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CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

January 16, 1974

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

January 16, 1974

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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	Dec.	1/4/74	90.0	0.9	2.8	3.2
Unemployment rate	Dec.	1/4/74	4.9	4.7[1/]	4.8[1/]	5.1[1/]
Insured unemployment rate	Nov.	1/4/74	2.8	2.8[1/]	2.7[1/]	3.2[1/]
Nonfarm employment, payroll (mil.)	Dec.	1/11/74	76.7	0.5	3.8	3.6
Manufacturing	Dec.	1/11/74	20.1	1.6	4.6	3.7
Nonmanufacturing	Dec.	1/11/74	56.6	0.2	3.5	3.6
Private nonfarm:						
Average weekly hours (hours)	Dec.	1/11/74	37.0	37.1[1/]	37.2[1/]	37.0[1/]
Hourly earnings ($)	Dec.	1/11/74	4.02	9.0	6.1	7.2
Manufacturing:						
Average weekly hours (hours)	Dec.	1/11/74	40.7	40.7[1/]	40.8[1/]	40.7[1/]
Unit labor cost (1967=100)	Nov.	12/31/73	125.4	1.9	6.8	6.1
Industrial production (1967=100)	Dec.	1/15/74	126.6	-6.6	-0.6	4.5
Consumer goods	Dec.	1/15/74	130.7	-22.5	-4.8	2.3
Business equipment	Dec.	1/15/74	127.6	4.7	5.7	11.5
Defense & space equipment	Dec.	1/15/74	80.6	10.5	4.0	0.6
Materials	Dec.	1/15/74	131.0	-2.7	-0.9	5.3
Consumer prices (1967=100)	Nov.	11/21/73	137.7	9.4	7.8	8.4
Food	Nov.	11/21/73	151.2	16.9	7.3	19.6
Commodities except food	Nov.	11/21/73	125.8	8.6	5.2	4.4
Services 2/	Nov.	11/21/73	143.0	6.8	0.6	6.0
Wholesale prices (1967=100)	Dec.	12/8/73	145.7	26.2	14.7	18.2
Industrial commodities	Dec.	12/8/73	137.3	31.2	28.2	14.8
Farm products & foods & feeds	Dec.	12/8/73	169.0	16.6	-13.5	26.7
Personal income ($ billion)[3/]	Nov.	12/18/73	1076.2	9.8	11.0	10.1
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Nov.	1/7/74	44.4	0.9	4.1	18.6
Capital goods industries:	Nov.	1/7/74	14.1	4.2	9.1	26.4
Nondefense	Nov.	1/7/74	11.9	2.6	7.8	22.6
Defense	Nov.	1/7/74	2.2	14.5	16.8	52.1
Inventories to sales ratio:						
Manufacturing and trade, total	Nov.	1/16/74	1.41	1.41[1/]	1.43[1/]	1.46[1/]
Manufacturing	Nov.	1/7/74	1.54	1.56[1/]	1.57[1/]	1.60[1/]
Trade	Nov.	1/16/74	1.28	1.27[1/]	1.28[1/]	1.32[1/]
Ratio: Mfrs.' durable goods inventories to unfilled orders	Nov.	1/7/74	.708	.718[1/]	.733[1/]	.867[1/]
Retail sales, total ($ bil.)	Dec.	1/10/74	42.5	-1.3	-0.1	7.7
GAF	Dec.	1/10/74	11.4	0.9	2.5	13.0
Auto sales, total (mil. units)[3/]	Dec.	1/8/74	9.6	-8.1	-20.8	-18.5
Domestic models	Dec.	1/8/74	7.9	-9.4	-25.5	-20.2
Foreign models	Dec.	1/8/74	1.7	-1.7	11.7	-9.7
Plant & equipment expen. ($ bil.)						
All industries	1974	1/8/74	112.11	--	--	12.0
Manufacturing	1974	1/8/74	44.40	--	--	16.8
Housing starts, private (thous.)[3/]	Nov.	12/18/73	1,698	3.8	-18.9	-29.1
Leading indicators (1967=100)	Nov.	12/31/73	167.1	0.4	0.1	10.4

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate. 4/ Planned--Commerce December survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

The energy crisis added to other factors dampening growth in economic activity in the fourth quarter. Real GNP is estimated to have increased at an annual rate of only 1 per cent, rather than the 2 per cent expected five weeks ago. For nominal GNP, staff estimates now indicate a rise of $28 billion--compared with $29 billion in the December Greenbook--but price increases have been even more rapid than anticipated and we are now estimating an increase of close to 8 per cent, annual rate, in the implicit GNP deflator.

Weakness in the fourth quarter was especially evident in consumer purchases of goods and services, which apparently increased at an annual rate of only 6 per cent while the price deflator for personal consumption expenditures rose at a rate of over 8 per cent. Unit sales of autos were down appreciably,and real purchases of some nondurables--particularly gas, oil and food--also declined. Residential construction expenditures were off sharply in both nominal and real terms. Business fixed investment increased moderately while inventory investment accelerated, in part because of a substantial build-up of dealer stocks of large cars.

Industrial production is estimated to have declined 0.5 per cent in December because of a sharp decline in auto output and reduced use of electricity and gas, mainly by residential and commercial customers. Materials output was little changed, while the increase in business equipment was moderate.

The labor market also showed some weakening in December. Payroll employment increased little and the unemployment rate moved up further to 4.9 per cent. The energy crisis was reflected in layoffs at automobile dealers, gas stations, hotels, and some other activities. Unemployment claims have risen sharply since the total unemployment survey was taken in early December.

Business plans for spending on fixed capital have changed relatively little. The recent Commerce Survey indicates an increase of 12 per cent for 1974, somewhat less than reported by earlier private surveys, but the Commerce Survey was taken too early to reflect fully the effects of the energy crisis on spending plans. New orders for non-defense capital goods in November continued to increase faster than in the third quarter.

Wage rates increased at a rapid pace in December. For the fourth quarter as a whole, the adjusted hourly earnings index increased at an annual rate of 7 per cent, about the same as over the preceding two quarters. Nonetheless, real spendable earnings per worker continued to decline.

Wholesale prices of industrial products increased 2.6 per cent further in December. Prices of petroleum and products--and of other fuels--were a major factor in the sharp rise, but price advances were widespread among other commodities, which rose about 1 per cent on average. Prices of farm products and foods rose on average after several months of decline. In November, consumer prices had risen sharply further to a level almost 8-1/2 per cent above a year earlier.

Outlook. Information becoming available since the December Greenbook has led the staff to modify its earlier assumptions about the severity of the oil shortage. The short-fall of oil supplies in 1974 is now assumed to amount to 2 - 2-1/2 million barrels per day, rather than 3-1/2 million. At the same time, prices of petroleum products are now expected to increase more than the staff anticipated five weeks ago. Thus, in the year ending in the fourth quarter of 1974, we are now assuming an increase of about 40 per cent (rather than 30 per cent) in the price of gasoline, with most of the increase taking place early in 1974.

The staff has also incorporated the following assumptions in the 1974 GNP projections: (1) Short-term interest rates will remain relatively close to recent levels. (2) This interest rate assumption would probably be associated with growth in M_1 over the year as a whole of around 6 per cent, but there is more than the usual uncertainty about the strength of money demand under present circumstances. (3) The fiscal policy assumptions remain essentially as before; the President's budget message is scheduled for release January 28. (4) The staff continues to assume gradual decontrol of prices and wages over the months ahead.

The projected rate of price increase has been raised in the first half of this year, with larger advances for petroleum products, and to a lesser extent for foods, accounting for most of the revision. Despite large increases in nominal expenditures, real consumer takings are expected to be quite weak in the first half. However, with more gasoline assumed to be available for consumer use, along with a more rapid conversion of facilities to production of smaller autos than had earlier appeared feasible, the decline in unit auto sales may be somewhat less than projected earlier.

Another major change is in imports, which are now expected to rise much more sharply than earlier in view of the marked increases that have occurred in prices of crude petroleum. Primarily as a result of this change, net exports of goods and services are now projected to be in deficit throughout this year.

Altogether, real GNP is still projected to decline somewhat in the first half of 1974 and to increase at a relatively slow pace in the second half. Under these circumstances, the unemployment rate is expected to rise throughout 1974, reaching about 6 per cent by the end of the year. The private fixed-weight price index is now expected to rise at an annual rate of 7-1/2 per cent in the first half, almost a full percentage point more than last time.

STAFF GNP PROJECTIONS

	Changes in nominal GNP ($ billion)		Real GNP (Per cent change at annual rate)		Gross private product fixed weighted price index (Per cent change at annual rate)		Unemployment rate (Per cent)	
	12/12/73	1/16/74	12/12/73	1/16/74	12/12/73	1/16/74	12/12/73	1/16/74
1971 1/	78.3	78.3	3.2	3.2	4.6	4.6	5.9	5.9
1972 1/	99.7	99.7	6.1	6.1	3.2	3.2	5.6	5.6
1973	133.0	132.7	5.9	5.9	5.9 2/	5.9	4.9	4.9
1974	96.6	101.1	.8	.6	6.7	7.1	5.6	5.6
1973:I 1/	43.3	43.3	8.7	8.7	7.0	7.0	5.0	5.0
II 1/	29.5	29.5	2.4	2.4	7.9	7.9	4.9	4.9
III 1/	32.5	32.5	3.4	3.4	7.6	7.6	4.8	4.8
IV	29.0	28.0	2.0	1.0	6.8	7.0	4.7	4.7
1974:I	20.5	22.0	-.8	-1.3	7.1	8.0	5.1	5.2
II	16.5	20.5	-1.2	-.7	6.2	6.9	5.5	5.5
III	22.5	23.0	1.2	1.3	5.5	5.5	5.8	5.8
IV	28.5	30.5	2.3	2.8	5.5	5.5	6.0	6.0
Change: 72-IV to 73-IV	134.3	133.3	4.1	3.8	7.3	7.4	-.6	-.6
73-IV to 74-IV	88.0	96.0	.4	.5	6.1	6.5	1.3	1.3

1/ Actual
2/ Corrected

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 Proj.	1972 III	1972 IV	1973 I	1973 II	1973 III	1973 Proj. IV
Gross National Product	1155.2	1287.9	1166.5	1199.2	1242.5	1272.0	1304.5	1332.5
Final purchases	1149.1	1281.2	1157.8	1191.0	1237.8	1267.5	1299.8	1319.5 1/
Private	894.1	1003.8	903.1	930.3	969.2	992.2	1020.8	1033.1 1/
Excluding net exports	898.7	999.0	906.9	933.8	969.2	989.4	1013.2	1024.2
Personal consumption expenditures	726.5	804.9	734.1	752.6	779.4	795.6	816.0	828.6
Durable goods	117.4	131.4	120.2	122.9	132.2	132.8	132.8	127.6
Nondurable goods	299.9	336.2	302.3	310.7	322.2	330.3	341.6	350.5
Services	309.2	337.4	311.6	319.0	325.0	332.6	341.6	350.5
Gross private domestic investment	178.3	200.8	181.5	189.4	194.5	198.2	202.0	208.6
Residential construction	54.0	58.1	54.5	56.9	59.0	59.6	59.2	54.4
Business fixed investment	118.2	136.1	118.3	124.3	130.9	134.1	138.0	141.2
Change in business inventories	6.0	6.7	8.7	8.2	4.6	4.5	4.7	13.0
Nonfarm	5.6	5.8	8.4	7.9	4.4	4.4	3.2	11.0
Net exports of goods and services 2/	-4.6	4.8	-3.8	-3.5	0.0	2.8	7.6	8.9 1/
Exports	73.5	101.1	74.0	79.7	89.7	97.2	104.5	112.9 1/
Imports	78.1	96.3	77.7	83.2	89.7	94.4	97.0	104.0
Gov't. purchases of goods and services	255.0	277.3	254.7	260.7	268.6	275.3	279.0	286.4 1/
Federal	104.4	107.0	102.3	102.7	105.5	107.3	106.8	108.5 1/
Defense	74.4	74.4	71.9	72.4	74.3	74.2	74.2	74.7 1/
Other	30.1	32.7	30.4	30.3	31.2	33.1	32.7	33.8
State & local	150.5	170.3	152.4	158.0	163.0	168.0	172.2	177.9
Gross national product in constant (1958) dollars	790.7	837.1	796.7	812.3	829.3	834.3	841.3	843.3
GNP implicit deflator (1958 = 100)	146.1	153.9	146.4	147.6	149.8	152.5	155.1	158.0
Personal income	939.2	1034.7	943.7	976.1	996.6	1019.0	1047.1	1076.0
Wage and salary disbursements	627.8	691.4	632.7	648.7	666.7	682.6	699.3	717.0
Disposable income	797.0	881.9	800.9	828.7	851.5	869.7	891.1	915.1
Personal saving	49.7	53.5	45.8	54.4	50.0	51.0	51.1	61.7
Saving rate (per cent)	6.2	6.1	5.7	6.6	5.9	5.9	5.7	6.7
Corporate profits before tax	98.0	127.5	98.4	106.1	119.6	128.9	129.0	132.5
Corp. cash flow, net of div. (domestic)	105.0	109.6	91.9	97.7	104.9	110.3	110.6	112.4
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	228.7	265.5	229.6	236.9	253.6	262.4	269.5	276.4
Expenditures	244.6	264.6	237.0	260.3	258.6	262.4	265.8	271.4
Surplus or deficit (-)	-15.9	1.0	-7.4	-23.4	-5.0	0.0	4.0	5.0
High employment surplus or deficit (-)	0.4	1.0	7.3	-10.9	-0.1	0.9	0.7	2.3
State and local government surplus or deficit (-), (N.I.A. basis)	13.1	10.9	9.5	19.6	13.9	11.5	10.4	7.9
Total labor force (millions)	89.0	91.1	89.3	89.6	90.0	90.9	91.3	92.2
Armed forces "	2.5	2.3	2.4	2.4	2.4	2.3	2.3	2.3
Civilian labor force "	86.5	88.8	86.9	87.2	87.6	88.6	89.0	89.9
Unemployment rate (per cent)	5.6	4.9	5.6	5.3	5.0	4.9	4.8	4.7
Nonfarm payroll employment (millions)	72.8	75.6	73.0	73.8	74.6	75.3	75.7	76.6
Manufacturing	18.9	19.8	19.0	19.3	19.6	19.8	19.8	20.1
Industrial production (1967 = 100)	115.1	125.4	116.3	120.2	123.1	124.8	126.7	127.0
Capacity utilization, mfg. (per cent)	78.6	83.0	79.4	81.5	82.8	83.3	83.3	82.6
Major materials (per cent)	90.2	94.9	91.0	92.4	93.8	94.5	96.0	95.1
Housing starts, private (millions, A.R.)	2.38	2.08	2.37	2.40	2.40	2.22	2.03	1.65
Sales new autos (millions, A.R.)	10.94	11.44	11.52	11.69	12.23	11.73	11.74	10.08
Domestic models	9.32	9.67	9.91	9.90	10.27	9.87	10.11	8.44
Foreign models	1.61	1.77	1.61	1.79	1.96	1.86	1.63	1.64

1/ Includes effects of shipments of military equipment and supplies to Israel; these are now estimated at $2.8 billion annual rate and considered as a sale, with $2.4 billion coming from U.S. military stocks and thus reducing defense purchases by that amount.

2/	1972	1973 Proj.	1972 III	1972 IV	1973 I	1973 II	1973 III	1973 Proj. IV
Net exports of g. & s. (bal. of paymts.)	-4.6	5.5	-3.8	-3.5	0.6	2.7	8.6	10.0
Exports	73.5	101.5	74.0	79.7	90.4	97.5	104.8	113.2
Imports	78.1	96.0	77.7	83.2	89.8	94.8	96.2	103.2

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January 16, 1974

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	1389.0	1354.5	1375.0	1398.0	1428.5
Final purchases	1379.0	1341.5	1364.0	1388.5	1422.0
Private	1072.7	1046.4	1062.4	1079.3	1102.6
Excluding net exports	1073.8	1043.1	1061.7	1082.5	1108.0
Personal consumption expenditures	876.1	848.4	866.3	884.6	905.2
Durable goods	127.0	125.0	125.0	127.0	131.0
Nondurable goods	377.3	363.9	373.3	381.6	391.2
Services	371.9	359.5	368.0	376.0	384.0
Gross private domestic investment	207.7	207.7	206.4	207.4	209.3
Residential construction	49.8	50.2	48.4	48.9	51.8
Business fixed investment	147.9	144.5	147.0	149.0	151.0
Change in business inventories	10.0	13.0	11.0	9.5	6.5
Nonfarm	10.0	14.0	11.5	9.0	5.5
Net exports of goods and services 1/	-1.2	3.3	0.7	-3.2	-5.4
Exports	118.3	114.2	117.6	119.4	122.1
Imports	119.5	110.9	116.9	122.6	127.5
Gov't. purchases of goods and services	306.3	295.1	301.6	309.2	319.4
Federal	114.5	111.3	112.7	115.0	119.1
Defense	78.5	76.7	77.3	78.5	81.3
Other	36.1	34.6	35.4	36.5	37.8
State & local	191.8	183.8	188.9	194.2	200.3
Gross national product in constant (1958) dollars	842.4	840.7	839.3	842.0	847.8
GNP implicit deflator (1958 = 100)	164.9	161.1	163.8	166.0	168.5
Personal income	1134.1	1096.0	1120.0	1146.5	1173.7
Wage and salary disbursement	752.2	729.2	742.5	759.0	778.0
Disposable income	964.6	932.0	952.8	975.3	998.2
Personal saving	61.8	58.2	60.3	63.7	65.0
Saving rate (per cent)	6.4	6.2	6.3	6.5	6.5
Corporate profits before tax	132.1	136.0	132.5	130.0	130.0
Corp. cash flow, net of div. (domestic)	115.2	115.9	114.7	114.4	115.6
Federal government receipts and expenditures, (N.I.A. basis)					
Receipts	290.8	286.0	288.4	291.9	296.8
Expenditures	299.0	285.2	294.7	304.0	311.9
Surplus or deficit (-)	-8.2	0.8	-6.3	-12.1	-15.1
High employment surplus or deficit (-)	4.1	2.5	3.7	4.2	6.1
State and local government surplus or deficit (-), (N.I.A. basis)	4.3	7.9	5.4	3.5	0.3
Total labor force (millions)	93.1	92.6	93.0	93.3	93.6
Armed forces "	2.3	2.3	2.3	2.3	2.3
Civilian labor force "	90.8	90.3	90.7	91.0	91.3
Unemployment rate (per cent)	5.6	5.2	5.5	5.8	6.0
Nonfarm payroll employment (millions)	76.6	76.5	76.6	76.6	76.8
Manufacturing	19.9	20.0	19.9	19.8	19.8
Industrial production (1967 = 100)	126.0	126.2	125.5	125.8	126.5
Capacity utilization, mfg. (per cent)	80.0	81.3	80.0	79.3	79.3
Major materials	93.3	94.5	93.1	92.8	92.7
Housing starts, private (millions, A.R.)	1.64	1.62	1.55	1.65	1.75
Sales new autos (millions, A.R.)	9.25	9.00	8.75	9.25	10.00
Domestic models	7.50	7.25	7.00	7.50	8.25
Foreign models	1.75	1.75	1.75	1.75	1.75
1/ Net exports of goods and services (balance of payments).	-0.1	4.4	1.8	-2.1	-4.3
Exports	118.6	114.5	117.9	119.7	122.4
Imports	118.7	110.1	116.1	121.8	126.7

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1972	1973 Proj.	1972 III	1972 IV	1973 I	1973 II	1973 III	1973 Proj. IV
	-------	-------	-------	Billions of Dollars	-------	-------	-------	-------
Gross National Product	99.7	132.7	24.1	32.7	43.3	29.5	32.5	28.0
Inventory change	-0.1	0.7	3.2	-0.5	-3.6	-0.1	0.2	8.3
Final purchases	99.7	132.1	20.9	33.2	46.8	29.7	32.3	19.7
Private	79.0	109.7	20.4	27.2	38.9	23.0	28.6	12.3
Net exports	-5.4	9.7	1.9	0.3	3.5	2.8	4.8	1.3
Excluding net exports	84.4	100.3	18.5	26.9	35.4	20.2	23.8	11.0
Personal consumption expenditures	59.3	78.4	14.9	18.5	26.8	16.2	20.4	12.6
Durable goods	13.8	14.0	5.1	2.7	9.3	0.6	0.0	-5.2
Nondurable goods	21.2	36.3	4.4	8.4	11.5	8.1	11.3	8.9
Services	24.3	28.2	5.4	7.4	6.0	7.6	9.0	8.9
Residential structures	11.3	4.1	1.7	2.4	2.1	0.6	-0.4	-4.8
Nonresidential fixed investment	13.8	17.9	2.0	6.0	6.6	3.2	3.9	3.2
Government	20.7	22.3	0.5	6.0	7.9	6.7	3.7	7.4
Federal	6.3	2.6	-4.4	0.4	2.8	1.8	-0.5	1.7
State and local	14.3	19.8	4.9	5.6	5.0	5.0	4.2	5.7
GNP in constant (1958) dollars	45.3	46.4	11.1	15.6	17.0	5.0	7.0	2.0
Final purchases	46.0	46.3	8.7	16.0	20.0	5.0	7.3	-4.2
Private	41.4	44.4	10.9	14.3	19.1	4.2	7.5	-4.1
	-------	-------	-------	Per Cent Per Year 1/	-------	-------	-------	-------
Gross National Product	9.4	11.5	8.7	11.7	15.2	9.9	10.6	8.9
Final purchases	9.5	11.5	7.6	12.0	16.7	9.9	10.6	6.2
Private	9.7	12.3	9.6	12.6	17.8	9.8	12.0	4.9
Personal consumption expenditures	8.9	10.8	8.5	10.5	15.0	8.6	10.7	6.3
Durable goods	13.3	11.9	18.9	9.3	33.9	1.8	0.0	-14.8
Nondurable goods	7.6	12.1	6.0	11.6	15.6	10.4	14.4	10.8
Services	8.5	9.1	7.2	9.8	7.7	9.7	11.3	10.8
Gross private domestic investment	16.4	12.6	16.5	18.6	11.2	7.8	7.9	13.7
Residential structures	26.5	7.6	13.5	18.8	15.6	4.1	-2.7	-28.7
Business fixed investment	13.2	15.1	7.1	21.9	23.0	10.1	12.2	9.6
Gov't. purchases of goods & services	8.8	8.7	0.8	9.8	12.7	10.4	5.5	11.0
Federal	6.4	2.5	-15.5	1.6	11.4	7.0	-1.9	6.5
Defense	3.9	0.0	-22.4	2.8	10.9	-0.5	0.0	2.7
Other	13.6	8.6	4.0	-1.3	12.4	26.7	-4.7	14.1
State and local	10.5	13.2	14.0	15.5	13.3	12.8	10.4	13.9
GNP in constant (1958) dollars	6.1	5.9	5.8	8.1	8.7	2.4	3.4	1.0
Final purchases	6.2	5.9	4.5	8.4	10.3	2.4	3.6	-2.0
Private	6.9	6.9	7.0	9.1	12.0	2.5	4.4	-2.3
GNP implicit deflator	3.2	5.3	2.8	3.3	6.1	7.4	7.0	7.8 2/
Private GNP fixed weighted index 3/	3.2	5.9	3.1	4.1	7.0	7.9	7.6	7.0
Personal income	8.8	10.2	7.8	14.5	8.7	9.3	11.5	11.5
Wage and salary disbursements	9.5	10.1	7.7	10.5	11.6	9.9	10.2	10.5
Disposable income	6.8	10.7	8.1	14.6	11.5	8.8	10.2	11.2
Corporate profits before tax	15.2	30.1	16.1	35.2	61.5	34.9	0.3	11.3
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	15.0	16.1	7.7	13.3	31.3	14.6	11.3	10.6
Expenditures	10.7	8.2	-11.6	45.5	-2.6	6.0	5.3	8.7
Nonfarm payroll employment	3.0	3.8	2.8	4.5	4.5	3.7	2.2	4.4
Manufacturing	2.2	4.8	2.6	7.1	5.4	4.7	1.2	4.6
Industrial production	7.9	8.8	9.2	13.8	10.1	5.8	6.0	1.0
Housing starts, private	14.1	-12.6	16.0	6.6	0.2	-27.1	-30.2	-56.4
Sales new autos	6.8	4.6	49.7	5.9	19.8	-15.4	0.2	-45.7
Domestic models	7.4	3.8	53.1	-0.5	16.0	-14.9	10.1	-51.5
Foreign models	3.3	9.9	30.9	52.0	42.3	-18.1	-41.7	3.2

1/ Percentage rates of change are annual rates compounded quarterly.
2/ Excluding Federal pay increase, 7.2 per cent per year.
3/ Using expenditures in 1967 as weights.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1974 Proj.	1974 Projection I	II	III	IV
	------------Billions of Dollars----------				
Gross National Product	101.1	22.0	20.5	23.0	30.5
Inventory change	3.3	0.0	-2.0	-1.5	-3.0
Final purchases	97.8	22.0	22.5	24.5	33.5
Private	68.9	13.3	16.0	16.9	23.3
Net exports	-6.0	-5.6	-2.6	-3.9	-2.2
Excluding net exports	74.8	18.9	18.6	20.8	25.5
Personal consumption expenditures	71.2	19.8	17.9	18.3	20.6
Durable goods	-4.4	-2.6	0.0	2.0	4.0
Nondurable goods	41.1	13.4	9.4	8.3	8.6
Services	34.5	9.0	8.5	8.0	8.0
Residential structures	-8.3	-4.2	-1.8	0.5	2.9
Nonresidential fixed investment	11.8	3.3	2.5	2.0	2.0
Government	29.0	8.7	6.5	7.6	10.2
Federal	7.5	2.8	1.4	2.3	4.1
State and local	21.5	5.9	5.1	5.3	6.1
GNP in constant (1958) dollars	5.3	-2.6	-1.4	2.7	5.8
Final purchases	3.2	-2.7	0.8	2.8	8.2
Private	-0.6	-4.7	-0.0	1.6	6.6
	-----------Per Cent Per Year 1/------------				
Gross National Product	7.8	6.8	6.2	6.9	9.0
Final purchases	7.6	6.8	6.9	7.4	10.0
Private	6.9	5.2	6.3	6.5	8.9
Personal consumption expenditures	8.8	9.9	8.7	8.7	9.6
Durable goods	-3.3	-7.9	0.0	6.6	13.2
Nondurable goods	12.2	16.2	10.7	9.2	9.3
Services	10.2	10.7	9.8	9.0	8.8
Gross private domestic investment	3.4	-1.7	-2.5	2.0	3.7
Residential structures	-14.3	-27.5	-13.6	4.2	25.9
Nonresidential fixed investment	8.7	9.7	7.1	5.6	5.5
Gov't. purchases of goods & services	10.5	12.7	9.1	10.5	13.9
Federal	7.0	10.7	5.1	8.4	15.0
Defense	5.5	11.1	3.2	6.4	15.0
Other	10.4	9.8	9.6	13.0	15.0
State and local	12.6	13.9	11.6	11.7	13.2
GNP in constant (1958) dollars	0.6	-1.3	-0.7	1.3	2.8
Final purchases	0.4	-1.3	0.4	1.4	4.0
Private	-0.1	-2.7	-0.0	0.9	3.9
GNP implicit deflator	7.2	8.1 2/	6.9	5.5	6.0 3/
Private GNP fixed weighted index 4/	7.1	8.0	6.9	5.5	5.5
Personal income	9.7	7.6	9.0	9.8	9.8
Wage and salary disbursements	8.8	7.0	7.5	9.2	10.4
Disposable income	9.4	7.6	9.2	9.8	9.7
Corporate profits before tax	3.6	11.0	-9.9	-7.3	0.0
Federal government receipts and expenditures, (N.I.A. basis)					
Receipts	12.2	14.6	3.4	4.9	6.9
Expenditures	13.0	21.9	14.0	13.2	10.8
Nonfarm payroll employment	1.3	-0.1	0.3	0.0	1.0
Manufacturing	0.2	-1.4	-2.0	-2.0	0.0
Industrial production	4.8	-2.4	-2.2	0.8	2.3
Housing starts, private	-21.2	-7.1	-16.2	28.4	26.5
Sales new autos	-19.1	-36.3	-10.7	24.9	36.6
Domestic models	-22.4	-45.5	-13.1	31.8	46.4
Foreign models	-1.1	30.0	0.0	0.0	0.0

1/ Percentage rates of change are annual rates compounded quarterly.
2/ Excluding Federal pay increase, 8.0 per cent annual rate.
3/ Excluding Federal pay increase, 5.5 per cent annual rate.
4/ Using expenditures in 1967 as weights.

Industrial production. Industrial production declined one-half per cent in December because of a sharp cutback in auto output and reduced use of electricity and gas, mainly by residential and commercial users. Excluding motor vehicles and parts, and electric and gas utilities, the index increased slightly. The total index, at 126.6 per cent of the 1967 average, was 4.5 per cent above a year earlier.

Auto assemblies in December were at an annual rate of 8.2 million units, down 14.6 per cent from November. Preliminary January output schedules indicate a further decline of about 15 per cent. Production of other consumer durable goods was off slightly in December as output of some household appliances declined. Nondurable consumer goods, excluding electric and gas utilities, also edged off. Output of business equipment rose 0.4 per cent further to a new high, 11.5 per cent above a year earlier. Production of construction products and steel and other durable and nondurable materials were maintained at advanced levels.

INDUSTRIAL PRODUCTION
(1967=100, seasonally adjusted)

	1972	1973			Per cent change		
	Dec.	Oct.	Nov.	Dec.	QIII to QIV	Month ago	Year ago
Total index	121.1	127.0	127.3	126.6	.2	- .5	4.5
Market groupings:							
Final products	116.8	122.8	123.2	122.0	.6	-1.0	4.5
Consumer goods	127.7	132.8	133.2	130.7	.1	-1.9	2.3
Business equip.	114.4	126.2	127.1	127.6	2.0	.4	11.5
Materials	124.4	131.5	131.3	131.0	.2	- .2	5.3
Industry groupings:							
Manufacturing	120.4	126.3	126.9	127.1	.5	.2	5.6
Durables	116.3	123.6	124.1	124.0	.6	- .1	6.6
Nondurables	126.2	130.3	131.2	131.4	.2	.2	4.1
Mining & utilities	126.1	131.1	129.5	124.6	-1.8	-3.8	-1.2

For the fourth quarter as a whole, industrial production rose by 0.9 per cent at an annural rate.

INDUSTRIAL PRODUCTION
Seasonally adjusted, annual rates of change

	Change from previous quarter 1973			
	QI	QII	QIII	QIV
Total index	9.7	5.5	6.1	.9
Final products	10.2	5.0	4.3	2.3
Consumer goods	9.1	3.7	1.8	.3
Business equip.	17.0	10.9	11.2	8.0
Materials	9.4	7.0	8.4	.9

Retail sales. Retail sales were weak in the closing months of last year. December sales declined 1.3 per cent from November and the fourth quarter as a whole averaged only 0.7 per cent above the third quarter. Much of the recent weakness is attributable to the automotive group, where sales were down both in December and the fourth quarter.

Excluding autos and nonconsumption items, sales in December increased 0.9 per cent from November. Nondurable goods were up 1.3 per cent, with general merchandise up 2.4 per cent and food up 0.6 per cent. In contrast, sales at gasoline stations were off 1.2 per cent--the second month-to-month decline--and furniture and appliances were 3.2 per cent lower than in November.

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

	1973				1973		
	Q I	Q II	Q III	Q IV	Oct.	Nov. 1/	Dec. 2/
Total sales	5.7	.1	2.9	.7	1.3	- .1	-1.3
Durable	8.2	-2.0	1.9	-3.4	.4	-1.2	-6.6
Auto	7.8	-3.3	3.0	-6.7	.3	-3.1	-10.8
Furniture and appliance	9.1	.5	1.0	.1	-2.8	3.6	-3.2
Nondurable	4.4	1.3	3.4	2.8	1.7	.5	1.3
Food	3.7	2.2	4.7	1.9	2.2	- .2	.6
General merchandise	6.3	.4	2.0	2.7	.1	2.7	2.4
Gasoline	3.4	2.9	.3	2.8	6.1	-4.2	-1.2
Total, less auto and nonconsumption items	4.7	1.3	3.1	2.5	1.4	.6	.9
GAF	6.9	- .5	2.1	1.7	- .7	2.3	.9
Real*	3.8	-2.5	.3	n.a.	.7	-1.0	n.a.

*Deflated by all commodities CPI, seasonally adjusted.
1/ Preliminary.
2/ Advance.

<u>Unit sales of consumer durables</u>. December sales of new domestic-type autos dropped to a 7.9 million unit annual rate, 9 per cent below the preceding two months and substantially below December last year. Sales in the first 10 days of January weakened further to a 7.4 million annual rate. Small car sales in December continued strong, reaching a record 36 per cent of the domestic-type market, up sharply from 22 per cent a year earlier. For the fourth quarter as a whole, unit sales were down 17 per cent from the third quarter. Despite this end-of-year weakness, sales of domestic-type cars totaled a record 9.7 million units for 1973 as a whole.

Stocks of domestic-type autos rose to a 69 days' supply at the end of December as compared with a 65 days' supply a month earlier. The available supply of cars was not only large but also unbalanced as the days' supply was approximately double that for small cars.

Foreign car sales in December were at a 1.7 million unit annual rate, the same as November, and for the year totaled a record 1.8 million units. Combined auto sales for 1973 were 11.4 million units, 5 per cent above the previous high in 1972.

Truck sales in December were at a 3.0 million unit annual rate, slightly above November and 18 per cent above December 1972. For 1973 as a whole, a record 3.0 million units were sold.

Factory sales of major home appliances, TVs, and radios in the first three weeks of December were somewhat above November and about the same as December a year earlier. Factory sales of major appliances showed a sharp jump in December, led by strong sales of air conditioners and refrigerators while TV sales were about equal to those of a month earlier.

UNIT SALES OF SELECTED CONSUMER DURABLES
Seasonally adjusted

	1972	1973			Per cent change from	
	Dec.	Oct.	Nov.	Dec.	Month ago	Year ago
	Annual rate, millions of units					
Auto sales	11.8	10.2	10.4	9.6	- 8	-19
Domestic	9.9	8.7	8.7	7.9	- 9	-20
Foreign	1.9	1.5	1.7	1.7	0	-10
	Indexes, 1967=100					
Home goods factory unit sales	155	149	152	156e	4	1
TVs 1/	171	156	166	166e	0	- 3
Radios 1/	129	71	108r	122e	13	- 5
Major appliances	145	147	144	152e	6	5

1/ Includes domestic and foreign label imports.
e/ Estimates on the basis of data through December 22, 1973.

Inventories. Book value of manufacturing and trade inventories rose at close to a $38 billion annual rate in November (p)--up from the downward revised $25 billion October rate. A large proportion of this increase reflected the revaluation of stocks at higher prices.

Book value of manufacturers stocks rose at about the same pace as in October, as inventories of finished goods continued to build-up slowly. Retail stocks rose more rapidly in November than in

October. Automobile inventories grew at an annual rate of $6-1/2 billion in November, up $1 billion from the October rate. In November, stocks of nondurables rose at about twice the October rate. Wholesale inventories rose considerably more in November than in October; the major part of the November rise was in farm products and at groceries and liquor dealers and was mainly attributable to price increases.

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

	1973				
	QI	QII	QIII	Oct. r/	Nov. p/
Manufacturing and trade	21.5	22.9	20.4	24.8	37.7
Manufacturing, total	9.8	11.4	12.4	13.3	13.4
Durable	6.6	7.7	9.8	8.4	8.6
Nondurable	3.2	3.7	2.6	4.9	4.9
Trade, total	11.7	11.5	8.1	11.4	24.2
Wholesale	6.1	3.6	4.6	1.4	10.8
Retail	5.6	7.9	3.6	10.1	13.4

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

The over-all manufacturing and trade inventory-sales ratio was unchanged in November at the very low level of 1.41. The ratio of inventories to unfilled orders in durable goods manufacturing continued to move down.

INVENTORY RATIOS

	1972		1973	
	Oct.	Nov.	Oct. r/	Nov. p/
Inventories to sales:				
Manufacturing and trade	1.47	1.46	1.41	1.41
Manufacturing, total	1.63	1.60	1.56	1.54
Durable	1.91	1.89	1.85	1.85
Nondurable	1.28	1.24	1.19	1.16
Trade, total	1.31	1.32	1.27	1.28
Wholesale	1.20	1.19	1.11	1.10
Retail	1.38	1.41	1.39	1.42
Inventories to unfilled orders:				
Durable manufacturing	.870	.867	.718	.708

Manufacturers orders and shipments. New orders for durable goods rose 0.9 per cent in November (p)--but only 0.3 per cent excluding defense orders--following a 4.2 per cent rise in October. Nondefense capital goods orders continued to increase more rapidly than in the third quarter. Orders at steel mills were off 4 per cent in November, continuing the erratic pattern of recent months.

Shipments of durable goods rose 0.8 per cent in November following a 3.5 per cent increase in October. Backlogs of unfilled orders continued to increase rapidly.

MANUFACTURERS' NEW ORDERS FOR DURABLE GOODS
(Per cent changes)

	1973			
	QII from QI	QIII from QII	Oct. from Sept.	Nov. from Oct. (p)
Durable goods, total	5.7	.7	4.2	.9
Excluding defense	5.4	1.8	3.6	.3
Primary metals	13.8	-2.8	8.6	-.9
Motor vehicles and parts	-1.8	6.7	.6	-3.2
Household durables	3.6	.5	5.4	3.5
Nondefense capital goods	6.5	2.3	2.9	2.6
Defense capital goods	11.2	-22.7	21.0	14.5
Construction & other durables	4.7	1.7	2.8	- .1

Cyclical indicators. The Census composite index of leading indicators increased 0.4 per cent in November (p), following an upward revised rise of 1.0 per cent in October. The coincident composite rose while the deflated coincident and lagging indicators were both unchanged.

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

	1973					
	June	July	Aug.	Sept.	Oct.	Nov. (p)
12 Leading, trend adjusted	.9	.8	.9	-1.3	1.0	.4
12 Leading, prior to trend adjustment	.5	.4	.6	-1.7	.7	-.1
5 Coincident	.9	1.2	.4	.7	1.7	.4
5 Coincident, deflated	.3	1.5	- .9	.9	1.3	.0
6 Lagging	2.8	2.8	2.2	1.3	1.3	.0

Of the eight leading series available for November, those increasing were new orders for durable goods, industrial materials prices and the ratio of price to unit labor cost. Series declining were initial claims for unemployment insurance (inverted), contracts and orders for plant and equipment, common stock prices and housing permits. The average workweek in manufacturing was unchanged.

Of the indicators available for December, common stock prices were down and the average workweek in manufacturing was unchanged.

Construction and real estate. Seasonally adjusted value of new construction put in place edged lower in December from the upward revised November rate. The decline reflected the continued slowdown in outlays for private residential construction, which were 14 per cent below the February peak. Private nonresidential construction expenditures remained at the recent record rate, and outlays for public construction continued moderately above their mid-1973 low. For 1973 as a whole outlays totaled $135 billion, 9 per cent above 1972. After adjustment for cost increases, however, total expenditures changed little from a year earlier.

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

	1973			Per cent change in December from:	
	Q III^r	Q IV^p	Dec. 1/	Nov. 1973	Dec. 1972
Total--current dollars	136.9	133.8	132.6	-1	+ 1
Private	105.0	101.6	100.4	-1	+ 2
Residential	59.4	54.7	53.1	-3	- 8
Nonresidential	45.5	47.0	47.3	--	+16
Public	31.9	32.2	32.2	--	- 3
State and local	27.2	27.8	27.5	--	- 4
Federal	4.7	4.4	4.7	-1	+ 7
Total--1967 dollars	88.9	85.8	84.7	-1	- 7

1/ Data for December 1973 are confidential Census Bureau extrapolations. In no case should public reference be made to them.
-- Less than 1 per cent.

Seasonally adjusted sales of new single-family homes by merchant builders rose 4 per cent in November, but were still slightly below the third quarter average and a fourth below the last quarter of 1972. The number of unsold new homes edged down from its recent high, but continued close to 10 months' supply at the current sales rate. The median price of new homes for sale rose only slightly. Sales of existing homes continued lower than a year earlier but the median price of such units, at $29,950, was 10 per cent higher.

SALES, STOCKS AND PRICES OF NEW SINGLE FAMILY HOMES

	Homes sold 1/	Homes for sale 2/	Months' supply	Median price of: Homes sold	Homes for sale
	(Thousands of units)			(Thousands of dollars)	
1972					
Q III	733	386	6.3	27.9	27.1
Q IV	761	402	6.3	29.2	28.3
1973					
Q I	733	426	7.0	30.3	29.4
Q II	681	433	7.6	32.6	31.2
Q III (r)	562	454	9.7	33.6	32.1
September (r)	558	454	9.8	33.3	32.1
October (r)	524	452	10.4	33.0	32.3
November (p)	546	447	9.8	34.3	32.6

1/ SAAR.
2/ SA, end of period.

Residential construction and home sales are expected to decline further into the first half of 1974, according to several large residential builders interviewed recently. They note that prospective home buyers--especially those concerned about potential gasoline rationing or their employment prospects, as well as others anticipating further reductions in mortgage interest rates--appear to be delaying purchases at this time of general seasonal slack in the market. Despite unusual uncertainties, most of the builders still plan to operate on the basis of the pre-fuel shortage outlook, which--it should be stressed--typically allowed for significant reductions in the number of housing starts in 1974.

Shortages of home-heating fuels have been a problem for many builders for more than a year. Given the present concern about the availability of heating oil, the shift toward electric heating--adding $500 to $1,000 in unit costs--will increase. Partly reflecting the reduced level of construction activity, building material shortages did not seem to be a major concern at this time, although some builders noted that deliveries of certain petroleum-based and other products have continued to be delayed.

<u>Anticipated plant and equipment spending</u>. The Commerce Department's annual survey -- taken in late November and early December -- indicated that businesses were planning a 12 per cent increase in fixed capital outlays for 1974 as compared with a 13.2 per cent gain now estimated for 1973. The survey for 1974 indicates that manufacturers intended to increase spending by 16.8 per cent for the year, with durable and nondurable producers each planning about the same increase. Prospective increases were particularly strong in primary metals, motor vehicles, paper and petroleum industries, while cutbacks from 1973 levels were planned in textiles. Outside of manufacturing a 9.1 per cent gain is expected during 1974, with sizable advances anticipated by public utilities and railroads, but with airlines planning to reduce their capital outlays.

There are some differences between the Commerce survey and earlier private surveys for 1974. Although some plans may have been revised because of the energy crisis, the Commerce Department stresses it is still too early to assess the impact of the oil embargo on spending plans. The various survey results may also differ because of different sample sizes and response rates.

EXPENDITURES FOR PLANT AND EQUIPMENT BY
U.S. BUSINESSES
(Figures are per cent change from prior year)

	1973	1974 1/			
	Commerce	Rinfret-Boston	Lionel D. Edie	McGraw-Hill	Commerce
Survey Date	Nov. 1973	Sept. 2/ 1973	Sept. 2/ 1973	Oct. 1973	Dec. 1973
	----------------Anticipated----------------------				
All industry	13.2	15.3	11.7	13.6	12.0
Manufacturing	21.2	23.6	19.1	24.3	16.8
Durables	24.0	23.3	20.6	26.0	16.6
Nondurables	18.4	23.9	17.5	22.5	17.1
Nonmanufacturing 3/	8.7	10.3	7.3	7.3	9.1
Railroads	7.8	9.6	19.9	10.0	17.2
Air & other transp.	2.3	-7.9	-9.0	-11.3	-5.7
Electric utilities	12.2	15.5	14.0	14.0	15.7
Gas utilities	12.7	11.3	10.1	4.9	18.3
Communications	9.6	13.8	5.0	5.0	10.8 2/
Commercial	5.8	8.0	4.0	4.0	3.2 2/

1/ NOTE: The 1973 figures used in these calculations are taken from the latest quarterly Commerce Survey available at the time of release.

2/ Confidential results.

3/ Includes industries not shown separately.

Labor market. The labor market in recent weeks has shown some signs of softening. The unemployment rate rose 0.2 percentage points further in December, while payroll employment increased only a little from the upward revised November level. Initial and continuing claims for insured unemployment benefits also have tended upward in recent weeks. Employment reductions which appear to be due to actual or anticipated shortages of gasoline occurred in several industries -- particularly automotive dealerships, service stations, hotels and entertainment activities. Layoffs in the auto industry, however, occurred after the reporting week for the establishment employment survey. Preliminary estimates suggest a cumulative total of about 90,000 energy-related initial claims for unemployment benefits since the beginning of December, the majority since the establishment survey reporting week.

The unemployment rate moved up in the past two months -- reaching 4.9 per cent in December after dropping to a 3-1/2 year low of 4.5 per cent in October. A large part of the December increase in joblessness occurred among female workers -- particularly those 18-24 years of age; since October, however, rates for nearly all groups are up significantly. Over the past two months the labor force increased only moderately following a very sharp rise in the early fall.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1972	1973			
	Dec.	June	Oct.	Nov.	Dec.
Total	5.1	4.8	4.5	4.7	4.9
Males 20 years and over	3.4	3.2	2.9	3.0	3.1
Females 20 years and over	5.1	4.9	4.4	4.7	5.1
Teenagers	15.7	13.3	13.9	14.6	14.7
State insured	3.1	2.8	2.7	2.7	2.8
White	4.6	4.3	4.1	4.2	4.4
Negro and other races	9.6	8.5	8.3	9.1	8.7
White-collar	3.3	2.8	2.7	2.7	3.2
Blue-collar	5.6	5.3	5.1	5.5	5.2

Nonfarm payroll employment continued to grow rapidly through November--averaging 240,000 per month, about the same as in 1972. But growth in payroll employment slowed in December. There were substantial job gains in December in construction--partly due to unseasonable warm weather--as well as in State and local government; and manufacturing employment edged up by 25,000 with scattered small advances. But these increases were largely offset by declines in private service activities--especially retail trade. The factory workweek remained unchanged at 40.7 hours, but overtime edged off 0.1 hour to 3.7 hours.

CHANGES IN NONFARM PAYROLL EMPLOYMENT
(In thousands; seasonally adjusted)

	Dec. 1971-Dec. 1972	Dec. 1972-Nov. 1973	Nov. 1973-Dec. 1973
	---------Average monthly change--------		
Total nonfarm	228	240	35
Private	189	212	-5
Manufacturing	75	62	26
Production workers	68	46	32
Service-producing	115	124	-80
Trade	51	53	-73
Services	42	53	5
Government	39	28	40
Federal	-1	-1	-15
State and local	41	29	55

Earnings. The average hourly earnings index for private nonfarm production workers rose sharply in December, following some slowing earlier in the fall, and in the fourth quarter as a whole the index was up at a 7 per cent annual rate. The index rose at a 7.2 per cent annual rate in the last three quarters of 1973, compared with 6.5 per cent over the four quarters of 1972. The most rapid acceleration in the pace of wage increases has been in services and trade. But despite the accelerated pace of earnings increases, rising prices have completely eroded the purchasing power of take home pay for the individual worker. Real spendable earnings declined throughout 1975, following a substantial rise in the preceding year.

AVERAGE PRODUCTION WORKER EARNINGS
(Seasonally adjusted; per cent change at annual rates)

	1971 QIV-1972 QIV	1972 QIV-1973 QI	1973 QI-1973 QII	1973 QII-1973 QIII	1973 QIII-1973 QIV
Hourly earnings index					
Total private nonfarm	6.5	5.0	6.7	7.9	7.1
Manufacturing	6.4	5.2	5.8	7.7	7.8
Construction	6.2	7.1	3.6	9.0	7.3
Transportation	11.2	6.4	8.2	7.8	8.3
Services	5.7	4.1	7.4	6.9	6.3
Trade	5.5	5.0	7.6	7.6	6.7
Real spendable weekly earnings (worker with 3 dependents 1967 dollars)	4.1	-5.0	-1.0	-2.0	-4.1*

* Based on October and November, the latest months for which data are available.

Collective bargaining. The 1974 collective bargaining schedule is heavy with at least 5-1/4 million workers covered by major contracts that either expire or contain wage reopening provisions, compared with 4-3/4 million workers under contracts settled last year. This year's total does not include workers who may push for contract reopenings because of the energy crisis or recent and prospective rapid price increases. For example, the Teamsters Union, representing 350,000 workers, has asked for a contract reopening to protect the present level of earnings for truck drivers affected by fuel shortages.

In addition, about 4-3/4 million workers are scheduled to receive deferred increases which are estimated to average about 5 per cent--slightly more than in 1973. These deferred raises do not include cost-of-living adjustments which will depend on changes in the CPI in 1974. More than 4 million workers are covered by such escalator clauses.

The scheduled bargaining will center in several key, pattern-setting industries: basic steel, can, aluminum, longshore, telephone, railroad, coal, and aerospace. In addition, an estimated 2 million construction workers will bargain this year--an unusually heavy schedule which primarily reflects the short contracts negotiated under the Construction Industry Stabilization Committee's wage control program.

Negotiations in the steel industry will be influenced by the 1973 no-strike agreement which guarantees workers minimum wage increases of 3 per cent in 1974, 1975, and 1976, although greater increases can be negotiated. Workers will continue to be covered by a cost-of-living clause with no maximum limit and a 12.5 cent minimum in the second and third contract years. In addition, national issues unresolved at the time of contract expiration will be settled by an arbitration panel, although the right to strike over local plant issues is retained. However, such limited actions would not be expected to disrupt steel production significantly.

Traditionally the steel settlement has been influenced by the contracts reached earlier in the auto, aluminum and can industries although what effect the new steel agreement will have on this pattern is not known. The aluminum industry will begin bargaining three months early in an attempt to reach agreement well before contract expiration. Since their current contract contains clauses similar to those accepted as a minimum basic settlement in the steel industry, there seems to be little likelihood of industry-wide strikes this year.

Of the remaining negotiations, the longshoremen and the coal miners are likely to be the most militant in their demands. The longshore settlement was reached in 1972 after a long strike and the negotiated wage increases were reduced by the Pay Board. As a result, there is likely to be some pressure for a sizable settlement. The Mine Workers, under the leadership of a new president, have already announced their intention of seeking a large settlement. Mine owners may be under additional pressure to avoid a strike, because of the energy crisis.

Table 1

MAJOR CONTRACT EXPIRATIONS, 1974

Month	Industry	Workers Covered
February	Metal cans	30,000
May	Aluminum	35,900
	Apparel	125,000
July	Telephone	575,000
August	Steel	350,000
September	Aerospace (McDonnell Douglas)	14,800
	East and Gulf Coast Stevedore	38,000
October	Aerospace (Boeing, Lockheed, Rockwell)	62,600
November	Bituminous coal	80,000
December	Railroads	500,000

Table 2

MAJOR DEFERRED WAGE INCREASES - 1974

Month	Industry	Workers Covered
January	Apparel	35,000
	Railroads	442,000
February	Apparel	60,000
May	Electrical machinery (G.E.)	107,000
June	Electrical machinery (Westinghouse)	59,300
	Maritime	29,000
July	Rubber	70,000
	Teamsters	400,000
September	Auto	305,000

Consumer prices. Consumer prices continued to rise in November at a 10 per cent annual rate, seasonally adjusted, with further sharp increases for gasoline and oil and a large advance for food. The 12-month rise from November 1972 was 8.4 per cent, the largest since 1951. Service costs increased substantially, although less than food and other commodities.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	Relative importance Dec. 1972	Nov. 1971 to Jan. 1973 (14 months)	1973 Jan. to June (5 months)	June to September (3 months)	September to October (1 month)	October to November (1 month)
All items	100.0	3.6	8.3	10.3	10.4	9.8
Food	22.5	6.5	20.3	28.8	6.7	18.3
Commodities less food	40.1	2.4	5.2	2.6	6.0	9.0
Services 1/	37.4	3.5	4.3	7.4	14.5	7.0
Addendum:						
All items less mortgage costs 2/	96.3	3.7	8.7	9.4	7.4	10.2
Services less home finance 1/2/3/	30.9	3.3	4.6	4.8	9.2	5.4
Commodities less food, used cars home purchases 3/	31.8	2.1	6.1	2.3	8.1	12.3

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.

Food prices rose--despite declines for meat, poultry and eggs--mainly because of continued sharp increases in prices of dairy, cereal and bakery products, and processed fruits and vegetables. Between August and November, prices of cereal and bakery products rose 17 per cent, and dairy products, 12 per cent (not annual rates). From November 1972 the advance for cereal and bakery products was as large as for meats--27 per cent.

The drop in livestock prices from August through November was reflected only in part at retail as margins continued high, particularly for beef. According to preliminary (confidential) USDA estimates, the fourth-quarter spread between retail prices and farm value of beef was more than 80 per cent above its 1967 level and more than 25 per cent above the average of the previous three quarters. If the spread had remained at about this previous 1973 average (already nearly 45 per cent above 1967), retail beef prices in the fourth quarter would have been reduced by 10 cents or more. This suggests that much of the recent resurgence of cattle prices could be absorbed.

Sharp price rises for gasoline and, particularly, fuel oil boosted the index for other commodities, as in October, and further large advances occurred in December and, especially, January. If not for these extraordinary increases, prices of nonfood commodities would have risen in November at, roughly, half the actual annual rate of 9 per cent and the rate of rise in the "All items" index would have been about 8 per cent rather than 10 per cent.

Used car prices fell further in November and those of new cars were unchanged, after seasonal adjustment. In December the index may begin to reflect the increases announced after the December 10 COLC decision decontrolling auto prices. However, the CPI may understate the advance this year, since standard and intermediate-sized cars, for which prices were raised less than the average, are strongly represented in the BLS sample.

Mortgage costs contributed less to the advance in service prices than in the previous three months, but residential gas rates rose sharply.

Wholesale prices. Wholesale prices rose 2.2 per cent in December (29.6 per cent at a seasonally adjusted annual rate) mainly as a result of widespread price increases for industrial commodities. However, there was also a large increase in the prices of farm products and foods--following three months of declines--and this accounted for about one-fifth of the latest increase in the overall WPI.

WHOLESALE PRICES
(Per cent changes at seasonally adjusted annual rates)

		1973 1/				
			Freeze		Phase IV	
	December 1972 to December 1973	Dec. 1972 to June 1973	June to July	July to Aug.	Aug. to Dec.	Nov. to Dec.
	(12 mo.)	(6 mo.)	(1 mo.)	(1 mo.)	(4 mo.)	(1 mo.
All commodities	18.2	22.3	-15.5	106.4	6.4	29.6
Farm products	26.7	47.5	-43.0	735.2	-23.2	17.9
Industrial commodities	14.8	12.5	.7	4.8	25.1	36.2
Crude materials	31.4	23.3	15.1	15.8	54.5	41.0
Intermediate materials	12.8	13.3	- .9	8.7	16.6	24.9
Finished goods	15.5	10.0	- 1.0	3.6	32.5	52.6
Producer	5.3	5.7	1.0	7.0	5.2	6.9
Consumer nonfoods	20.6	12.2	- 2.0	2.0	47.6	76.8
Nondurable	31.2	17.0	- 2.9	1.0	79.3	29.4
Durable	3.7	5.0	2.1	5.3	1.5	12.0
Consumer finished foods	22.5	28.3	- 9.5	243.7	- 4.8	5.5

NOTE: Farm products include farm products and processed foods and feeds.
1/ The freeze extended from June 13 to August 13, with controls relaxed for most controlled foods on July 18. Beef ceilings were removed on September 10. Phase IV began on August 13. The WPI pricing date for August was the 14th.

Prices of industrial commodities increased 2.6 per cent (36.2 per cent at a seasonally adjusted annual rate) in December with fuels the chief influence, but major advances also occurred for metals, chemicals, motor vehicles and equipment, textile products, and machinery.

WHOLESALE PRICES
(Not seasonally adjusted)

	Percentage increases a/ November to December 1973	Contribution to increases in: All commodities	Industrial commodities	Refined petroleum products
All commodities	2.5	100.0		
Industrial commodities	2.7	73.2	100.0	
Fuels and related products and power	12.3	44.4	60.7	
Refined petroleum products	19.5	40.9	55.9	100.0
Gasoline	17.3		26.3	47.1
Distillates	27.8		28.7	51.3
Light b/	29.1		7.4	13.2
Middle c/	27.3		21.3	38.1
Residual fuels	2.3		.3	.6
Other	3.1		.5	.9
Crude petroleum	5.0		1.6	
Coal	.7		.3	
Electric power	1.8		1.6	
Other	3.2		1.3	

Components may not add to 100.0 due to rounding.
a/ Not seasonally adjusted.
b/ Largely kerosene, for space heating, and jet fuel.
c/ Home heating fuel and diesel oil.
NOTE: A large upward bias possibly exists in the index for refined petroleum products. Prices for refined petroleum products are chiefly quotations from spot markets which appear to represent a declining portion of the transactions in domestic markets. BLS has a program underway to improve the index.

The price increase of nearly 15 per cent in industrial commodities from December 1972 to December 1973 was the largest December-to-December increase since 1946.1/ Changes for component groups over the year are shown in the table below.

WHOLESALE PRICES
(Percentage Changes)

Commodity groups	Relative importance (Dec. 1972)	December 1972 to December 1973
Industrial commodities	100.0 1/	14.8
Fuels and related products and power	10.0	65.1
Lumber and wood products	4.2	24.2
Metals and metal products	18.3	14.0
Textile products and apparel	9.5	13.7
Pulp, paper and allied products	6.5	11.8
Chemicals and allied products	7.6	10.3
Rubber and plastic products	3.0	6.1
Miscellaneous products	3.3	5.6
Machinery and equipment	16.5	5.1
Furniture and household durables	4.6	4.5
Nonmetallic mineral products	4.5	4.1
Transportation equipment	9.9	2.7
Hides, skins, leather, and related products	2.0	- .2

1/ Total does not add to 100.0 due to rounding.

Price increases for fuels, which contributed about 60 per cent to the increase in the index of industrial commodities from November and nearly 45 per cent to the increase from December 1972

1/ A 12-month increase of about this size was registered in May 1951.

to December 1973, were also of major importance in the rise in prices for both materials and nonfood finished goods.

Further increases in indexes of prices of petroleum can be expected because of higher prices for foreign oil, the one dollar increase in the price of controlled domestic crude oil permitted by the Cost-of-Living Council on December 19, and other increases for refined products recently announced by oil companies as a result of higher costs of crude oil which are permitted to be passed through in accordance with government regulations. Prices of nonferrous metals may also rise somewhat further as a result of the elimination of price controls over some nonferrous metals and the easing of controls on others.

In December, prices of farm products and foods rose 1.4 per cent (17.9 per cent at a seasonally adjusted annual rate). The December-to-December increase of 26.7 per cent was the largest since the inception of this series in 1947, although more rapid annual rates were reported for several individual months earlier in 1973. Increases over the year are shown below for some selected groups of farm and food products.

WHOLESALE PRICES
(Percentage increases)

Commodity	December 1972 to December 1973
Farm products and processed foods and feeds	26.7
Farm products	36.1
Plant and animal fibers	114.5
Grains	80.7
Hay, hayseeds, and oilseeds	48.7
Fluid milk	43.5
Eggs	32.5
Fresh and dried fruits and vegetables	27.5
Processed foods and feeds	20.3
Crude vegetable oils	134.4
Vegetable oil and products	41.5
Cereal and bakery products	33.3
Manufactured animal feeds	22.9
Meats, poultry, and fish	21.0
Sugar and confectionery	16.3
Dairy products	15.7

<u>Agriculture</u>. Prices received by farmers increased 1-1/2 per cent during the month ending December 15. Prices for milk, eggs, grain, soybeans, and cotton contributed to the rise and have advanced still further by mid-January. After a four-month decline, cattle and hog prices also moved up in January. An upturn had been expected but the sharpness of the rise (for cattle, 20 per cent in two weeks ending January 11) was surprising.

A drop in red meat and poultry production from November to December resulted mainly from lower hog and broiler slaughter, down 3 per cent and 5 per cent, respectively. More recently a decline in cattle slaughter has developed and is having increasing impact on prices. Low feedlot inventories will keep beef supplies low for several months. While placements of cattle on feed increased 5 per cent in November, after a four month decline, they were still 15 per cent below average monthly placements in 1972 and early 1973.

Sales of major grains reported through December 30 indicate exports will be 10 per cent greater in the 1973-1974 crop year than last year. Carryover stocks of food and feed grains will likely fall well below 1973 levels. Prospective wheat stocks are the lowest in 25 years and this is a major factor in the high prices which are disturbing U.S. bakers.

DOMESTIC FINANCIAL SITUATION

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator		Latest data Period	Level	Net change from Month ago	Three months ago	Year ago
Monetary and credit aggregates 1/				SAAR (per cent)		
Total reserves		December	34.9	6.8	14.2	7.6
Reserves available (RPD's)		December	32.6	3.4	10.6	8.9
Money supply						
M1		December	268.6	9.0	7.9	5.1
M2		December	566.5	8.7	10.3	7.9
M3		December	889.1	8.8	9.3	8.2
Time and savings deposits (Less CDs)		December	297.9	8.5	12.5	10.5
CDs (dollar change in billions)		December	62.5	1.4	-4.3	19.3
Savings flows (S&Ls + MSBs)		December	322.6	9.0	7.6	8.7
Bank credit (end of month)		December	629.7	1.5	4.4	12.6
Market yields and stock prices			Percentage or index points			
Federal funds	wk. endg.	1/9/74	9.76	0.41	0.11	4.10
Treasury bill (90 day)	"	1/9/74	7.57	0.21	0.27	2.42
Commercial paper (90-119 day)	"	1/9/74	8.88	-0.37	-0.50	3.25
New utility issue Aaa	"	1/4/74	--	--	--	--
Municipal bonds (Bond Buyer)	1 day	1/3/74	0.18	0.03	0.14	0.10
FNMA auction yield(FHA/VA)		1/4/74	8.71	-0.07	-0.26	1.02
Dividends/price ratio (Common stocks)	wk. endg.	12/26/73	3.64	0.09	0.60	0.93
NYSE index (12/31/65=50)	end of day	1/14/74	50.05	0.43	-9.28	-14.37

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	December	0.7	1.6	27.5	13.9
Consumer instalment credit outstanding	November	1.7	1.7	19.7	14.2
Mortgage debt outst. (major holders)	October	3.7	4.8	50.4	46.4
Corporate bonds (public offerings)	October	1.8	1.8	10.4	16.0
Municipal long-term bonds (gross offerings)	October	2.2	2.2	19.2	20.0
		1974	1973	1974	1973
Federally sponsored Agcy.(net borrowing)	January	-0.5e	0.5	-0.5e	0.5
U.S. Treasury (net cash borrowing)	January	0.1	1.5	0.1	1.5
Total of above credits		9.61	14.1	126.8	112.5

e -Estimated

1/ Currently published data. Final revised data will be provided as soon as possible.

DOMESTIC FINANCIAL SITUATION

Corporate financing patterns and international financial flows have influenced changes in the structure of interest rates since the last Committee meeting. A pick-up in the pace of current and prospective capital market borrowing by both financial and nonfinancial corporations, as well as the larger volume of State and local bond offerings, contributed to upward yield adjustments in all bond markets of 15 to 30 basis points. Short-term market yields were subject to cross-currents. In the Treasury bill market, yields rose about 50 basis points, while yields on private short-term instruments declined by as much as 25 basis points before beginning to edge up most recently.

The decline in private short-term yields apparently reflected the shifting in corporate financing patterns from short- to long-term markets, as well as the market reinvestment by corporations and other investors of dollar balances obtained from sales of foreign exchange. Treasury bill rates, on the other hand, were under upward pressure in reflection of foreign official sales of bills to finance their exchange support operations. Also, the market appears to have become more uncertain as to current and prospective monetary policy, with the Federal funds rate apparently declining less than expected. Most recently, the rising level of bill rates has contributed to a reversal of the decline in other short-term market yields.

Total bank loan expansion in December was unusually modest as potential borrowers shifted to capital markets. However, banks did continue to acquire mortgages at a relatively rapid rate, although below the pace of earlier this year, and with inflows continuing to improve marginally at the thrift institutions new home mortgage commitments probably rose further in December.

Outlook. Barring an unexpected run-off of foreign holdings of special issues, the Treasury is not expected to require any new funds until March, and then only about $1 billion. Agency financing needs also appear likely to moderate further in line with the improved financial position of the thrift institutions. While the oil embargo and price decisions regarding crude petroleum still remain factors of considerable uncertainty in real and financial markets, total private credit demands are expected to moderate over the winter and spring as real economic activity slows. The drop-off in such credit demands is likely to be most marked in consumer and mortgage markets.

The outlook for financing needs is not all one-sided, however. The projected increase in inventory accumulation and plant and equipment outlays at a time of weakening profits outside the oil industry, indicates an increasing need for external financing by nonfinancial corporations. Businesses appear to be planning to continue to meet an expanding share of this financing in the capital market, reducing t their demands on banks and the commercial paper market. This financing pattern will tend to maintain upward interest rate pressures in bond markets. But, unless the Federal funds rate declines, reduced short-term credit demands are unlikely to be reflected in more than marginal declines in short-term market yields.

At current interest rates, net inflows of consumer-type time and savings deposits to banks and thrift institutions are expected to be well maintained, despite considerable certificate maturities this quarter at savings and loan associations. While these institutions are projected to continue to build liquidity and also to repay loans to the FHL Banks, they can be expected to become more willing lenders in the home mortgage market. Greater availability of mortgage finance coupled with reduced demands by builders and buyers generated by general economic conditions should result in downward pressure on mortgage rates. Indeed, with 8-1/2 per cent FHA/VA mortgages currently selling at close to par in the secondary market, some reduction in the administratively-determined FHA/VA contract rate now seems possible.

Monetary aggregates. Growth in the major monetary aggregates slowed somewhat in December from the rapid pace in November, with inflows of both private demand balances and time deposits other than CD's moderating. (No data on the monetary aggregates are shown here because the final stage of revisions for 1973, which incorporate new benchmarks, has not been completed. Preliminary estimates of the new aggregate data will be provided in the Greenbook Supplement.)

December M_1 growth was higher than it otherwise would have been as a result of a late December bulge in deposits held by foreign commercial banks at large U.S. banks. This increase appears to reflect a temporary interruption of normal withdrawals on two successive reporting days--the day after Christmas and the day after New Year's--when U.S. banks were open, but certain European banks, including all British banks, were closed.[1/] In the absence of this special factor,

1/ These two days were Wednesdays, the reporting day for the weekly reporting bank series. These single-day data are the only source of information on foreign bank deposits at U.S. banks and are used to estimate the weekly averages.

M_1 growth in December would have been only slightly higher than October's rate of around 6 per cent.

After two months of decline, banks increased their outstanding large CD's in December by about $800 million on a monthly average basis, with maturities of new issues still very short. Some of this turnaround may have reflected a more aggressive stance by banks in the CD market because of the slower growth of other deposits and the reduction of marginal reserve requirements on CD's effective December 13. However, there are also reports that domestic sellers of foreign exchange were anxious to find short-term investments for their dollar balances and actively sought CD's.

The turnaround in outstanding CD's offset the slower growth of other deposits and a decline in U.S. Government deposits. Consequently the adjusted bank credit proxy increased at the highest rate since August. The growth in the proxy, however, still remained low compared to the early months of 1973.

<u>Bank credit</u>. In December, for the fourth consecutive month, total loans and investments of all commercial banks (last-Wednesday-of-the-month series, seasonally adjusted) showed sharply reduced growth. While total loans expanded at the slowest rate in three years, consumer and real estate loans grew at rates near those of recent months. In 1973 the moderation of bank acquisition of mortgages was considerably less than in previous periods of monetary restraint, reflecting the continued ability of banks to attract deposits and the attractive yields available on mortgages.

COMMERCIAL BANK CREDIT[1/]
(Seasonally adjusted changes at annual percentage rates)

	1973					
	QII	QIII	QIV	Oct.	Nov. r	Dec.
Total loans and investments[2/]	12.7	11.4	4.4	6.7	5.0	1.5
U.S. Treasury securities	7.9	-34.4	-22.0	-29.8	-8.7	-28.6
Other securities	9.2	12.3	12.6	29.1	-2.8	11.4
Total loans[2/]	14.5	17.8	5.5	5.2	8.9	2.4
Business loans[2/]	18.4	17.3	5.1	.0	9.9	5.3
Real estate loans	20.2	17.0	14.2	14.9	13.6	13.5
Consumer loans	14.1	14.7	12.2	15.2	10.5	10.4

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
r/ Revised.

The modest business loan expansion in December was not, as in September and October, reflective of borrower shifting to the commercial paper market to take advantage of lower borrowing rates. Relative rates made commercial bank loans attractive to borrowers, and though outstanding dealer-placed commercial paper is estimated to have dropped slightly over the month, bank loans increased only moderately.

The deceleration in the growth of short-term business credit appears to reflect mainly repayments from the proceeds of the increased pace of capital market financing by nonfinancial corporations in November and December.[1/] It is unlikely that much of the slowdown in short-term credit demands is as yet associated with resource limitations stemming from the energy crisis. In fact, loans to petroleum refiners jumped in December, in part related to the financing of purchases of oil leases.

1/ For footnote 1, see p. II-6.

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

	Prime rate less 30-59 day commercial paper rate (per cent)	Business loans at all commercial banks 2/	Dealer placed commercial paper	Total	Annual rate of change in total 3/ (per cent)
		Average Monthly Changes 1/			
1973-QI	--	4.1	-1.3	2.8	23.7
QII	--	2.2	.2	2.4	18.7
QIII	--	2.2	.1	2.3	15.6
QIV	--	.7	1.2	1.9	13.8
April	- .29	2.4	- .1	2.3	18.2
May	- .05	2.8	--	2.8	21.8
June	- .41	1.4	.6	2.0	15.3
July	- .90	3.6	--	3.6	27.2
August	- .93	2.5	- .5	2.0	14.8
September	- .40	.4	.9	1.3	9.6
October	+ .52	--	2.6	2.6	19.5
November	+ .38	1.3	1.1	2.4	17.1
December	- .02	.7	-.1 e/	.6 e/	4.2e/
Weekly Pattern:					
Nov. 7	+ .75				
14	+ .50				
21	+ .15				
28	+ .22				
Dec. 5	+ .10				
12	- .10				
19	- .03				
26	- .03				

1/ Changes are based on last-Wednesday-of-month data.
2/ Adjusted for outstanding amounts of loans sold to affiliates.
3/ Measured from end-of-month to end-of-month.
e/ Partially estimated.

The continued liquidation of Treasury securities at commercial banks (on a seasonally adjusted basis), which occurred throughout the second half, reflects in part the modest volume of Treasury financing over the period. Banks typically underwrite a substantial portion of new issues, and our seasonal factors for bank holdings of Government securities anticipate such financing. But while the smaller volume of new Treasury issues contributed to a reduction in bank acquisitions of such securities, banks did step up the purchase of other securities in December--mostly municipals.

Nonbank financial institutions.

Deposit flows into nonbank thrift institutions were moderately stronger in December than in the previous month, according to preliminary data. This added strength reflects primarily the larger than seasonal volume of interest credited at the end of December due to the higher rates paid on deposits since Regulation Q changes in July. Interest credited accounted for the bulk of the unadjusted increase at S&L's and--according to confidential NAMSB estimates--all of the increase at MSB's.

1/ Repayment of bank loans from capital market borrowing by finance companies also contributed to the weakness of loans to nonbank financial institutions, which are not included in business loans.

FHLBank net advances to S&L's picked up in December, totaling approximately $300 million, as compared with $60 million in November. The December increase, however, was less than seasonal, and mainly reflected borrowing late in the month in anticipation of reinvestment period withdrawals. At the same time, with takedowns of mortgage commitments seasonally slack, S&L's reportedly continued to add to their liquid asset positions.

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

	Mutual savings banks	Saving 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
QII	6.8	10.4	9.2
QIII	- .4	3.1	2.0
QIV e/	5.5	9.0	8.0
October	2.1	8.8	6.7
November p/	6.8	8.8	8.2
December e/	8.5	9.5	9.0

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

Deposit outflows at the New York City MSB's during the recent reinvestment period were somewhat larger than in the past few years, but relatively moderate in comparison with the 1969-70 period of credit stringency. However, deposit experience was relatively less favorable in early January than during the December grace days.

REINVESTMENT PERIOD NET DEPOSIT FLOWS AT
SEVENTEEN LARGE NEW YORK CITY MSB'S
(Millions of dollars)

	Last 3 business days of December	First 5 business days of January
1973-74	-108.2	-57.7
1972-73	- 72.0	-14.2
1971-72	- 97.3	17.4
1970-71 (15 banks)	- 82.1	28.7
1969-70 (15 banks)	-222.5	-106.6

Policy loan activity at life insurance companies, which peaked in August, showed a further drop in November, with the net increase in policy loan holdings the smallest since June. Acquisitions of mortgages and securities by life insurance companies have been strong in recent months, but the pace of new commitment activity has declined.

Consumer credit. Consumer credit outstanding increased in November at about the same seasonally adjusted rate as in October, but the rise in noninstalment debt was less than half as large. As a result, the annual rate of increase in total consumer credit outstanding declined to less than $23 billion, 9 per cent below October and more than 12 per cent below the peak in the fourth quarter of 1972.

Components of the instalment credit total showed a mixed pattern during November. A further rise in bank credit-card extensions, which were more than one-third above a year earlier, led to a record increase in nonautomotive consumer goods credit. On the other hand, lower extensions for auto buying reduced the monthly gain in automobile credit outstanding to the smallest total since April 1972.

The increase in bank credit-card volume has enabled commercial banks to enlarge their share of the instalment credit market in recent months, despite the substantial decline in new car financing--their most important sector. During October and November banks accounted for 43.3 per cent of total instalment credit extensions, an increase of more than 1 percentage point, on average, from the earlier quarters of 1973. Commercial banks now hold more than one-half of outstanding consumer instalment indebtedness.

The rise in finance rates on new car contracts purchased by finance companies slowed in October and November. New car rates rose 6 basis points in each of those months following an average monthly increase of more than 11 basis points in the third quarter. The current level of rates--12.4 per cent--is about 50 basis points above a year earlier. The shift to a larger mix of small car sales has been reflected in a reduced average instalment contract size. Despite substantial price increases on the 1974 models, the weighted average amount financed, excluding finance charges, declined nearly $50 in November to $3,400, the lowest point since August.

Commercial paper outstanding. In December, commercial paper outstanding declined an estimated $400 million on a seasonally adjusted basis, reflecting reductions in both bank-related and nonbank-related paper. Between mid-November and late December, the cost to the borrower of issuing dealer-placed paper gradually approached and then exceeded the bank prime rate, thus accounting for the decline in outstandings. The $200 million decline in nonbank directly placed paper was accounted for entirely by a shift of one finance company subsidiary of an automotive manufacturer from commercial paper(which has a maximum maturity of 270 days)to 13-15 month notes.

The relatively attractive interest costs on dealer placed paper during October and the first half of November, in large part, accounted for the substantial growth in total commercial paper during the fourth quarter ($3.3 billion). For the year as a whole, large increases in both bank-related and nonbank directly placed paper as well as modest growth in nonbank dealer placed paper resulted in an increase in total commercial paper outstanding of $6.4 billion, the largest annual rise since 1969.

COMMERCIAL PAPER OUTSTANDING
(Seasonally adjusted, billions of dollars)[1/]

	Change in outstanding during 1973					Outstanding Dec. 31, 1973[e]
	Year	Q III	Q IV[e]	Nov.	Dec.[e]	
Total commercial paper outstanding	6.4	2.5	3.3	1.6	-.4	42.0
Bank-related	2.2	.9	-.3	.1	-.1	4.9
Nonbank-related	4.2	1.5	3.6	1.5	-.3	37.1
Dealer	.6	.4	3.6	1.1	-.1	12.6
Direct	3.6	1.2	*	.4	-.2	24.5

1/ Seasonally adjusted figures are unavailable for bank-related paper. The unadjusted data for bank-related paper are combined with seasonally adjusted nonbank-related data to obtain the total for commercial paper outstanding.
e/ Estimated.
*/ Less than $50 million.
NOTE: Components may not add to total due to rounding.

<u>Short-term interest rates</u>. Yields on short-term debt obligations have shown mixed changes over the inter-meeting period. Private rates generally have remained unchanged or declined 1/8 of a percentage point, whereas Treasury bill yields have advanced about 1/2 of a percentage point.

Bill rates had been under downward pressure at the time of the December FOMC meeting. The December 7 reduction in marginal reserve requirements and a sizable volume of Desk reserve injections apparently had fueled expectations of a significant near-term drop in the funds rate resulting from an easing in monetary policy. More recently, however, this outlook has been reassessed in view of the relatively rapid November-December growth in the monetary aggregates and the stability of the funds rate around 9-3/4 per cent. In addition, the continuing need for foreign central banks to liquidate Treasury securities to obtain dollars has raised questions about the near-term outlook for bill rates. In this changed atmosphere, the sizable penalty rates at which dealers have had to finance security inventories have exerted upward pressure on Treasury bill rates, pushing the quote on the 3-month issue, for example, toward 8 per cent.

Private short-term rates also declined in mid-December, and in contrast to bill rates they declined somewhat further in early January. Most recently, however, they too have started to back up. While private rates often lag somewhat behind bill rates, this divergent behavior may also reflect some weakening in business demands for short-term credit, as well as the reinvestment of dollars recently acquired from foreign central banks. The reduced rate of around 9-1/8 per cent on 3-month commercial paper during the latter half of December induced most banks that "float" their prime rate to lower that rate by 1/4 percentage point, thus falling into line with the more prevalent 9-3/4 per cent rate.

Later this month the Treasury must set refunding terms for the roll-over of $4.5 billion of publicly held issues maturing in February. Assuming no further liquidation of foreign special issues between now and the receipt of March income taxes, the Treasury might still need to borrow an additional $1 billion of net new money to cover the seasonal low point in its cash balance around mid-March--particularly if Congress fails to reinstitute the Treasury's special overdraft privilege at the Federal Reserve before then. While the Treasury may want to raise this modest amount of new money in conjunction with the refinancing, the operation could be delayed until late February or early March. In any event, it will have to raise additional new money--perhaps $3 billion--to cover the low point in the balance just prior to receipt of April income taxes.

In the Agency market, as a result of recently expanded deposit inflows to thrift institutions, the Federal Home Loan Banks and FNMA have again lowered their January-June 1974 borrowing plans. It now appears that Agency borrowing and asset sales over this period may amount to only $4.8 billion, or about $2.5 billion below the amounts expected earlier.

SELECTED SHORT-TERM INTEREST RATES
(Per cent)

	Daily Rates				
	1973		1974		
	Dec. 18	Dec. 26	Jan. 2	Jan 8	Jan. 15
Treasury bills					
3-months	7.34	7.57	7.52	7.64	7.89
6-months	7.29	7.50	7.53	7.58	7.78
1-year	6.77	6.86	6.98	7.04	7.02
Commercial paper					
90-119 day	9.13	9.25	9.13	8.88	8.88
4-6 months	9.00	9.00	8.88	8.63	8.75
Bank prime rate	9.75-10.00	9.75-10.00	9.75-10.00	9.75	9.75
Large negot. CD's 1/					
3-months	9.13	9.15	9.00	9.00	9.13
6-months	8.50	8.38	8.38	8.00	8.50
Federal agencies					
1-year	7.72	7.53	7.62	7.59	7.79
	Statement week ended				
	Dec. 19	Dec. 26	Jan. 2	Jan. 9	Jan. 16 2/
Federal funds					
(weekly average)	10.18	9.52	9.87	9.76	9.75

1/ Highest quoted new issues.
2/ Average for first six days of the week.

Long-term securities markets. Long-term rates have risen moderately, on balance, since the December FOMC meeting, with the largest advance--about 30 basis points--occurring on Government bonds. Advances in bond yields, which occurred despite the usual decline in flotations during the period surrounding the end of the year, appear to have reflected investor adjustment to the prospective heavy supply of offerings early in 1974 along with disappointment over progress in controlling inflation.

SELECTED LONG-TERM INTEREST RATES

	New Aaa utility bonds 1/	Recently offered Aaa utility bonds 1/	Long-term State and local bonds 2/	U.S. Government bonds (10-year constant maturity
1970 - High	9.43 (6/19)	9.20 (6/26)	7.12 (5/28)	8.06 (5/29)
Low	7.72 (12/11)	8.16 (12/18)	5.33 (12/10)	6.29 (12/18)
1971 - High	8.26 (7/30)	8.19 (1/2)	6.23 (6/24)	6.89 (7/20)
Low	7.02 (2/5)	7.14 (12/31)	4.97 (10/21)	5.87 (1/14)
1972 - High	7.60 (4/21)	7.46 (4/21)	5.54 (4/13)	6.58 (9/27)
Low	6.99 (11/24)	7.21 (12/1)	4.96 (12/7)	5.87 (1/14)
1973 - High	8.52 (8/10)	8.32 (8/10)	5.59 (8/3)	7.55 (8/10)
Low	7.29 (1/12)	7.28 (1/5)	4.99 (10/11)	6.42 (1/3)
Dec. 7	8.06	7.98r	5.15	6.72r
14	7.97	7.98	5.06	6.69
21	7.98	8.05	5.11	6.71
28	--	8.10	5.16	6.87
1974				
Jan. 4	--	8.14p	5.18	6.94
11	8.15p		5.22	6.96p

1/ FRB series.
2/ Bond buyer.
r/ Revised.
p/ Preliminary.

Stock prices, which had declined sharply throughout November because of the prospective energy shortage and related developments, have fluctuated widely since then with a small net advance from the recent low reached on December 5. Immediately following the Board's announcement of a reduction in margin requirements effective January 3, the Dow-Jones Industrial average rose 25 points in active trading. But after this brief flurry, prices declined on balance and at mid-January were a little below their year-end levels.

Neither the recent back-up in interest rates nor uncertainties about the economy and the availability of fuel have had much discernible effect on corporate financing plans. In December total corporate security offerings declined less than seasonally from their high November level and remained appreciably above the monthly average for the first three quarters of 1973. In January and February total corporate security offerings are expected to average about 15 per cent larger than the relatively high fourth quarter rate.

All of the forecasted rise in corporate security financing is attributable to increased public bond offerings. In January, the volume of such issues is expected to total $2.5 billion--the highest level since March 1971--and the calendar suggests that February will show only a moderate decline from this amount. The bulk of the increased financing is accounted for by banks and other financial firms as well as manufacturing corporations, with part of the proceeds indicated to be used for repayment of short-term debt.

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

	1973			1974	
	Year	QIVe/	Dec.e/	Jan.f/	Feb.f/
Corporate securities - Total	2,779	3,385	3,400	3,900	3,800
Public bonds	1,125	1,625	1,400	2,500	2,200
Privately placed bonds	725	715	1,200	800	800
Stock	929	1,045	800	600	800
State and local government securities	1,942	2,200	2,000	2,200	2,100

e/ Estimated.
f/ Forecast.

The volume of municipal bond offerings in January and February is expected to average more than one tenth above the average monthly level in 1973 and about the same as in 1972. Growth in State and local financing is associated with increased amounts of special revenue bond issues and industrial pollution control financing. Corporate financing in the tax-exempt market totaled about $1.8 billion last year and is expected to be considerably larger in 1974.

Mortgage market. Seasonally adjusted net mortgage debt formation slowed markedly during the fourth quarter of 1973 and was about one-third below the peak $20 billion first-quarter increase, according to preliminary estimates. Commercial banks accounted for the largest single share (about one-fourth) of total net mortgage debt expansion in the quarter as the share for savings and loan associations dropped further. The share accounted for by Federal credit agencies also declined, due mainly to slower growth in net FHLBank advances and a reduction in GNMA's mortgage holdings.

In December, new mortgage commitment activity at insured savings and loan associations is estimated to have picked up somewhat further on a seasonally adjusted basis, the third consecutive monthly increase from the recent low. The stock of S&L mortgage commitments outstanding (including loans in process), which had been declining for nearly a year, apparently changed little in December and at year-end was about 27 per cent below the February peak.

Interest rates on new commitments for conventional home mortgages in the primary market, after two months of decline, remained unchanged during December and early January, according to field reports and other sources. By year-end, rates on both new- and existing-home mortgages averaged about 20 basis points below the September peaks (HUD-FHA series). At around 8-3/4 per cent, however, they continued above usury ceilings of 8-1/2 per cent or less which now prevail in 13 states and the District of Columbia. Average rates on conventional home mortgage loans closed--which still reflect to some degree the rapidly rising rates on new commitments in the third quarter--edged up further in December.

In the secondary market, supplies of loans remained limited during December and demands were strong for Government-underwritten mortgages for loan pools to back GNMA-guaranteed securities. Reflecting these conditions, private secondary market yields on 8-1/2 per cent FHA-insured mortgages declined somewhat further. With such loans selling at a price close to par at year end, speculation continued about a possible near-term cut in the administratively-determined contract rate. Because the volume of offerings in the December 17 FNMA auction for forward purchase commitments of FHA/VA home mortgages was again quite small, the next auction was postponed until January 14 (results will be included in the Greenbook Supplement).

AVERAGE RATES AND YIELDS ON NEW-HOME MORTGAGES

	Primary market Conventional loans		Secondary market FHA-insured loans		
	Level (percent)	Spread (basis points)	Level (percent)	Spread (basis points)	Discounts (points)
1972 - Low	7.55	15	7.45	5	3.7
High	7.70	61	7.57	48	4.7
1973 - Low	7.70	31	7.55	14	2.2
High	8.95	107	9.18	130	9.4
June	8.05	41	7.89	25	7.2
July	8.40	39	8.19	18	9.4
Aug.	8.85	49	--	--	--
Sept	8.95	107	9.18	130	5.2
Oct.	8.80	90	8.97	107	3.6
Nov.	8.75	85	8.86	96	2.8
Dec.	8.75	75	8.78	78	2.2

NOTE: HUD series: Interest rates on conventional first mortgages (excluding additional fees and charges) are end-of-month figures rounded by FHA to the nearest 5 basis points. On FHA loans carrying the 7 per cent ceiling rate in effect from mid-February 1971 until July 1, 1973, a change of 1 point in discount is associated with a change of 12 to 14 basis points in yield. FHA rate was raised to 7-3/4 per cent in July 1973. Reliable data on FHA secondary market yield not available for August 1973 because rate changed to 8-1/2 per cent on August 25. Spread shown is gross, based on average mortgage return, before deducting servicing costs, minus average yield on new issues of Aaa utility bonds.

<u>Federal finance</u>. On a unified budget basis, our fiscal 1974 outlays forecast is $272.0 billion, unchanged since the December Greenbook. Due to revised income assumptions, the fiscal 1974 receipts projection has been raised $1.0 billion to $267.5 billion, leaving a deficit of $4.5 billion.

Although the projection of overall budget outlays is unchanged for fiscal 1974, certain compositional changes have been made which affect the National Income Accounts expenditure forecast. In particular, NIA expenditures for calendar 1974 have been increased by $3.3 billion to reflect higher transfer payments (mainly for the food stamp program, supplemental security income, medicare, and civil service retirement) and the recent enactment of legislation providing for a resumption of public service employment. However, these items have been offset in our budget outlays forecast by an increase in expected proceeds from the sale of oil leases--at item which is treated as a negative outlay in the unified budget but is omitted from the national income accounts.

The general social security benefit increase has now been enacted with a 7 per cent increase starting in April and a further 4 per cent increase scheduled for July. The full annual rate effect of these two increases is expected to be $6.2 billion.

Our receipts projections do not incorporate possible new taxes on oil. Just prior to Christmas, the Administration proposed a "windfall profits" tax on the sale of crude oil--a progressive rate excise tax designed to fade out over a five-year period. A description of this tax proposal and some discussion of its effects on incentives will be given in the Greenbook Supplement.

The fiscal 1975 budget will be presented shortly after the January FOMC meeting. However, certain preliminary numbers have been mentioned by budget officials in press interviews. Based on these reports, fiscal 1975 receipts on a unified budget basis are likely to be forecast at $294 billion and outlays at around $303 billion for a deficit of under $10 billion. The receipts figure contains $3 to $5 billion in new oil tax revenue.

The end-of-December Treasury cash balance was $10.4 billion, $1.3 billion above the level forecast in the December Greenbook. This rather sizable difference was due to a short-fall in outlays. The end-of-January cash balance is now forecast at $11.5 billion.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Dec.	Jan.	Feb.	March
Total net borrowing	2.9	0.1	0.3	1.0
Weekly and monthly bills	--	--	--	--
Tax bills	--	--	--	1.0
Coupon issues, net	--	--	--	--
As yet unspecified new borrowing	--	--	--	--
Special foreign series	--	--	--	--
Agency transactions, debt repayment, etc.	2.9 a/	0.1	0.3	--
Plus: Other net financial sources b/	1.5	1.2	-1.1	2.0
Plus: Budget surplus or deficit (-)	1.3	-0.2	-2.8	-3.7
Equals: Change in cash balance	5.7 c/	1.1	-3.6	-0.7
Memoranda: Level of cash balance, end of period	10.4 c/	11.5	7.9	7.2
Derivation of budget surplus or deficit:				
Budget receipts	21.7	23.3	19.9	19.4
Budget outlays	20.4	23.5	22.7	23.1
Maturing coupon issues held by public	--	--	4.5	--
Sales of financial assets	0.7	0.1	0.6	0.1
Budget agency borrowing	*	0.1	0.3	--
Net borrowing by government-sponsored agencies	0.5	-0.5	0.4	0.7

a/ Reflects purchase and resale of Tax Bills by Exchange Stabilization Fund.
b/ Checks issued less checks paid and other accrual items.
c/ Actual.

* Less than $50 million.

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

	Fiscal Year 1973*	Fiscal 1974 e/ Adm. Est. 11-15-73	Fiscal 1974 e/ F.R. Board	Calendar Years F.R. Estimates 1973	Calendar Years F.R. Estimates 1974	F.R.B. Staff Estimates Calendar Quarters 1973 III*	1973 IV	1974 I	1974 II	1974 III	1974 IV
Federal Budget											
Surplus/deficit	-14.3	0.0	-4.5	-9.1	-10.8	-1.1	-6.1	-6.7	9.3	-4.4	-9.0
Receipts	232.2	270.0	267.5	250.0	280.9	64.4	59.5	62.6	80.9	71.7	65.7
Outlays	246.5	270.0	272.0	259.2	291.7	65.5	65.6	69.3	71.6	76.1	74.7
Means of financing:											
Net borrowing from the public	19.3	n.a.	0.3	7.7	7.3	-0.7	6.5	1.4	-6.9	4.8	8.0
Decrease in cash operating balance	-2.5	n.a.	3.0	0.7	1.4	4.3	-2.1	3.2	-2.4	.6	--
Other 1/	-2.5	n.a.	1.2	0.7	2.1	-2.5	1.7	2.1	--	-1.0	1.0
Cash operating balance, end of period	12.6	n.a.	9.6	10.4	9.0	8.3	10.4	7.2	9.6	9.0	9.0
Memo 2/: Sales of financial assets 3/	4.8	n.a.	3.0	3.8	n.a.	-0.2	1.2	0.9	1.1	n.a.	n.a.
Budget agency borrowing 4/	0.4	n.a.	1.4	0.1	n.a.	0.4	0.3	0.4	0.3	n.a.	n.a.
Sponsored agency borrowing 5/	8.7	n.a.	11.2	16.3	n.a.	6.1	3.1	0.6	1.4	n.a.	n.a.
National Income Sector						Seasonally adjusted, annual rates					
Surplus/deficit	-12.1	n.a.	0.9	1.0	-8.2	4.0	5.0	0.8	-6.3	-12.1	-15.1
Receipts	242.9	n.a.	280.1 6/	265.5	290.8	269.5	276.4	286.0	288.4	291.9	296.8
Expenditures	255.0	n.a.	279.2	264.5	299.0	265.6	271.4	285.2	294.7	304.0	311.9
High Employment surplus/deficit (NIA basis) 7/	-1.2	n.a.	2.3	1.0	4.1	0.7	2.3	2.5	3.7	4.2	6.1

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

Footnotes continued

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.

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/ Calculated by averaging appropriate quarters. Official fiscal year estimates are adjusted for spreading of wage base and refund effect over calendar year.

7/ Estimated by F.R. Board Staff.

INTERNATIONAL DEVELOPMENTS

CONFIDENTIAL (FR)

III -- T - 1

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

	1 9 7 3				
	Q-I	Q-II	Q-IIIP	Oct.*	Nov.*
Goods and services, net 1/	150	674	2,148		
Trade balance 2/	-960	-244	714	405	-11
Exports 2/	15,320	16,778	18,153	6,415	6,707
Imports 2/	-16,280	-17,022	-17,439	-6,010	-6,718
Service balance	1,110	918	1,434		
Remittances and pensions	-397	-389	-422		
Govt. grants & capital, net	-681	-577	-872		
U.S. private capital (- = outflow)	-6,185	-2,024	-690		
Direct investment abroad	-2,025	-946	-228		
Foreign securities	51	-126	-204	-240	-225
Bank-reported claims -- liquid	-1,351	905	-342	-314	57
" " " other	-2,065	-1,697	412	-436	-459
Nonbank-reported claims -- liquid	-615	-87	52	192	
" " " other	-180	-73	-380		
Foreign capital (excl. reserve trans.)	505	2,226	3,299		
Direct investment in U.S.	273	534	720		
U.S. corporate stocks	1,301	125	869	94	409
New U.S. direct investment issues	384	274	193		
Other U.S. securities (excl. U.S. Treas.)	61	97	96		
Liquid liabilities to:	-1,876	1,105	980	1,104	1,722
Commercial banks abroad	-1,896	710	866	873	1,365
Of which liab. to branches 3/	(-579)	(586)	(93)	(136)	(836)
Other private foreign	8	364	166	28	170
Intl. & regional organizations	12	31	-52	203	187
Other nonliquid liabilities	363	91	440		
Liab. to foreign official reserve agencies	10,279	-352	-2,095	-84	-2,335
U.S. monetary reserves (increase, -)	220	17	-13	-4	-6
Gold stock	--	--	--	--	--
Special drawing rights	--	9	--	--	--
IMF gold tranche	-13	8	-13	-4	-6
Convertible currencies	233	--	--		
Errors and omissions	-3,891	425	-1,355		
BALANCES (deficit -)					
Official settlements, S.A.	-10,499	335	2,108		
" " , N.S.A.	-9,995	772	933	88	2,341
Net liquidity, S.A.	-6,657	-1,588	1,418		
" " , N.S.A.	-6,282	-1,981	537	-894	
Liquidity, S.A. 4/	-8,623	-770	1,128		
" , N.S.A.	-8,185	-1,167	99	-1,016	619
Basic balance, S.A.	-944	-609	2,539		
" " , N.S.A.	-862	-784	712		

* 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/ 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. On the official settlements basis, the U.S. balance of payments was in surplus by an estimated $12 billion (seasonally adjusted annual rate) in the fourth quarter of 1973, reducing the deficit for the year to about $5 billion. In addition, the dollar has been extremely strong in the exchanges in recent weeks as market participants reacted to the latest round of oil price increases. From about Christmas to mid-January the dollar appreciated by 5 percent, on average, against the major foreign currencies, even while central banks were supplying the market with large amounts of dollars.

The fragmentary data now available for the fourth quarter of 1973 suggest a substantial net inflow of short-term capital, together with sizable net foreign purchases of U.S. stocks. The trade balance, after showing extremely large surpluses in September and October, slipped back to about zero in November. For the year 1973 the trade account is expected to be approximately in balance, compared to a deficit of $6.9 billion in 1972.

The outlook for the U.S. balance of payments in 1974 is obscured by uncertainties stemming from the oil situation. Even if the United States received no oil produced in Arab countries during 1974, our fuel import bill might rise from about $8 billion in 1973 to some $21 billion in 1974, solely because of the assumed rise in the average oil price to nearly $10 per barrel. Largely as a result, the United States might incur a merchandise trade deficit in the neighborhood of $5 billion in 1974 -- rather than the sizable surplus expected earlier -- and a small deficit in the balance on goods and services. Many other industrialized countries will probably also experience marked deteriorations in their current-account balances as a result of the rise in oil prices.

The major imponderables in the outlook include (1) the effects here and abroad of high oil prices on the course of the business cycle, which in most countries has already passed the phase of most rapid growth, and (2) the use by oil-exporting countries of their increased oil revenues, which may rise from about $27 billion in 1973 to about $90 billion in 1974.

In Japan and most European countries the high cost of fuel is now expected to weaken aggregate demand, but because of continuing high rates of inflation governments are less likely to adopt strongly expansionary policies. As a result, from 1973 to 1974 the growth of real GNP in foreign industrial countries may well be only 1 or 2 percent; and growth in the volume of world trade may fall off appreciably.

In all likelihood, most of the increase in oil exporters' revenues will not be used to acquire goods and services or gold, but will be held as financial assets or other investments acquired directly or indirectly from the industria countries. The United States may well receive a share of these investment flows more than sufficient to offset its increased oil payments as well as any additional outflows resulting from the recent relaxation of U.S. capital controls.

Foreign exchange markets. The appreciation of the dollar, which began around the end of October when the oil crisis erupted, accelerated in late December and early January following the pre-Christmas doubling of oil prices by Middle East governments. From mid-December to mid-January the dollar appreciated by around 5 per cent, on average, against major foreign currencies, even as official intervention supplied some $4.2 billion to the market to moderate that rise. Market participants apparently believed that the United States would be the recipient of capital flows, arising from the investment of the prospective huge increment to oil-producing countries' receipts, in excess of the deterioration of the U.S. current account consequent upon the rise in oil prices.

Spot Exchange Rates
(U.S. cents per foreign currency unit)

	£	DM	FF	SF	JY	C$
Dec. 12	231.70	37.97	22.00	31.37	.3573	100.00
Jan. 16	217.60	35.58	20.18	29.60	.3334	100.77
% change	-6.1	-6.3	-8.3	-5.6	-6.7	0.8

The largest dollar sales have been by Japan, $1.9 billion, and Germany, $1.3 billion. In addition, Italy, Britain, and France also sold substantial amounts of dollars while Switzerland sold a lesser amount. The System has intervened in Swiss francs in recent weeks, using the proceeds to repay swap drawings, while the U.S. Treasury has intervened on a small scale in marks, French francs and Belgian francs.

While for a time all European currencies tended to move more or less together against the dollar, in the past week pressures within the European bloc have begun to develop. The French franc is at present alone at the bottom of the snake, with its partner currencies all clustered near the top. France has intervened mainly in dollars rather than other European currencies to keep the franc from depreciating below its European limits.

One of the results of the downward pressures on European currencies and the Japanese yen (the Canadian dollar alone has tended to firm against the U.S. dollar), has been a tendency for several of the major countries to ease their restrictions on capital flows. In addition to the U.S. actions (discussed below on p. III - 8), Germany has indicated its intention of lifting its controls on inflows, and on January 11 took the first step by eliminating marginal reserve requirements on banks' foreign liabilities. Japan took several steps toward easing its controls on inflows. In particular, it eliminated restrictions on foreign purchases of Japanese stocks, removed ceilings on banks' net foreign liabilities, and drastically reduced marginal reserve requirements on foreign liabilities. France on January 15 eliminated reserve requirements on French banks' franc-denominated foreign liabilities while increasing requirements on domestic liabilities.

Gold prices surged in early January, reaching the previous, July, 1973 high of $127 in London on January 8, reflecting the general movement out of European currencies and speculation that Arab countries might purchase gold with a part of their increased oil revenues. Though the gold price subsequently eased back somewhat, it still remains near its high.

Euro-dollar markets. Interest rates on Euro-dollar deposits have declined over the past five weeks. This decline reflected the passing of the seasonal upward pressure on Euro-dollar rates at year-end, the decrease in short-term interest rates in the United States and the surge in demand for dollars on exchange markets during the period. Three-month Euro-dollar deposits were bid at an average rate of about 9-1/2 per cent in the week ended January 16, down from an average level of nearly 10-3/4 per cent in the week ended December 12. The smaller decline in the comparable maturity CD rate during this period, from 9-1/2 to 9 per cent, reduced but did not eliminate the higher differential cost of Euro-dollar borrowing. The over-night Euro-dollar rate declined by a lesser amount than did longer maturity Euro-dollar rates. For the week ended January 16, as in mid-December, over-night Euro-dollar borrowing was less expensive than Federal funds borrowing for U.S. banks with a reserve-free base, but more expensive if subject to the 8 per cent marginal reserve requirement.

U.S. banks' liabilities to their foreign branches declined from a daily average of $2.4 billion in the week ended December 12 to $1.7 billion in the week ended January 9.

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

Average for month or week ending Wednesday	(1) Over-night Euro-$	(2) Federal Funds	(3) Differ-ential (1)-(2)(*)	(4) 3-month Euro-$ Deposit	(5) 60-89 day CD rate	(6) Differ-ential (4)-(5)(*)
1973-Sept.	10.85	10.79	0.06 (1.00)	11.16	10.30	0.86 (0.81)
Oct.	10.04	10.01	0.03 (0.90)	9.96	9.16	0.80 (0.54)
Nov.	9.51	10.08	-0.57 (0.26)	9.89	9.11	0.78 (0.51)
Dec.	9.73	9.96	-0.23 (0.62)	10.40	9.43	0.97 (0.94)
1973-Dec. 12	9.59	10.04	-0.68 (0.16)	10.71	9.50	1.21 (0.94)
19	9.13	10.18	-1.05 (-0.26)	10.49	9.38	1.11 (1.20)
26	9.50	9.52	-0.02 (0.81)	10.81	9.38	1.43 (1.55)
1974-Jan. 2	11.00	9.88	1.12 (2.08)	10.32	9.25	1.08 (1.17)
9	9.32	9.75	-0.43 (0.38)	9.37	9.00	0.37 (0.40)
16p/	9.39	9.74	-0.35 (0.47)	9.58	9.00	0.58 (0.63)

*/ Differentials in parentheses are adjusted for the cost of required reserves.
p/ Preliminary

U.S. balance of payments. The U.S. international payments position showed further strong imporvement in the closing months of 1973. The dollar appreciated sharply on foreign exchange markets (as described above) and the official settlements balance rose to an estimated surplus of $3 billion (seasonally adjusted but not at an annual rate) in the fourth quarter, about $1 billion higher than the surplus in the third quarter. However, because of the $10 billion deficit posted in the first quarter of 1973, when the dollar was under heavy attack, the official settlements balance for the entire year 1973 was in deficit by about $5 billion. In 1972 this balance was in deficit by over $10 billion.

From the very partial information now available for specific transactions in the fourth quarter, it appears that the improvement in the fourth quarter stemmed from an inflow of short-term capital. The U.S. trade surplus in October-November was little changed from the rate in the third quarter. The basic surplus on current account and long-term capital transactions was probably not as large as the extraordinarily large surplus of $2-1/2 billion (not at an annual rate) in the third quarter when the balance on private long-term capital flows was unusually favorable.

The fourth-quarter inflow balance on private securities transactions was probably quite large, although somewhat less than in the third quarter. Foreign net purchases of U.S. stocks, though very small in October, increased sharply in November to over $400 million, the largest amount since February. Large purchases were reported for Japan, France, Switzerland and the United Kingdom. While the U.S. stock market weakened in November, the oil crisis resulted in an even sharper decline in the Japanese stock market and generated considerable uncertainty about alternative investment opportunities in Europe. Brokers report continued heavy foreign buying of U.S. equities in December. Foreign private purchases of offshore Euro-bond issues by U.S. corporations also picked up substantially in the fourth quarter -- particularly in December -- but purchases of other types of U.S. corporate bonds remained at a very low level. U.S. net purchases of foreign bonds --

particularly Israeli -- also increased in the fourth quarter, totaling over $500 million compared with only $200 million in the third quarter.

Bank-reported claims on foreigners increased by a total of nearly $1-1/4 billion in October-November, a greater than seasonal increase. There was an outflow of about $400 million for long-term loans in contrast to the third-quarter inflow of net repayments amounting to about $200 million. Short-term claims were also up in these months. About half of the reported increase in claims by U.S. commercial banks consisted of export credits which are exempt from the VFCR program. The bulk of the increase in claims by U.S. agencies of foreign banks was in types subject to the VFCR program, but the increase in these regulated claims was substantially less than the increase in borrowings of these agencies from abroad.

The various programs of restraint on U.S. capital outflows to foreign countries have been relaxed, effective January 1, 1974. The Interest Equalization Tax (IET) on acquisitions of foreign securities has been reduced from about 3/4 of one percent to the fairly nominal rate of about 1/4 of one percent. In addition, the controls on U.S. direct investments in foreign countries have been substantially liberalized, and the VFCR controls on bank lending to foreign residents have been relaxed somewhat.

U.S. foreign trade. U.S. merchandise trade for November was in approximate balance, following very large surpluses in September and October. Imports in November rose sharply to about 12 percent above the October level, while exports rose by 4-1/2 percent. At a quarterly rate, the trade surplus for October-November was slightly below that in the third quarter, while for the first eleven months of 1973 there was a deficit of less than $0.1 billion (balance of payments basis), a dramatic improvement over the $6.9 billion deficit recorded in 1972. Over the past year, the unit value of U.S. trade has risen faster than the volume, accounting for over half of the increase in exports and 90 percent of the rise in imports since the fourth quarter of 1972.

U.S. MERCHANDISE EXPORTS AND IMPORTS
(billions of dollars, seasonally adjusted annual rates, BOP basis)

	1972		1973			
	Year	Q-4	Q-1	Q-2	Q-3	Oct.-Nov.
Exports (total)	48.8	52.8	61.3	67.1	72.6	78.7
Agric.	9.5	10.7	15.2	16.6	18.8	19.9
Nonagric.	39.3	42.1	46.1	50.5	53.8	58.8
Imports (total)	55.7	59.8	65.1	68.1	69.8	76.4
Nonfuel	50.6	54.4	58.5	60.2	60.7	65.2
Fuels	5.1	5.4	6.6	7.9	9.0	11.2
Balance	-6.9	-7.0	-3.8	-1.0	2.8	2.3

Agricultural exports accounted for 60 percent of the increase in total exports in November. Agricultural exports in October-November (at a quarterly rate) were 6 percent above the third-quarter 1973, and 85 percent above the fourth quarter 1972, with most of the latter increase due to sharp rises in the prices of grains and soybeans.

The unit value of agricultural exports in October-November was 63 percent higher than in the fourth-quarter 1972.

Nonagricultural exports in November continued their steady increase. In October-November these exports (at a quarterly rate) were 9 percent above their third-quarter level, paced by large increases in the unit value of industrial supplies and materials and in the volume of consumer goods and automotive exports.

Nonfuel imports jumped by 7 percent in October-November following relative stability in the preceding two quarters. The increase, attributed largely to rising unit values, was broadly distributed across commodity categories. Foodstuffs increased in volume as well as value (following a decline in volume earlier in 1973), partly because of the relaxation of U.S. sugar import quotas.

Imports of fuels and lubricants, mainly petroleum, soared by 24 percent in November and accounted for more than one-fourth of the increase in total imports in that month. Most of this increase was due to higher prices, as the unit value of these imports rose by almost 15 percent over the October level. The volume of fuel imports in November also rose, by about 8 percent. Statistics compiled by the American Petroleum Institute indicate, however, that the quantity of petroleum (particularly crude) imports has dropped off sharply since November. The average daily quantity imported in the last week of December and first week of January was about 23.5 percent below the daily average for the month of November. The embargo on exports of Arab crude to the United States appears to have taken effect, though the inflow of petroleum products from third-country refineries has dropped off much less than that of crude. Despite the reduced volume of petroleum imports, the increase in world oil prices portends a dramatic rise in the value of those imports in 1974.

There is little evidence in the November trade data to suggest that the world oil situation had at that early date exerted any significant effect on U.S. trade other than to raise the unit value of petroleum imports. There have been reports of spot shortages of bunker fuel for ocean carriers beginning in mid-November, ships have been moving at slower speeds in order to use fuel more efficiently, and there was a decline in the volume of automotive imports from Europe and Japan despite rising demand and very tight small-car inventory positions at home. However, the volume of total U.S. merchandise trade in November increased by 5.4 percent (65 percent at an annual rate) over its October level, and under the U.S. fuel allocation system, vessels in U.S. ports are to be allocated 100 percent of their fueling requirements.

The impact of the oil situation on economic activity in foreign industrial countries. Until very recently the outlook for world economic activity was dominated by the possible effects on domestic supply potential of Arab oil cutbacks. With the late December decisions of producers to ease the supply situation and to double the price, the focus of projections for 1974 has shifted once more. Now it is expected that supply constraints will be important only for the first quarter of the year and that the change in relative prices will predominate.

The price increases announced by the Persian Gulf producers in October and December (combined with earlier increases in 1973) raised producer government royalties and taxes (the government "take") from $1.75/barrel in January 1973 to $7.00/barrel on January 1, 1974. The difference between the import price, c.i.f., on the one hand, and the producer royalties and taxes, on the other, comprises the cost of production of oil, company profits, and freight and insurance. If these amounts remain at current levels, the increase in the import price will be about $5. However, this may be a conservative estimate because the price of non-Arabian oil seems to be increasing even more sharply, so that the total revenues of the oil-producing countries and the oil import bills of the industrial countries may rise more than the Arab price increase implies.

Estimates have been made of the effect of the price increases on the oil import bill of the major industrial countries. These estimates, however, can indicate only general magnitudes and obviously depend critically on the assumptions made about both the price of oil and the volume of imports. The estimates assume an increase in the average price of about \$5-1/2 per barrel. The volume of imports assumed is less than that normally associated with the projected activity levels, to allow for conservation measures and energy-source substitution induced by the substantially higher oil price.

The table on page III-14 shows estimated oil import increases for the major industrial countries. For all OECD countries the increase may amount to over \$50 billion and for the non-oil-producing LDC's to about \$8 billion; the increase in the total oil bill reaches nearly \$60 billion. Even with very large errors of estimation, the conclusion that payments for oil will increase at an extraordinary rate is inescapable. This poses two major problems: the international payments problems that may be associated with so large a shift of payments by non-oil producers to oil producers, and the demand management problems associated with the deflationary effects of these large price changes.

If the oil-producing countries could and would spend their increased earnings on goods and services, then the payments problem would be solely a problem of the distribution and composition of demand among countries and outputs. Although the amount by which exports to

Effects of the Oil Situation on Trade Balances and Current Account of Selected Industrial Countries
(Billions U.S. Dollars, SAAR)

	1973 Actual				1974 Forecast		
					Expected Increase in Oil Import Bill	Forecast of Current Account	
	Exports (Jan.-Sept. 1973)	Imports (Jan.-Sept. 1973)	Trade Balance (Jan.-Sept. 1973)	Current Account (Jan.-Sept. 1973)		Pre-oil Situation (10/73)	Post-oil Situation (1/74)
France	35.0	36.4	-1.4	0.3*	5.2	.7	-3.5
Germany	65.4	52.7	12.6	3.6	5.8	1.8	-2.8
Italy	20.9	26.5	-5.6	-1.7*	4.3	1.0	-2.6
U. K.	30.0	37.1	-7.0	-2.4	4.7	-1.8	-5.4
Netherlands	23.3	23.7	-0.4	1.3	1.7	1.7	0.2
Japan	35.1	35.7	-0.5	0.8	9.6	0.3	-7.9
Canada	23.8	22.5	1.3	-0.4	0	-0.7	-0.5
U. S.	67.0	67.7	-0.7	0.3	11.4	5.0	-4.0

Note: January 1974 forecasts include estimates of increased exports to oil producing countries. The difference in the October and January forecasts reflects the effect on current accounts of changed expectations about the level of economic activity as well as the increased oil import bill. The exchange rates used in the 1974 forecasts are those prevailing at the time of each forecast. Current Account is defined as net goods and services and private and official transfers.
*First half of 1973 only.
Source: OECD, national sources, and Federal Reserve staff estimates.

the oil-producing countries may increase is extremely difficult to estimate, only a few can be expected to spend a major portion of these large earnings. And even for these the import response will take some time to materialize. The large oil exporting countries that might significantly expand imports are Iran, Algeria, Iraq, Nigeria, Venezuela, and Indonesia. They (and some smaller countries with potentially high absorption capacity for imports) are expected to account for about 60 per cent of the increases in producer revenues. The rest, Saudi Arabia, Kuwait, Libya and other Arab states, would find it difficult to expand imports by very much. For all oil producers together the total increase in imports might reach $10-11 billion and most of this amount probably would be spent in the OECD countries.

Estimates of the major industrial countries' current accounts are shown (and contrasted with pre-oil crisis forecasts) in the table. These estimates incorporate only the net effects of the higher oil import bill and the associated increased exports to the oil-producing countries. On this basis, the current account of all OECD countries might deteriorate by about $40 billion vis-à-vis the oil-producing countries.

However, the largest part of the higher payments to oil producers will flow back in the form of investments in the industrial world. Thus, for the industrial countries as a group, the net overall payments position may be little changed, although the structure of their payments balance would change appreciably. But it is not likely that the flow of investment funds from the oil-producing countries will be distributed according to the origin of the increases in their revenues. Thus, some countries may be experiencing deteriorations in their overall payments positions as well as in their current account balances, and others may improve their overall positions despite a deterioration on current account. To what extent these developments will put strains on the international payments system depends upon the policy responses to the pattern of payments changes as it develops. Attempts by all countries to protect their current balance positions clearly would not only be self-defeating, but would also compound the demand management problems that are associated with the deflationary effects of the increased oil import bills themselves.

The increase in oil prices will have a direct effect on the price levels of the importing countries, roughly estimated at about 2 percentage points on the GNP deflator on average, as volumes remain about unchanged and expenditures rise. In the absence of offsetting policy-measures, this implies any one of a combination of the following consequences: (1) a reduction in expenditure on domestic goods and services both for consumption and investment; (2) a reduction in savings as an attempt is made to protect real consumption; and (3) a fall in spending on non-oil imports. The deflationary impact of the reduction in domestic spending may well outweigh any remaining supply-induced output shortfalls, leaving a margin of unused resources at a time when economic activity is already slowing down.

On the whole, despite some fears of recession in the industrial countries, there has been no marked shift away from demand restraint yet, nor any indication that moves will be undertaken to offset the deflationary implications of the oil price increase. This may reflect a policy lag, but more likely it is the consequence of the continued emphasis on restraining inflation. A shift to an easier monetary policy may be limited in some countries by the desire to induce capital inflows in order to offset worsening current accounts. If lower interest rates were generally desired, an international understanding concerning common objectives might be necessary to bring them about promptly. So far interest rates have been lowered only in the United Kingdom, and there only by a small amount. The recent reduction in reserve requirements in Germany is designed only to offset the domestic liquidity losses created by the capital outflows and do not signify an easing of policy. In France, Italy and Japan the stance of monetary policy seems to be one of continued or greater restraint.

The difficulties that the non-oil-producing LDC's have been placed in by the oil price increases will probably aggravate the balance of payments and demand management problems of the industrial countries. The LDCs' demand for non-oil imports will be directly reduced because of the higher oil payments, and also because their level of economic activity will probably be lowered. Some non-oil primary producers might try to raise their prices, posing additional problems for the industrial countries.

A look at economic activity and policy-measures in the major countries will provide a base against which future developments can be judged. In Japan, industrial production had increased strongly throughout 1973 and in November 1973 was 16.6 per cent above November 1972. However, since October 1973 the rise has stopped and some press comment indicates actual declines since November. Official and private forecasts, issued in December before Japan was told it would be treated as a friendly country by the Arab oil producers, were very pessimistic. They predicted a 1-2 per cent increase in production in fiscal year 1974 (which begins April 1, 1974) over 1973. The government forecast for real GNP for fiscal 1974 over fiscal 1973 was 2.5 per cent. Japanese real GNP has usually grown by 5-6 per cent in "recession" years. However, it is not clear how much these forecasts will be revised following the December oil measures. Policymakers clearly are still worried over the oil supply situation since they have ordered, starting January 16, a mandatory cutback of 15 per cent in oil and electricity supplies to major industries below what would have been used in the absence of the oil crisis.

However, the major concern of Japanese policymakers is the severe underlying inflation. With wholesale prices in December already 29.0 per cent higher than a year earlier, an additional 3-4 points increase in the rate of inflation due to increases in oil prices is considered to be relatively less important. Thus, demand restraint is likely to continue, at least in the near future. Monetary policy was tightened throughout 1973, and the discount rate was raised from 7 to 9 per cent in December. In addition, public expenditures have been cut back sharply from earlier plans.

The Japanese balance of payments has switched from a large surplus to a considerable deficit with great rapidity adding to the difficulties faced by policymakers. So far the authorities have dealt with the problem by drawing down reserves, allowing some depreciation of the yen, and taking some measures to slow capital outflows.

In the United Kingdom, the oil situation's impact is swamped -- at least in the short run -- by serious labor disputes which have drastically cut total energy supplies. A coal shortage has been created by the miners' ban on overtime work; this has been exacerbated by a slowdown by some railwaymen causing reductions of about 40 per cent in the delivery of coal to electric power stations. The government has taken drastic measures, most notably institution of a three-day work week, to curb the industrial use of electricity. One estimate is that industrial production is now 20-40 per cent below normal and that on any given day 3 million workers are unemployed. This situation has clearly damaged public confidence. This is evidenced in part in recent surveys of business intentions which indicate that the growth in investment will be lower than previously expected.

The oil price rise will increase the current account deficit that the U.K. was previously expected to incur by something approaching \$5 billion. Because of the high import content of British output, the authorities will probably be unwilling to accept the upward price pressures that would result from a further depreciation of sterling. Thus the authorities may encourage continued foreign borrowing by the public sector (with exchange rate guarantees), borrow officially themselves, or run down reserves.

The British authorities, in an effort to continue to accommodate a shift of resources to exports and private investment, announced large reductions in public expenditures to start with the new fiscal year beginning April 1. In addition, controls on installment buying have been reimposed, and the Bank of England has introduced a new system of special deposits to enhance its ability to control the growth of money and credit. However, social conflict is the main problem facing Britain now, and demand management policies cannot be very successful in the current social climate.

In Germany, real GNP in 1973 increased by 5-1/2 per cent over 1972, a little below the 6 per cent that was generally forecast. Before the oil shortage, growth in 1974 was expected to be 3-4 per cent, slightly less than the 4-1/2 per cent trend rate; at the onset of the oil crisis forecasts were revised to predict little or no growth, mainly because of supply problems. The December oil announcements have created the possibility that real GNP growth could reach 1-1/2 - 2 per cent in 1974. If supply constraints ease even further, a commensurately higher growth rate would be possible, given certain policy assumptions. But in 1973, the German authorities instituted one of the most severe monetary and fiscal restraint programs of the last decade. In November, restraint was eased somewhat, the main measure being the early removal of the 11 per cent investment tax. But on balance, fiscal policy remains restrictive as does monetary policy. The government, in preparing its annual report on the economic situation due at the end of this month, is reviewing policy options, and expectations are that there may be some further relaxation of, at least, fiscal restraint.

Because of a huge trade surplus, the German balance of payments in 1973 was very strong. And the expected increase in the oil bill may result in only a relatively small current account deficit in 1974. The German reserve position is also very strong, net reserves in January totalling well over $30 billion. To help protect the external position, the government is about to loosen controls on capital inflows.

In France, industrial output had been expanding rapidly before the oil crisis, but since September growth had begun to slow somewhat, partly in response to restrictive demand management measures taken earlier. Nevertheless, GNP had been expected to grow at 5.5 per cent in 1974 over 1973, equal to the underlying growth rate for the economy.

Since the oil crisis, forecasts for economic growth have been revised downward primarily because of a reduction in the expected expansion of world trade. The slower rate of growth of exports, taken together with the deflationary effects of the oil price increases, have led to a downward revision of the 1974 GNP estimates to 2.5 - 3.0 per cent. The automobile industry and some other sectors have already felt the impact, and it is possible that the unemployment rate in 1974 will rise from 2 per cent to 4 per cent, which is very high for France.

The officially expected balance of trade surplus of $1-1/2 billion for 1974 has now been revised to a very substantial deficit of $4 billion. This shift of $5-1/2 billion is rather more than that shown in the table, but is likely to be substantial in any event. Since official reserves have been declining recently from the high levels reached in mid-1973, the French government has begun to worry about further reserve declines. Accordingly, the government in October loosened controls on capital inflows and its anti-inflationary policies seem to be tightening. The authorities hope that the inflationary forces will be sufficiently weakened in the first half of 1974 to enable the economy to return to a higher growth path.

Italy has been enjoying a very strong recovery after the disruptions caused by work stoppages in 1972 and early 1973. Industrial production in November 1973 was 13.2 per cent over the same month in 1972 and for the whole of 1973 is expected to be more than 8 per cent higher than in 1972. The growth of real GNP for 1973 should be 5 per cent over 1972. However, the outlook for 1974, which before the oil cutbacks was bright, with real GNP growing at 6 per cent, is now more doubtful. Compounding the oil difficulties is a very high rate of inflation; wholesale prices in November 1973 were 22 per cent higher than a year earlier. The expected improvement in the balance of payments has failed to materialize and abstracting from the oil price impact, slower growth abroad may prolong the period of deficit. In order to cushion the effect of the deficits on official reserves, the Italian authorities have been requesting public authorities to borrow heavily in Euro-currency markets. Monetary policy has remained tight. A further large lire depreciation is a less likely device because of its inflationary effects.

The Netherlands is still embargoed by the Arab oil producers, but the embargo has been far from effective. With an increase in total oil supplies, the Dutch, therefore, are also likely to receive greater oil shipments. Still, the impact of the current oil situation is estimated to have reduced the 1974 supply potential of the economy to about the 1973 level. Consequently, unless oil supplies ease significantly, GNP is expected to remain level rather than increase by 4 per cent as earlier expected. However, the rate of inflation is very high and accelerating: the government forecasts a 13 per cent rise in the cost of living in 1974. At the same time unemployment is high and continues to rise. But the balance of payments situation is more comfortable than in most other countries, since in 1973 a large and growing current account surplus appeared.

The direct output effects of the oil crisis are not expected to be very important in Canada. The increased world price of oil has led the government to tax oil exports at a rate approximately equal to the difference between the frozen domestic Canadian price and the world price. However, there is a question whether the domestic price for oil can remain relatively low compared to world price levels. Moreover, the effects of the oil situation on the rate of growth of Canada's export markets, particularly the U.S., could have significant effects on Canadian growth. Before the December oil announcements, some Canadian analysts were forecasting real GNP growth for 1974 at about 4 per cent compared to the pre-oil estimates of 5 - 5-1/2 per cent.