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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

April 10, 1974

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DOMESTIC NONFINANCIAL SCENE

April 10, 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	Mar.	4/5/74	90.5	- .8	2.1	2.6
Unemployment rate	Mar.	4/5/74	5.1	5.2 1/	4.8 1/	5.0 1/
Insured unemployment rate	Feb.	3/18/74	3.2	3.0 1/	2.8 1/	2.8 1/
Nonfarm employment, payroll (mil.)	Mar.	4/5/74	76.6	-2.0	.1	2.3
Manufacturing	Mar.	4/5/74	19.8	-6.8	-6.2	.7
Nonmanufacturing	Mar.	4/5/74	56.9	- .3	2.3	2.9
Private nonfarm:						
Average weekly hours (hours)	Mar.	4/5/74	36.8	36.9 1/	37.0 1/	37.1 1/
Hourly earnings ($)	Mar.	4/5/74	4.06	5.9	4.0	6.6
Manufacturing:						
Average weekly hours (hours)	Mar.	4/5/74	4.03	4.05 1/	4.07 1/	4.09 1/
Unit labor cost (1967=100)	Feb.	3/29/74	125.6	-1.0	1.0	4.9
Consumer prices (1967=100)	Feb.	3/21/74	141.7	15.4	11.6	10.0
Food	Feb.	3/21/74	157.9	30.4	17.7	20.2
Commodities except food	Feb.	3/21/74	129.6	12.2	12.1	6.8
Services 2/	Feb.	3/21/74	145.8	8.3	7.8	7.0
Wholesale prices (1967=100)	Mar.	4/4/74	154.1	15.2	22.8	19.1
Industrial commodities	Mar.	4/4/74	146.4	34.9	26.4	19.5
Farm products & foods & feeds	Mar.	4/4/74	175.1	-24.8	14.4	18.2
Personal income ($ billion) 3/	Feb.	3/20/74	1093.6	7.3	5.3	9.6
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Feb.	4/1/74	43.4	2.3	-2.0	9.2
Capital goods industries:	Feb.	4/1/74	14.6	3.1	3.1	23.1
Nondefense	Feb.	4/1/74	12.5	6.1	4.1	23.4
Defense	Feb.	4/1/74	2.1	-11.6	-2.4	21.9
Inventories to sales ratio:						
Manufacturing	Feb.	4/1/74	1.60	1.59 1/	1.54 1/	1.58 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	Feb.	4/1/74	.711	.715 1/	.708 1/	.836 1/
Retail sales, total ($ bil.)	Feb.	4/8/74	43.0	.2	.1	4.3
GAF	Feb.	4/8/74	11.4	.2	.9	5.4
Auto sales, total (mil. units) 3/	Mar.	4/10/74	8.9	-1.1	-7.8	-29.8
Domestic models	Mar.	4/10/74	7.4	.4	-6.0	-30.3
Foreign models	Mar.	4/10/74	1.5	-8.4	-15.7	-26.9
Housing starts, private (thous.) 3/	Feb.	3/22/74	1,800	22.4	7.5	-25.7
Leading indicators (1967=100)	Feb.	3/29/74	170.6	1.8	.9	7.4

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

The staff now estimates that real GNP declined at an annual rate of 4.2 per cent in the first quarter. Nominal GNP is estimated to have risen some $15 billion, annual rate, about the same as indicated in the last Greenbook, but prices rose even more rapidly than anticipated--the private fixed weight index apparently rose at an annual rate of nearly 11 per cent.

Lifting of the Arab oil embargo on March 18 came too late to affect first-quarter output and employment; real consumer purchases and residential construction activity declined appreciably further. In the fourth quarter of 1973, declines in these two sectors had been offset by a surge in inventory investment, much of it a buildup of auto stocks. In the first quarter, inventory investment apparently declined abruptly, with dealer stocks of autos worked down about as much as they had risen earlier. Business fixed investment rose further, as did Government purchases.

Consumer demand appears to have strengthened in March. Retail sales are estimated on the basis of weekly data to have risen appreciably, apparently faster than prices. In addition, February retail sales have been revised up moderately. Unit sales of autos appear to have leveled off, with total March sales (domestic-type cars and imports) remaining at the February level of about 9 million units--a somewhat lower rate than in January. The strength in housing starts in January and February suggests that activity in this sector may also be bottoming out.

Surveys pointing to vigor in business demands for fixed capital are supported by the recent sizable rise in new orders for nondefense capital goods, in constant dollars as well as in nominal terms. Such orders in February were up appreciably both from January and from the fourth-quarter average. Unfilled orders for durable goods also rose further in February.

Industrial production is tentatively estimated to have declined somewhat further in March, for the fourth consecutive month. Reductions were apparently fairly widespread among industries, but output of business equipment appears to have changed little.

The unemployment rate edged down in March to 5.1 per cent, compared with 5.2 per cent in the preceding two months. But State insured unemployment rose further and nonfarm payroll employment declined after a sizable rise in February. In manufacturing, employment declined again in March and the workweek fell back to the January level.

The rise in wage rates was relatively moderate throughout the first quarter. In March, the adjusted hourly earnings index in the private nonfarm economy was 6-3/4 per cent above the level of a year earlier.

Wholesale prices of farm products and foods declined substantially in March, following three months of increase, but prices of industrial commodities jumped 2.9 per cent. Increases among industrial commodities were widespread, with metals contributing most and petroleum products second in importance. Factors in the exceptionally large March rise included price increases granted the steel and other industries and the decontrol of a number of major industries. In February, the consumer price index rose 1.3 per cent, following a 1 per cent rise in January. Foods and fuels again contributed most to the advance, but increases also occurred among a number of other goods and services.

Outlook. Staff projections have been extended to mid-1975, and incorporate the following assumptions: (1) With the lifting of the embargo, oil imports will increase, beginning around midyear, by about 1 million barrels a day from the first-quarter average--to a total of about 7 million barrels per day. This level is a little below that prevailing last fall, and further below levels then projected for 1974. The price of imported crude is assumed to remain near $10 a barrel, the estimated price for March. (2) Growth in M_1 is assumed to average about 5-3/4 per cent, annual rate, over the projection period. Since nominal GNP is expected to grow substantially faster, short-term interest rates are projected to rise further and remain above current levels. (3) The staff is now assuming a modification in withholding schedules to effect a reduction in the amount of overwithholding, at an $8 billion annual rate, beginning about August 1; a public employment program with outlays amounting to $1.65 billion for fiscal 1975 to bring State and local government employment under the program to 200,000 by the third quarter; and an extension of unemployment insurance benefits in areas of high unemployment to 52 weeks. Other Federal expenditure assumptions remain close to the budget for fiscal 1975. (4) It is assumed that wage and price controls--except for petroleum--will be ended by April 30, when the legislation expires.

The decline in real GNP is now projected to be largely completed by the end of the first quarter, with the second quarter showing only a small negative figure. The expected leveling off of real GNP stems primarily from a stronger rise projected for consumer spending, in contrast to the sizable first-quarter drop, and a slower rate of decline in residential construction activity.

In the second half of 1974, growth in real GNP is projected to resume at a little over a 3 per cent annual rate. Auto sales are expected to pick up, and total real consumer purchases are also expected to expand further, as disposable incomes are augmented by the recently enacted increase in the minimum wage, by the assumed reduction in over-withholding, and by Federal pay increases. Residential construction activity is projected to be rising moderately, but housing starts--though higher than in the first half--are now expected to level off late in the year as the availability of mortgage credit becomes increasingly restricted. Business fixed investment is projected to rise further at a fairly rapid pace; for the year as a whole, the increase is about in line with the recent Commerce survey. A moderate slowing in inventory investment and continued deterioration in net exports are expected to hold down the rate of expansion.

In the first half of 1975, the rate of growth in real GNP is projected to fall back to an average of around 2-1/4 per cent, mainly reflecting increasing weakness in residential construction. Net exports of goods and services are projected to decline further, as growth in exports slows and imports continue rising. Growth in real consumer spending is projected to hold up reasonably well, even though increases in disposable incomes are slowed by a reduced volume of tax refunds, because the saving rate is projected to decline. Business spending on fixed capital is also expected to continue rising, in part to meet needs for energy and materials capacity.

Labor force growth is projected to be below normal throughout the projection period. Even so, with growth in real GNP falling short of its long-term potential throughout this interval, the unemployment rate is projected to rise fairly steadily to around 6-1/4 per cent by mid-1975.

The increase in prices is expected to moderate from the exceptionally rapid first quarter pace, in large part because of a sharp slowing of increases for foods and petroleum after mid-1974. Nevertheless, pressures from labor costs are expected to continue strong, and even in the second quarter of 1975 the rate of increase for the private fixed weight deflator is expected to average 5 per cent.

STAFF GNP PROJECTIONS

	Changes in nominal GNP ($ billions)		Per cent change annual rate: Real GNP		Per cent change annual rate: Gross private product fixed weighted price index		Unemployment rate (Per cent)	
	3/13/74	4/10/74	3/13/74	4/10/74	3/13/74	4/10/74	3/13/74	4/10/74
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 1/	133.9	133.9	5.9	5.9	6.1	6.1	4.9	4.9
1974	99.5	106.6	.2	.3	7.6	8.4	5.8	5.6
1973: I	43.3	43.3	8.7	8.7	7.0	7.0	5.0	5.0
II	29.5	29.5	2.4	2.4	7.9	7.9	4.9	4.9
III	32.5	32.5	3.4	3.4	7.0	7.0	4.7	4.7
IV	33.0	33.0	1.6	1.6	8.6	8.6	4.7	4.7
1974: I	15.0	15.5	-3.4	-4.2	8.3	10.8	5.3	5.2
II	19.0	24.5	-1.5	- .3	7.3	7.8	5.8	5.5
III	26.0	31.0	1.9	2.9	5.8	6.4	6.0	5.7
IV	33.5	35.5	3.5	3.5	5.7	6.2	6.2	5.9
1975: I		28.0		2.3		5.5		6.1
II		26.5		2.3		5.0		6.3
Change:								
72-IV to 73-IV 1/	138.3	138.3	4.0	4.0	7.8	7.8	- .6	- .6
73-IV to 74-IV	94.0	106.5	.1	.4	6.8	7.8	1.5	1.2
74-II to 75-II		121.0		2.7		5.8		.8

1/ Actual.

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.)

	1973	1974 Proj.	1973 I	1973 II	1973 III	1973 IV	1974 Proj. I
Gross National Product	1289.1	1395.7	1242.5	1272.0	1304.5	1337.5	1353.0
Final purchases	1281.1	1386.6	1237.8	1267.5	1299.8	1319.4	1343.0
Private	1004.0	1077.8	969.2	992.2	1020.8	1033.8	1047.2
Excluding net exports	998.2	1076.2	969.2	989.4	1013.2	1021.0	1309.1
Personal consumption expenditures	804.0	874.5	779.4	795.6	816.0	825.2	843.6
Durable goods	130.8	128.7	132.2	132.8	132.8	125.6	125.5
Nondurable goods	335.9	376.5	322.2	330.3	341.6	349.6	361.0
Services	337.3	369.4	325.0	332.6	341.6	350.0	357.1
Gross private domestic investment	202.1	210.8	194.5	198.2	202.0	213.9	205.5
Residental construction	58.0	50.3	59.0	59.6	59.2	54.0	49.5
Business fixed investment	136.2	151.4	130.9	134.1	138.0	141.8	146.0
Change in business inventories	8.0	9.1	4.6	4.5	4.7	18.0	10.0
Nonfarm	7.3	9.1	4.4	4.4	3.2	17.3	10.0
Net exports of goods and services 1/	5.8	1.6	.0	2.8	7.6	12.8 2/	8.1 2/
Exports	102.0	129.2	89.7	97.2	104.5	116.4 2/	124.3 2/
Imports	96.2	127.5	89.7	94.4	97.0	103.6	116.2
Gov't. purchases of goods and services	277.1	308.8	268.6	275.3	279.0	285.6	295.8
Federal	106.6	115.4	105.5	107.3	106.8	106.8	111.0
Defense	73.9	77.9	74.3	74.2	74.2	73.0	75.0
Other	32.7	37.5	31.2	33.1	32.7	33.8	36.0
State & local	170.5	193.4	163.0	168.0	172.2	178.8	184.8
Gross national product in constant (1958) dollars	837.4	839.9	829.3	834.3	841.3	844.6	835.6
GNP implicit deflator (1958 = 100)	153.9	166.2	149.8	152.5	155.1	158.4	161.9
Personal income	1035.4	1134.5	996.6	1019.0	1047.1	1078.9	1094.2
Wage and salary disbursements	691.5	749.2	666.7	682.6	699.3	717.2	726.5
Disposable income	882.5	967.2	851.5	869.7	891.1	917.8	931.0
Personal saving	54.8	67.0	50.0	51.0	51.1	67.1	61.9
Saving rate (per cent)	6.2	6.8	5.9	5.9	5.7	7.3	6.6
Corporate profits before tax	126.4	131.5	119.6	128.9	129.0	128.1	130.5
Corp. cash flow, net of div. (domestic)	108.9	112.3	104.9	110.3	110.6	109.8	109.8
Federal government receipts and expenditures, (N.I.A. basis)							
Receipts	265.0	289.3	253.6	262.4	269.5	274.6	284.2
Expenditures	264.0	299.3	258.6	262.4	265.6	269.6	282.5
Surplus or deficit (-)	1.0	-10.0	-5.0	.0	4.0	5.0	1.7
High employment surplus or deficit (-)	-1.3	-1.5	-2.4	-1.7	-2.1	1.1	2.2
State and local government surplus or deficit (-), (N.I.A. basis)	10.5	3.5	13.9	11.5	10.4	6.1	5.9
Total labor force (millions)	91.0	93.3	90.0	90.8	91.3	92.2	92.8
Armed forces "	2.3	2.3	2.4	2.3	2.3	2.3	2.3
Civilian labor force "	88.7	91.0	87.6	88.5	89.0	89.9	90.5
Unemployment rate (per cent)	4.9	5.6	5.0	4.9	4.7	4.7	5.2
Nonfarm payroll employment (millions)	75.6	76.8	74.6	75.3	75.7	76.6	76.6
Manufacturing	19.8	19.8	19.6	19.8	19.8	20.1	19.9
Industrial production (1967 = 100)	125.6	125.3	123.1	124.8	126.7	127.0	124.6
Capacity utilization, mfg. (per cent)	83.0	80.0	82.8	83.3	83.3	82.6	80.3
Major materials (per cent)	95.1	90.8	93.8	94.5	96.0	95.3	91.5
Housing starts, private (millions, A.R.)	2.04	1.66	2.39	2.21	2.01	1.58	1.59
Sales new autos (millions, A.R.)	11.44	9.81	12.23	11.73	11.74	10.09	9.50
Domestic models	9.67	8.03	10.27	9.87	10.11	8.44	7.82
Foreign models	1.77	1.78	1.96	1.86	1.63	1.65	1.68
1/ Net exports of g. & s. (bal. of paymts.)	6.9	4.7	.7	2.4	8.6	15.9 2/	11.2 2/
Exports	102.7	131.5	90.2	97.2	105.0	118.7 2/	126.6 2/
Imports	95.8	126.7	89.4	94.8	96.4	102.8	115.4

2/ Includes effects of shipments of military equipment and supplies to Israel; for 1973-IV these are now estimated at $2.5 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; for 1974-I they are estimated at $.5 billion, annual rate, all from defense stocks.

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		Projection		1975	
		I	II	III	IV	I	II
Gross National Product	1395.7	1353.0	1377.5	1408.5	1444.0	1472.0	1498.5
Final purchases	1386.6	1343.0	1367.5	1400.0	1436.0	1464.0	1490.5
Private	1077.8	1047.2	1062.4	1087.7	1113.9	1134.1	1153.0
Excluding net exports	1076.2	1039.1	1059.7	1088.8	1117.1	1140.9	1162.3
Personal consumption expenditures	874.5	843.6	862.8	885.2	906.5	926.5	946.6
Durable goods	128.7	125.5	126.3	129.5	133.3	136.0	138.0
Nondurable goods	376.5	361.0	371.5	382.2	391.2	400.0	409.6
Services	369.4	357.1	365.0	373.5	382.0	390.5	399.0
Gross private domestic investment	210.8	205.5	206.9	212.1	218.6	222.4	223.7
Residential construction	50.3	49.5	47.9	50.6	53.1	52.9	50.2
Business fixed investment	151.4	146.0	149.0	153.0	157.5	161.5	165.5
Change in business inventories	9.1	10.0	10.0	8.5	8.0	8.0	8.0
Nonfarm	9.1	10.0	10.0	8.5	8.0	8.0	8.0
Net exports of goods and services 1/	1.6	8.1 2/	2.7	-1.1	-3.2	-6.8	-9.3
Exports	129.2	124.3 2/	129.1	130.5	132.7	132.7	133.9
Imports	127.5	116.2	126.4	131.6	135.9	139.5	143.2
Gov't. purchases of goods and services	308.8	295.8	305.1	312.3	322.1	329.9	337.5
Federal	115.4	111.0	114.1	116.0	120.5	123.1	125.5
Defense	77.9	75.0	77.1	78.0	81.5	83.4	84.9
Other	37.5	36.0	37.0	38.0	39.0	39.7	40.6
State & local	193.4	184.8	191.0	196.3	201.6	206.8	212.0
Gross national product in constant (1958) dollars	839.9	835.6	834.9	841.0	848.2	853.0	857.8
GNP implicit deflator (1958 = 100)	166.2	161.9	165.0	167.5	170.2	172.6	174.7
Personal income	1134.5	1094.2	1121.7	1149.8	1172.1	1195.9	1218.7
Wage and salary disbursements	749.2	726.5	739.5	757.4	773.4	789.0	804.1
Disposable income	967.2	931.0	954.4	981.7	1001.8	1018.0	1036.4
Personal saving	67.0	61.9	65.3	69.4	67.3	62.6	60.0
Saving rate (per cent)	6.8	6.6	6.8	7.1	6.7	6.1	5.8
Corporate profits before tax	131.5	130.5	128.5	132.5	134.5	135.5	135.5
Corp. cash flow, net of div. (domestic)	112.3	109.8	110.5	112.8	116.0	117.1	117.9
Federal government receipts and expenditures, (N.I.A. basis)							
Receipts	289.3	284.2	287.5	290.6	294.7	304.7	310.1
Expenditures	299.3	282.5	295.0	306.1	313.4	320.0	326.2
Surplus or deficit (-)	-10.0	1.7	-7.5	-15.5	-18.7	-15.3	-16.1
High employment surplus or deficit (-)	-1.5	2.2	.3	-4.7	-3.9	3.8	5.9
State and local government surplus or deficit (-), (N.I.A. basis)	3.5	5.9	2.5	2.8	2.6	1.0	-1.0
Total labor force (millions)	93.3	92.8	93.1	93.4	93.7	94.0	94.3
Armed forces "	2.3	2.3	2.3	2.3	2.3	2.2	2.2
Civilian labor force "	91.0	90.5	90.8	91.1	91.4	91.8	92.1
Unemployment rate (per cent)	5.6	5.2	5.5	5.7	5.9	6.1	6.3
Nonfarm payroll employment (millions)	76.8	76.6	76.7	76.8	77.0	77.1	77.2
Manufacturing	19.8	19.9	19.8	19.7	19.7	19.7	19.7
Industrial production (1967 = 100)	125.3	124.6	124.3	125.5	126.8	127.8	128.8
Capacity utilization, mfg. (per cent)	80.0	80.3	79.3	79.4	79.6	79.6	79.5
Major materials (per cent)	90.8	91.5	90.5	90.6	90.7	90.7	90.6
Housing starts, private (millions, A.R.)	1.66	1.59	1.61	1.75	1.70	1.55	1.43
Sales new autos (millions, A.R.)	9.81	9.50	9.50	9.75	10.50	10.25	10.25
Domestic models	8.03	7.82	7.75	7.90	8.65	8.50	8.50
Foreign models	1.78	1.68	1.75	1.85	1.85	1.75	1.75
1/ Net exports of g. & s. (bal. of paymts.)	4.7	11.2 2/	5.8	2.0	-.1	-3.7	-6.2
Exports	131.5	126.6 2/	131.4	132.8	135.0	135.0	136.2
Imports	126.7	115.4	125.6	130.8	135.1	138.7	142.4

2/ Includes effects of shipments of military equipment and supplies to Israel; for 1974-I these are now estimated at $.5 billion, annual rate, and considered as a sale, all from U.S. military stocks and thus reducing defense purchases by that amount.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1973	1974 Proj.	1973 I	1973 II	1973 III	1973 IV	1974 Proj. I
	---Billions of Dollars---						
Gross National Product	133.9	106.6	43.3	29.5	32.5	33.0	15.5
Inventory change	2.0	1.1	-3.6	- .1	.2	13.3	-8.0
Final purchases	132.0	105.5	46.8	29.7	32.3	19.6	23.6
Private	121.9	73.8	38.9	23.0	28.6	13.0	13.4
Net exports	28.5	-4.2	3.5	2.8	4.8	5.2	-4.7
Excluding net exports	105.4	78.0	35.4	20.2	23.8	7.8	18.1
Personal consumption expenditures	77.5	70.5	26.8	16.2	20.4	9.2	18.4
Durable goods	13.4	-2.1	9.3	.6	.0	-7.2	- .1
Nondurable goods	36.0	40.6	11.5	8.1	11.3	8.0	11.4
Services	28.1	32.1	6.0	7.6	9.0	8.4	7.1
Residential fixed investment	4.0	-7.7	2.1	.6	- .4	-5.2	-4.5
Business fixed investment	18.0	15.2	6.6	3.2	3.9	3.8	4.2
Government	22.1	31.7	7.9	6.7	3.7	6.6	10.2
Federal	2.2	8.8	2.8	1.8	- .5	.0	4.2
State and local	20.0	22.9	5.0	5.0	4.2	6.6	6.0
GNP in constant (1958) dollars	46.7	2.5	17.0	5.0	7.0	3.3	-9.0
Final purchases	45.7	2.3	20.0	5.0	7.3	-6.2	-3.2
Private	44.0	-5.6	19.1	4.2	7.5	-5.3	-5.4
	---Per Cent Per Year 1/---						
Gross National Product	11.6	8.3	15.2	9.9	10.6	10.5	4.7
Final purchases	11.5	8.2	16.7	9.9	10.6	6.2	7.3
Private	12.0	7.4	17.8	9.8	12.0	5.2	5.3
Personal consumption expenditures	10.7	8.8	15.0	8.6	10.7	4.6	9.2
Durable goods	11.4	-1.6	33.9	1.8	.0	-20.0	- .3
Nondurable goods	12.0	12.1	15.6	10.4	14.4	9.7	13.7
Services	9.1	9.5	7.7	9.7	11.3	10.2	8.4
Gross private domestic investment	13.3	4.3	11.2	7.8	7.9	25.7	-14.8
Residential structures	7.4	-13.3	15.6	4.1	-2.7	-30.8	-29.4
Business fixed investment	15.2	11.2	23.0	10.1	12.2	11.5	12.4
Gov't. purchases of goods & services	8.7	11.4	12.7	10.4	5.5	9.8	15.1
Federal	2.1	8.3	11.4	7.0	-1.9	.0	16.7
Defense	- .7	5.4	10.9	- .5	.0	-6.3	11.4
Other	8.6	14.7	12.4	26.7	-4.7	14.1	28.7
State and local	13.3	13.4	13.3	12.8	10.4	16.2	14.1
GNP in constant (1958) dollars	5.9	.3	8.7	2.4	3.4	1.6	-4.2
Final purchases	5.8	.3	10.3	2.4	3.6	-2.9	-1.5
Private	6.8	-.8	12.0	2.5	4.4	3.0	-3.1
GNP implicit deflator	5.4	7.9	6.1	7.3	7.0	8.8 2/	9.3 2/
Private GNP fixed weighted index 3/	6.1	8.4	7.0	7.9	7.6	8.6	10.8
Personal income	10.2	9.6	8.7	9.3	11.5	12.7	5.8
Wage and salary disbursements	10.1	8.3	11.6	9.9	10.2	10.6	5.3
Disposable income	10.7	9.6	11.5	8.8	10.2	12.5	5.9
Corporate profits before tax	29.0	4.0	61.5	34.9	.3	-2.8	4.4
Federal government receipts and expenditures (N.I.A. basis)							
Receipts	15.9	9.2	31.3	14.6	11.3	7.8	14.1
Expenditures	7.9	13.4	-2.6	6.0	5.0	6.2	20.6
Nonfarm payroll employment	3.9	1.6	4.5	3.7	2.2	4.4	.3
Manufacturing	4.7	- .1	5.4	4.7	1.2	4.5	-3.9
Industrial production	9.0	- .2	10.0	5.6	6.2	1.0	-7.4
Housing starts, private	-13.4	-18.7	1.0	-27.0	-32.0	-61.3	1.5
Sales new autos	4.6	-14.2	4.6	-15.4	.2	-45.5	-21.3
Domestic models	3.7	-17.0	16.0	-14.9	10.1	-51.5	-26.2
Foreign models	9.8	.5	42.3	-18.1	-41.7	5.8	7.7

1/ Percentage rates are annual rates compounded quarterly.
2/ Excluding Federal pay increases rates of change are: 1973-IV, 8.2 per cent and 1974-I, 9.2 per cent.
3/ Using expenditures in 1967 as weights.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1974 Proj.	1974 Projection I	1974 Projection II	1974 Projection III	1974 Projection IV	1975 Projection I	1975 Projection II
	Billions of Dollars						
Gross National Product	106.6	15.5	24.5	31.0	35.5	28.0	26.5
Inventory change	1.1	-8.0	.0	-1.5	- .5	.0	.0
Final purchases	105.5	23.6	24.5	32.5	36.0	28.0	26.5
Private	73.8	13.4	15.2	25.3	26.2	20.2	18.9
Net exports	-4.2	-4.7	-5.4	-3.8	-2.1	-3.6	-2.5
Excluding net exports	78.0	18.1	20.6	29.1	28.3	24.8	21.4
Personal consumption expenditures	70.5	18.4	19.2	22.4	21.3	20.0	20.1
Durable goods	-2.1	- .1	.8	3.2	3.8	2.7	2.0
Nondurable goods	40.6	11.4	10.5	10.7	9.0	8.8	9.6
Services	32.1	7.1	7.9	8.5	8.5	8.5	8.5
Residential fixed investment	-7.7	-4.5	-1.6	2.7	2.5	- .2	-2.7
Business fixed investment	15.2	4.2	3.0	4.0	4.5	4.0	4.0
Government	31.7	10.2	9.3	7.2	9.8	7.8	7.6
Federal	8.8	4.2	3.1	1.9	4.5	2.6	2.4
State and local	22.9	6.0	6.2	5.3	5.3	5.2	5.2
GNP in constant (1958) dollars	2.5	-9.0	- .7	6.1	7.2	4.8	4.8
Final purchases	2.3	-3.2	.5	5.9	7.4	4.5	4.6
Private	-5.6	-5.4	- .5	6.1	7.2	4.4	4.2
	Per Cent Per Year 1/						
Gross National Product	8.3	4.7	7.4	9.3	10.5	8.0	7.4
Final purchases	8.2	7.3	7.5	9.9	10.7	8.0	7.4
Private	7.4	5.3	5.9	9.9	10.0	7.5	6.8
Personal consumption expenditures	8.8	9.2	9.4	10.8	10.0	9.1	9.0
Durable goods	-1.6	- .3	2.6	10.5	12.3	8.4	6.0
Nondurable goods	12.1	13.7	12.2	12.0	9.8	9.3	10.0
Services	9.5	8.4	9.1	9.6	9.4	9.2	9.0
Gross private domestic investment	4.3	-14.8	2.8	10.4	12.8	7.1	2.4
Residential structures	-13.3	-29.4	-12.3	24.5	21.3	-1.5	-18.9
Business fixed investment	11.2	12.4	8.5	11.2	12.3	10.6	10.3
Gov't. purchases of goods & services	11.4	15.1	13.2	9.8	13.2	10.0	9.5
Federal	8.3	16.7	11.6	6.8	16.4	8.9	8.0
Defense	5.4	11.4	11.7	4.8	19.2	9.7	7.4
Other	14.7	28.7	11.6	11.3	10.9	7.4	9.4
State and local	13.4	14.1	14.1	11.6	11.2	10.7	10.4
GNP in constant (1958) dollars	.3	-4.2	- .3	2.9	3.5	2.3	2.3
Final purchases	.3	-1.5	.3	2.9	3.6	2.1	2.2
Private	- .8	-3.1	- .3	3.6	4.2	2.6	2.4
GNP implicit deflator	7.9	9.3 2/	7.8	6.2	6.7 2/	5.6 2/	5.0
Private GNP fixed weighted index 3/	8.4	10.8	7.8	6.4	6.2	5.5	5.0
Personal income	9.6	5.8	10.4	10.4	8.0	8.4	7.8
Wage and salary disbursements	8.3	5.3	7.4	10.0	8.7	8.3	7.9
Disposable income	9.6	5.9	10.4	11.9	8.4	6.6	7.4
Corporate profits before tax	4.0	7.7	-6.0	13.0	6.2	3.0	.0
Federal government receipts and expenditures (N.I.A. basis)							
Receipts	9.2	14.1	4.4	4.2	5.8	15.1	8.1
Expenditures	13.4	20.6	18.9	15.9	9.9	8.7	8.0
Nonfarm payroll employment	1.6	.3	.3	.8	.8	.5	.5
Manufacturing	- .1	-3.9	-2.0	-1.0	-1.0	.0	.0
Industrial production	- .2	-7.4	- .9	3.8	4.3	3.1	3.3
Housing starts, private	-18.7	1.5	5.1	39.6	-10.9	-30.9	-27.6
Sales new autos	-14.2	-21.3	.0	10.9	34.5	-9.2	.0
Domestic models	-17.0	-26.1	-3.5	8.0	43.7	-6.8	.0
Foreign models	.5	7.7	17.7	24.9	.0	-19.9	.0

1/ Percentage rates are annual rates compounded quarterly.
2/ Excluding Federal pay increases rates of change are: 1974-I, 9.2 per cent; 1974-IV, 6.2 per cent; 1975-I, 5.5 per cent.
3/ Using expenditures in 1967 as weights.

Industrial production. The Board's production index has not yet been calculated. But tentative indications suggest that the index dropped a little further in March with cutbacks in output of consumer durable goods, industrial materials for further processing, and construction products. Output of business equipment appears to be about unchanged.

In March, manhours in manufacturing were down 1 per cent further. Output of raw steel was also off. Auto assemblies were at a 6.6 million unit rate, the same as February but output in the auto supplying industries apparently continued to decline in March.

The index is expected to be calculated in time for inclusion in the Greenbook Supplement, April 12.

Auto sales. Sales of new domestic-type autos in March were at a 7.4 million unit rate, the same as a month earlier, but 30 per cent below March 1973. In the first quarter of 1974, sales were at a 7.5 million unit rate, down 27 per cent from a year earlier.

Sales of large cars picked up in March, apparently in response to a strong sales incentive program, but sales of both small models and foreign car sales declined. Sales of imported cars were down 27 per cent from a year earlier and accounted for 16.1 per cent of total U.S. auto sales compared with 15.6 per cent a year earlier.

Retail sales. Strong weekly sales in March and a large upward revision in February sales, on the basis of the more complete sample count, suggest that sales in the first quarter may be about 1-1/2 per cent above the fourth quarter average. Excluding autos and non-consumer items, first quarter sales might be up about 3.5 per cent, a larger increase than forecast earlier.

According to present data, sales in February increased 0.2 per cent from January--instead of declining 0.7--with autos, furniture and appliances, and sales of gasoline stations revised upward. Sales of general merchandise were weaker than originally reported. The level of sales in January was unchanged, according to the final sample count, with offsetting changes primarily among the food, general merchandise and gasoline station groupings.

Consumer surveys. The most dramatic deterioration in consumer attitudes in the more than 20 year history of the Michigan surveys occurred over the last 15 months. In February, the index of consumer sentiment--a composite of five questions about personal financial situations, business conditions, and whether it is a good time to buy household durables--was about 15 points lower than it was at its previous cyclical low in the second quarter of 1970. Concern about fuel shortages contributed to the decline, but increased worry about inflation and unemployment were also factors. Moreover, 76 per cent of the respondents said that the government would probably be unsuccessful in reducing inflation during the next year or so.

In a similar vein, the Conference Board survey taken in late January and early February found substantially more pessimistic evaluations of business and employment conditions. Income expectations were also unchanged at a low level. There was some slight improvement from the historic lows of the previous November-December survey in expectations for business and employment conditions in the next six months. The Conference Board also reported that buying plans for new autos were off sharply from the previous survey and from a year earlier, and home purchase plans continued relatively unfavorable.

It seems unlikely, however, that spending will be curtailed to the extent implied by these surveys. Because inflation is expected to continue as bad as (or worse than) now, twice as many people in the SRC survey say that now is a good time to buy large household goods than say it is a bad time. In recent months, responses to this question have deteriorated much less than the other four questions in the SRC index of sentiment. The Conference Board also reported relatively good purchase plans for major appliances.

Construction and real estate. The seasonally adjusted value of new construction put in place was essentially unchanged in March. Private residential outlays are estimated to be up 1 per cent, but were still 18 per cent below the February 1973 peak.[1/] Private nonresidential expenditures, although up less than 1 per cent, reached a new high in March. Public construction outlays were down 1 per cent. In constant dollars, total value of new construction put in place rose somewhat, but remained 12 per cent below the January 1973 peak.

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

	1973		1974		Per cent change in March from	
	QI	QIV(r)	QI(p)	Mar.1/	Feb.1974	Mar.1973
Total - current dollars	136.5	134.7	133.2	133.6	--	- 3
Private	103.3	101.3	99.2	99.9	+1	- 4
Residential	60.5	54.6	50.3	50.6	+1	-17
Nonresidential	42.8	46.7	48.9	49.4	--	+15
Public	33.2	33.4	34.0	33.6	-1	--
State and local	28.0	28.6	29.0	28.8	--	+ 3
Federal	5.2	4.8	5.0	4.8	-6	-13
Total - 1967 dollars	93.9	85.8	83.2	83.1	--	-11

1/ Data for March 1974 are confidential Census Bureau extrapolations. In no case should public reference be made to them.

Reflecting a particularly sharp further upthrust in February, private housing starts in the first two months of 1974 averaged 1.64 million units (seasonally adjusted annual rate)--3 per cent above the rate in the fourth quarter of last year. But new residential building permits have remained stable at a reduced annual rate of 1.3 million units and starts in March may have declined somewhat following their unusually large rise in February. Completions have continued near a 2 million unit annual rate through early 1974, and with the backlog of units still under construction down only 2 per cent from a year earlier,

1/ The March increase in residential outlays may be over-estimated since it was due mainly to the Census Bureau's extrapolation of private housing starts at February's high seasonally adjusted annual rate of 1.8 million units.

completions should continue relatively strong for some time. Mobile home shipments in February declined 4 per cent to a 449,000 annual rate and were 30 per cent below their very high rates a year earlier.

NEW HOUSING UNITS
(Seasonally adjusted annual rates, in millions of units)

	1973		1974		Per cent change in February from:	
	QIII	QIV	Jan. (r)	Feb. (p)	Month ago	Year ago
Permits	1.71	1.29	1.30	1.30	--	- 41
Starts	2.01	1.58	1.47	1.80	+ 22	- 26
1-family	1.11	.89	.79	1.04	+ 31	- 24
2- or more-family	.90	.70	.68	.77	+ 12	- 28
Under construction 1/	1.72	1.65	1.61	n.a.	- 2 2/	- 2 2/
Completions	1.90	1.93	1.90	n.a.	- 2 2/	- 11 2/
MEMO:						
Mobile home shipments	.53	.48	.47	.45	- 4	- 30

1/ Seasonally adjusted, end of period.
2/ Per cent changes based on January.

Anticipated plant and equipment spending. The Commerce Department reports that energy shortages had little net effect on aggregate plant and equipment expenditures planned for 1974, with largely offsetting increases and decreases among industries. This information was obtained from a special supplement to the regular quarterly survey of business intentions and was taken in late January and early February. Manufacturers on average stepped up planned outlays by $360 million, with the petroleum industry reporting the largest energy-related increases. This offset most of an anticipated decline of $420 million outside of manufacturing, with fuel shortages causing cutbacks in the plans of air transportation, electric utilities, and the commercial and other sector.

EFFECTS OF THE ENERGY SITUATION ON 1974
PLANT AND EQUIPMENT SPENDING PLANS

	Planned outlays after energy related changes ($ Billions)	Energy-related changes in plans ($ Billions)	Energy-related changes in plans (Per cent of outlays)
All industries	112.72	-.06	- .1
Manufacturing	45.37	.36	.8
Durables	22.64	-.16	- .7
Nondurables	22.72	.52	2.3
Nonmanufacturing 1/	67.36	-.42	- .6
Mining	3.20	.06	1.9
Railroads	2.38	.05	2.0
Air transportation	2.11	-.06	-3.0
Electric utilities	18.62	-.17	- .9
Gas utilities	3.58	.11	3.0
Communications	14.15	-.03	- .2
Commercial and other	21.71	-.36	-1.7

1/ Includes industries not shown separately.

<u>Manufacturers' orders and shipments</u>. New orders for durable goods rose 2.3 per cent in February (p), following a comparable rise the previous month. The increase in nondefense capital goods orders in February was particularly strong. Despite two months of over 2 per cent growth, the February level of durable goods orders was only 0.3 per cent above the fourth quarter average. But when motor vehicles and parts and primary metals are excluded, orders in February were up 5 per cent from the fourth quarter average.

In real terms, durable goods orders in February were almost 3 per cent below the average level in the fourth quarter; however, orders for nondefense capital goods continued to improve strongly from their third quarter low point.

Shipments of durable goods increased 0.6 per cent in February following a 1.5 per cent gain in January. Unfilled orders rose 2.1 per cent in February to a level 35 per cent above a year earlier.

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

	1973			1974
	QIII from QII 1/	QIV from QIII 1/	Feb. 1974 from QIV 1973 2/	Feb. from Jan. (p)
Durable goods, total	.7	1.8	.3	2.3
Excluding defense	1.8	1.2	- .5	3.1
Excluding primary metals and motor vehicles and parts	.1	4.2	5.1	2.7
Primary metals	-2.8	.3	-2.3	10.4
Motor vehicles and parts	6.7	-7.2	-19.7	-8.9
Household durables	.5	4.2	-2.9	-2.0
Nondefense capital goods	2.3	4.2	6.4	6.1
Defense capital goods	-22.7	16.7	17.0	-11.6
Construction and other durables	1.7	2.8	4.2	3.4
In 1967 $				
Durable goods, total	-1.2	.6	-2.7	1.4
Nondefense capital goods	1.0	2.7	4.8	5.6

1/ Changes between quarters are based on quarterly average levels.
2/ Change between February and the average level for QIV.

Inventories. Book value of manufacturing and wholesale trade inventories rose at a $35 billion annual rate in February (p), up from the sharply upward-revised $31 billion January rate. The average increase for January and February combined was $33 billion--up from the $25.6 billion rate in the fourth quarter. However, the more rapid price increases in the first quarter than in the fourth will presumably result in a larger inventory valuation adjustment, and thus, a smaller inventory increase on a GNP basis.

With the sharp upward revision in January, the two month average rate of book value increase in manufacturing was almost $24 billion as compared to $19 billion in the fourth quarter. The more rapid pace appears to be in nondurables--particularly chemicals and petroleum, where price increases have been sizable. By stage of processing, book values of both materials and supplies and of finished goods stocks were growing more rapidly than in the fourth quarter. Wholesale trade inventories rose less rapidly in February than in January with much of the slowing occurring in furniture, hardware and farm products.

BUSINESS INVENTORIES
(Change at annual rates in seasonally adjusted book values, $ billions)

	1973		1974	
	QIII	QIV	Jan.	Feb. (p)
Manufacturing and trade	21.1	36.5	32.9	n.a.
Manufacturing, total	12.4	19.0	20.4	27.2
Durable	9.8	12.8	13.2	15.2
Nondurable	2.6	6.3	7.2	12.0
Trade, total	8.7	17.5	12.5	n.a.
Wholesale	4.5	6.6	10.8	7.8
Retail	4.2	10.9	1.7	n.a.
Auto	1.2	4.4	.4	n.a.

The manufacturing inventory-shipments ratio edged up to 1.60 in February from 1.59 in January. The wholesale trade inventory-sales ratio declined to 1.06 from the already very low 1.08 in January. The ratio of inventories to unfilled orders at durable goods producers declined to .711 from .715 in January.

INVENTORY RATIOS

	1973		1974	
	Jan.	Feb.	Jan.	Feb. (p)
Inventories to sales:				
Manufacturing and trade	1.45	1.44	1.45	n.a.
Manufacturing, total	1.58	1.58	1.59	1.60
Durable	1.87	1.87	1.97	1.99
Nondurable	1.23	1.22	1.15	1.17
Trade, total	1.31	1.30	n.a.	n.a.
Wholesale	1.17	1.16	1.08	1.06
Retail	1.41	1.40	1.48	n.a.
Inventories to unfilled orders:				
Durable manufacturing	.846	.836	.715	.711

Cyclical indicators. The Census composite index of leading indicators rose 1.8 per cent in February (p), following a downward-revised 1.2 per cent gain in January. The Census leading index, prior to trend adjustment, was up 1.4 per cent in February and the Boston FRB deflated index (also with no trend adjustment) was up 1.3 per cent. The deflated coincident and lagging indexes both declined.

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

	1973				1974	
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.(p)
12 Leading, trend adjusted	-1.3	.9	1.4	-2.1	1.2	1.8
5 Coincident	.7	1.6	1.1	- .2	- .2	.4
5 Coincident, deflated	.9	1.1	.5	-1.1	-1.1	- .3
6 Lagging	2.6	.8	1.0	2.1	1.4	- .4
	--Leading indexes prior to trend adjustment--					
Census undeflated	-1.7	.5	1.0	-2.4	.9	1.4
Boston FRB deflated	- .8	.5	.4	-4.2	- .3	1.3

Leading indicators now available for March are the average workweek in manufacturing which declined and common stock prices which rose.

Labor market. The unemployment rate edged down in March to 5.1 per cent--about the same rate as in the preceding two months--but payroll employment and the workweek declined and the State insured unemployment rate continued to rise. Both total employment (household survey) and the civilian labor force remained about unchanged in March for the second month in a row; there were employment and labor force advances among adult women but these were offset by job losses and reduced labor force participation among adult males. In fact, total employment has remained relatively stable since late fall following over two years of rapid growth, though there have been job losses among adult men--mainly in the industrial sector--offset by employment gains for adult women.

SELECTED UNEMPLOYMENT RATES
(Per cent, seasonally adjusted)

	1973		1974		
	Mar.	Oct.	Jan.	Feb.	Mar.
Total	5.0	4.6	5.2	5.2	5.1
Males 20 years and over	3.4	3.0	3.4	3.5	3.4
Males 25-54 years	2.8	2.2	2.7	2.7	2.7
Females 20 years and over	4.9	4.4	5.2	5.1	5.0
Teenagers	14.2	14.0	15.6	15.3	15.0
White	4.4	4.1	4.7	4.7	4.6
Negro and other races	9.0	8.4	9.4	9.2	9.4
Household heads	3.0	2.7	3.0	3.0	3.0
State insured	2.8	2.7	3.0	3.2	3.3

The payroll data for recent months show continued weakness in demand for industrial labor. Total nonfarm payroll employment fell by 125,000 in March, following an increase (upward revised) of 240,000 in February. Nearly all of the March loss occurred in manufacturing. Total nonfarm employment in March was little changed from November, although the number of manufacturing jobs was down 315,000. The heaviest job losses have been in transportation equipment, due in large part to reduced consumer demand for autos stemming partly from uncertainties over gasoline supplies. Some employment reductions have also occurred in primary and fabricated metals industries, nonelectrical machinery, and textiles and apparel.

The manufacturing workweek continued to ease, falling .2 hour in March with declines widespread. At 40.3 hours, the factory workweek was the same as in January and half an hour below the high reached in 1973.

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

	Dec. 1971- Dec. 1972	Dec. 1972- Nov. 1973	Nov. 1973- Mar. 1974	Feb. 1974 Mar. 1974
	--------------Average Monthly Change------------			
Total nonfarm	228	243	- 8	-125
Private	189	213	-53	-151
Manufacturing	75	63	-79	-112
Transportation equipment	9	4	-50	- 53
Durable goods exc. trans.	51	50	-20	- 43
Trade	51	52	-13	11
Services	42	53	27	10
Government	39	31	45	26
Federal	- 1	- 1	8	0
State and local	41	32	37	26

Earnings. The average hourly earnings index for private nonfarm production workers rose quite moderately in the first quarter following a rapid increase in the last half of 1973; the recent slowing was probably due in part to irregularities in the timing of wage adjustments. Over the year, the earnings index was up by 6-3/4 per cent, about the same as the average annual rate of increase from 1968 to 1973. Over-the-year increases in manufacturing earnings were slightly larger than the longer run average, but the rise in construction was considerably smaller than the average increase for the 1968 to 1971 period of extremely rapid construction wage increases.

HOURLY EARNINGS INDEX*
(Seasonally adjusted; per cent change at annual rates)

	1970 QIV-1971 QIV	1971 QIV-1972 QIV	1972 QIV-1973 QIV	1973 QIV-1974 QI	Mar. 1973-Mar. 1974
Total private nonfarm	6.6	6.5	6.7	5.4	6.8
Manufacturing	6.2	6.4	6.5	6.0	6.9
Construction	8.0	6.2	6.7	4.3	6.8
Transportation and p.u.	9.8	11.2	7.4	3.6	6.6
Trade	5.7	5.5	6.8	6.6	7.3
Services	6.1	5.7	6.2	7.2	6.6

*Excludes effects of fluctuations in overtime premiums in manufacturing and shifts of workers between industries.

Minimum wage. The President recently signed amendments to the Fair Labor Standards Act (FLSA) which ultimately will raise minimum wages to $2.30 an hour for all covered workers from the present $1.60 an hour ($1.30 for farm workers) and which will extend coverage to an additional seven million workers, (an increase in coverage of 14 per cent), primarily State and local government workers, household domestics, farm workers, and small business employees. The new law is estimated to raise the annual wage bill by $1.9 billion or 0.5 per cent beginning in May 1974 and another $0.8 billion in the first quarter of 1975. In addition, overtime compensation would be guaranteed for the first time to more than 8-1/2 million workers primarily employed in agricultural processing, retail trade, government, hotels, motels, and restaurants.

About 7-1/2 million workers in small service and retail trade establishments and employees of small farms (less than 500 man days of work) will remain outside the new minimum wage provisions. In addition, full time students may be employed on farms and in service, retail, and educational establishments at 85 per cent of the statutory minimum so long as it is certified that other employees will not be displaced and they total no more than a limited proportion of the work force.

MINIMUM WAGE BILL PASSED BY CONGRESS

Effective Date	Pre-1966 Coverage	Post-1966 Coverage	Farm	Cost Billions $	Per cent of Total Wage Bill
May 1, 1974	$2.00	$1.90	$1.60	$1.9	.5
January 1, 1975	2.10	2.00	1.80	.8	.2
January 1, 1976	2.30	2.20	2.00	1.8	.4
January 1, 1977	--	2.30	2.20	.7	.1
January 1, 1978	--	--	2.30	.03	--

Wholesale prices. Wholesale prices rose 1.3 per cent seasonally adjusted (not at an annual rate), from February to March. Sharp and widespread increases for industrial commodities were only partly offset by sizable decreases for prices of farm products and foods, especially for farm products.

WHOLESALE PRICES
(Per cent changes at seasonally adjusted compound annual rate)[1/]

	March 1973 to March 1974	Dec. 1972 to June 1973 (6 mo.)	1973[2/] Freeze June to July (1 mo.)	Freeze July to Aug. (1 mo.)	Phase IV Aug. '73 to Mar. '74 (7 mo.)	Phase IV Feb. '74 to Mar. '74 (1 mo.)
All commodities	19.1	22.3	-16.7	74.6	13.9	15.2
Farm products	18.3	47.5	-54.8	232.1	-8.6	-24.8
Industrial commodities	19.5	12.5	.7	4.7	26.8	34.9
Crude materials	48.9	23.3	14.1	14.7	66.5	54.8
Intermediate materials	18.0	13.3	- .9	8.4	24.1	41.4
Finished goods	15.8	10.0	- 1.0	3.6	25.6	19.6
Producer	7.6	5.7	1.0	6.8	8.8	15.8
Consumer nonfoods	23.6	12.2	- 2.0	2.0	34.2	21.2
Nondurable	34.7	17.0	- 2.9	1.0	52.1	27.0
Durable	5.6	5.0	2.1	5.2	5.8	11.0
Consumer finished foods	17.4	28.3	-10.0	130.0	5.8	-17.3

Note: Farm products include farm products and processed foods and feeds.

1/ Not compounded for one-month changes.
2/ 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, and stage B of food regulations took effect. Phase IV began on August 13. The WPI pricing date for August was the 14th.

Average prices of industrial commodities increased 2.9 per cent, seasonally adjusted, in March. Higher prices for metals and metal products, fuels and power, chemicals, and machinery and equipment accounted for about three-fourths of the increase. Cost of Living Council actions since the end of the year allowing large price increases for steel and decontrol of other products in major industries such as chemicals, paper and paper products, rubber and plastics were associated with the large March rise.

Although the rate of increase in prices of industrial commodities in the first quarter was not very different from the fourth, the fuels and power group accounted for about 60 per cent of the increase during the fourth quarter of 1973 and for about one-third of the rise from December 1973 to March 1974, with the rise in prices in this group dropping from an annual rate of more than 150 per cent to about 60 per cent. Owing in part to an accelerated program of decontrol, however, prices in most other important groups rose faster in the first quarter, as shown in the following table.

The index of prices of farm products and foods declined 2.1 per cent, seasonally adjusted, from February to March, owing mainly to lower prices for farm products such as livestock, grains, cotton, and wool. Prices of meat and manufactured animal feeds also declined.

INDUSTRIAL WHOLESALE PRICES
(Per cent changes at seasonally adjusted annual rates)[1/]

Commodity groups	Sept. 1973 to Dec. 1973	Dec. 1973 to Mar. 1974
Industrial commodities	28.2	26.4
Fuels and related products and power	157.0	61.3
Other industrial commodities		
Textile products and apparel	16.1	14.0
Hides, skins, leather, and related products	-3.6	2.2
Chemicals and allied products	16.5	37.6
Rubber and plastic products	13.1	26.5
Lumber and wood products	19.4	-1.9
Pulp and paper products	15.1	23.5
Metals and metal products	25.0	32.8
Machinery and equipment	5.9	13.2
Furniture and household durables	5.2	11.9
Nonmetallic mineral products	9.5	31.5
Transportation equipment	9.8	6.1
Miscellaneous products	4.3	12.5

1/ Not compounded.

Consumer prices. The consumer price rise accelerated in February to a 15 per cent annual rate--and the index reached a level 10 per cent above February 1973--as food prices surged and energy prices continued to climb. With food and energy excluded, the February rise was at nearly a 9 per cent annual rate and the increase from 12 months earlier was 5.4 per cent.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)1/

	Relative importance Dec. 1973	June 1973 to Sept. 1973	Sept. 1973 to Dec. 1973	Dec. 1973 to Jan. 1974	January to February 1974
All items	100.0	10.3	9.0	12.6	15.4
Food	24.8	28.8	9.2	19.0	30.4
Commodities less food	38.6	2.6	7.9	15.2	12.2
Services 2/	36.5	7.4	9.4	8.3	8.3
Addendum:					
All items less food and energy components 3/ 4/	68.8	5.6	5.5	5.4	8.9
Services less home finance 2/ 3/ 5/	29.9	4.8	7.2	8.6	8.6
Commodities less food, used cars, home purchase 3/	30.9	2.3	10.5	18.1	16.9

1/ Not compounded for one-month changes.
2/ Not seasonally adjusted.
3/ Confidential--not for publication.
4/ Excludes food, gasoline and motor oil, fuel oil and coal, and gas and electricity.
5/ 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.

Beef prices in February climbed 7.5 per cent (not annual rate) and most food groups posted very large increases, in particular fresh vegetables, processed fruits and vegetables, eggs and dairy products, cereal and bakery products. However, retail prices of meat have declined since February, as have wholesale prices of meat and other farm products, notably poultry, eggs and fresh vegetables.

The index for nonfood commodities was boosted by a further climb in gasoline prices to an average of about 49 cents for regular and 53 cents for premium, about one-third higher than in February 1973. Moreover, retail apparel prices, which had appeared to be lagging prices at wholesale, rose more than one per cent (not annual rate), and large advances were reported for household durables and a wide range of other products. Used car prices, however, declined further.

ENERGY PRICES AND THE CPI, 1/ 1973
(Percentage changes, seasonally adjusted annual rates) 2/

	Relative importance Dec. 1973	Dec. 1972 to Dec. 1973	Sep. 1973 to Dec. 1973	Dec. 1973 to Jan. 1974	January to Feb. 1974
Gasoline and motor oil, fuel oil and coal	4.0	23.4	75.0	88.2	66.9
Gas and electricity	2.4	6.9	11.8	30.3	26.0
All items less energy components	93.6	8.3	6.9	9.5	11.2

1/ Confidential--not for publication.

2/ Not compounded for one-month changes.

In recent months, wholesale prices of several categories of consumer finished goods have risen very sharply, notably textile housefurnishings, appliances and tires. Most of these increases have not yet been reflected at retail.

In February, service costs rose at over an 8 per cent annual rate, as in January, with gas and electricity rates climbing more than 2 per cent (not annual rate), following an even larger increase in January. The cost of medical care and some other services rose more rapidly than in other recent months.

Agriculture. Record cattle slaughter in March contributed to an overall increase in total meat production of about 8 per cent, seasonally adjusted. These increased marketings helped reduce prices of farm products, which were down 4 per cent in mid-March from the near record high of February. Grains also showed major decreases in March and dropped further by early April.

The price of wheat declined a third from February 15 through April 5, while corn was down a fifth. March 1 surveys confirmed farmers' intentions to plant larger crops in 1974 which was a factor in the declines. Foodgrain acreage (including winter wheat which is nearing harvest in some areas) may be up 19 per cent and feedgrain plantings are expected to increase 4 per cent. Also a factor in the recent weakening of feedgrain prices is a downward revision in expected usage, resulting from fewer cattle on feed.

Placements of cattle onto feedlots during February fell to the lowest level since the early stages of feedlot development, prior to 1969. On March 1, total cattle on feed were 5 per cent below a year earlier but many of these cattle were in the heavier weight groups.

Larger slaughter of nonfed cattle was also a factor in the expanded beef supply. Preliminary estimates of first quarter cow slaughter (i.e., slaughter of beef brood cows and milk cows) was sharply higher and marketings of grass fed steers and heifers appear to have quadrupled from the 1973 average. These are indications that livestock farmers see little improvement in their earnings outlook.

Pessimism apparently extends to the hog industry where there also has been a heavy slaughter of breeding stock during recent months. The December-February pig crop was down 3 per cent from last year, indicating a decline in pork supplies for the second half. March pork production advanced 4 per cent from February, seasonally adjusted, as slowed marketings during previous months had resulted in a large number of animals ready for slaughter.

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
					SAAR (per cent)	
Monetary and credit aggregates						
Total reserves		March	34.9	-5.5	1.6	6.5
Reserves available (RPD's)		March	33.1	12.3	6.3	8.9
Money supply						
M1		March	274.8	10.1	6.5	6.5
M2		March	584.1	8.3	9.4	9.3
M3		March	913.2	8.5	9.0	8.5
Time and savings deposits (Less CDs)		March	309.3	6.6	12.0	11.8
CDs (dollar change in billions)		March	67.7	1.1	4.9	13.1
Savings flows (S&Ls + MSBs)		March	329.1	8.8	8.2	7.2
Bank credit (end of month)		March	655.2	17.1	16.2	11.7
Market yields and stock prices				Percentage or index points		
Federal funds	wk. endg.	4/3/74	9.93	.95	.06	2.75
Treasury bill (90 day)	"	4/3/74	8.41	.81	.93	1.97
Commercial paper (90-119 day)	"	4/3/74	9.45	1.30	.29	2.37
New utility issue Aaa	"	4/5/74	8.78	.73	.51	1.27
Municipal bonds (Bond Buyer)	1 day	4/4/74	5.73	.46	-.55	.51
FNMA auction yield (FHA/VA)	wk. endg.	3/25/74	8.62	.19	-.16	.81
Dividends/price ratio (Common stocks)	wk. endg.	3/27/74	3.71	.01	.11	.84
NYSE index (12/31/65=50)	end of day	4/8/74	49.03	-3.30	-.97	-9.94

Credit demands

		Net change or gross offerings: Current month		Year to date	
		1973	1972	1973	1972
Mortgage debt outs. (major holders)	December	3.7	5.8	57.9	56.7
		1974	1973	1974	1973
Business loans at commercial banks	March	5.7	3.6	9.2	12.4
Consumer instalment credit outstanding	February	.7	2.0	1.6	3.9
Corporate bonds (public offerings)	January	2.2	1.0	2.2	1.0
Municipal long-term bonds (gross offerings)	January	2.1	2.0	2.1	2.0
Federally sponsored Agcy. (net borrowing)	April	.7	2.3	.7	4.3
U.S. Treasury (net cash borrowing)	March	-2.9e	-2.2	.3e	6.2
Total of above credits		12.2	14.5	74.0	86.5

e - Estimated

DOMESTIC FINANCIAL SITUATION

Interest rates have risen considerably further in recent weeks in adjustment to unusually large business credit demands, a tightening, of money market conditions, and indications that the economy is stronger than many market participants had expected. Since the last Committee meeting, short-term rates have risen from one-half to 1 percentage point and long-term rates by about one-half to three-fourths of a percentage point. At current levels, short-term market rates remain below their late summer highs, but many long-term rates are above them.

Total short-term business credit demands in March and early April continued to be very high. Businesses in a wide range of industries are still borrowing heavily apparently to finance inventory accumulation in a period of reduced cash flows. While no firm indications are available, the pace of inventory accumulation appears to reflect not only unintended inventory build-ups, but also desired stockpiling in anticipation of further price increases and to obtain scarce raw materials. Higher prices are also increasing financing needs. In March and early April, banks provided an exceptionally large volume of short-term credit, as credit demands shifted from the commercial paper market to banks with the prime rate low relative to market rates. The prime has risen one percentage point to a prevailing 9-3/4 per cent since the last meeting (with a few banks at 10 per cent).

Banks in March also extended over $1 billion of credit to foreign commercial banks. This increase reflected not only the low U.S. loan rate relative to the Euro-loan rate, but also Japanese bank borrowing to channel dollars to the Bank of Japan.

U.S. banks, in order to finance loan expansion, borrowed heavily in CD and Euro-dollar markets. CD sales were particularly sharp after mid-March, but some of these sales may have reflected positioning for expected April CD maturities to finance income tax payments and petroleum outlays to the mid-East. Large Euro-dollar borrowing since early March, on the other hand, is associated with relatively low rates on very short-term Euro-dollar deposits which are reported to be under downward pressure from large Arab deposits in the Euro-dollar call market.

With long-term rates rising sharply, there have been some cancellations of scheduled bond issues and some slowing in the growth of the forward calendar of new issues. Underwriters are becoming much more cautious in their bidding as syndicate terminations have resulted in significant losses. The tax-exempt market has also, reportedly, had to absorb portfolio sales by banks late in March. On the other hand, U.S. Government security dealers by late March had succeeded in reducing their previous large positions in coupon issues. Even so, the 2-year note offered by the Treasury in late March was barely covered.

With market interest rates rising, individuals have recently become more active purchasers of Treasury bills and coupon issues as well as corporate and tax-exempt offerings. While no unusual outflows occurred at the thrift institutions in late March, New York City savings banks had large outflows in early April. Mortgage lenders are reported to be becoming more cautious in making new residential mortgage commitments. The average interest rate on S&L new commitments has edged higher since late March and in the secondary mortgage market yields rose almost 20 basis points toward the end of March as offerings to FNMA rose sharply to the highest level in nearly three years.

Outlook. Short-term rates are likely to show little further increase over the next few weeks, assuming no change in the Federal funds rate. Long-term rates could rise somewhat further, although further cancellations of prospective issues may well temper rate adjustments. The mortgage market appears to be positioned for a further rise in rates, in reflection of the increase that has already taken place in long- and short-term security market rates.

Over the longer run, staff GNP projections imply a further general increase in market interest rates. As a result--absent changes in interest rate ceilings--net inflows to thrift institutions would begin to moderate this quarter and be quite small by late summer. Under these circumstances, the mortgage market would tighten further. Thrift institutions are likely to be very cautious in extending further new mortgage commitments this quarter, and to borrow more heavily from the FHL Banks, who would in turn step up their own borrowing demands. Offerings to FNMA would also rise, requiring increased financing by that agency.

Corporate credit demands, already large, are expected to remain so as cash flows improve considerably less than financing requirements for fixed and working capital. Despite recent cancellations, the rising pace of capital outlays suggests that capital market borrowing will remain considerable. With such demands bringing upward pressures on bond yields, diversified lenders are likely to shift increasingly from mortgages to bonds.

Commercial banks can be expected to reduce their portfolio liquidity and to rely heavily on CD and Euro-dollar borrowing to finance credit demands on them in a period when growth in other time and savings deposits may be coming under more restraint. The distribution of bank borrowing between Euro-dollars and CD's will, of course, depend importantly on relative rates. If mid-East countries continue to invest in very short-term Euro-dollar deposits, U.S. banks may tend to finance a growing portion of their credit expansion from this source.

<u>Monetary aggregates.</u> M_1 grew at about a 10 per cent annual rate in March, only slightly below February's rapid pace. But because of the contraction of M_1 in January, growth for the quarter as a whole was at a 6.4 per cent annual rate--one percentage point below that in the fourth quarter. Both M_2 and M_3 grew less rapidly in March than M_1. The slower M_2 growth reflects a slackenening of flows into time and savings deposits other than large CD's; preliminary data suggest that the slowing was concentrated in non-CD accounts of $100,000 or more.

Banks relied heavily on both the CD and Eurodollar markets in March and early April. Funds were needed to meet unusually large credit demands, and banks were no doubt positioning themselves to take care of large CD maturities in April. As usual, corporations are relying on CD holdings to help finance corporate income tax payments in mid-April; in addition petroleum companies are expected to draw down CD's to make April payments to mideast oil countries. On a daily average basis, outstanding CD's rose $1.1 billion in March, but from the end of February to the end of March, net issuance of CD's was $2.6 billion, with another $2.7 billion occurring in early April.

In markets for non-deposit instruments, banks acquired $1.5 billion from the end of February to the end of March and $200 million in early April. About two-thirds of these inflows were Eurodollar takings from foreign branches. Relatively low short-term Eurodollar deposit rates--particularly in the call market--made such borrowing advantageous for U.S. banks. The lower short-term Eurodollar deposit rates are apparently associated with dollar deposits of oil-exporting countries.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1973		1974			
	QIII	QIV	QI	Jan.	Feb.	Mar.
			Per cent at annual rates			
M_1 (Currency plus private demand deposits)	-.2	7.5	6.5	- 3.6	12.9	10.1
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	5.2	10.1	9.4	6.3	13.4	8.3
M_3 (M_2 plus time and savings deposits at mutual savings banks and S&L's)	4.5	9.2	9.0	6.9	11.4	8.5
Adjusted bank credit proxy	10.5	3.3	8.6	12.5	1.3	11.9
Time and savings deposits at commercial banks						
a. Total	14.0	5.8	15.3	21.5	14.9	9.0
b. Other than large CD's	10.4	12.5	12.0	15.2	13.8	6.6
			Billions of dollars 1/			
Memoranda:						
a. U.S. Government demand deposits	-.1	--	- .4	1.3	- 3.2	.7
b. Negotiable CD's	1.6	- 1.3	1.6	2.7	1.1	1.1
c. Nondeposit sources of funds	.6	--	.4	.1	.2	1.0

1/ Change in average levels month-to-month or average monthly change for the quarter, measured from last month in quarter to last month in quarter, not annualized.

Bank credit. Business loans expanded sharply in March and accounted in large part for the continued strong growth of total loans and investments at all commercial banks (last-Wednesday-of-the-month series, seasonally adjusted). Analysis of loans by industry indicates that business borrowing in March was broadly based, with wholesale and retail traders, metals firms, and public utilities particularly heavy borrowers. Growth of real estate loans picked up again following a temporary moderation in February that was largely the result of loan sales. Consumer loans remained weak, however, and during February and March expanded at the slowest pace in more than three years.

With total loans growing rapidly, banks did not increase their holdings of Treasury securities or other securities in March on a seasonally adjusted basis. The heavy borrowing at banks in the first quarter has reduced bank liquidity, especially at large New York City banks whose liquidity ratio had fallen by March to the lowest level since the summer of 1971.

The acceleration of business loans at banks in March was encouraged partly by the more favorable rates on bank loans as compared to commercial paper. With commercial paper rates increasing sharply, this advantage persisted until early April when the prime rate was raised for the fourth time since mid-March to 9.75 per cent. (Some banks raised it a fifth time to 10 per cent.) Total commercial paper outstanding fell in March, as dealer-placed paper contracted. Nonbank financial institutions borrowed relatively little in the commercial paper market, keeping most of their new borrowing at banks. However, outstanding bank-related commercial paper increased an estimated $500 million.

While relative rates diverted short-term credit demands to banks, the sum of short-term nonfinancial business borrowing, as measured by the total of business loans at banks and dealer-placed commercial paper, grew somewhat more rapidly than in January-February. The large volume of total short-term business borrowing in each month of the first quarter may to some degree be explained by inventory accumulation, part of which is involuntary and part desired because of expectations of higher prices and shortages of raw materials. In addition, higher prices paid for inventories during the period accentuated the need for external financing. A staff estimate puts the rise in the energy bill of industry due to the increase in petroleum prices at $2 billion for the first quarter alone, though much of this increase is likely to have been passed forward to final purchasers. Finally, some corporate bond issues originally scheduled for March were cancelled, which may have resulted in a transfer of credit demands to short-term markets.

In addition to meeting strong business credit demands, banks extended $1.1 billion of loans to foreign commercial banks during March when short-term lending rates in New York were lower than Eurodollar lending rates. There are reports that a sizeable proportion of these loans were to Japanese commercial banks which were borrowing to supply the central bank of Japan with dollars. Other categories of foreign deposits and loans did not show any major changes.

COMMERCIAL BANK CREDIT

(Seasonally adjusted changes at annual percentage rates)

	1973			1974		
	QIII	QIV	QI	Jan.r	Feb.r	Mar.
Total loans and investments 2/	11.4	4.4	16.2	15.8	15.0	17.1
U.S. Treasury securities	-34.4	-22.0	18.8	15.8	40.1	--
Other securities	12.3	12.6	9.1	16.9	10.2	--
Total loans 2/	17.8	5.5	17.9	15.5	13.5	24.0
Business loans 2/	17.3	5.1	23.2	16.6	9.7	42.1
Real estate loans	17.0	14.2	12.0	14.4	7.1	14.1
Consumer loans	14.7	10.1	6.9	7.4	4.4	4.4

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.

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

	Change in outstanding during:			Outstanding
	Jan. 1974	Feb. 1974	Mar. 1974 e/	Mar. 29, 1974 e/
Total commercial paper outstanding	±3.4	+1.6	-1.2	45.3
Bank-related	+.6	--	+.5	6.0
Nonbank-related	+2.8	+1.6	-1.7	39.3
Dealer	+1.6	+1.7	-1.8	13.6
Direct (mainly finance companies)	+1.1	-.1	+.1	25.7

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.

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	-1.1	3.0	25.5
QII	--	2.2	.1	2.3	18.1
QIII	--	2.2	.1	2.3	16.9
QIV	--	.7	1.1	1.8	12.8
1974--QI e/	--	3.1	.5	3.6	25.0
April	-.29	2.4	-.1	2.3	18.1
May	-.05	2.8	.1	2.9	22.5
June	-.41	1.4	.3	1.7	13.0
July	-.90	3.6	-.1	3.5	26.4
August	-.93	2.5	-.5	2.0	14.8
September	-.40	.4	.8	1.2	8.8
Oct.	+.52	--	2.4	2.4	17.4
Nov.	+.38	1.3	1.0	2.3	16.4
Dec.	-.04	.7	-.1	.6	4.2
1974--Jan.	+.42	2.2	1.6	3.8	26.7
Feb.	+.85	1.3	1.7	3.0	20.6
Mar. e/	-.07	5.7	-1.8	3.9	26.3
Weekly Pattern:					
1974--Feb. 6	+.87				
13	+1.01				
20	+.90				
27	+.60				
Mar. 6	+.22				
13	+.10				
20	-.13				
27	-.33				
Apr. 3	-.35				

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/ Estimated.

Nonbank financial intermediaries. Savings flows into nonbank thrift institutions were maintained at about the same pace in March as in February. A tapering off of deposit inflows was evident toward the end of March -- with many institutions experiencing net outflows during the final week. However, moderate net losses have been typical of other recent reinvestment periods. At the large New York City mutual savings banks, deposit performance during the March grace days (the last three business days of the month) was somewhat stronger than a year earlier; in early April, however, these banks experienced relatively large outflows. While aggregate savings flow data for early April are still incomplete, there reportedly has been a substantial recent increase in individual participation in the securities markets. This allegation is supported by the increased number of noncompetitive tenders in recent Treasury bill auctions and by comments from corporate bond dealers.

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

	Mutual savings banks	Savings and loan associations	Both
1973 - QI	8.1	16.0	13.6
QII	6.8	10.4	9.2
QIII	-.4	3.1	2.0
QIV	5.8	8.9	8.0
1974 - January	4.7	9.3	8.0
February p/	4.7	8.8	7.6
March e/	5.5	9.0	8.0

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

During March, S&Ls borrowed a seasonally moderate $100 million of FHLB advances. All of the net increase in advances occurred in the last week of March, as S&Ls borrowed to cover actual and anticipated reinvestment period withdrawals.

The liquidity ratio at S&Ls (cash and other liquid assets divided by the sum of savings capital and borrowed money) edged up in February, the latest month for which data are available. On March 20, the FHLBB announced an increase in the minimum liquidity requirement from 5-1/2 per cent to 6-1/2 per cent to become effective June 1, 1974--a move that does not appear to affect many S&Ls since most institutions are currently comfortably above the 6-1/2 per cent mark.

Long-term securities markets. The bond market decline, which began in mid-February, accelerated after mid-March. Rising short-term interest rates, inflation, and increasing signs that the economic slowdown will be brief all contributed to a rise of 50 to 75 basis points in long-term yields. On a tax-equivalent basis, the greatest relative increase has been in the municipal market where rates have reportedly been under heavy selling pressure from banks and, more recently, fire and casualty insurance companies concerned about potential underwriting losses from tornados. Tax exempt yields are currently at their highest levels since August of 1971, and corporate yields last reached their current levels in November of 1970. These attractive rates have reportedly begun to bring individual investors back into the bond market.

Unsettled conditions in the bond market have been causing problems for corporate and municipal underwriters, making them more cautious in their approach to new issues. Several recent corporate issues sold poorly at higher yields, so underwriters quickly released price restrictions, rather than increasing their sales effort in hopes of an eventual sell-out at the original terms. Moreover, the difference between the winning and second best bid has widened appreciably since the beginning of the year, reflecting uncertainties and risk aversion. One major underwriting house has announced that, henceforth, it will bid only on issues for companies with whom it has a long-standing investment banking relationship. In the municipal market it is reported that market developments have weakened new issue syndicates and led to a backing away of dealers from secondary markets.

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)	8.23 (1/1)	6.23 (6/24)	6.89 (7/20)
Low	7.02 (2/5)	7.17 (12/31)	4.97 (10/21)	5.87 (1/14)
1972 - High	7.60 (4/21)	7.49 (4/21)	5.54 (4/13)	6.58 (9/27)
Low	6.99 (11/24)	7.15 (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)
1974 - High	8.78 (4/5)	8.77 (4/5)	5.73 (4/4)	7.43 (4/5)
Low	8.05 (2/6)	8.13 (1/4)	5.16 (2/7)	6.93 (2/15)
March 1	8.30	8.29	5.26	7.01
8	8.37	8.27	5.27	7.08
15	8.33	8.37	5.32	7.12
22	8.59	8.52	5.46	7.28
29	8.64	8.67r	5.57	7.38
April 5	8.78p	8.77p	5.73	7.43p

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

Led by quotes on equities of financial firms, stock prices on the NYSE began falling in the middle of March. Market observers have attributed this decline mainly to rising interest rates. Previously, share prices had been rallying in anticipation of an end to the Arab oil boycott and an easing of the energy shortage. Most recently, issues in the Dow-Jones Industrial average have been trading around 840, only 40 points above their February lows.

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

	1973		1974			
	Year	QIV e/	QI e/	March e/	April f/	May f/
Corporate securities - Total	2,779	3,385	3,233	3,400	3,600	3,400
Public bonds	1,125	1,625	2,000	1,900	2,100	2,000
Privately placed bonds	725	715	667	800	600	600
Stock	929	1,045	566	700	900	800
State and local government securities	1,942	2,157	2,017	2,100	2,100	2,100

e/ Estimated.
f/ Forecast.

During early 1974 the average monthly volume of total corporate security offerings has been about $450 million more than a year earlier. Although public bond offerings are almost twice as high as in early 1973, the volume of new stock issues is still below last year's pace, and the estimated level of private placements is about unchanged.

The increase in yields has had a depressing effect on the volume of new security issues. In March there were over $400 million of postponements of new debt issues in the corporate market, and about $200 million in the municipal market. Also, the rate at which new corporate public debt offerings were being announced decreased significantly in March relative to January and February. Thus, the March level of corporate public bond offerings was about $600 million below the amount projected in the last Greenbook, while State and local offerings were about $200 million short of their projected volume. Projections of corporate public bond volume in April and May show little change from the average pace in the first quarter, although any improvement in market conditions could prompt a rise as issues previously postponed re-enter the market.

Consumer credit. Growth in total consumer credit outstanding during February slowed to a seasonally adjusted annual rate of $4.6 billion, the smallest change in outstandings since November 1970 when sales of new cars were reduced by a major work stoppage in the industry. The annual rate of expansion in instalment debt--$8.1 billion--was down moderately from January as extensions declined and repayments edged up to another new high. Noninstalment credit outstanding, which had declined in January, contracted at a more rapid annual rate--$3.4 billion--in February.

The lower rate of instalment credit growth in recent months primarily reflects the substantial direct effects of the energy shortage on new and used car sales. Although the ratio of auto credit extensions to retail sales at automotive outlets has moved erratically since November, the average for the December-February period--46.5 per cent--was only a little above the pre-embargo months of 1973. On the other hand, there has been a marked decrease from the record third quarter level in the ratio of credit extensions for the purchase of "other consumer goods" to retail sales at GAF (general merchandise, apparel, appliance, and furniture) outlets. Part of this decline reflects the decrease in extensions for recreational vehicles and mobile homes; these units are included in "other consumer goods" credit but not in GAF sales.

RETAIL SALES AND INSTALMENT CREDIT EXTENSIONS
(Billions of dollars, seasonally adjusted annual rates)

Period	Automobile 1/			"Other Consumer Goods" 2/		
	Retail sales	Credit extensions	Ratio (per cent)	Retail sales	Credit extensions	Ratio (per cent)
1973 - QI	103.4	47.9	46.3	130.5	63.5	48.7
QII	100.0	46.3	46.3	129.7	66.3	51.1
QIII	103.0	47.3	46.0	132.4	69.8	52.7
QIV	96.3	44.2	45.9	133.2	68.6	51.4
1973 - Dec.	88.8	39.8	44.8	132.3	63.0	47.6
1974 - Jan.	99.7	41.9	46.7	136.6	67.9	49.7
Feb.	84.6	40.7	48.1	137.3	67.8	49.4

1/ Retail sales at automotive outlets; credit extensions for automobiles.
2/ Retail sales at GAF outlets; credit extensions for "other consumer goods."

Finance rates on nonautomotive consumer loan contracts purchased by finance companies rose further in January. Rates on mobile home contracts, which are generally below legal ceilings in States regulating this type of financing, increased 12 basis points from November and were 73 basis points above the January 1973 level. Despite the higher rates and the weakness in consumer demand for mobile homes, price increases of as much as 10 per cent were made by some smaller producers on April 1. Rate increases from November to January on furniture and appliance loans and personal loans were somewhat smaller than for mobile homes, and rates in these categories are still below year-earlier levels.

CONSUMER INSTALMENT CREDIT

Period	Credit volume 1/			Finance rates 2/		
	Net change in outstandings	Extensions	Repayments	Mobile homes	"Other consumer goods"	Personal loans
1973 - QI	24.0	162.4	138.4	12.51	19.04	21.00
QII	20.0	164.2	144.1	12.73	18.88	20.76
QIII	21.0	170.1	149.1	12.90	18.69	20.52
QIV	15.3	164.4	149.1	13.12	18.80	20.65
1973 - Dec.	4.9	152.1	147.2	--	--	--
1974 - Jan.	11.0	164.6	153.6	13.24	18.90	20.68
Feb.	8.1	162.5	154.4	--	--	--

1/ Billions of dollars, seasonally adjusted annual rates.
2/ Per cent per annum, on contracts purchased by finance companies during January, May, September, and November 1973, and January 1974.

Short-term rates. Most short-term interest rates have risen 50 to 100 basis points since the March FOMC meeting. With these latest increases, which extend the uptrend begun in mid-February, short-term market rates are now 160 to 200 basis points above their February lows. But they are still about 40 to 100 basis points below the highs reached late last summer.

SHORT-TERM INTEREST RATES
(Per cent)

	1973		1974				
	Aug.-Sept. Highs	Year-end	Mid-Feb. lows	Mar. 19	Mar. 26	Apr. 2	Apr. 9
Treasury bills							
3-months	9.05	7.46	7.03	8.06	8.33	8.44	8.62
6-months	9.00	7.43	6.80	7.92	8.19	8.24	8.37
1-year	8.50	6.86	6.37	7.38	7.82	7.83	8.10
Commercial paper							
1-month	10.38	9.75	8.13	8.88	9.38	9.63	9.88
90-119 days	10.50	9.13	7.75	8.63	9.25	9.50	9.63
4-6 months	10.50	9.00	7.50	8.38	9.13	9.38	9.50
Large negot. CD's 1/							
3-months	11.05	9.25	7.95	8.95	9.55	9.70	10.00
6-months	11.00	8.38	7.50	8.25	9.25	9.65	9.75
Federal agencies							
1-year	9.49	7.45	7.01	7.84	8.57	8.68	8.88
Bank prime rate	10.00	9.75	8.75	8.75	9.00	9.25-9.50	9.75-10.00
				Statement week ended			
				Mar. 20	Mar. 27	Apr. 3	Apr. 10 2/
Federal funds (weekly average)	10.84	9.52	8.93	9.33	9.61	9.93	10.01

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

Several factors have combined to send market rates sharply higher. Business loan demands have been exceptionally strong, leading banks to bid aggressively for lendable funds in the CD market and to raise the prime rate to as high as 10 per cent. The Federal funds rate has risen nearly 70 basis points since the March FOMC meeting, after advancing about 30 basis points in the preceding inter-meeting period. At the same time, market participants appear to have raised significantly their forecasts of interest rate levels likely to prevail over the months ahead. This adjustment in expectations has been prompted by the strength displayed by the monetary aggregates and by the further quantum jumps in consumer and wholesale price indexes. Also, a number of recent developments, most particularly the lifting of the Arab oil embargo, have encouraged the view that the current weakness in the economy may not be as severe or long lasting as previously expected.

One result of the higher level of bill rates is the increase in noncompetitive tenders in the regular weekly auctions. In the April 8 auction, such tenders amounted to $841 million. This figure is $200 million above levels reached late last summer and represents the largest volume of tenders since the Treasury raised the minimum denomination on bills to $10,000 in early 1970.

<u>Treasury Coupon Market</u>. Interest rates on Treasury coupon issues have also continued to move higher since the March FOMC meeting. Yields in the short, intermediate, and long-term sectors of the market

are now about 180,120 and 60 basis points, respectively, above their mid-February lows, as the table shows. While yields on Treasury bonds in the 20-year maturity area are now at the highest levels in the history of the series and were 15 basis points above their peak levels of last summer, yields on issues in the other maturity areas remain somewhat below their highs of last summer.

YIELDS, TREASURY COUPON ISSUES
(Constant Maturities)

	1973		1974				
	Aug.-Sept. Highs	Year-end	Mid-Feb. Lows	Mar. 19	Mar. 26	Apr. 2	Apr. 9
1 year	9.23	7.30	6.75	7.76	8.30	8.41	8.63
5 years	8.13	6.83	6.72	7.33	7.62	7.71	7.93
10 years	7.58	6.90	6.93	7.24	7.38	7.43	7.50
20 years	7.83	7.38	7.41	7.76	7.86	7.92	8.00

In addition to the factors that have been pushing rates up in other sectors of the money and bond markets, rates on Treasury coupon securities were subject to special pressures early in the inter-meeting period, as dealers continued to pare their holdings of such issues. Most recently, dealer coupon positions have totaled about $250 million, in sharp contrast with the $2.3 billion level reached at the time of the mid-February refunding.

With interest rates on coupon issues generally backing up, bidding in the Treasury's March 28 auction of 2-year, 8 per cent notes proved quite weak. Indeed, the volume of bids submitted barely covered the $1.5 billion offer, even though non-competitive bidders acquired more than 30 per cent of the issue. In its first week of trading, the note declined about one-half point below its average auction price.

While there were anxious moments, the Treasury managed to squeeze by the early April low point in its cash balance without emergency borrowing. Thus, its next financing operation will be the mid-May refunding. At that time, debt ceiling limitations may force a paydown of about $1.5 billion of maturing debt. This would force the Treasury to borrow about $2.5 billion to cover the temporary low point in its balance before mid-June. However, a substantial $4.5 billion runoff of tax bills is scheduled for the latter part of June, so that on balance the Treasury is likely to reduce its debt about $3.5 billion over the remainder of the fiscal year. Federal asset sales and Federal Agency borrowing are expected to total about $3.0 billion during the rest of the second quarter.

As the following table shows, if our current projections prove to be reasonably accurate, the combined volume of Treasury-Federal Agency financing in the current quarter will fall substantially short of the volume last year. But looking beyond the second quarter, it seems likely that combined Treasury and Federal Agency financing over the second half of the year will be on the high side of recent experience.

PROJECTED NET FINANCING ACTIVITY OF U. S. TREASURY AND FEDERAL AGENCIES
(In 1974 and comparable periods of other recent years)

	U. S. Treasury 1/ 2nd Quarter	2nd Half
1971	+3.9	22.9
1972	-4.7	15.8
1973	-5.7	6.1
1974e	-6.5	11.4
	Federal Agencies 2/	
1971	-1.4	3.2
1972	1.9	4.9
1973	6.0	10.6
1974e	3.7	12.0
	Total Net Financing Activity	
1971	+2.5	26.1
1972	-2.8	20.7
1973	+ .3	16.7
1974e	-2.8	23.4

1/ Includes changes in marketable Public Issues, nonmarketables issued to foreign central banks, savings bonds and notes, and, in 1971, Euro-dollar borrowings.

2/ Includes borrowing by Federally-sponsored Agencies and Budget Agencies and sales of financial assets.

Mortgage market. There has been a marked change in the tone of mortgage markets in recent weeks. Primary market interest rates on new commitments for home mortgages apparently have bottomed out, while mortgage yields in the more sensitive secondary market have risen substantially.

Contract interest rates on new commitments for 80 per cent conventional home loans at selected S&L's have edged up since mid-March. On April 5 they averaged 8.44 per cent--close to or above prevailing usury ceilings in 13 states in the eastern and central portions of the nation, which together account for about a third of our total population.1/ However, the competitive attractiveness of home mortgages to diversified lenders has deteriorated further as yields on new issues of high-grade utility bonds have risen above those on home mortgages, even before deduction of mortgage servicing costs.2/

Amid growing anticipation among mortgage bankers that mortgage prices are likely to fall further in the near future, offerings in the April 8 FNMA auction for forward purchase commitments of FHA/VA home mortgages were unusually high for the second consecutive auction.

1/ An additional 6 states, accounting for about 6 per cent of the total population, have usury ceilings of 9 per cent; these ceilings undoubtedly discourage some mortgage lending to the most marginal risks or under the most liberal terms. Some ceilings are currently under review by State legislatures, and in Maryland a change in the ceiling from 8 to 10 per cent is imminent. Some states have usury ceilings that vary depending on the course of market rates (Pennsylvania) or administrative decision (New Jersey and New York).

2/ This is despite the fact that, for comparison with bonds, the mortgage yields should be converted to the equivalent of a semi-annual interest investment--which, at current rate levels, means adding 15 basis points to the gross mortgage yield.

CONVENTIONAL HOME MORTGAGES
At 120 S&Ls

	Average going rate on 80% loans (per cent)	Basis point change from month or week earlier	Spread 1/ (basis points)	Number of Federal Home Loan Bank districts with funds in short supply
1973 - High	8.85	--	107	12
Low	7.43	--	- 12	0
1973				
Aug.	8.66	+48	n.a.	12
Sept.	8.85	+19	104	11
Oct.	8.68	-17	71	10
Nov.	8.55	-13	70	8
Dec.	8.56	+ 1	n.a.	6
1974				
Jan.	8.52	- 4	27	4
Feb.	8.42	-10	32	0
Mar. 1	8.41	- 1	11	0
8	8.41	0	4	0
15	8.40	- 1	7	0
22	8.40	0	-19	0
29	8.41	+ 1	-23	0
Apr. 5	8.44	+ 3	-34	0

1/ Gross yield spread is average mortgage return before deducting servicing costs minus average yield on new issues of Aaa utility bonds with 5-year call protection.

Reflecting the strong demand for commitments, the average yield on accepted bids rose to 8.95 per cent--52 basis points above the level 4 weeks earlier.

Through at least early March, nonrate terms on commitments for conventional home mortgage loans in the primary market continued to loosen. The proportions of S&L's offering higher loan-to-value and longer term loans increased further, but remained below the share offering such contracts early last year.

Although the volume of new mortgage commitments at S&L's increased in February for the fifth consecutive month, preliminary data indicate little further change during March, after seasonal adjustment. Outstanding commitments at S&L's also increased in February but were 24 per cent below the high reached a year earlier. However, through April 8, S&L's continued to report funds for home mortgages in adequate supply relative to demand in all 12 of the FHLBank Districts. Trade reports suggest that, with expectations of increases in mortgage rates as well as a slackening of deposit inflows, thrift institutions have been taking a more cautious approach to longer-term mortgage commitments.

S&L'S OFFERING COMMITMENTS FOR CONVENTIONAL NEW-HOME MORTGAGES WITH 25-YEAR MATURITIES--BY SELECTED LOAN-TO-PRICE RATIOS

Period 1/	Loan-to-price ratio		
	80 per cent	90 per cent	95 per cent
	(Per cent of S&L's offering commitments)		
1973			
High	95 (Jan.)	85 (Jan.)	63 (Jan.)
Low	73 (Oct.)	53 (Oct.)	33 (Oct.)
Sept.	75	55	33
Oct.	73	53	33
Nov.	75	55	35
Dec.	77	59	38
1974			
Jan.	81	63	40
Feb.	85	68	44
Mar.	88	71	46

1/ Data refer to loan policy during the first five working days of the month.

Federal Finance. The staff's current estimates of unified budget receipts and outlays for fiscal 1974 are $266.8 billion and $270.0 billion, respectively. The resulting deficit of $3.2 billion is somewhat smaller than the Administration's January estimate which was based on projected receipts of $270.0 billion and outlays of $274.7 billion.

Our new outlay estimate for fiscal 1974 is $1.3 billion below the figure reported in the March Greenbook. This change is based on data for recent months which show a continuing shortfall which we do not expect to be totally recouped by the end of the current fiscal year. If these shortfalls persist in coming months, they may require a further downward adjustment in the estimate of fiscal year outlays. However, it should be noted that in the past some agencies, especially the Department of Defense, have accelerated their spending schedules in the closing days of the fiscal year so as not to spend less than their fiscal year appropriation.

The staff projections for the coming fiscal year incorporate three new assumptions. First, we are assuming that the Administration's proposal to modify the personal income tax withholding schedule will reduce overwithholding by $8.0 billion (annual rate) beginning in August and then lower refunds by a corresponding amount the following spring. Second, on the expenditure side, we are assuming that the Administration's proposal for an additional 13 weeks of unemployment benefits will be passed, and that it will have a growing impact on outlays beginning in the third quarter of calendar year 1974. Third, we are assuming that legislation for public service jobs will add about $1.3 billion to the $350 million already appropriated for fiscal year 1975. In addition to these assumptions, a lump-sum payment to federal employees (stemming from the 1972 Presidential postponement of the pay raise) is expected to increase outlays in the third quarter by another $0.5 billion. A substantial offset to these increased expenditures is expected, however, from expanded offshore-oil sales (recorded as negative outlays in the unified budget).

On a high employment budget basis, we are currently projecting a shift from a $1.3 billion (annual rate) surplus in the first half of calendar year 1974 to a $4.3 billion (annual rate) deficit in the second half, largely reflecting the assumed $8 billion (annual rate) change in withholding beginning in August. In the first half of calendar 1975, however, we are forecasting a $9.1 billion shift toward surplus. This largely reflects reduced refund payments resulting from the assumed reduction in overwithholding.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	March[e]	April	May	June
Total net borrowing	4.2	-2.9	-1.3	-1.6
Weekly and monthly bills	--	--	--	--
Tax bills	4.0	-4.5	--	-4.5
Coupon issues		1.5	--	
As yet unspecified new borrowing		--	4.1	2.5
Special foreign series	-.1	--	--	
Agency transactions, debt repayment, etc.	.3	.1	-5.4	.4
Plus: Other net financial sources a/	1.2	-.8	.8	-.7
Plus: Budget surplus or deficit (-)	-4.7	6.4	-4.0	6.1
Equals: Change in cash balance	.7 b/	2.7	-4.5	3.8
Memoranda: Level of cash balance, end of period	8.4 b/	11.1	6.6	10.4
Derivation of budget surplus or deficit:				
Budget receipts	17.3	29.0	20.0	32.5
Budget outlays	22.0	22.6	24.0	26.4
Maturing coupon issues held by public	--	--	5.6	--
Sales of financial assets	.2	.4	.1	.7
Budget agency borrowing	.4	.1	.2	.4
Net borrowing by government-sponsored agencies	.6	.7	.6	.6

e -- Estimated.
a/ Check issued less checks paid and other accrual items.
b/ Actual.

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

	Fiscal 1974 e/		FY 1975 e/	Calendar Years		F.R.B. Staff Estimates Calendar Quarters				
	Budget Doc.	F.R. Board	Budget Doc.	1973 Actual	1974 F.R.B.e/	1973 IV*	1974 I	II	III	IV
Federal Budget						Unadjusted data				
Surplus/deficit	-4.7	-3.2	-9.4	-7.9	-10.5	-5.0	-5.7	8.5	-4.1	-9.2
Receipts	270.0	266.8	295.0	250.4	278.3	59.9	61.0	81.5	70.5	65.3
Outlays	274.7	270.0	304.4	258.3	288.8	64.9	66.7	73.0	74.6	74.5
Means of financing:										
Net borrowing from the public	3.5	3.4	12.5	7.9	9.2	6.7	3.2	-5.8	4.1	7.7
Decrease in cash operating balance	n.a.	2.2	n.a.	.7	2.3	-2.1	2.0	-2.0	2.3	---
Other 1/	n.a.	-2.3	n.a.	-.7	-1.0	.4	.5	-.7	-2.3	1.5
Cash operating balance, end of period	n.a.	10.4	n.a.	10.4	8.1	10.4	8.4	10.4	8.1	8.1
Memo 2/: Sales of financial assets 3/	3.7	2.5	4.5	3.6	4.2	.9	.5	1.2	1.0	1.4
Budget agency borrowing 4/	1.7	1.6	1.8	-.1	1.8	.2	.4	.7	.4	.3
Sponsored agency borrowing 5/	13.6	11.2	1.3	16.3	10.8	3.2	--	1.9	3.9	5.0
National Income Sector					Seasonally adjusted, annual rates					
Surplus/deficit	-4.7	-1.8	-8.6	1.2	-10.0	5.0	1.7	-7.5	-15.5	-18.7
Receipts	280.5	277.3 6/	304.8	265.2	289.3	274.6	284.2	287.5	290.6	294.7
Expenditures	285.2	279.1 7/	313.4	264.0	299.3	269.6	282.5	295.0	306.1	313.4
High Employment surplus/deficit (NIA basis) 8/	n.a.	.4	n.a.	-1.3	-1.5	1.1	2.2	.3	-4.7	-3.9

* 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 Farmers Home Adm., Government National Mortgage Assn., Federal Housing Adm., and Veterans Adm. Receipts from these sales are netted against Federal Budget Outlays shown above.

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

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

6/ Quarterly averages exceed fiscal year total by $1.7 billion for fiscal 1974 due to spreading of wage base effect over calendar year.

7/ Fiscal year exceeds quarterly average of $.9 billion due to seasonal adjustment.

8/ Estimated by F.R. Board Staff.

INTERNATIONAL DEVELOPMENTS

CONFIDENTIAL (FR)

III -- T - 1

4/10/74

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

	1973				1974	
	YEAR	IH	3Q	4Q	JAN.*	FEB.*
Goods and services, net 1/	6,900	785	2,149	3,965		
Trade balance 2/	688	-1,282	612	1,358	394	130
Exports 2/	70,255	31,901	18,143	20,211	7,159	7,575
Imports 2/	-69,567	-33,183	-17,531	-18,853	-6,765	-7,445
Service balance	6,212	2,067	1,537	2,607		
Remittances and pensions	-1,913	-786	-404	-724		
Govt. grants & capital, net	-3,416	-1,258	-862	-1,296		
U.S. private capital (- = outflow)	-13,644	-8,259	-1,197	-4,189		
Direct investment abroad	-4,855	-2,971	-478	-1,407		
Foreign securities	-791	-75	-204	-512	-291	-63
Bank-reported claims -- liquid	-1,100	-418	-303	-379	-610	-907
" " " other	-4,783	-3,796	436	-1,423	309	-1,187
Nonbank-reported claims -- liquid	-833	-763	-20	-50	291	
" " " other	-1,282	-236	-628	-418		
Foreign capital (excl. reserve trans.)	11,580	2,818	3,541	5,219		
Direct investment in U.S.	2,068	807	753	507		
U.S. corporate stocks	2,797	1,426	869	502	174	156
New U.S. direct investment issues	1,223	658	197	368		
Other U.S. securities (excl. U.S. Treas.)	73	158	121	-206		
Liquid liabilities to:	4,436	-774	955	4,255	430	1,666
Commercial banks abroad	2,863	-1,188	851	3,200	374	1,623
Of which liab. to branches 3/	(272)	(7)	(93)	(172)	(-154)	(261)
Other private foreign	1,200	372	154	674	131	172
Intl. & regional organizations	373	42	-50	381	-75	-129
Other nonliquid liabilities	983	544	646	-207		
Liab. to foreign official reserve agencies	5,077	9,884	-2,117	-2,685	-2,942	263
U.S. monetary reserves (increase, -)	209	237	-13	-15	-187	-78
Gold stock	--	--	--	--	--	--
Special drawing rights	9	9	--	--	--	--
IMF gold tranche	-33	-5	-13	-15	-136	-69
Convertible currencies	233	233	--	--	-51	-9
Errors and omissions	-4,793	-3,421	-1,097	-275		
BALANCES (deficit -						
Official settlements, S.A.		-10,121	2,130	2,700		
" " , N.S.A.	-5,286	-9,226	940	3,000	3,129	-185
Net liquidity, S.A.		-8,166	1,498	-1,126		
" " , N.S.A.	-7,789	-8,230	602	-161	2,408	
Liquidity, S.A. 4/		-9,347	1,175	-1,555		
" , N.S.A.	-9,722	-9,352	131	-501	2,699	-1,851
Basic balance, S.A.		-1,554	2,549	214		
" " , N.S.A.	1,214	-1,626	825	2,015		

* 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. In the first quarter of 1974, the balance of payments surplus on the official settlements basis shrank to about $1 billion (seasonally adjusted), compared with $2-3/4 billion in the preceding quarter. A substantial surplus in January, when the dollar was still appreciating against foreign currencies, was followed by growing deficits in February and March as the dollar depreciated.

Available data provide only a partial explanation of the weakening of the dollar in February and March. The trade surplus diminished further in February as the value of imports, particularly of fuels, rose even more rapidly than the value of exports. Gross bank-reported flows of private capital were large in February, with a small net outflow for the month, in contrast to earlier net inflows. There may well have been substantial net outflows of corporate funds during the first quarter, although data on these are not yet available.

The balance on goods and services is now projected to deteriorate fairly steadily from a record surplus of $16 billion (seasonally adjusted annual rate) in the final quarter of 1973 to a deficit of around $6 billion in the second quarter of 1975. Virtually all of the projected deterioration is expected to occur in the merchandise trade balance, with the value of fuel imports rising sharply, especially during the first half of 1974, and the value of agricultural exports falling off after mid-1974 as agricultural commodity prices decline in response to enhanced supplies abroad. By contrast, the surplus on services and military transactions is expected to hold up well, exceeding an annual rate of $7 billion throughout the projection period, and could even increase if the foreign earnings of major U.S. oil companies exceed our somewhat conservative guess. The projection assumes only moderate growth in output in major industrial countries abroad, with prices rising about as fast as in the United States. It also assumes that petroleum prices will remain at current levels; if they were to decline by 10 percent, the import bill would be about $3 billion lower (annual rate) in early 1975.

How inflows and outflows of capital will balance out over the period ahead remains highly uncertain. Interest rates have declined slightly in recent weeks in Britain and Germany, but monetary policies remain generally restrictive abroad, reflecting deep concern over the recent rapid rates of inflation. Many European countries and Japan, faced with large increases in payments for petroleum, have arranged further borrowings in the Euro-dollar market. Very large payments to oil-producing countries are scheduled for this month, and a large proportion of these funds will probably be placed by the recipiants in Euro-dollars.

<u>Foreign exchange markets</u>. Exchange market activity in recent weeks has been dominated by changing expectations concerning a revaluation or appreciation of the German mark. In the period from the week ended March 13 to the week ended April 5 the mark appreciated by 4-3/4 per cent against the dollar, while the dollar, on a weighted average basis, depreciated by 2-3/4 per cent. In the most recent week the dollar has rebounded as speculation on an imminent revaluation of the mark abated and movements in interest differentials, in favor of dollar assets, moved to the fore.

Intervention by major central banks in the past four weeks amounted to net sales of $700 million. In addition there was roughly $700 million equivalent of intervention within the European snake, with central banks selling marks against all other snake currencies. As far as dollar intervention is concerned, the Bank of Italy sold on the order of $1 billion, while the Bundesbank and the Federal Reserve purchased $325 million against marks.

As indicated above, the mark was the focus of attention for most of the period and was the currency to appreciate most against the dollar. The speculation flared up on March 20 with the publication of a report by the Hamburg Economic Research Institute which stated that the mark might have to be revalued. It intensified following the release of U.S. trade figures for February and the delay in the release of German trade figures which were rumored to show a huge surplus. In addition, many market participants anticipated that the spring report of five German research institutes, due to be released on April 8 would recommend a mark revaluation. By the time that German trade figures were released, the market had already discounted the news, and in the report of the five institutes only a minority recommended a mark revaluation or independent float. That seemed to take the steam out of the mark's upward movement. And when the Bundesbank did not move to mop up domestic currency liquidity created by exchange market conditions, and in fact reduced the rate at which it discounts Treasury bills, while U.S. interest rates continued to climb, the mark began to ease against the dollar.

In addition to Germany, policy actions were taken in Switzerland, the U.K. and France to ease domestic liquidity, and these moves probably contributed to the dollar's broad advance in recent days.

Italy continued to support the lira with massive intervention in March and early April. By April 8 it had sold a total of around $550 million for the month, a somewhat greater rate than the monthly average of $1 billion in the first quarter. Italy's March dollar sales were financed by the proceeds of its $1.8 billion drawing on the EC fund at mid-March. It is currently financing intervention from the proceeds of a $1.2 billion Euro-dollar borrowing by Mediobanca, an Italian state credit agency.

Gold prices have moved in a range of $164 to $180 over the past four weeks, and were most recently quoted near the upper end of that range.

Euro-dollar market. Interest rates on Euro-dollar deposits have risen substantially further in the past four weeks. Bid rates on April 10 for 1- and 3-month deposits were 10-3/8 and 10-9/16 per cent, respectively,

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-Dec.	9.73	9.96	-0.23 (0.62)	10.40	9.43	0.97 (0.94)
1974-Jan.	9.10	9.65	-0.55 (0.24)	9.38	8.97	0.41 (0.45)
Feb.	8.44	8.98	-0.54 (0.19)	8.51	8.07	0.44 (0.48)
1974-Feb. 27	8.32	8.81	-0.49 (0.24)	8.48	8.00	0.48 (0.52)
Mar. 6	8.52	8.98	-0.46 (0.28)	8.66	8.25	0.41 (0.45)
13	8.54	9.03	-0.49 (0.25)	8.79	8.38	0.41 (0.45)
20	8.95	9.33	-0.38 (0.40)	9.19	8.75	0.44 (0.48)
27	8.93	9.61	-0.68 (0.10)	9.87	9.00	0.87 (0.95)
Apr. 3	8.53	9.93	-1.40 (-0.66)	9.84	9.50	0.34 (0.37)
10p/	9.31	9.88	-0.57 (0.24)	10.13	9.50	0.63 (0.68)

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

SELECTED EURO-DOLLAR AND U.S. COSTS FOR PRIME BORROWERS
(1974; Friday dates)

	Mar. 1	Mar. 15	Mar. 29	Apr. 5
1) 3-mo. Euro-$ loan a/	9.19	9.38	10.50	10.44
2) 90-119 day com'l. paper b/	8.25	8.63	9.63	9.75
3) U.S. bank loan:				
a) predominant prime rate	8.75	8.75	9.25	9.75
b) with 15% comp. bal's. c/	10.29	10.29	10.88	11.47
c) with 20% comp. bal's. c/	10.94	10.94	11.56	12.19
Differentials:				
(1) - (2)	.94	.75	.87	.69
(1) - (3a)	.44	.63	1.25	.69
(1) - (3b)	-1.10	-.91	-.38	-1.03
(1) - (3c)	-1.75	-1.56	-1.06	-1.75

a/ 1/2 per cent over deposit bid rate.
b/ offer rate plus 1/8 per cent.
c/ prime rate adjusted for compensating balances.

about 1-3/4 per cent above average levels in the week of March 13. Rising interest rates in the United States were the main reason for the increase in Euro-dollar rates, and there has been little net change in the differentials vis-a-vis CD rates in the United States. The 3-month Euro-dollar deposit rate exceeded the 60-89 day CD rate by an average of 63 basis points in the week of April 10. This differential was larger in the last week of March when seasonal factors and speculation on a revaluation of the German mark put added upward pressure on Euro-dollar rates.

The overnight Euro-dollar rate rose little until the past few days, perhaps in reflection of a larger increment to supply than for the longer maturities. As a result, the relative costs to U.S. banks of overnight Euro-dollars and Federal funds underwent a substantial shift; overnight Euro-dollars adjusted for reserve requirements averaged more than one-half per cent less than Federal funds in the week of April 3, compared with a 25-point differential of opposite sign in the week of March 13. The shift in relative costs accompanied a substantial increase in U.S. banks' Euro-dollar borrowings, as reported elsewhere. In the most recent week, a rise in the overnight Euro-dollar rate and a slight easing in the Federal funds rate again made Euro-dollars more costly than Federal funds.

The cost of short-term Euro-dollar loans to nonbank borrowers advanced much more sharply during March than bank loan costs in the United States. The excess of the Euro-dollar loan rate for prime borrowers over the U.S. prime rate widened by about 80 basis points from March 1 to March 29, to show a difference of about 1-1/4 per cent on the latter date, and as noted on p. 11 U.S. banks' loans to foreign commercial banks rose sharply in consequence. But this cost differential contracted to only about 3/4 per cent by April 5 as the U.S. prime rate continued to climb.

In March, agreements were signed for $6.7 billion of publicized medium-term Euro-currency loans according to provisional IBRD estimates, bringing the total for the first quarter to $13.6 billion. In addition to those reported in last month's Greenbook, major borrowings announced in March included the British Treasury ($2.5 billion), the Government of Mexico ($500 million), the Central Bank of the Philippines ($500 million), the Kingdom of Denmark ($300 million), the Spanish National Institute of Industry ($300 million), and the Republic of Austria ($115 million).

U.S. balance of payments. The U.S. balance of payments weakened noticeably in February and March. Between the end of January and the end of March the dollar depreciated by nearly 8 percent, on average, against the major foreign currencies, and the balance on the official settlements basis for the same period was a deficit of perhaps $1-1/2 billion (not seasonally adjusted, not at an annual rate). For the first quarter the official settlements balance was probably a surplus of around $1 billion (seasonally adjusted), compared to a surplus in the fourth quarter of about $2-3/4 billion.

Although data on specific balance of payments transactions for February-March are very limited, it appears that the weakening resulted from an adverse shift in private capital flows as well as a decline in the trade surplus.

In February there was an outflow of bank-reported private capital as described below, compared to a small inflow in January and a substantial inflow in the fourth quarter. Data on flows of corporate funds during the first quarter are not yet available. There could well have been substantial direct investment outflows, as in the fourth quarter, and some repayment of short-term debt following the lifting of controls.

In February there was a small net inflow on private securities transactions which was about the same as in January. Foreign net purchases of U.S. stocks at $156 million in February were little changed but foreigners sold U.S. bonds net in February, following large net purchases in the two preceding months. U.S. net purchases of foreign bonds were very small in February, compared to large net purchases in January. However, Canadian provincial flotations in March were reported to have been substantial. So far as is known there has been only one new security issue in the United States by any foreign borrower subject to the Interest Equalization Tax for which the rate is now zero.

The trade surplus in February fell to $130 million (seasonally adjusted, not at an annual rate) from close to $400 million in January as imports rose very sharply, exceeding the more moderate rise in exports. About 50 percent of the increase in imports in February resulted from the increase in oil prices announced in previous months, as the unit value of imported oil rose to an average of $9.25 per barrel, compared to $7.10 in January. A further rise in this unit value probably occurred in March.

For the fourth quarter of 1973 the basic balance (on current account and long-term capital) was a surplus of $0.2 billion (seasonally adjusted, not at an annual rate), down sharply from the extraordinary $2.5 billion surplus in the third quarter. The decline was accounted for mainly by an adverse shift in net private long-term capital flows, which more than offset an increase in the surplus on goods and services.

<u>U.S. bank-reported capital flows</u>. In February and March, bank-reported capital flows in the U.S. balance of payments were substantial in both directions. The net balance (excluding transactions with foreign official institutions) shifted from a $100 million net inflow in January to a $350 million net outflow in February. The further large flows in both directions shown by weekly data in March for the most part reflect arbitraging with the Euro-dollar market. These data omit many flows, and so cannot be relied upon as an advance indicator of the net balance.

In February, bank-reported <u>claims</u> on foreigners rose $2.1 billion (none of which was recorded by the weekly figures). The termination of the VFCR was presumably the main factor behind the rise, which included increases of $600 million in loans to foreign commercial banks (mostly in Europe and Latin America), $450 million in acceptances for foreign account (concentrated in Asis), and $900 million in other claims, principally on Nassau branches, Canada, and Japan. <u>Liabilities</u> to private foreigners were up $1.7 billion in February, principally because of an increase of $500 million in demand deposits of foreign commercial banks and an $300 million rise in liabilities to the Bahamas and Cayman Islands. Plausible explanations for these increases in liabilities are lacking.

In March, for which data are incomplete, <u>claims</u> on foreigners reported weekly by large commercial banks in the United States rose $1.5 billion in the four weeks to March 27; their loans to foreign commercial banks increased $1.1 million and their loans to other foreigners nearly $400 million. The increase in loans to foreign commercial banks largely concerned Japanese banks, and was touched off when the cost of such loans (reportedly 1/2 to 1 percent above the prime rate, with no additional balances required) fell below rates on short-term Euro-dollar loans. On the liabilities side, U.S. banks' gross liabilities to foreign branches increased $1.1 billion in the five weeks to April 3 (balance-of-payments basis) and a rise of close to $600 million occurred in the foreign liabilities of New York agencies and branches of foreign banks in the same period. The decline in the overnight Euro-dollar rate relative to the Federal funds rate would appear to have been the main cause of these inflows.

U.S. foreign trade. The U.S. merchandise trade surplus for February fell to $1.6 billion (seasonally adjusted annual rate, balance of payments basis), compared with $4.7 billion (revised) in January and $5.4 billion in fourth quarter 1973. The major development underlying this deterioration was the rapid increase in the cost of fuel imports, which rose from an annual rate of $11.5 billion in fourth quarter 1973 to a $20.0 billion rate in February. Net of fuel imports, the rate of surplus for January and February was $3.9 billion higher than the fourth quarter rate.

The (average monthly) volume of agricultural exports was only slightly higher in January-February than in fourth quarter 1973. However, these exports increased 8 percent in value during this period as prices continued to rise rapidly.

Exports of nonagricultural commodities were 10 percent higher in (average monthly) value during the first two months of this year than during fourth quarter 1973. Roughly two-fifths of this increase was in volume, and three-fifths in unit value. Exports of nonagricultural industrial supplies and materials rose by nearly 3 percent in volume and 12 percent in unit value during this period as price increases were large and widespread. Exports of capital goods grew by 2 percent in volume and increased 4 percent in unit value.

With the gradual relaxation of domestic price controls, which are expected to be removed almost completely by April 30, it has been suggested that the growth of export volumes will decline if U.S. suppliers find their domestic customers willing to pay higher prices. Nevertheless, for machinery, primary metals, and other durables (excluding automotive products and aircraft), both the backlog of unfilled export orders and the rate of new export orders reached new highs (in value terms) during January and February.

Imports of fuels and lubricants continued to increase sharply in value during February, as the unit value of petroleum rose to $9.26 per barrel from $7.11 in January. In part, this price rise reflected the continuing effects of the price increases instituted by the oil-producing countries last December. In addition, the higher unit value reflected the increase in the Canadian export tax from $2.20 to $6.40 per barrel, effective February 1; this tax approximated the difference between the Canadian domestic price and the price received at that time by other suppliers of the United States and Eastern Canada. A further rise in the U.S. import price probably occurred in March. Beginning in April, the Canadian export tax has been lowered to around $4 per barrel, but the Canadian domestic price has been fixed at a level which precludes any significant effect on U.S. import prices. With the suspension of the oil embargo, imports of petroleum may rise another million barrels per day by the middle of the year; and unless oil prices decline, the trade balance may well shift into deficit during the second quarter.

U.S. IMPORTS OF PETROLEUM AND PRODUCTS 1/

		Million barrels per day 2/	Dollar price per barrel	Value of Imports 3/ (billion $)
1972:	Annual average	4.9	2.59	4.6
1973:	Annual average	6.6	3.34	8.1
	Jan.-Sept. average	6.5	2.99	7.2
	October	7.3	3.54	9.9
	November	7.1	4.09	11.3
	December	6.3	5.42	11.8
1974:	January	6.0	7.11	13.2
	February	6.1	9.26	19.1

1/ Includes imports of petroleum into the Virgin Islands.
2/ Not seasonally adjusted.
3/ Seasonally adjusted annual rate.

The (average monthly) value of non-fuel imports in January-February was 6 percent higher than in the fourth quarter. The volume of these imports grew by 5 percent and the unit value increased by less than 1 percent during this period, but major components of these imports showed substantially different changes. Among the major non-fuel import categories, only automotive products has shown striking volume growth during recent months.

For automotive products, the (average monthly) value of imports from Europe and Japan was 12 percent higher ,during January-February than during fourth quarter 1973, and import volume increased proportionately more. However, the January-February import volume exceeded new foreign car sales by nearly 40 percent, reflecting a rebuilding of inventories, which had declined steadily from mid-1972 through December 1973.

Price developments in foreign industrial countries. During 1973 the problem of high inflation rates began to dominate economic policy considerations in almost all industrial countries. Three major factors contributed to these concerns. First, a rapid runup of prices for agricultural goods began early in the year, caused by shortfalls in grain and oilseed production. Second, and more important, there was an increasingly sharp worldwide competition for supplies of raw and intermediate materials, as aggregate demand rose simultaneously in a number of the major consuming countries. Third, the steep price rises for petroleum and petroleum products in the aftermath of the Mid-East oil embargo announced on October 17.

Although the pace of inflation accelerated somewhat in the late 1960's, the sort of rates recorded in 1973 were unprecedented on a world scale in peace time (see Table 1). Much of this new impetus is directly related to the price of commodities. According to the Economist's index, overall spot commodity prices in dollar terms were 70 per cent higher at the end of June 1973, than a year earlier. At the end of December they were 64 per cent higher than at the beginning of the year, and since then they have risen further at an annual rate of almost 50 per cent. In the first half of 1973 price rises for food and other agricultural products accounted for a large part of the change. Since then the main upward impetus has come from the rapid surge of petroleum and metals prices. In countries such as the United Kingdom,

Table 1: Percentage Rates of Change in Wholesale and Consumer Prices in Major Industrial Countries 1958-1973

	Average 1958-64	Average 1965-71	1972	Change from year earlier 1973 QI	QII	QIII	QIV	Latest month
United Kingdom 1/								
WPI	1.6	4.3	5.3	6.6	7.3	8.9	10.8	16.8 (Feb.)
CPI	2.5	5.3	7.1	7.9	9.3	9.2	10.3	13.2 (Feb.)
Germany 2/								
WPI	0.6	2.7	3.2	5.3	6.3	7.2	7.9	11.7 (Feb.)
CPI	2.2	3.1	5.8	6.5	7.3	6.9	7.3	7.6 (Feb.)
France 3/								
WPI	3.8	3.0	14.6	10.4	12.5	16.0	19.1	29.2 (Feb.)
CPI	5.8	4.2	7.4	6.5	7.1	7.6	8.3	11.5 (Feb.)
Italy 4/								
WPI	1.1	2.7	4.1	--	--	--	--	-- (Dec.)
CPI	3.5	3.3	5.7	8.8	11.1	11.6	11.6	13.2 (Feb.)
Netherlands 5/								
WPI	1.1	2.9	3.3	10.2	14.9	12.6	12.7	14.0 (Dec.)
CPI	2.6	5.2	7.8	7.7	8.1	8.3	8.1	8.4 (Feb.)
Canada								
WPI	1.1	2.7	4.8	14.2	18.3	26.4	26.4	26.3 (Feb.)
CPI	1.5	3.5	7.0	5.9	7.3	8.2	9.0	9.6 (Feb.)

(table continued on next page)

Table 1: Percentage Rates of Change in Wholesale and
Consumer Prices in Major Industrial Countries
1958-1973 (continued)

	Average 1958-64	Average 1965-71	1972	Change from year earlier 1973 QI	QII	QIII	QIV	Latest month
Japan								
WPI	-0.5	1.5	0.8	9.3	12.5	17.3	23.9	37.0 (Feb.)
CPI	4.2	5.8	4.8	7.7	10.9	13.1	15.1	22.0 (Mar.)
United States								
WPI	0.2	2.7	4.6	8.6	13.1	16.1	17.3	19.1 (Mar.)
CPI	1.4	3.9	3.3	4.1	5.5	6.9	8.4	10.0 (Feb.)

1/ WPI for manufactured products, home market sales. Wholesale price data adjusted for introduction of VAT on April 1, 1973.

2/ Producer prices, industrial products. VAT introduced on January 1, 1968.

3/ WPI for industrial products.

4/ VAT introduced on January 1, 1973. WPI changes for 1973 are not comparable and are omitted.

5/ VAT introduced on January 1, 1969.

Source: OECD and national sources. Indexes refer to general WPI and CPI unless otherwise noted. Where relevant, the year in which a value-added tax was introduced is excluded from the calculation.

Italy and Japan, depreciation of effective exchange rates during 1973 magnified the effect of the rise of world prices on the domestic price level, while for countries whose exchange rates appreciated, such as Germany, these effects were moderated.

The large increases in raw food prices seem to have worked through to the retail stage to a considerable extent. For the seven countries shown in Table 2 combined, the rise in food prices in 1973 accounted for more than two-fifths of the total price increase, considerably more than in the 1963-72 period. The major role played by food in the acceleration of consumer prices was widespread, except for Germany, Japan and the Netherlands, where non-food price rises contributed even more. But in all countries the contribution of services to the overall price rise in 1973 was well below earlier averages.

As shown in Table 1, price increases at the wholesale level have historically tended to be more moderate than those at the consumer price level. By the last half of 1973, however, and even before the oil crisis, this pattern had been reversed. A conclusion which might be drawn from this is that a good part of the recent increases in non-food commodity prices has not yet been passed through to the retail level.

Such further increases in the cost-of-living are widely anticipated and may have an impact on forthcoming wage negotiations. The latter are now at the center of policy concern, because in 1973

Table 2: Percentage Contribution of CPI Components to Changes in Consumer Prices in Major Industrial Countries
A. 1964-1972, average of annual rates
B. 1973.IV/1972.IV

		Total	Food	Non-food Goods	Services
United Kingdom	A	100	42.3	32.7	25.0
	B	100	56.3	26.2	17.5
Germany	A	100	25.0	31.3	43.8
	B	100	26.0	50.7	23.3
France	A	100	37.2	30.2	32.6
	B	100	48.2	30.1	21.7
Italy	A	100	38.5	28.2	33.3
	B	100	47.4	28.5	24.1
Netherlands	A	100	30.4	25.0	44.6
	B	100	28.8	31.2	40.0
Canada	A	100	29.4	17.7	52.9
	B	100	54.4	24.4	21.2
Japan	A	100	45.3	22.6	32.1
	B	100	45.1	35.4	19.5
Seven countries combined 1/	A	100	36.4	27.3	36.3
	B	100	44.4	34.3	21.3

Source: OECD, Consumer Price Indexes, February, 1974.
1/ Weighted by Gross Domestic Products.

wage bargains were fairly moderate in the U.S. as well as in other industrial areas, so that there was a consequent decline in real wages for the year as a whole. Wage demands this year are likely to attempt to make up for real income losses last year and to avoid a recurrence of such a shift this year.

In the United Kingdom problems of inflation are coupled with steadily worsening balance of payments prospects. In an attempt to protect the purchasing power of lower income groups without increasing wage costs, the Labour Government has announced extensive subsidies on various food items, designed to cut food prices by 6 per cent and to reduce the overall retail price index by about 1-1/2 per cent. In addition, rents on public and private housing had already been frozen for the remainder of 1974.

On the other hand, prices for output of nationalized industries are to be raised, as are some excise taxes. The coverage of the value-added tax was also extended. The total impact of all measures presented in the recent budget announcement will be to raise the retail price index, but to lower those components that loom large in the budgets of wage-earners and old-age pensioners.

Nevertheless, the pressure for more generous labor settlements is high and rising, especially in the wake of the settlement of the miners' strike, and even though statutory wage controls have not yet been lifted. At the same time, with output growth slowing, productivity increases have fallen well below the exceptionally high levels of 1972 and early 1973, and may well be relatively small. In addition to possibly high new wage contracts, further wage increases are already in the pipeline: labor agreements concluded under the wage guidelines of 1973 have an automatic escalator clause which is triggered when the retail price index rises 7 per cent above the level of October 1973. By February 1974, the index was already 5.2 per cent above that level, so that the escalator provision may be activated quite shortly. About 3-1/2 million workers - or one seventh of the labor force - are covered by such agreements so far. Thus, the prospect that a cost-push inflation can be avoided is not very likely.

The Italian situation in 1973 was marked by extremely rapid pass-throughs of recent increases in commodity and energy prices. In addition, two factors contributed noticeably to the acceleration of inflation rates. First, the price freeze imposed in the summer of 1973 has gradually been relaxed, leading to a bunching of price increases. Second, the sharp depreciation of the lira in the early part of the year increased the costs of imported goods, and was particularly important in the case of raw and intermediate materials, inventories of which were very low. Both the price freeze, which was applied largely at the retail level, and the depreciation tended to reinforce the divergence of the WPI and CPI. Between January and October (the latest month for which sectoral details are available) the prices of both industrial materials and investment goods rose by more than 20 per cent, while those for consumer goods were up nearly 15 per cent. It should also be noted that the value-added tax introduced in January is estimated to have added about 2 points to the Italian CPI in 1973.

Even with the high inflation rates, real wages have increased in 1973 faster than in 1972. Hourly wage rates in manufacturing were up nearly 28 per cent from December 1972, to December 1973, and expectations for 1974 are that wage demands cannot easily be kept even to the 1973 level. The authorities are not well placed to resist wage demands strongly because of the danger of renewed widespread workstoppages, which plagued the Italian economy intermittently since 1969. At the same time the government is committed to restrain demand forces in the economy. The conditions attached to the "letter-of-intent" associated with an IMF statutory credit, point to limiting the rate of domestic credit growth through March 1975, as a main instrument for achieving this.

Of the major industrial countries Japan is clearly the hardest hit by the current inflationary climate. Japanese prices began a steep upward climb in early 1973, pushed mainly by soaring world prices for raw materials, on which the economy is heavily dependent. Throughout the year the acceleration of wholesale prices consistently outstripped increases in consumer prices (particularly unusual for Japan). While in the third quarter of 1973 wholesale prices were 17.3 per cent above year-earlier levels, by February 1974, they had skyrocketed to 37 per cent above year-earlier levels. Price rises for durable and capital goods contributed least to this price surge.

The impact of the petroleum situation also has been particularly severe on Japan. Overall, the economy is 75 per cent dependent on oil for its total <u>energy</u> requirements, and almost 100 per cent dependent on imports for its <u>oil</u> requirements. In addition, in Japan as in Italy, major growth sectors of the economy involve petroleum-related products: chemicals, fertilizers, plastics and other synthetic materials.

On March 16, in an attempt to slow the rapid inflationary surge, the Japanese government froze prices of 53 major industrial commodities and 148 retail items. There are signs, however, that at least the rate of increase in wholesale prices was already slowing before the freeze was imposed. In December, the WPI climbed 7.1 per cent over the previous month, but in January and February the monthly rise was 5.5 and 3.9 per cent, respectively.

In addition to the recent price freeze, the Japanese authorities have tightened monetary conditions in successive steps and cut back government expenditures. For fiscal 1974 (which began on April 1) the government forecasts a 15 per cent increase in wholesale and a 10 per cent rise in consumer prices. Forecasts by the Japan Economic Research Center are, however, substantially higher (26 per cent for the WPI and 22 per cent for the CPI).

In <u>France</u> price reactions to the increase in materials prices in 1973, and especially to the petroleum price increases late in the year, were rapid because such cost rises could be passed on under the price-contracts concluded between the government and industry. By February 1974, French wholesale prices had risen by 29.2 per cent, and consumer prices by over 11 per cent in a twelve-month period. Despite high levels of structural unemployment, the labor market for skilled workers tightened considerably during the year, and 1973 wage rate gains of 15.1 per cent exceeded even those of 1968.

French government policy during much of 1973 was aimed at restraining aggregate demand by slowing the growth of credit in the economy. In March of this year, an anti-inflation package was announced which is geared to the government's present belief that the worst of the inflationary tide will have passed by mid-year. Tax payments were accelerated, and value-added tax rates are to be lowered later in the year, when aggregate demand is expected to fall off. The budget deficit is also to be cut drastically. On the other hand, limits on growth of bank credits have been eased somewhat.

The possible impact of inflationary wage agreements is a real concern in 1974. To discourage overly-large settelements, French firms have been granted permission to pass on cost increases stemming from higher materials and energy prices, but not "internal" costs such as higher wage settlements. In certain cases involving mostly agricultural products, price or profit margin freezes are in effect. Rents are also frozen until July 1974, and an attempt has been made to stabilize public utility charges. Political uncertainties in France, which existed before and continue after the death of President Pompidou, however, may lessen the effectiveness of government efforts to hold down 1974 wage increases.

In Germany inflation rates have been consistently lower than in other industrial countries, but as elsewhere have accelerated in recent months, at least at the wholesale price level. The repeated revaluations of the Deutsche mark (3 per cent against the parities of Germany's joint float partners in March 1973, and 5.5 per cent in June 1973) were a factor which, until recently, helped moderate German price increases, but in late 1973 the price effect of the world commodity boom and the oil crisis was somewhat heightened due to the relative decline of the DM from revaluation levels set in the middle of the year.

The German government continues to follow fairly tight monetary and fiscal policies to manage demand levels and hold further price increases in check. Official policy for 1974 is oriented toward stability in the standard of living and restraint in consumption demand. Labor and management have both been warned not to try to increase their relative shares of output this year. This approach may be somewhat more successful in Germany than elsewhere, because consumer prices, though rising fast, did not outstrip wage increases in 1973. Still, with the considerable acceleration in wholesale prices in recent months, the announced target of a 10 per cent or less increase in the CPI for 1974 may be too optimistic. Germany's very strong external position has led to recommendations that the DM should again be revalued. A revaluation, should it occur, would enhance the chances for keeping inflation in rein.

The problem of inflation in the Netherlands is somewhat attenuated by the large energy reserves of that country and reliance on domestic gas resources is growing rapidly. The revaluation of the guilder on September 17, 1973, has also served to cushion the impact of the inflation in materials prices in the latter part of the year.

The course of recent price developments in the Netherlands, in fact, bears strong resemblance to the experience in Germany, to which the Dutch economy is closely tied. Wholesale prices in February were up 14 per cent, and consumer prices 8.4 per cent above year-earlier levels, but these figures are still at the lower end of the European scale. Prior to the oil crisis, with the introduction of the 1974/75 Budget, the government had hoped to cut the increase in the CPI to the 6-7 per cent range for 1974, but this now seems an unrealistic goal. Following a breakdown in labor-management talks, on March 20 the Dutch government imposed what appears to be a rather moderate settlement. Dutch real wages are broadly protected by cost-of-living escalators, so that further price rises are quickly translated into increased wages.

Unlike the other industrial countries, <u>Canada</u> as a whole is self-sufficient in petroleum. However, Western Canada is a net exporter, while Eastern Canada is a net importer of crude petroleum. On March 27, Premier Trudeau reached an agreement with the provincial premiers to raise the price of Western Canadian crude petroleum by $2.50 per barrel to a level of $6.50 per barrel for the next 12-15 months. The federal government will receive the revenue from the export tax (which is set at about four dollars per barrel for April) and use it to subsidize the price of imported oil in the East, so that there will be a uniform national price for petroleum within Canada. This increase will put some further upward pressure on the Canadian price level, but clearly nowhere near as much as in some other countries.

In January 1974, overall wholesale prices were 26.6 per cent above their year-earlier level, but rates of increase had stabilized in the second half of 1973. Consumer prices in 1974 are expected to increase by approximately 7-1/2 per cent over 1973, about the same rate as for 1973 over 1972. However, the rate of increase is expected to decelerate in the second half of 1974.

In all of the countries reviewed above, inflationary prospects for 1974 depend critically on two factors which have yet to take shape with clarity. First, the question whether commodity prices are likely to come down or at least level off. This is an assumption underlying most forecasts, and depends greatly on the course of industrial activity in the major countries in the next months.

The second question centers upon the degree of success with which each country can keep wage increases within anti-inflationary guidelines. Whatever else occurs, it now appears that 1974 will be marked by strong labor sentiment in favor of catch up settlements to compensate for the rapid increases in the cost-of-living generated during the past year.