increasing demand for industrial materials in the United States.

During the first three months of 1973, both export and import unit values rose sharply, with export average values rising 4-3/4 per cent between December 1972 and March 1973 and those for imports 4-1/4 per cent. Exports in January-April 1973 began to outstrip imports, partly because of rising prices for wheat and other commodities, but partly also because of rising volumes. As a result, the trade surplus for these four months rose to an annual rate of $1-3/4 billion (seasonally adjusted) as compared with a surplus of $1-1/4 billion in 1972.