

Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,¹ and then making the scanned versions text-searchable.² Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

¹ In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

² A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

June 12, 1974

**By the Staff
Board of Governors
of the Federal Reserve System**

TABLE OF CONTENTS

	<u>Section</u>	<u>Page</u>
DOMESTIC NONFINANCIAL SCENE	I	
Summary and GNP outlook		- 1
Industrial production		-10
Retail sales		-10
Unit sales of consumer durables		-12
Conference Board survey of consumer attitudes and buying plans.		-13
Manufacturers' orders and shipments		-15
Inventories		-16
Cyclical indicators		-17
Construction and real estate		-18
Anticipated plant and equipment spending		-20
Labor market		-23
Earnings		-24
Recent price developments		-26
Agriculture		-29
 DOMESTIC FINANCIAL SITUATION	 II	
Summary and outlook		- 1
Monetary aggregates		- 4
Bank credit		- 7
Nonbank financial intermediaries		-13
Long-term securities markets		-15
Consumer credit		-18
Short-term interest rates		-22
Mortgage market		-25
Agricultural finance		-29
Federal finance		-31
 INTERNATIONAL DEVELOPMENTS	 III	
Summary and outlook		- 1
Foreign exchange markets		- 3
Euro-dollar markets		- 4
U.S. balance of payments		- 8
U.S. foreign trade		-10
Balance of payments of major industrial countries		-14
 APPENDIX A		
Bank credit revision		A-1

DOMESTIC NONFINANCIAL SCENE

June 12, 1974

I -- T - 1

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
						(At Annual Rates)
Civilian labor force	May	6/7/74	90.7	4.9 ^{1/}	.5 ^{1/}	2.7 ^{1/}
Unemployment rate	May	6/7/74	5.2	5.0 ^{1/}	5.2 ^{1/}	4.9 ^{1/}
Insured unemployment rate	May	5/31/74	3.3	3.4 ^{1/}	3.3 ^{1/}	2.7 ^{1/}
Nonfarm employment, payroll (mil.)	May	6/7/74	77.1	2.8	1.5	2.4
Manufacturing	May	6/7/74	19.9	.8	.4	.7
Nonmanufacturing	May	6/7/74	57.2	3.6	1.9	3.0
Private nonfarm:						
Average weekly hours (hours)	May	6/7/74	36.8	36.6 ^{1/}	37.0 ^{1/}	37.2 ^{1/}
Hourly earnings (\$)	May	6/7/74	4.14	17.6	9.9	7.5
Manufacturing:						
Average weekly hours (hours)	May	6/7/74	40.3	39.4 ^{1/}	40.5 ^{1/}	40.7 ^{1/}
Unit labor cost (1967=100)	Apr.	5/29/74	128.1	5.6	7.0	5.9
Industrial production (1967=100)	May	6/14/74	125.4	4.8	2.6	.4
Consumer goods	May	6/14/74	129.5	8.4	3.7	-1.7
Business equipment	May	6/14/74	129.6	9.3	7.2	6.8
Defense & space equipment	May	6/14/74	81.6	19.4	3.5	2.4
Materials	May	6/14/74	128.9	.0	1.9	.5
Consumer prices (1967=100)	Apr.	5/21/74	144.0	6.9	11.5	10.2
Food	Apr.	5/21/74	158.1	-5.3	9.3	16.2
Commodities except food	Apr.	5/21/74	132.9	12.8	14.3	8.6
Services ^{2/}	Apr.	5/21/74	147.9	7.3	8.6	7.9
Personal income (\$ billion) ^{3/}	Apr.	5/16/74	1108.4	7.6	7.9	9.6
						(Not at Annual Rates)
Mfrs. new orders dur. goods (\$ bil.)	Apr.	5/31/74	44.1	4.9	n.a.	n.a.
Capital goods industries:	Apr.	5/31/74	13.5	5.2	n.a.	n.a.
Nondefense	Apr.	5/31/74	11.9	5.0	n.a.	n.a.
Defense	Apr.	5/31/74	1.6	6.7	n.a.	n.a.
Inventories to sales ratio:						
Manufacturing and trade, total	Apr.	6/12/74	1.45	1.44 ^{1/}	n.a.	n.a.
Manufacturing	Apr.	5/31/74	1.62	1.62 ^{1/}	n.a.	n.a.
Trade	Apr.	6/12/74	1.28	1.28 ^{1/}	1.31 ^{1/}	1.30 ^{1/}
Ratio: Mfrs.' durable goods inventories to unfilled orders	Apr.	5/31/74	.709	.715 ^{1/}	n.a.	n.a.
Retail sales, total (\$ bil.)	May	5/10/74	44.4	1.0	2.9	6.4
GAF	May	5/10/74	11.8	2.0	4.2	8.7
Auto sales, total (mil. units) ^{3/}	May	6/6/74	9.0	-.8	1.0	-24.1
Domestic models	May	6/6/74	7.8	.2	6.1	-22.0
Foreign models	May	6/6/74	1.2e	-7.3	-23.1	-35.4
Plant & equip. expen. (\$ bil.) ^{4/}						
All industries	74-QII	6/5/74	110.58	3.1	--	13.1
	74-QIII	6/5/74	113.16	2.3	--	12.2
	74-QIV	6/5/74	116.04	2.5	--	11.9
	1974	6/5/74	111.96	--	--	12.2
Housing starts, private (thous.) ^{3/}	Apr.	5/16/74	1,626	9.6	11.1	-24.5
Leading indicators (1967=100)	Apr.	5/29/74	172.3	-.7	1.7	7.9

^{1/} Actual data. ^{2/} Not seasonally adjusted. ^{3/} At annual rate. ^{4/} Planned--
Commerce May survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Real GNP in the second quarter apparently is averaging close to the first-quarter level, while the rate of price advance, although still large, is not quite as rapid as in the first quarter. No strong expansive force has as yet emerged.

Industrial production is now estimated to have risen 0.4 per cent in May, the second consecutive monthly gain. Moreover, the index levels for March and April have been revised up. In May output of business equipment increased appreciably further and there were advances for autos and for nondurable consumer goods. Overall production of materials was unchanged. The May index was 0.5 per cent above the first quarter average.

The unemployment rate rose to 5.2 per cent in May, as the civilian labor force rose sharply, after changing little since early in the year. The increase in unemployment was concentrated among younger workers. Unemployment declined for adult men, although weekly initial claims for unemployment insurance tended up during the month. Nonfarm payroll employment increased substantially in May, but manufacturing employment changed little. The workweek in manufacturing recovered most of the sharp April decline--which was apparently attributable to the occurrence of Good Friday in the reporting week.

Consumer spending remains sluggish, particularly after adjustment for price increases. The dollar volume of sales increased moderately in May, according to the advance report, but the rise

indicated earlier for April was revised down substantially, to show virtually no change from March. Unit sales of domestic-type autos remained at the somewhat improved April level, but sales of imported cars declined further--for the fifth consecutive month.

Prospective expenditures for plant and equipment have been reduced slightly, according to the latest Commerce survey. The planned increase in total outlays for 1974 is now 12.2 per cent rather than the 13.0 per cent indicated by the previous survey. The downward revision is concentrated in the second half of the year. New orders for nondefense capital goods rose sharply in April, even after allowance for price increases, but the trend of new orders since last fall has been comparatively flat.

The increase in wage rates has accelerated further, although the sharp advance for May did include some special factors, such as the initial effects of the May 1 minimum wage increase. In May, the adjusted hourly earnings index for private nonfarm workers was 7.7 per cent above a year earlier.

Prices of farm products declined in May for the third consecutive month, and were about 7 per cent above a year earlier. Especially sharp reductions have occurred in prices of meat animals. The wholesale price index for May is not yet available, but prices of industrial commodities probably rose substantially further. In April, the consumer price index had risen 0.6 per cent, with the marked slowing from the rate of the preceding three months mainly attributable to a decline in food prices.

Outlook. Staff projections through mid-1975 incorporate the following policy assumptions: (1) Growth in M_1 is assumed to average an annual rate of about 5-1/2 per cent over the last three quarters of 1974 and to be somewhat more rapid thereafter. Nominal GNP is projected to increase more rapidly than M_1 , and short-term interest rates are expected to rise somewhat above current levels later this year. (2) The staff has eliminated the assumption of downward adjustment in personal tax withholding schedules because the Administration is no longer pushing such a measure. (3) An expanded public employment program is still assumed. (4) It is now assumed that an oil tax effective July 1, will be enacted along the lines of the measure reported out by the House Ways and Means Committee, and that about \$1 billion (\$2 billion annual rate) would be collected during the second half of 1974. (5) Although other Federal expenditures remain close to the Budget for fiscal 1975, the full employment surplus is increased by assumptions (2) and (4).

Growth in real GNP in the second half of 1974 is now projected at an annual rate of about 1-3/4 per cent, about 1 per cent less than projected four weeks ago. The projected growth in disposable income has also been reduced by dropping the assumption that withholding schedules would be liberalized. The rise in consumer spending has been scaled down in view both of the slower expansion of disposable income and the continued sluggishness recently in retail sales.

Sales of new cars--both domestic models and imports--have been weak and sales are expected to improve only moderately from current levels, given the large recent increases in car prices, and the additional substantial rise in prospect for the 1975 models.

The projected increase in business fixed investment also has been reduced for the second half of 1974, in line with the recent Commerce survey. The revision is more marked in real than in nominal terms, in view of prospective price developments. It is still anticipated that housing starts will rise moderately and then level off. Growth is expected to slow for both exports and imports of goods and services, but with some net worsening in the balance.

In the first half of 1975, the rate of growth in real GNP is now projected to be at an annual rate of only 1.6 per cent, compared to the 2-1/4 per cent rate indicated four weeks ago. In real terms, both consumer spending and business fixed investment are expected to increase more slowly than had been projected last month.

Prices seem likely to rise even more rapidly in the second half of this year than expected earlier, and the staff has raised the projected increase in the GNP fixed-weighted index by about 1/2 per cent in the last two quarters. In the fourth quarter, this index is projected to rise at an annual rate of around 7 per cent. Recent price increases have been exceptionally large and further sizable advances have already been announced in such important industries as steel and autos. The recent acceleration in wage rates also suggests additional pressures on the cost side. Nevertheless, the staff still expects

a slowing in the rate of price increase over the entire projection period, with the fixed-weighted index rising at an annual rate of under 5-1/2 per cent in the second quarter of 1975. The anticipated moderation of the rise of foods and petroleum products is a major factor in the projected overall slowing.

As a result of the slower growth in output, nonfarm employment is projected to increase by about a quarter of a million over the next four quarters, compared to an increase of half a million projected last time. As a result, the unemployment rate is now expected to rise to 6.3 per cent by mid-1975, with the slower growth in employment partly offset by a smaller projected growth in the labor force.

STAFF GNP PROJECTIONS

	Changes in nominal GNP \$ billion		Per cent change annual rate					
			Real GNP		Gross private product fixed weighted price index		Unemployment rate	
	5/15/74	6/12/74	5/15/74	6/12/74	5/15/74	6/12/74	5/15/74	6/12/74
1971 <u>1/</u>	78.3	78.3	3.2	3.2	4.6	4.6	5.9	5.9
1972 <u>1/</u>	99.7	99.7	6.1	6.1	3.2	3.2	5.6	5.6
1973 <u>1/</u>	133.9	133.9	5.9	5.9	6.1	6.1	4.9	4.9
1974	108.8	107.2	- .2	- .6	9.2	9.6	5.4	5.5
1973: I <u>1/</u>	43.3	43.3	8.7	8.7	7.0	7.0	5.0	5.0
II <u>1/</u>	29.5	29.5	2.4	2.4	7.9	7.9	4.9	4.9
III <u>1/</u>	32.5	32.5	3.4	3.4	7.0	7.0	4.7	4.7
IV <u>1/</u>	33.0	33.0	1.6	1.6	8.6	8.6	4.7	4.7
1974: I <u>1/</u>	14.3	14.3	-5.8	-5.8	12.5	12.5	5.2	5.2
II	28.2	27.8	- .4	- .5	9.3	9.4	5.2	5.2
III	32.0	29.5	2.4	1.3	7.0	7.6	5.5	5.6
IV	36.0	33.9	3.0	2.2	6.7	7.1	5.7	5.9
1975: I	30.0	27.4	2.3	1.6	5.8	6.0	5.9	6.1
II	27.0	25.0	2.2	1.6	5.2	5.3	6.1	6.3
Change: 72-IV to 73-IV	138.3	138.3	4.0	4.0	7.8	7.8	- .6	- .6
73-IV to 74-IV	110.5	105.9	- .2	- .9	8.8	9.4	1.0	1.2
74-II to 75-II	125.0	115.8	2.5	1.7	6.2	6.5	.9	1.1

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				1974
			I	II	III	IV	I
Gross National Product	1289.1	1396.3	1242.5	1272.0	1304.5	1337.5	1352.2
Final purchases	1281.1	1388.1	1237.8	1267.5	1299.8	1319.4	1346.7
Private	1004.0	1078.3	969.2	992.2	1020.8	1033.8	1048.9
Excluding net exports	998.2	1075.8	969.2	989.4	1013.2	1021.0	1038.0
Personal consumption expenditures	804.0	875.7	779.4	795.6	816.0	825.2	844.6
Durable goods	130.8	131.9	132.2	132.8	132.8	125.6	125.0
Nondurable goods	335.9	374.6	322.2	330.3	341.6	349.6	362.3
Services	337.3	369.2	325.0	332.6	341.6	350.0	357.3
Gross private domestic investment	202.1	208.4	194.5	198.2	202.0	213.9	198.9
Residential construction	58.0	49.9	59.0	59.6	59.2	54.0	49.3
Business fixed investment	136.2	150.3	130.9	134.1	138.0	141.8	144.1
Change in business inventories	8.0	8.2	4.6	4.5	4.7	18.0	5.5
Nonfarm	7.3	7.9	4.4	4.4	3.2	17.3	5.0
Net exports of goods and services ^{1/}	5.8 ^{2/}	2.5	.0	2.8	7.6	12.8 ^{2/}	10.9 ^{2/}
Exports	102.0 ^{2/}	137.6	89.7	97.2	104.5	116.4 ^{2/}	130.4 ^{2/}
Imports	96.2	135.0	89.7	94.4	97.0	103.6	119.4
Gov't. purchases of goods and services	277.1	309.8	268.6	275.3	279.0	285.6	297.8
Federal	106.6	115.8	105.5	107.3	106.8	106.8	112.1
Defense	73.9	79.0	74.3	74.2	74.2	73.0	76.3
Other	32.7	36.8	31.2	33.1	32.7	33.8	35.8
State & local	170.5	194.0	163.0	168.0	172.2	178.8	185.7
Gross national product in constant (1958) dollars	837.4	832.7	829.3	834.3	841.3	844.6	831.0
GNP implicit deflator (1958 = 100)	153.9	167.7	149.8	152.5	155.1	158.4	162.7
Personal income	1035.4	1133.4	996.6	1019.0	1047.1	1078.9	1094.4
Wage and salary disbursements	691.5	748.9	666.7	682.6	699.3	717.2	726.2
Disposable income	882.5	963.3	851.5	869.7	891.1	917.8	931.4
Personal saving	54.8	61.0	50.0	51.0	51.1	67.1	61.5
Saving rate (per cent)	6.2	6.3	5.9	5.9	5.7	7.3	6.6
Corporate profits & inventory val. adj.	109.0	117.5	104.3	107.9	112.0	111.9	108.9
Corporate profits before tax	126.3	143.3	119.6	128.9	129.0	127.4	140.1
Federal government receipts and expenditures, (N.I.A. basis)							
Receipts	265.0	295.2	253.6	262.4	269.5	274.3	284.9
Expenditures	264.0	298.0	258.6	262.4	265.6	269.6	282.3
Surplus or deficit (-)	1.0	-2.8	-5.0	.0	4.0	4.7	2.6
High employment surplus or deficit (-)	-1.3	3.1	-2.4	-1.7	-2.1	1.1	2.2
State and local government surplus or deficit (-), (N.I.A. basis)	10.5	2.6	13.9	11.5	10.4	6.0	4.5
Total labor force (millions)	91.0	93.2	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	90.9	87.6	88.5	89.0	89.9	90.5
Unemployment rate (per cent)	4.9	5.5	5.0	4.9	4.7	4.7	5.2
Nonfarm payroll employment (millions)	75.6	77.0	74.6	75.3	75.7	76.6	76.7
Manufacturing	19.8	19.9	19.6	19.8	19.8	20.1	19.9
Industrial production (1967 = 100)	125.6	125.8	123.1	124.8	126.7	127.0	124.8
Capacity utilization, mfg. (per cent)	83.0	80.0	82.8	83.3	83.3	82.6	80.5
Major materials (per cent)	93.2	89.7	92.8	92.8	94.1	93.2	90.2
Housing starts, private (millions, A.R.)	2.04	1.66	2.39	2.21	2.01	1.58	1.62
Sales new autos (millions, A.R.)	11.44	9.19	12.23	11.73	11.74	10.09	9.04
Domestic models	9.67	7.87	10.27	9.87	10.11	8.44	7.49
Foreign models	1.77	1.32	1.96	1.86	1.63	1.65	1.55
^{1/} Net exports of g. & s. (Bal. of Paymts.)	6.9 ^{2/}	5.4 ^{2/}	.7	2.4	8.6	15.9 ^{2/}	13.7 ^{2/}
Exports	102.7 ^{2/}	137.7 ^{2/}	90.2	97.2	105.0	118.7 ^{2/}	130.5 ^{2/}
Imports	95.8	132.3	89.4	94.8	96.4	102.8	116.7

^{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.

June 12, 1974

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

	1974 Proj.	1974 Projection				1975	
		I	II	III	IV	I	II
Gross National Product	1396.3	1352.2	1380.0	1409.5	1443.4	1470.8	1495.8
Final purchases	1388.1	1346.7	1370.0	1400.7	1434.9	1462.6	1487.6
Private	1078.3	1048.9	1065.0	1087.6	1111.8	1131.3	1148.6
Excluding net exports	1075.8	1038.0	1063.2	1088.3	1113.8	1136.6	1156.1
Personal consumption expenditures	875.7	844.6	865.5	886.5	906.0	924.3	941.7
Durable goods	131.9	125.0	130.3	134.0	138.2	141.2	142.7
Nondurable goods	374.6	362.3	370.2	379.5	386.3	393.3	401.2
Services	369.2	357.3	365.0	373.0	381.5	389.8	397.8
Gross private domestic investment	208.4	198.9	207.7	210.6	216.2	220.5	222.6
Residential construction	49.9	49.3	49.4	49.5	51.4	52.5	51.4
Business fixed investment	150.3	144.1	148.3	152.3	156.3	159.8	163.0
Change in business inventories	8.2	5.5	10.0	8.8	8.5	8.2	8.2
Nonfarm	7.9	5.0	10.0	8.5	8.0	8.0	8.0
Net exports of goods and services ^{1/}	2.5 ^{2/}	10.9 ^{2/}	1.8	-.7	-2.0	-5.3	-7.5
Exports	137.6 ^{2/}	130.4 ^{2/}	138.0	139.8	142.0	142.4	143.7
Imports	135.0	119.4	136.2	140.5	144.0	147.7	151.2
Gov't. purchases of goods and services	309.8	297.8	305.0	313.1	323.1	331.3	339.0
Federal	115.8	112.1	113.9	116.1	121.0	123.4	125.8
Defense	79.0	76.3	77.8	79.0	82.9	84.6	86.1
Other	36.8	35.8	36.1	37.1	38.1	38.8	39.7
State & local	194.0	185.7	191.1	197.0	202.1	207.9	213.2
Gross national product in constant (1958) dollars	832.7	831.0	829.9	832.5	837.2	840.5	843.8
GNP implicit deflator (1958 = 100)	167.7	162.7	166.3	169.3	172.4	175.0	177.3
Personal income	1133.4	1094.4	1119.5	1147.3	1172.4	1197.4	1220.9
Wage and salary disbursements	748.9	726.2	740.2	757.5	771.6	788.2	802.8
Disposable income	963.3	931.4	952.5	974.6	994.6	1015.2	1034.4
Personal saving	61.0	61.5	60.7	61.0	60.6	62.0	63.0
Saving rate (per cent)	6.3	6.6	6.4	6.3	6.1	6.1	6.1
Corporate profits & inventory val. adj.	117.0	108.9	115.4	118.7	124.9	127.5	127.7
Corporate profits before tax	143.3	140.1	144.0	144.0	145.0	142.5	139.5
Federal government receipts and expenditures, (N.I.A. basis)							
Receipts	295.2	284.9	292.2	298.6	305.1	310.8	315.1
Expenditures	298.0	282.3	292.9	304.3	312.6	320.6	327.2
Surplus or deficit (-)	-2.8	2.6	-.7	-5.7	-7.5	-9.8	-12.1
High employment surplus or deficit (-)	3.1	2.2	1.6	1.6	6.8	12.3	16.4
State and local government surplus or deficit (-), (N.I.A. basis)	2.6	4.5	2.9	1.9	1.2	.0	-1.5
Total labor force (millions)	93.2	92.8	93.0	93.4	93.7	93.9	94.2
Armed forces "	2.3	2.3	2.3	2.3	2.3	2.2	2.2
Civilian labor force "	90.9	90.5	90.7	91.1	91.4	91.7	92.0
Unemployment rate (per cent)	5.5	5.2	5.2	5.6	5.9	6.1	6.3
Nonfarm payroll employment (millions)	77.0	76.7	77.1	77.1	77.1	77.2	77.3
Manufacturing	19.9	19.9	19.9	19.9	19.9	19.9	19.9
Industrial production (1967 = 100)	125.8	124.8	125.4	126.0	127.0	128.0	128.9
Capacity utilization, mfg. (per cent)	80.0	80.5	80.3	79.9	79.2	79.4	79.4
Major materials (per cent)	89.7	90.2	90.2	89.4	88.9	88.2	87.6
Housing starts, private (millions, A.R.)	1.66	1.62	1.60	1.70	1.70	1.60	1.50
Sales new autos (millions, A.R.)	9.19	9.04	9.07	9.25	9.40	9.50	9.50
Domestic models	7.87	7.49	7.84	8.00	8.15	8.25	8.25
Foreign models	1.32	1.55	1.23	1.25	1.25	1.25	1.25
^{1/} Net exports of g. & s. (Bal. of Paymts.)	5.4	13.7	4.6	2.1	.8	-2.5	-4.7
Exports	137.7	130.5	138.1	139.9	142.1	142.5	143.8
Imports	132.3	116.7	133.5	137.8	141.3	145.0	148.5

^{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.

June 12, 1974

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1973	1974 Proj.	1973				1974
			I	II	III	IV	I
-----Billions of Dollars-----							
Gross National Product	133.9	107.2	43.3	29.5	32.5	33.0	14.7
Inventory change	2.0	.2	-3.6	-.1	.2	13.3	-12.5
Final purchases	132.0	107.0	46.8	29.7	32.3	19.6	27.3
Private	121.9	74.3	38.9	23.0	28.6	13.0	15.1
Net exports	28.5	-3.3	3.5	2.8	4.8	5.2	-1.9
Excluding net exports	105.4	77.6	35.4	20.2	23.8	7.8	17.0
Personal consumption expenditures	77.5	71.7	26.8	16.2	20.4	9.2	19.4
Durable goods	13.4	1.1	9.3	.6	.0	-7.2	-.6
Nondurable goods	36.0	38.7	11.5	8.1	11.3	8.0	12.7
Services	28.1	31.9	6.0	7.6	9.0	8.4	7.3
Residential fixed investment	4.0	-8.1	2.1	.6	-.4	-5.2	-4.7
Business fixed investment	18.0	14.1	6.6	3.2	3.9	3.8	2.3
Government	22.1	32.7	7.9	6.7	3.7	6.6	12.2
Federal	2.2	9.2	2.8	1.8	-.5	.0	5.3
State and local	20.0	23.5	5.0	5.0	4.2	6.6	6.9
GNP in constant (1958) dollars	46.7	-4.7	17.0	5.0	7.0	3.3	-13.6
Final purchases	45.7	-4.2	20.0	5.0	7.3	-6.2	-4.6
Private	44.0	-6.1	19.1	4.2	7.5	-5.3	-8.0
-----Per Cent Per Year ^{1/} -----							
Gross National Product	11.6	8.3	15.2	9.9	10.6	10.5	4.5
Final purchases	11.5	8.4	16.7	9.9	10.6	6.2	8.5
Private	12.0	7.4	17.8	9.8	12.0	5.2	6.0
Personal consumption expenditures	10.7	8.9	15.0	8.6	10.7	4.6	9.7
Durable goods	11.4	.8	33.9	1.8	.0	-20.0	-1.9
Nondurable goods	12.0	11.5	15.6	10.4	14.4	9.7	15.3
Services	9.1	9.5	7.7	9.7	11.3	10.2	8.6
Gross private domestic investment	13.3	3.1	11.2	7.8	7.9	25.7	-25.2
Residential structures	7.4	-14.0	15.6	4.1	-2.7	-30.8	-30.5
Business fixed investment	15.2	10.4	23.0	10.1	12.2	11.5	6.6
Gov't. purchases of goods & services	8.7	11.8	12.7	10.4	5.5	9.8	18.2
Federal	2.1	8.6	11.4	7.0	-1.9	.0	21.4
Defense	-.7	6.9	10.9	-.5	.0	-6.3	19.3
Other	8.6	12.5	12.4	26.7	-4.7	14.1	25.9
State and local	13.3	13.8	13.3	12.8	10.4	16.2	16.4
GNP in constant (1958) dollars	5.9	-.6	8.7	2.4	3.4	1.6	-6.3
Final purchases	5.8	-.5	10.3	2.4	3.6	-2.9	-2.2
Private	6.8	-.9	12.0	2.5	4.4	3.0	-4.6 ^{2/}
GNP implicit deflator	5.4	8.9	6.1	7.3	7.0	8.8 ^{2/}	11.5 ^{2/}
Private GNP fixed weighted index ^{3/}	6.1	9.6	7.0	7.9	7.6	8.6	13.5
Personal income	10.2	9.5	8.7	9.3	11.5	12.7	5.9
Wage and salary disbursements	10.1	8.3	11.6	9.9	10.2	10.6	5.1
Disposable income	10.7	9.2	11.5	8.8	10.2	12.5	6.1
Corporate profits before tax	28.9	13.5	61.5	34.9	.3	-4.9	46.2
Federal government receipts and expenditures (N.I.A. basis)							
Receipts	15.9	11.4	31.3	14.6	11.3	7.8	16.4
Expenditures	7.9	12.9	-2.6	6.0	5.0	6.2	20.2
Nonfarm payroll employment	3.9	1.9	4.5	3.7	2.2	4.4	.8
Manufacturing	4.7	.5	5.4	4.7	1.2	4.5	-2.9
Industrial production	9.0	.2	10.0	5.6	6.2	1.0	-6.8
Housing starts, private	-13.4	-18.8	1.0	-27.0	-32.0	-61.3	10.3
Sales new autos	4.6	-19.7	4.6	-15.4	.2	-45.5	-35.3
Domestic models	3.7	-18.6	16.0	-14.9	10.1	-51.5	-38.0
Foreign models	9.8	-25.4	42.3	-18.1	-41.7	5.8	-19.8

^{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, 11.4 per cent.^{3/} Using expenditures in 1967 as weights.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1974 Proj.	1974				1975	
		I	II	III	IV	I	II
-----Billions of Dollars-----							
Gross National Product	107.2	14.7	27.8	29.5	33.9	27.4	25.0
Inventory change	.2	-12.5	4.5	-1.2	-.3	-.3	.0
Final purchases	107.0	27.3	23.3	30.7	34.2	27.7	25.0
Private	74.3	15.1	16.1	22.6	24.2	19.5	17.3
Net exports	-3.3	-1.9	-9.1	-2.5	-1.3	-3.3	-2.2
Excluding net exports	77.6	17.0	25.2	25.1	25.5	22.8	19.5
Personal consumption expenditures	71.7	19.4	20.9	21.0	19.5	18.3	17.4
Durable goods	1.1	-.6	5.3	3.7	4.2	3.0	1.5
Nondurable goods	38.7	12.7	7.9	9.3	6.8	7.0	7.9
Services	31.9	7.3	7.7	8.0	8.5	8.3	8.0
Residential fixed investment	-8.1	-4.7	.1	.1	1.9	1.1	-1.1
Business fixed investment	14.1	2.3	4.2	4.0	4.0	3.5	3.2
Government	32.7	12.2	7.2	8.1	10.0	8.2	7.7
Federal	9.2	5.3	1.8	2.2	4.9	2.4	2.4
State and local	23.5	6.9	5.4	5.9	5.1	5.8	5.3
GNP in constant (1958) dollars	-4.7	-13.6	-1.1	2.6	4.7	3.3	3.3
Final purchases	-4.2	-4.6	-3.6	3.3	4.6	3.1	3.1
Private	-6.1	-8.0	-2.3	3.1	4.6	2.9	2.5
-----Per Cent Per Year ^{1/} -----							
Gross National Product	8.3	4.5	8.5	8.8	10.0	7.8	7.0
Final purchases	8.4	8.5	7.1	9.3	10.1	7.9	7.0
Private	7.4	6.0	6.3	8.8	9.2	7.2	6.3
Personal consumption expenditures	8.9	9.7	10.3	10.1	9.1	8.3	7.7
Durable goods	.8	-1.9	18.1	11.9	13.1	9.0	4.3
Nondurable goods	11.5	15.3	9.0	10.4	7.4	7.4	8.3
Services	9.5	8.6	8.9	9.1	9.4	9.0	8.5
Gross private domestic investment	3.1	-25.2	18.9	5.7	11.1	8.2	3.9
Residential structures	-14.0	-30.5	.8	.8	16.3	8.8	-8.1
Business fixed investment	10.4	6.6	12.2	11.2	10.9	9.3	8.3
Gov't. purchases of goods & services	11.8	18.2	10.0	11.1	13.4	10.5	9.6
Federal	8.6	21.4	6.6	8.0	18.0	8.2	8.0
Defense	6.9	19.3	8.1	6.3	21.3	8.5	7.3
Other	12.5	25.9	3.4	11.5	11.2	7.6	9.6
State and local	13.8	16.4	12.1	12.9	10.8	12.0	10.6
CNP in constant (1958) dollars	-.6	-6.3	-.5	1.3	2.2	1.6	1.6
Final purchases	-.5	-2.2	-1.7	1.6	2.2	1.5	1.5
Private	-.9	-4.6 ^{2/}	-1.8	1.8	2.7	1.7	1.5
GNP implicit deflator	8.9	11.5 ^{2/}	9.0	7.5	7.5 ^{2/}	6.1 ^{2/}	5.3
Private GNP fixed weighted index ^{3/}	9.6	13.5	9.4	7.6	7.1	6.0	5.3
Personal income	9.5	5.9	9.5	10.3	9.0	8.8	8.1
Wage and salary disbursements	8.3	5.1	7.9	9.7	7.7	8.9	7.6
Disposable income	9.2	6.1	9.4	9.6	8.5	8.5	7.8
Corporate profits before tax	13.5	46.2	11.6	.0	2.8	-6.7	-8.2
Federal government receipts and expenditures (N.I.A. basis)							
Receipts	11.4	16.4	10.6	9.1	9.0	7.7	5.6
Expenditures	12.9	20.2	15.9	16.5	11.4	10.6	8.5
Nonfarm payroll employment	1.9	.8	2.0	.0	.0	.5	.5
Manufacturing	.5	-2.9	-.4	.0	.0	.0	.0
Industrial production	.2	-6.8	1.9	1.9	3.2	3.2	2.8
Housing starts, private	-18.8	10.3	-4.8	27.4	.0	-21.5	-22.8
Sales new autos	-19.7	-35.3	1.3	8.2	6.6	4.3	.0
Domestic models	-18.6	-38.0	20.0	8.4	7.7	5.0	.0
Foreign models	-25.4	-19.8	-60.3	6.7	.0	.0	.0

^{1/} Percentage rates are annual rates compounded quarterly.^{2/} Excluding Federal pay increases rates of change are: 1974-I, 11.4 per cent; 1974-IV, 7.0 per cent; 1975-I, 6.0 per cent.^{3/} Using expenditures in 1967 as weights.

Industrial production. Industrial production rose 0.4 per cent in May, slightly more than in April. The March and April indexes were both revised upwards by 0.2 per cent. Output of consumer goods and business equipment increased further in May and production of materials was unchanged.

Auto assemblies rose 2.6 per cent further in May and were at an annual rate of 7.7 million units. June production schedules indicate an increase to an 8.1 million unit rate. Output of home goods and non-durable consumer goods rose further in May. Production of business equipment rose 0.8 per cent further as output of industrial equipment showed a large increase. Overall production of materials was unchanged as a small rise in durable goods materials was offset by a decline in output of nondurable goods materials. (Confidential until release June 14 p.m.)

Retail sales. The Census Bureau reports that sales in May were 1 per cent above April and 2.5 per cent above the first quarter average; in real terms there was probably little, if any, increase. Excluding autos and nonconsumption items, sales in May were up by 2.0 per cent from the first quarter average. In the last few months, sales of durable goods have recovered somewhat from the substantial losses of the previous two quarters, and in May were 4.6 per cent above the first quarter average. The increase in sales of nondurable goods, on the other hand, has been slower; in May such sales were only 1.5 per cent above the first quarter.

The second quarter projection of consumer outlays for goods has been lowered to reflect the unusually large \$450 million downward revision in the advance estimate of April retail sales and the relatively small May advance. Downward revisions in the more complete sample count for April were mainly in the automotive and general merchandise categories. Total sales in April and May are currently estimated to be 6.7 per cent and 6.4 per cent, respectively, above year-earlier levels.

RETAIL SALES

(Seasonally adjusted, percentage change from previous period)

	1973	1974	May 1974	1974		
	Q IV	Q I	QI 1974	March	April	May
Total sales	.3	1.5	2.5	1.7	.2	1.0
Durable	-3.4	-2.8	4.6	2.5	1.2	2.2
Auto	-6.6	-8.1	5.5	2.3	2.6	2.4
Furniture and appliance	-1.0	4.2	6.1	7.8	-1.8	3.2
Nondurable	2.2	3.5	1.5	1.4	-.2	.4
Food	1.9	4.3	.5	-.4	.1	.3
General merchandise	1.2	3.8	2.6	4.2	-1.4	1.3
Gasoline	2.3	3.9	7.9	3.1	2.9	1.6
Total, less autos and nonconsumption items	2.0	3.6	2.0	1.8	-.2	.6
GAF	.7	3.8	2.6	4.8	-2.4	2.0
Real*	-2.0	-2.1	n.a.	.7	-.3	n.a.

* Deflated by all commodities CPI, seasonally adjusted.

Unit sales of consumer durables. Sales of new domestic type autos in May were at a 7.8 million unit annual rate, the same as in April but 23 per cent below a year earlier. Small cars sold at a 2.5 million unit rate, slightly below April and 17 per cent below May 1973. Large car sales were at a 5.3 million unit rate, up slightly from a month earlier but one-fourth less than a year earlier. Small cars accounted for 32 per cent of domestic-type sales in May, about the same as in April; a year earlier, the percentage was 30 per cent.

Stocks of domestic-type new cars declined slightly in May to the equivalent of a 57 days supply. There was a 58 days supply in April and a 55 days supply in May 1973.

Preliminary estimates indicate that foreign car sales were at a 1.2 million unit annual rate in May, somewhat lower than a month earlier and down 30 per cent from December 1973. The import share of total auto sales was only 14 per cent, well below the 17 per cent reached in December 1973.

Estimates of unit factory sales of major home appliances, TV's, and radios in May were 5 per cent above April but 4 per cent below May 1974.

SALES OF SELECTED CONSUMER DURABLES

Seasonally Adjusted

	1973	1974		Per cent change from		
	May	March	April	May	Month ago	Year ago
Annual rates, millions of units						
Auto sales	12.0	8.8	9.1	9.0	-1	-25
Foreign	1.9	1.4	1.3	1.2	-8	-35
Domestic	10.1	7.4	7.8	7.8	0	-23
Large	7.1	4.9	5.2	5.3	2	-25
Small	3.0	2.5	2.6	2.5	-4	-17
Indexes, 1976=100						
Home goods, factory						
unit sales	162	159	147	155e	5	-4
TV's <u>1/</u>	175	169	149	165	10	-6
Radios <u>1/</u>	106	98	75	115	53	8
Major appliances	156	155	149	150e	1	-4

1/ Includes domestic and foreign label imports.2/ Estimated on the basis of data through May 25.Conference Board survey of consumer attitudes and buying plans.

Consumer attitudes about the economy recovered substantially in the March-April survey from their very depressed state at the beginning of the year. But the composite index of purchase plans for autos, homes, and appliances continued its year-long decline and in the latest survey reached the low of the 1970 recession. It thus seems unlikely that there soon will be a significant rise in discretionary purchases. Fewer families planned to purchase major appliances and buying plans for autos and homes remained around the unfavorable levels of the last two or three surveys.

Most of the improvement in attitudes reflected expectations that income and business and employment conditions in the next six

months would be better than they are now. However, responses to these questions remained more pessimistic than in the survey taken prior to the energy crisis, and the more favorable expectations represent a comparison with the period of energy shortages.

CONFERENCE BOARD COMPOSITE INDICES
Seasonally Adjusted
1969-1970 = 100

	1973			1974	
	March- April	Sept.- Oct.	Nov.- Dec.	Jan.- Feb.	March- April
Consumer confidence index	92.3	96.2	61.5	56.0	85.9
Buying plan index	125.2	103.2	93.7	89.2	87.6

Manufacturers' orders and shipments. New orders for durable goods rose 4.9 per cent in April (p), following a 1.2 per cent drop in March. The gain in April was widespread with nonelectrical machinery the only major industry showing a decline. Nondefense capital goods increased strongly, by 5.0 per cent, following a 2.4 per cent drop in March. (The advance, partial-sample indication of a 0.7 per cent decline in April nondefense capital goods orders was due, in part, to a clerical error at the Census Bureau.)

Shipments of durable goods were up 1.1 per cent in April and unfilled orders grew by 2.5 per cent.

Census is revising the shipments and orders data in the aircraft, missiles and parts industry, which will affect total durables and the capital goods series back to 1970. Revisions for months before February 1974 have not been completed, hence the quarterly data in this table are based on unrevised data.

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

	1973		1974	
	QIII from QII <u>1/</u>	QIV from QIII <u>1/</u>	QI from QIV(p) <u>1/</u>	April from March(p)
Durable goods, total	.7	1.8	-1.7	4.9
Excluding defense	1.8	1.2	-2.2	4.8
Excluding primary metals and motor vehicles and parts	.1	4.2	2.0	3.7
Primary metals	-2.8	.3	-3.1	6.9
Motor vehicles and parts	6.7	-7.2	-17.9	9.1
Household durables	.5	4.2	.7	-1.0
Nondefense capital goods	2.3	4.2	2.0	5.0
Defense capital goods	-22.7	16.7	11.7	6.7
Construction and other durables	1.7	2.8	1.3	3.5
Durable goods total, in 1967 \$	-1.2	.6	-4.9	1.4
Nondefense capital goods, in 1967 \$	1.0	2.7	.2	3.6

1/ Changes between quarters are based on quarterly average levels of unrevised data.

Inventories. Book value of manufacturing and trade inventories increased at a \$26 billion annual rate in April (p), following a \$34 billion rise in March. A \$23 billion, annual rate, rise in manufacturing stocks in April occurred mainly in durable goods, particularly machinery, primary and fabricated metals, and motor vehicles and parts. By stage of processing, the pickup was most noticeable in work-in-process inventories; stocks of finished goods rose at about one quarter the March rate. Wholesale trade inventories increased at a \$3 billion rate in April as a decline in farm products inventories partially offset an \$8 billion rise in motor vehicle and parts stocks. Retail trade inventories were unchanged in April from March as a \$3.8 billion, annual rate, decline in auto stocks offset gains elsewhere.

For the first quarter as a whole, book value of manufacturing and trade inventories rose at a \$37 billion annual rate, the same as in the fourth quarter. The amount of this book value increase that carries through into the GNP accounts will be less, however, because of a larger price adjustment.

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

	1973		1974	
	QIII	QIV	QI	April(p)
Manufacturing and trade	21.1	36.5	36.9	26.1
Manufacturing, total	12.4	19.0	22.5	23.2
Durable	9.8	12.8	14.3	16.1
Nondurable	2.6	6.3	8.2	7.1
Trade, total	8.7	17.5	14.4	2.9
Wholesale	4.5	6.6	9.7	2.8
Retail	4.2	10.9	4.7	.1
Auto	1.2	4.4	-2.5	-3.8

The manufacturing and trade inventory-sales ratio edged up to a still quite low 1.45 in April. The ratio of inventories to unfilled orders at durable goods producers declined to .709 in April.

INVENTORY RATIOS

	1973		1974	
	Mar.	Apr.	Mar. <u>r</u> /	April(p)
<u>Inventories to sales:</u>				
Manufacturing and trade	1.43 ^{1/}	1.43	1.44	1.45
Manufacturing, total	1.58 ^{1/}	1.58	1.62	1.62
Durable	1.89 ^{1/}	1.87	2.05	2.05
Nondurable	1.21 ^{1/}	1.21	1.16	1.16
Trade, total	1.28	1.30	1.28	1.28
Wholesale	1.13	1.13	1.05	1.05
Retail	1.38	1.42	1.48	1.47
<u>Inventories to unfilled orders:</u>				
Durable manufacturing	.816 ^{1/}	.801	.715	.709

1/ Based on unrevised manufacturing shipments and unfilled orders data.

Cyclical indicators. The Census composite index of leading indicators fell 0.7 per cent in April (p)--the first drop since December. The Boston FRB deflated leading index (with no trend adjustment) was off 2.0 per cent; the Census deflated coincident index rose after four straight months of decline.

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

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

	1973		1974			
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr. (p)
12 Leading, trend adjusted	1.3	-1.6	1.9	.8	1.5	- .7
5 Coincident	1.1	- .2	- .4	.7	.6	.7
5 Coincident, deflated	.5	-1.1	-1.4	-.1	-.1	.6
6 Lagging	1.0	1.7	1.2	.4	2.0	2.0
Leading indexes prior to trend adjustment						
Census undeflated	1.0	-2.0	1.5	.5	1.1	-1.0
Boston FRB deflated	.3	-3.5	.3	.3	.7	-2.0

Of the leading indicators available for May, the average work-week in manufacturing rose but common stock prices declined.

Construction and real estate. New construction outlays, in both current and constant dollars, were essentially unchanged in May from the upward revised April total. Current dollar outlays for private residential construction edged up, but remained 18 per cent below their February 1973 peak. Private nonresidential expenditures, which rose only slightly, were at a new peak in May in both current and constant dollars. The more irregular series for public construction expenditures declined.

Based on available information from F.W. Dodge, indications are that the rate of nonresidential construction activity will not be sustained. So far this year contract awards for commercial and industrial construction--which account for nearly half of total nonresidential outlays--have been running below a year earlier in both current dollars

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

	1973		1974		Per cent change in May from	
	QI	QIV	QI(r)	May 1/	April 1974	May 1973
Total - current dollars	136.5	134.7	135.3	136.1	--	+ 1
Private	103.3	101.3	98.8	100.2	+ 1	- 2
Residential	60.5	54.6	50.1	50.2	+ 1	-13
Nonresidential	42.8	46.7	48.7	50.0	--	+13
Public	33.2	33.4	36.4	36.0	- 2	+11
State and local	28.0	28.6	31.2	30.8	--	+14
Federal	5.2	4.8	5.2	5.1	-11	- 4
Total - 1967 dollars	93.9	85.8	83.6	82.7	--	- 7

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

-- Means change of less than 1 per cent.

and real terms. In fact, contracts awarded during the first quarter of 1974 for commercial and industrial floor space were a sixth below the peak in the third quarter of 1973. Contract awards increased somewhat in April. Although some further strength is indicated for industrial plants in the period ahead, these comprise about a third of nonresidential outlays.

New home prices rose further during the first quarter of 1974, after adjustment for changes in the mix of units sold. The price index of new single-family homes sold, which also reflects changes in lot value, increased 2 per cent after a somewhat smaller rise during the fourth quarter of 1973. Year-over-year, the first quarter index was up about a tenth, compared with increases of 8 and 6 per cent in 1973 and 1972, respectively.

Anticipated plant and equipment spending. The latest Commerce survey of plant and equipment expenditures--taken in late April and early May--shows business planning a 12.2 per cent increase for 1974, down slightly from the 13.0 per cent indicated in the previous survey. This reduction of planned spending is concentrated in the second half of the year, with cutbacks by public utilities, communications, and mining accounting for most of the change. The fixed capital outlays of manufacturing industries are still expected to increase by close to 20 per cent in 1974. The nondurables grouping, sparked by a further upward revision in petroleum, continues to plan larger increases than durable goods producers. Within durables, primary metals producers revised plans upward and motor vehicles and air transportation equipment revised plans downward.

In the first quarter, total outlays for plant and equipment were about the same as had been indicated in the February survey--the first time since 1970-III, in which current quarter anticipations have not been greater than actual expenditures. Anticipations for the second quarter now indicate more strength than in the previous survey. For the second half of the year, however, an increase of only 5.2 per cent over the first half is now indicated; this is a smaller rise than the 7.2 per cent reported in the previous survey and less than the 6.5 per cent increase now indicated for the first half of the year, with the growth in manufacturing slowing sharply.

Newly approved capital appropriations of large manufacturing companies, as reported by the Conference Board, edged off (down 0.6 per cent) in the first quarter--the first decline since 1971-II. However, backlogs of unspent appropriations continued to climb and could support the current level of capital spending in manufacturing for over four and a half quarters.

EXPENDITURES FOR NEW PLANT AND
EQUIPMENT BY U.S. BUSINESS, 1974^{1/}

	Dec. Survey ---(Per cent increase--- from 1973)	Feb. Survey	May Survey	Year	IQ	IIQ	IIIQ	IVQ
	---Billions of dollars quarterly data--- are seasonally adjusted annual rates							
All industry	12.0	13.0	12.2	111.96	107.27	110.58	113.16	116.04
Manufacturing	16.8	19.3	19.8	45.52	42.96	45.22	46.00	47.40
Durables	16.6	17.6	16.8	22.49	21.43	22.60	23.25	22.61
Nondurables	17.1	21.1	22.8	23.03	21.53	22.61	22.76	24.80
Nonmanufacturing	9.1	9.1	7.6	66.44	64.31	65.36	67.15	68.64 ^{2/}
Mining	13.9	17.1	8.9	2.98	2.80	2.97	3.06	3.08 ^{2/}
Railroads	17.2	21.3	29.6	2.54	2.10	2.48	2.70	2.99
Air transportation	-10.5	-12.5	-13.0	2.09	2.13	2.26	2.16	1.84
Other transportation	.7	-3.3	20.0	1.99	1.63	1.93	2.17	2.13
Electric utilities	15.7	17.0	13.6	18.11	17.12	17.62	18.20	19.30
Gas utilities	18.3	29.7	18.1	3.26	3.00	3.11 ^{2/}	3.32 ^{2/}	3.48
Communications	10.8	10.1	7.4	13.80	13.83	12.93 ^{2/}	14.22 ^{2/}	14.23 ^{2/}
Commercial and other	3.2	1.5	1.2	21.66	21.69	22.06 ^{2/}	21.31 ^{2/}	21.59 ^{2/}

^{1/} Department of Commerce surveys. Data for 1974 and for 1974-II, III, and IV are plans.

^{2/} Confidential unpublished data; for internal use only.

Labor market. The labor force rose sharply in May and the increase exceeded the gain in employment; as a result, the unemployment rate rose by .2 percentage points. The labor force advance was concentrated among adult men and teenagers following three months of little or no growth--but while the teenage unemployment rate rose, joblessness among adult males declined, reversing the upward trend of recent months. Initial claims for unemployment insurance have been rising since mid-May (except for Memorial day week), however, suggesting that the improved situation for experienced workers may only be temporary.

SELECTED UNEMPLOYMENT RATES
(Per cent, seasonally adjusted)

	1973		1974		
	May	Oct.	Jan.	April	May
Total	4.9	4.6	5.2	5.0	5.2
Males 20 years and over	3.4	3.0	3.4	3.6	3.4
Females 20 years and over	4.6	4.4	5.2	4.9	5.1
Teenagers	15.1	14.0	15.6	13.8	15.8
White	4.4	4.1	4.7	4.5	4.7
Negro and other races	9.2	8.4	9.4	8.7	9.5
Household heads	2.9	2.7	3.0	3.1	3.0
State insured	2.7	2.7	3.1	3.4	3.3

Nonfarm payroll employment rose by 180,000 in May, somewhat more than in April. These payroll employment gains followed a sluggish period associated with the winter gasoline shortages, but the recent rate of increase is substantially less than during 1973. Although employment advances have continued in the public sector and in services and

trade, manufacturing employment has shown little strength since last fall and in May was still 170,000 below the recent peak in November. Employment in the volatile construction industry has also been weak--declining in May for the third consecutive month to a level more than 100,000 below February. The factory workweek rebounded in May from the unusually low April figure (reflecting the fact Good Friday was in the survey week) and at 40.3 hours was just slightly below the March level.

CHANGES IN PAYROLL EMPLOYMENT
(In thousands; seasonally adjusted)

	1972 QIV- 1973 QIV	Nov. 1973- Mar. 1974	Mar. 1974- Apr. 1974	Apr. 1974- May 1974
	-----Average Monthly Change-----			
Total nonfarm	229	31	124	182
Private	198	-20	63	124
Manufacturing	63	-61	60	13
Durable goods	54	-54	81	-8
Nondurable goods	9	-7	-21	21
Construction	16	4	-69	-16
Trade	47	-8	55	39
Services	50	30	20	65
Government	31	51	61	58

Earnings. The increase in the average hourly earnings index for private nonfarm production workers accelerated further in May, with the increase since January at an 8.6 per cent annual rate. Part of the rise in May probably reflected the introduction of a large cost-of-living increase in steel as well as the first effects of the May 1 minimum wage boost and the official end of controls on April 30. But

the widespread nature of the speed-ups--particularly in manufacturing-- suggests that the consumer price increases of late 1973 and thus far in 1974 are increasingly being reflected in wage adjustments throughout the private sector.

HOURLY EARNINGS INDEX*
(Seasonally adjusted; per cent change, compound rates)

	Jan. 1972- Feb. 1973	Feb. 1973- Dec. 1973	Jan. 1974- May 1974	May 1973- May 1974
Total private nonfarm	5.5	7.4	8.6	7.7
Manufacturing	5.3	7.0	9.8	8.0
Construction	5.5	7.4	7.7	7.1
Transportation & p.u.	9.5	6.9	6.9	7.3
Trade	4.7	7.5	8.9	8.0
Services	4.2	7.7	9.0	8.1

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

Recent price developments. Farm prices have declined for the three months ending in May to a level only about 7 per cent above a year earlier, according to the Department of Agriculture. Although crop prices are still almost one-third above a year earlier, meat animal prices are down 18 per cent, poultry and eggs 14 per cent. The large drop in meat animal prices has resulted in some declines to consumers in recent months. Largely because of a 4 per cent drop in meat prices, consumer prices for all food declined in April for the first time since last September.

Retail food prices may have changed little in May, although meat prices apparently dropped further as slaughter continued very heavy. The number of cattle in feedlots has continued to decline, however, so that shorter supplies of animals for slaughter may cause a temporary rise in meat prices later this year.

Fuel price increases have also tapered off and were less important in April and May than in the preceding six months. For example, gasoline and motor oil at retail rose between March and April at only about a third the rate that they had in the December-March period; at the wholesale level, prices of petroleum products apparently dropped in April and again by mid-May. (Revised indexes for refined petroleum products are being released this week by the BLS.)

A slower rise in food and fuel prices is expected to have a moderating effect on general price measures in the second half of the year. From April 1973 to April of this year, food prices rose 16 per cent, gasoline and motor oil prices 40 per cent, and fuel oil and coal over 60 per cent. If these costs had increased at the same pace as

other items, the rise in consumer prices would have been about 6 per cent instead of 10 per cent.

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

	Relative importance to Dec. 1973	Dec. 1972 to Dec. 1973	Sept. 1973 to Dec. 1973	Dec. 1973 to March 1974	March to April 1974
Gasoline and motor oil, fuel oil and coal	4.0	23.4	77.3	99.3	29.9
Gas and electricity	2.4	6.9	11.1	28.2	16.4
All items less energy components	93.6	8.3	6.9	10.8	6.7

1/ Confidential--not for publication.

2/ Not compounded for one-month changes.

Another favorable development has been a drop in spot prices of sensitive industrial materials since early April. Spot prices of textiles and fibers have been declining since December of last year when cotton prices peaked out, and hides and rubber prices have also dropped. Metals prices have been strong, but recently copper and aluminum scrap have declined. Steel scrap prices have risen in the last month, but are still below early April highs. Further declines are expected, but it seems unlikely that spot prices will fall the 30 per cent that would be necessary to bring them back to year-earlier levels--let alone the more than 50 per cent necessary to regain their 1971 average.

Unfortunately, the limited reduction in volatile raw materials prices is not having a measurable impact on the upward thrust in producers' prices of major processed materials. Large increases in producers' prices of steel, copper, aluminum, paper products, chemicals and plastics are now taking place. The increase in prices of industrial commodities--which has been at an annual rate of about 30 per cent in the seven months ending in April--indicates a protracted period of inflation for both consumer and producer finished goods.

Apart from food and energy, consumer prices for goods and services continued to rise in April at rapid rates similar to those in February and March. In addition to the prospects for continued sharp advance in nonfood commodities, a faster rate of rise for medical services and rents, in the services component, may lie ahead.

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

	Relative impor- tance Dec. 1973	June 1973 to Sept. 1973	Sept. 1974 to Dec. 1973	Dec. 1973 to Mar. 1974	March to April 1974
All items	100.0	10.2	9.2	14.2	6.9
Food	24.8	26.7	11.0	19.4	- 5.3
Commodities less food	38.6	3.6	7.6	16.0	12.8
Services ^{2/}	36.5	7.4	9.4	9.2	7.3
Addendum					
All items less food and energy components ^{3/} ^{4/}	68.8	5.6	5.5	8.6	7.9
Services less home finance ^{2/} ^{3/} ^{5/}	29.9	4.8	7.2	10.2	8.4
Commodities less food, used cars, home purchase ^{3/}	30.9	3.0	10.1	19.0	11.8

^{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.

Agriculture. Prices received by farmers fell 4 per cent during the month ending May 15, to a level only 7 per cent above a year earlier. Prices of livestock, grains, and cotton all contributed to the decline but the lower crop prices, which have now firmed, are still well above levels of a year ago. After further declines in early June, cattle and hog prices were at the lowest levels in two years.

Downward pressure on livestock prices has resulted mainly from record meat production in the U. S. (based on preliminary May estimates) as slaughter of hogs, cattle, and poultry each advanced to near all-time highs. Hog slaughter was 7 per cent above April and was the largest in almost three years.

Stocks of meat in cold storage on April 30 were one-half greater than a year ago, partly resulting from larger imports of frozen beef. Japan and Western European countries have begun limiting meat imports in order to protect their domestic producers. Larger foreign meat supplies have consequently entered the U. S. (20 per cent more frozen beef in March 1974 than 1973), but here also pressure is increasing to reimpose meat import quotas.

Excessive moisture has kept corn and soybean planting to about the same pace as last year. On June 2, 83 per cent of corn was planted compared to the average 90 per cent completion, and soybeans were 39 per cent planted compared to 64 per cent average completion. Only 15 per cent of soybeans had been planted in Illinois, the major producer, compared to a three year average of 70 per cent completion by June 2. Heavy rains continued during the following week.

Crop yields may fall below trend again this year because of late planting and the reduced care it will be possible to give to this year's much larger acreage. With world grain stocks low and continued drought in South Asia and North Africa, grain prices may

remain quite high compared to levels in recent years. Resulting high prices for feedstuffs may continue to hurt the U. S. livestock industry.

The number of cattle on feed dropped 3 per cent in April, seasonally adjusted, as marketings of fed cattle continued to exceed new placements. The number of cattle on pastures has increased rapidly because of recently large calf crops, and the slow rate of feedlot placements. Pressure to move animals off grass will increase as pastures deteriorate in the hot weather. But at present fed cattle prices and high feed costs, feeder calf prices may fall much further before feedlot operators resume a normal rate of calf placement. The losses which have severely hurt feeding operations may begin to affect cow-calf operations also.

DOMESTIC FINANCIAL SITUATION

II-T-1

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator	Latest data		Net change from			
	Period	Level	Month ago	Three months ago	Year ago	
<u>Monetary and credit aggregates</u>			<u>SAAR (per cent)</u>			
Total reserves	May	36.5	20.0	15.9	9.6	
Reserves available (RPD's)	May	34.2	20.9	17.7	10.8	
Money supply						
M1	May	279.4	5.6	8.3	6.5	
M2	May	592.9	5.5	7.6	9.0	
M3	May	925.0	4.4	7.0	8.3	
Time and savings deposits (Less CDs)	May	313.6	5.8	7.0	11.4	
CDs (dollar change in billions)	May	81.2	5.8	14.6	19.9	
Savings flows (S&Ls + MSBs)	May	332.1	2.5	6.1	7.0	
Bank credit (end of month)	May	674.3	10.2	14.5	12.1	
<u>Market yields and stock prices</u>			<u>Percentage or index points</u>			
Federal funds	wk. endg.	6/5/74	11.45	.16	2.47	3.02
Treasury bill (90 day)	"	6/5/74	8.03	-.75	.43	1.00
Commercial paper (90-119 day)	"	6/5/74	10.70	-.28	2.55	3.02
New utility issue Aaa	"	6/7/74	9.22	-.05	.92	1.67
Municipal bonds (Bond Buyer)	1 day	6/6/74	6.01	.10	.74	.75
FNMA auction yield (FHA/VA)		6/3/74	9.54	.20	1.10	1.50
Dividends/price ratio (Common stocks)	wk. endg.	5/29/74	4.13	.18	.43	1.11
NYSE index (12/31/65=50)	end of day	6/3/74	46.81	-1.65	-4.43	-7.47
<u>Credit demands</u>			<u>Net change or gross offerings</u>			
			<u>Current month</u>		<u>Year to date</u>	
			1974	1973	1974	1973
Business loans at commercial banks	May	3.0	16.6	2.8	17.6	
Consumer instalment credit outstanding	April	1.2	1.4	3.4	7.4	
Mortgage debt outst. (major holders)	March	4.0	5.4	8.6	13.2	
Corporate bonds (public offerings)	March	2.0	1.3	5.8	2.9	
Municipal long-term bonds (gross offerings)	March	2.0	2.5	6.1	6.0	
Federally sponsored Agcy. (net borrowing)	June	2.6e	.9	5.3e	7.0	
U.S. Treasury (net cash borrowing)	May	-.4e	-2.0	6.6e	21.7	
Total of above credits			14.4	26.1	38.6	75.8

e - Estimated

DOMESTIC FINANCIAL SITUATION

Financial and nonfinancial business borrowing remained large in May in both long- and short-term markets. In contrast to April, there were only a few postponements of bond issues, and public bond offerings were the largest in over three years. The total increase in short-term credit remained substantial, although below the exceptional April pace and with less of the increase occurring at banks. With lenders emphasizing investment quality, prime borrowers found the cost of financing in the commercial paper market attractive relative to bank borrowing and outstanding commercial paper rose after declining the previous two months. As these borrowers shifted out of banks, non-prime borrowers appear to have stepped up their bank credit demands as they found market borrowing increasingly difficult and expensive.

Market interest rates generally are currently slightly lower than at the time of the last FOMC meeting. Most rate series are based on high-quality financial instruments, however, and consequently do not reflect the rising yields on lower quality securities that developed over the past month. Home mortgage rates edged up only a little further in the past few weeks, as stabilization of market rates and announcement of Administration measures to support housing eased mortgage market pressures.

Thrift institution inflows slowed further in May, as did the rate of growth of commercial bank time deposits in denominations of less than \$100,000, and S&L's continued to borrow heavily at the FHL Banks. FNMA secondary market support declined, particularly after

mid-May, as forward credit demands were diverted to the FHLMC, the FHLBB, and the GNMA by the recently announced Administration subsidy programs.

Commercial banks had no difficulty continuing to raise large sums in the negotiable CD market, although there were reports of regional banks having to pay somewhat higher rates. Euro-dollar inflows to U.S. banks--as well as to U.S. agencies and branches of foreign banks--were also large as banks here took advantage of the continued inflows of Arab-owned dollars to the call-Euro-dollar market. However, in contrast to April, U.S. bank lending to foreigners was apparently quite small in May.

Outlook. Market expectations are in an unusually sensitive state at this time, influenced in part by public statements of some bankers that interest rates may have peaked. Recent declines in the prime rate by a few banks provided support for this view. In addition, concern about the liquidity and solvency of individual large financial institutions is thought by some market observers to limit the Federal Reserve's flexibility to tighten policy further. On the other hand, the continued tautness in the money market has acted to brake downward expectational movements in interest rates.

Abstracting from policy actions, the fundamental supply and demand factors in financial markets are unlikely to cause significant movements in interest rates in the near-term. Although seasonal tax-related borrowing is likely to be substantial in mid-June, U.S. financial markets are also expected to be benefiting from dollar inflows from both the Euro-dollar market and short-term dollar investments by foreign

official accounts, as well as the large volume of maturing tax bills at mid-month.

However, between mid-year and fall, total financing demands are expected to increase, placing renewed upward pressures on market interest rates. The combined Treasury and agency net financing needs for the third quarter are likely to be much more than seasonal (almost \$12 billion), with over half related to housing support activities. At the same time, State and local bond offerings will likely remain large, with pollution control and public utility support issues an important portion of the supply of new issues.

Moreover, with capital needs of corporations projected to remain large in nominal terms, there is no reason to anticipate a significant slowing in business credit demands over the summer. But even if a slowing in business financing demands should occur, it is likely that long-term rates will be under upward pressure in the period ahead. In the corporate market, the cost of short-term finance is now 1-1/2 to 2-1/4 per cent higher than long-term finance and this kind of rate relationship has continued for several months now. Borrowers therefore may increasingly shift their financing demands to intermediate and long-term markets, particularly should expectations of declining short rates become less widely held.

Particularly with continued slack inflows to thrift institutions, upward rate pressures in long markets should extend to the mortgage market, although state usury ceilings and the new Federal subsidy programs should

tend to moderate upward rate movements on home mortgages. However, with 8-3/4 per cent FHA/VA mortgages currently selling at discounts of 5 or more points in the secondary market, another upward adjustment seems likely in the administratively-determined contract rate on these loans.

Monetary aggregates. In May rates of growth of all the monetary aggregates continued to decelerate. Not only did the narrow money stock grow less rapidly, but both commercial banks and thrift institutions were less successful in attracting small denomination interest-bearing deposits, contributing importantly to the moderation of growth in M_2 and M_3 . Moreover, staff estimates based on partial data suggest that all of the growth in time deposits other than CD's--the commercial bank component of M_2 and M_3 --was accounted for by large denomination time deposits. As shown in the table, staff estimates suggest that in both April and May outstanding commercial bank time and savings deposits in denominations of less than \$100,000 were unchanged or declined.

With small deposit inflows weak and loan demand still large, banks continued to seek large denomination certificates of deposit and nondeposit sources of funds. Sales of CD's slowed somewhat from the April pace, but to date there is no evidence of any bank, other than Franklin National, having difficulties in issuing negotiable CD's. Those banks that have shown runoffs in such deposits have been contacted by the Reserve Banks, and in no case has the reason for the runoff been an inability to sell CD's. Aggregate sales of CD's have been strong in New York as well as outside New York, and every District has reported

MONETARY AGGREGATES^{1/}
(Seasonally adjusted changes)

	1973		1974			
	QIII	QIV	QI	March	April	May
	Per cent at annual rates					
M ₁ (Currency plus private demand deposits)	--	8.9	7.1	11.0	8.3	5.6
M ₂ (M ₁ plus commercial bank time and savings deposits other than large CD's)	5.3	11.0	9.9	8.9	8.2	5.5
M ₃ (M ₂ plus time and savings deposits at mutual savings banks and S&L's)	5.1	9.8	9.4	9.0	7.6	4.4
Adjusted bank credit proxy	10.5	3.3	8.5	11.3	31.6	16.8
Time and savings deposits at commercial banks						
a. Total	14.0	6.1	15.6	9.3	30.8	22.9
b. Other than large CD's	10.6	12.6	12.5	7.0	8.1	5.8
	Billions of dollars ^{2/}					
Memoranda:						
a. U. S. Government demand deposits	- .1	--	- .4	.7	.8	- .8
b. Negotiable CD's	1.6	- 1.3	1.6	1.1	7.7	5.8
c. Nondeposit sources of funds	.6	--	.4	.9	1.0	1.2

^{1/} Changes shown reflect the recent revisions based on the December 31, 1973, Call Reports.

^{2/} 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.

GROWTH RATES OF TIME AND SAVINGS DEPOSITS AT COMMERCIAL
BANKS AND NONBANK THRIFT INSTITUTIONS 1/
(Seasonally adjusted annual rates of growth)

	"Other time" component of $M_2^{2/}$ (1)	Estimated "other time" adjusted to exclude all large deposits ^{2/}	Deposits at thrift institutions
1974--January	16.0	13.1	7.7
February	14.2	11.6	7.8
March	7.0	12.0	10.4
April	8.1	.4	3.3
May	5.8	- 5.2 p.e.	1.5 p.e.

1/ Data reflect benchmark revisions.

2/ The "other time" component of M_2 includes some large denomination time deposits--namely large nonnegotiable CD's at weekly reporting banks and large negotiable and nonnegotiable CD's at nonweekly reporting banks. Estimates of the volume of such large time deposits included in M_2 are derived by blowing up total large time deposits reported weekly by banks subject to marginal reserve requirements to an all commercial bank estimate and subtracting from this estimate the volume of large negotiable CD's at weekly reporting banks. The figures in column 2 reflect the estimated "other time" component after these estimated large time deposits have been excluded.

NOTE: Growth rates for "other time" and "other time, adjusted" are calculated from daily averages. Thrift institution growth rates are calculated from data for the last day of the month.

p.e. - Preliminary and partially estimated.

relatively large sales of CD's in May. Moreover, the average maturity of CD's sold did not decline as reported in the press, but was the same as in April, 2.0 months (preliminary), and longer than the maturity of CD's sold in the first quarter. There have been scattered reports, however, that some banks located outside money centers were paying CD rates above those offered by major money center banks.

Nondeposit sources of funds increased in May by \$1.2 billion, reflecting mainly the persistence of a relatively low call deposit rate on deposits flowing from oil-exporting countries into the Euro-dollar market. In addition, banks sold loans to their affiliates, which the latter financed in the commercial paper market.

Bank credit. Total loans and investments of all commercial banks (last-Wednesday-of-the-month series, seasonally adjusted) slowed in May, mostly due to a reduction in business loan growth.^{1/} The composition of business loan expansion changed as the growth rate moderated. In March and April, bank borrowing by nonfinancial firms was broadly based by industry and appeared to represent both prime and nonprime borrowers. In May, however, as market sentiment toward commercial paper changed drastically, the lowest quality issuers could not roll over their maturing issues. Rate spreads among differently rated issues have widened considerably, but financing was very attractive in the commercial paper market for prime corporate borrowers. With the rate on short-term prime paper declining, the differential between the bank prime rate and the rate on short-term, dealer-placed commercial paper reached over 100 basis points by the end of the month.

^{1/} Recent revisions of the bank credit series are discussed in detail in an appendix to the Greenbook.

COMMERCIAL BANK CREDIT ^{1/}
 (Seasonally adjusted changes at annual percentage rates)

	1973		1974			
	QIII	QIV	QI	Mar.	Apr.	May
Total loans and investments ^{2/}	12.7	6.3	15.9	16.8	16.0	10.2
U.S. Treasury securities	-33.8	-25.5	25.8	--	10.7	--
Other securities	15.3	17.6	6.8	--	3.6	9.9
Total loans ^{3/}	18.8	7.1	17.4	23.6	20.1	11.5
Business loans ^{3/}	16.5	4.6	22.2	41.6	34.4	20.9
Real estate loans	18.1	15.9	12.2	14.0	11.9	13.7
Consumer loans	14.7	10.1	5.4	--	5.9	5.8

(Average monthly change, billions of dollars)

Memorandum:

Loans to nonbank financial institutions	1.0	-.3	.8	.4	1.4	1.5
---	-----	-----	----	----	-----	-----

- 1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
- 2/ Data shown reflect revisions based on the December 1973 call reports.
- 3/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

Consequently, prime nonfinancial borrowers shifted from bank credit to the commercial paper market, and other borrowers were forced to use their back-up credit lines at banks.

Among business loan categories at banks, public utility borrowing was particularly large, reflecting cash flow problems arising from the lagged adjustment of rate schedules to increased costs and concomitant difficulties in both the money and capital markets. Cost overruns are increasing the financing needs of the construction industry,

and there are large inventories of unsold residences that must be financed. There is evidence from a survey by District Banks that commercial banks are extending more than seasonal credit to these firms until conditions improve. In addition, energy firms borrowed heavily at New York banks to finance oil lease payments in May. Together, these three industries accounted for virtually all the loan expansion at large commercial banks in May. Loans to foreign commercial businesses did not maintain the pace of April growth, and loans to foreign commercial banks and official institutions also moderated.

Despite the shifts of borrowers between markets, the total increase in short-term nonfinancial business credit, as measured by the change of business loans at banks plus dealer-placed commercial paper, remained at the high first-quarter rate. The pace of short-term borrowing by business has been high since the beginning of the year and reflects both enlarged working capital needs and rising book value of inventory accumulation. Also, as newly available estimates from the Department of Commerce show, there was a reduced level of corporate profits in the first quarter after adjustment for inventory profits.

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 1/2/*	Dealer placed commercial paper 3/	Total	Annual rate of change in total (per cent)
<u>Average monthly changes</u>					
1973--QI	--	4.1	-1.1	3.0	25.5
QII	--	2.2	.1	2.3	18.1
QIII	--	2.1	.1	2.2	16.1
QIV	--	.6	1.1	1.7	12.3
1974--QI	--	2.9	.4	3.3	23.5
1973--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	3.3	-.1	3.2	24.2
August	-.93	2.6	-.5	2.1	15.5
September	-.40	.3	.8	1.1	8.0
Oct.	+.52	-.1	2.4	2.3	16.7
Nov.	+.38	1.2	1.0	2.2	15.7
Dec.	-.04	.7	-.1	.6	4.2
1974--Jan.	+.42	2.0	1.6	3.6	25.3
Feb.	+.85	1.2	1.7	2.9	20.0
Mar.	-.09	5.6	-2.1	3.5	23.7
Apr.	-.08	4.8	-.2	4.6	30.6
May est.	+.39	3.0	.5 e/	3.5 e/	22.7
Weekly Pattern:					
1974--Mar.	6	+.22			
	13	+.10			
	20	-.13			
	27	-.33			
Apr.	3	-.35			
	10	-.15			
	17	-.05			
	24	+.03			
May	1	-.30			
	8	-.15			
	15	+.13			
	22	+.50			
	29	+1.09			
June	5	+.95			

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.

* Series revised to reflect new benchmark data for nonmember banks based on the December call report.

The very large April-May growth of bank loans to nonbank financial institutions was due to lending to thrift institutions in New York, California, and Arizona, and to other nonbank financial intermediaries, particularly real estate investment trusts and nonprime finance companies. However, prime finance and commercial credit companies were able to sell commercial paper at rates well below the bank loan rate, and as a result May was the first month since January that the volume of outstanding directly-placed (monthly finance company) paper rose. Thus, although lenders in the commercial paper market became increasingly selective in May, the volume of issues of both nonfinancial and financial businesses grew substantially. High quality bank affiliates also sold paper, and total commercial paper outstanding rose \$1.3 billion.

COMMERCIAL PAPER
(Seasonally adjusted, billions of dollars)

	Monthly or average monthly change ^{2/}				Outstanding May 31, 1974 ^e
	QI 1974	March 1974	April 1974	May 1974 ^e	
Total commercial paper outstanding	1.0	-1.8	--	1.3	46.0
Bank-related	.4	.5	.8	.5	7.3
Nonbank-related	.6	-2.3	-.8	.8	38.7
Dealer	.4	-2.1	-.2	.5	13.7
Direct	.2	- .3	-.6	.3	25.0

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.

2/ Changes shown are changes in levels end-of-month to end-of-month or average monthly change for the quarter, measured from end-of-month in quarter to end-of-month in quarter, not annualized.

e/ Estimated.

NOTE: Components may not add to totals due to rounding.

Nonbank financial intermediaries. According to sample data, the deterioration of deposit flows into nonbank thrift institutions continued during May. At S&Ls, savings flows weakened as the month progressed, with the intra-monthly pattern of net flows estimated to have been \$300, \$100, and -\$100 million during the successive 10-day periods. Although the actual deposit losses at mutual savings banks were substantially less than in April, the seasonally adjusted deposit performance at MSBs remained quite poor. Most recently, however, a sample of New York MSBs reported a small net increase in deposits during the first week of June, although the deposit experience at individual banks varied considerably.

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

	Mutual savings banks	Savings and loan associations	Both
1973 - QI	7.1	12.3	10.7
QII	7.1	11.4	10.1
QIII	1.2	4.9	3.8
QIV	5.2	9.3	8.1
1974 - QI	5.2	10.1	8.7
1974 - March	6.6	11.9	10.4
April <u>p/</u>	-1.4	4.8	3.3
May <u>e/</u>	.5	2.0	1.5

p/ Preliminary.

e/ Estimated on the basis of sample data.

Passbook deposits continued to decline at both sets of institutions, with some passbook withdrawals and funds from maturing certificates being placed in higher-rate, longer-term certificates. At California S&Ls, where details on deposit activity by type of account

are available, the most popular accounts appear to be the 1 to 2-1/2-year 6.50 per cent certificate, and the 4-year 7.50 per cent certificate.

A new phenomenon, the payment order of withdrawal (POW) account, surfaced at some of the New York MSBs recently. Thus far, 7 MSBs have offered this account--which resembles a checking account in nearly all respects--but early reports of its acceptance have been inconclusive. Two large MSBs reported moderate activity in these accounts, but another savings bank indicated that many of its POW accounts were opened by employees. A system to monitor activity in these accounts is being developed and data should be available later this month.

The net increase in FHLB advances was approximately \$800 million during May, down from \$1 billion in April. About half of this increase was attributable to advances taken down under last fall's 8-1/2 per cent special commitment program, leaving approximately \$1.1 billion of such commitments outstanding at the end of May. The new program of subsidized advances, whereby S&Ls pay a rate 50 basis points below the rate paid on debt issued to finance these advances, became operational in early June. Allocations of \$500 million per month are to be made available under this subsidized program. To finance the projected demand for regular advances as well as borrowings under the two special programs, the FHLB System has offered \$1.5 billion of debt in June--which represents a break from their pattern of issuing debt on a quarterly basis in the mid-month of a quarter. In addition, the System is issuing \$100 million of short-term discount notes per week, and the District Home Loan Banks are actively seeking funds for use in their interlending network by offering rates on member deposits that are competitive with rates on alternative investments.

Long-term securities markets. Corporate and municipal yields are still at about the same level as at the time of the last meeting, although Government bonds are about 10 to 15 basis points lower. The near-record level of rates in the corporate market has been sustained by continuing concern over inflation, and a heavy supply of new issues. Recently publicized difficulties of utilities and some financial institutions, Moody's actions down-rating bond and commercial paper issuers, and their announcement that they are "reexamining all money-sensitive industries" have heightened investors preferences for quality. Bank demands for municipals--although reportedly still weak--have improved somewhat recently, and individual interest in all bond markets remains strong.

Stock prices fell below their 1973 lows in the latter half of May, and then rallied in early June. Although the Dow-Jones Industrials, which include many stocks with high dividend yields, are at about the same level as at the time of the last meeting, other more broadly based indices have not fared as well. The recent recovery seems to have been prompted by widening belief that the prime rate and other interest rates have peaked.

The total volume of corporate security offerings expected to be marketed in June is quite large, reflecting continued new additions to the calendar and a slackening of postponements and cancellations. Public bond volume has been especially strong, and the forecasted volume of \$2.6 billion in June is the largest since March 1971. The market decline in May prompted a large number of postponements of scheduled stock offerings, some of which are expected to appear in June and July. While there were only a few postponements of scheduled bond

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		9.34 (5/24)	9.19 (6/7)	6.08 (5/29)	7.65 (5/10)
Low		8.05 (2/6)	8.13 (1/4)	5.16 (2/7)	6.93 (2/15)
May	3	9.27	9.15	5.91	7.63
	10	9.27	9.11	6.00	7.66
	17	9.23	9.13	6.04	7.55
	24	9.34r	9.10	6.05	7.54
	31	9.08r	9.15r	6.08	7.51
June	7	9.22p	9.19p	6.01	7.52p

^{1/} FRB series.

^{2/} Bond Buyer.

p/ Preliminary.

offerings in May, and corporate capital spending plans remain quite strong, some utilities have announced cancellations or stretch-outs of plans for expansion at the time of postponing financing. The volume of private placements has declined in recent months, perhaps in response to increased policy loans of life insurance companies and their cautious commitment behavior especially with respect to lower quality issuers.

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

	<u>1973</u> Year	<u>1974</u>				
		QI ^{e/}	QII ^{e/}	May ^{e/}	June ^{f/}	July ^{f/}
Corporate securities -						
Total	2,779	3,066	3,270	2,960	3,800	3,000
Public bonds	1,125	1,939	2,200	2,300	2,600	2,000
Privately placed bonds	725	534	467	400	500	400
Stock	929	593	603	260	700	600
State and local government securities	1,942	2,037	2,133	2,100	2,000	2,000

e/ Estimated.

f/ Forecast.

Based on current schedules, the volume of municipal offerings is expected to be about \$2 billion per month in June and July, although two recent developments could increase supply pressures in this market in the near future. The State of New York has agreed to have the State power authority buy and complete two unfinished generating plants of Consolidated Edison and thereby provide the company with additional working capital. The financing, which is awaiting the completion of an engineering audit that will take two to three months, should be between \$500 and \$800 million. Also, the State has recently empowered New York City to set up a special Stabilization Reserve Corporation to issue long-term bonds. The City is currently up against a debt ceiling for general obligation bonds, and the Corporation will be used to help alleviate its problem of financing large operating deficits with short-term notes.

Consumer credit. The net increase in consumer credit outstanding totaled \$18.0 billion in April, seasonally adjusted annual rate, the largest increase since last November. All major categories of credit expanded more rapidly in April than in the first quarter, but with the exception of home improvement loans and noninstalment credit, rates of growth remained well below earlier highs.

NET CHANGES IN CONSUMER CREDIT OUTSTANDING
(Billions of dollars, seasonally adjusted annual rates^{1/})

Period	Total	Instalment					Noninstalment
		Total	Auto- mobile	Other consumer goods	Home improvement loans	Personal loans	Total
1971	11.2	9.2	3.5	2.9	.3	2.5	2.0
1972	19.2	16.0	5.5	5.7	.8	4.1	3.1
1973	22.9	20.1	7.0	7.5	1.2	4.5	2.8
1973-QI	25.3	24.0	10.0	7.4	1.1	5.4	1.3
QII	24.1	20.0	7.4	6.9	1.0	4.7	4.1
QIII	21.9	21.0	7.2	8.2	1.3	4.3	.9
QIV	18.8	15.3	3.2	7.4	1.2	3.5	3.5
1974-QI	8.2	8.8	--	4.5	.9	3.5	-.6
Apr.	18.0	13.8	.6	6.6	1.6	5.0	4.2

^{1/} Annual totals based on unadjusted data.

The faster rate of growth in instalment debt during April resulted from a larger volume of new credit extensions--with modest increases in all types of credit--and a slight reduction in the rate of repayments. Repayments had advanced to new highs in each month of the first quarter.

Recent developments in rate and nonrate terms on consumer loans indicate a less favorable climate for potential borrowers. Finance rates on new car loans, which had edged down in recent months at both commercial banks and finance companies, leveled off in April. In more recent weeks, a number of banks in major cities throughout the country have raised new-car loan rates from 50 to 150 basis points. Prior to the increases, rates at these banks had been somewhat below the average for all banks surveyed in April--10.51 per cent, annual percentage rate. At finance companies, rates on new-car contracts purchased from dealers averaged 12.28 per cent in April, down 14 basis points from the peak in December but 40 basis points above the year-earlier level. Nonrate loan terms at finance companies, as measured by an index based on downpayment requirements and contract maturities, tightened in the first quarter to the most restrictive stance since the third quarter of 1972.

Finance rates on personal loans, which have been relatively stable at both banks and finance companies in recent months, have also been adjusted by a number of commercial banks since early May. In general, rates on small, short-term loans were increased about 150 basis points while rates on larger, long-term loans--36 months and over--were either reduced or left unchanged. In April, before the

RATE AND NONRATE TERMS ON NEW CAR LOANS

Period	<u>Commercial banks</u>		<u>Finance companies</u>	
	Finance rate 1/	Finance rate 1/	Loan terms index 2/	
1972 - QI	10.19	11.99	96.4	
QII	9.98	11.86	99.8	
QIII	10.00	11.86	100.6	
QIV	10.01	11.89	103.7	
1973 - QI	10.03	11.87	104.7	
QII	10.06	11.91	105.4	
QIII	10.26	12.14	103.6	
QIV	10.50	12.39	104.8	
1974 - QI	10.53	12.34	103.2	
Jan.	10.55	12.39	106.3	
Feb.	10.53	12.33	100.8	
Mar.	10.50	12.29	102.6	
Apr.	10.51	12.28	--	

1/ Annual percentage rate. At commercial banks, most common rate on direct 36-month loans; at finance companies, weighted average rate on all contracts purchased from dealers.

2/ Seasonally adjusted, 1965-QI = 100. Higher values represent more liberal terms.

adjustments, the most common rate for 12-month personal loans at commercial banks averaged 13.00 per cent, annual percentage rate, down 1 basis point from the first quarter average and 3 basis points below the peak in the last year's fourth quarter.

There is additional evidence that consumers are encountering difficulty in making repayments on existing indebtedness. Personal bankruptcies are estimated to have increased in the first quarter to a seasonally adjusted annual rate of 172,000 filings, up 9 per cent from the full-year 1973 average, and 11 per cent above the fourth quarter rate. Also, a year-end survey by a large bank of its finance company customers indicated that the proportion of loans delinquent 60 days or more at consumer finance companies rose to 3.59 per cent, an increase of 22 basis points from 1971 and 1972 levels, but still below the 3.91 per cent rate at the end of 1970. The delinquency rate at sales finance companies, however, was well above the preceding 2 years and 16 basis points higher than the 1970 figure.

Short-term interest rates. At the time of the May FOMC meeting, short-term interest rates were receding from the high levels reached in early May, and they edged down somewhat further in the days immediately following the meeting. More recently, however, they have fluctuated in a fairly narrow range, and at present most rates are about 5 to 20 basis points below levels prevailing at the last meeting.

The recent relative stability in rates reflects, in part, the development of a market view that the stance of monetary policy will not change significantly over the near term. Market hopes for a near-term decline in yields have been dampened by the persistence of the Federal funds rate around the 11-1/2 per cent level and by recent statements of Board members that have made clear the System's determination to resist inflation. At the same time, however, fears among market professionals that the System might tighten further have faded somewhat, as recent data have shown some slowing in price increases and in the growth of the monetary aggregates. Moreover, some professionals have concluded that the System cannot tighten significantly further without running the risk of a financial crisis.

In private markets, rates have remained fairly stable despite continued strong short-term credit demands. The pressures generated by these demands, however, may not be fully reflected by the rates shown in the table, which are primarily rates on prime quality debt instruments. Many investors reportedly have developed a strong preference for top quality instruments, in the wake of the difficulties encountered by Franklin National Bank and other institutions. As a result, the

yield spread between medium grade and high-grade dealer-plated commercial paper, for example, widened to as much as 150 basis points at the end of May, and very few sales of the lowest grade paper are even taking place.

In the Treasury bill market, rates have continued to be unusually low compared with those on other instruments. In addition to the increased investor preference for quality, the persistence of this wide spread reflects foreign central bank bill purchases, which have been quite large since February and reached \$1.4 billion (net) in May. Noncompetitive tenders in weekly bill auctions have also continued to be unusually large--around \$600 to \$700 million each week since the May FOMC meeting. Against this background of strong demands, bills have remained in relatively short supply, with dealer positions at exceptionally low levels. In early June, the Treasury raised only \$800 million of new cash through a bill strip, whereas the market had expected a \$1 to \$2 billion offering. Moreover, the already limited market supply of bills will be accentuated later this month by the redemption of \$4.5 billion of outstanding TAB's.

The bill strip, auctioned on May 30, was needed primarily to cover the low point in the Treasury's cash balance just prior to the mid-June tax payment date. It consisted of \$100 million additions to each of eight outstanding bill series--maturing between September 19 and November 17--and has been readily absorbed by the market.

Looking ahead, the Treasury may not return to the market for financing until late July, when about \$3.0 billion of new money will be needed. Federal Agency borrowing in July--as in June--is projected to be

quite heavy, amounting to about \$2.8 billion. In the third quarter as a whole, it still appears that combined Treasury and Agency borrowing may amount to nearly \$12 billion, compared with only about \$6.0 billion for the same period in both 1972 and 1973.

SELECTED SHORT-TERM INTEREST RATES
(Per cent)

	Daily Rates						
	1973	1974					
	Aug.-Sept. highs	Feb. lows	Early May highs	May FOMC (May 21)	May 28	June 4	June 11
Treasury bills							
3-months	9.05	6.93	8.90 ^{3/}	8.21	8.02	8.11	8.13
6-months	9.00	6.80	8.86	8.42	8.23	8.19	8.21
1-year	8.50	6.37	8.65	8.17	7.81	8.16	8.02
Commercial paper							
1-month	10.38	8.13	11.13	10.88	10.25	10.50	10.75
90-119 days	10.50	7.75	11.00	10.75	10.50	10.75	10.88
4-6 months	10.50	7.50	10.88	10.63	10.25	10.63	10.50
Large negot. CD's^{1/}							
3-months	11.05	7.85	11.38	11.25	11.00	11.10	11.13
6-months	11.00	7.50	11.00	11.00	10.75	10.88	10.75
Federal agencies							
1-year	9.49	7.01	9.40	9.04	8.91	9.01	8.95
Bank prime rate	10.00	8.75	11.25	11.50	11.50	11.50	11.25- 11.50
Statement week ended							
				May 22	May 29	June 5	June 12 ^{2/}
Federal funds (weekly average)				10.95	11.54	11.45	11.45

^{1/} Highest quoted new issues.
^{2/} Average for first six days of the week.
^{3/} April 30.

Mortgage market. The mortgage markets tightened further during the past month. Interest rates in both the primary and secondary mortgage markets continued upward to new-highs in early June. Tentative indications are that seasonally-adjusted new mortgage commitments at savings and loan associations declined somewhat during May, after 7 months of gradual recovery from last fall's low. Over the past few weeks, S&L's reported funds in short supply in virtually all of the 12 FHLBank districts.

Contract interest rates on new commitments for 80 per cent conventional home loans at selected S&L's edged higher through June 7 to a level of 9.06 per cent--21 basis points above the peak in September 1973. However, returns on such loans, after adjustment for servicing costs, continued below yields on new issues of high-grade utility bonds. Nonrate loan terms tightened somewhat last month, with the proportion of S&L's offering 90 per cent 25-year financing for new-home purchase dropping to 69 per cent in early May--down from this year's high of 73 per cent in April and well below the high of 85 per cent in January 1973.

The further recent increase in home mortgage yields has carried average contract interest rates on conventional loans above the usury ceilings of 9 per cent or less which prevail in 16 States

and the District of Columbia.^{1/} In addition, approximately a dozen states--including California and Florida--have usury ceilings of 15 per cent or less that are applicable to corporate as well as to individual borrowers. Such ceilings may now be affecting yields on both new and outstanding construction loans, on which rates are often pegged 2 to 5 percentage points above the prime rate.

CONVENTIONAL HOME MORTGAGES
At 120 S&L's

	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 fund. in short supply
1973 - High	8.85 (9/28)	--	107 (9/12)	12 (Aug.-Sept.)
Low	7.43 (1/26, 2/2, 2/9)	--	- 12 (8/8)	0 (Jan.-Mar.)
<u>1974</u>				
Jan.	8.52	- 4	27	4
Feb.	8.42	-10	32	0
Mar.	8.41	- 1	-23	0
Apr.	8.73	+32	-25	6
May 3	8.87	+14	-40	9
10	8.98	+11	-29	11
17	8.97	- 1	-26	11
24	9.01	+ 4	-33	10
31	9.03	+ 2	- 6	12
June 7	9.06	+ 3	-16	11

^{1/} Average mortgage return before deducting servicing costs minus average yield on new issues of Aaa utility bonds paying interest semi-annually and with 5-year call protection. Mortgage yields shown may be converted to equivalents of semi-annual interest investments by adding 16 basis points to the gross yields between 8.59 and 8.58 per cent, and 17 basis points to yields above this level.

^{1/} FHA-insured loans are exempt from usury ceilings in 15 of these States, and VA-guaranteed loans in 13 States. Regardless of usury ceiling limits, national banks may currently lend at rates of up to 9 per cent under statutory authority which allows them to charge one percentage point above the discount rate on 90-day commercial paper in effect at the district Federal Reserve Bank.

Offerings in the June 3 FNMA auctions of forward commitments to purchase FHA/VA loans and high loan-to-value ratio conventional home mortgages declined substantially from the volume posted in the last several auctions, and average yields on accepted bids rose moderately to new record levels. Also, negotiated purchases of FNMA's one-year standby commitments, which had been quite heavy in March and April, dropped to quite low levels after the first week in May.

The slackened pace of FNMA's secondary market support has reflected not only the reduced demand for new mortgage credit generally but also the impact of the recently-announced Administration subsidy measures which have diverted credit demands to other federal agencies. For example, under the Federal Home Loan Mortgage Corporation's new program which became effective May 20, more than \$1.5 billion in commitments were issued through June 7 to purchase 8-3/4 per cent conventional new-home mortgages. In addition, the FHLBanks have reportedly been receiving applications for the new subsidized advances well in excess of the \$500 million to be made available each month. Under its Tandem Plan, GNMA since the beginning of May has issued commitments to purchase below market-rate FHA/VA mortgages on about 38 thousand units--two fifths of all commitments issued since the plan began in late January.^{1/}

^{1/} The January 22 plan providing for GNMA purchase of 200,000 new-unit FHA/VA mortgages bearing a contract interest rate of 7-3/4 per cent is still in effect. The plan announced May 10 provides for purchase of an additional 100,000 mortgages with contract rates of 8 per cent.

FNMA AUCTION RESULTS
HOME MORTGAGE COMMITMENTS

	Government-Underwritten			Conventional		
	Amount (in millions of dollars)		Yield to FNMA	Amount (in millions of dollars)		Yield to FNMA
	Offered	Accepted		Offered	Accepted	
1973 - High	551 (9/3)	289 (9/3)	9.37 (9/17)	171 (8/20)	88 (4/16)	9.68 (9/17)
Low	25 (10/15, 11/26)	17 (10/15)	7.69 (1/8)	9 (10/1)	7 (10/1)	7.84 (1/2)
1974 - Jan. 14	40	36	8.71	49	35	8.77
Feb. 11	50	49	8.53	48	48	8.69
25	58	42	8.43	49	39	8.50
Mar. 11	351	285	8.44	74	50	8.47
25	1,154	333	8.62	126	34	8.64
Apr. 8	1,061	267	8.95	164	63	9.00
22	334	169	9.18	80	41	9.21
May 6	256	111	9.34	74	30	9.44
20	218	83	9.48	41	24	9.63
June 3	85	72	9.54	26	21	9.70

NOTE: Average secondary market yields are gross before deduction of the fee of 38 basis points paid for mortgage servicing. They reflect the average accepted bid yield for home mortgages assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA commitment fees and FNMA stock purchase and holding requirements. Mortgage amounts offered by bidders relate to total bids received. The maximum size of competitive offers was \$3 million in all but the March 25 and April 8 auctions when the maximum was suspended.

Delinquency rates on home mortgages (Mortgage Bankers Association series) edged up in the first quarter, after seasonal adjustment, to 4.36 per cent of outstanding loans held by reporting institutions-- a new high for the series which covers more than two decades. The foreclosure rate, however, remained about the same as that shown throughout last year, as 0.25 per cent of outstanding home mortgage loans were placed in foreclosure. Delinquency and foreclosure rates continued to be particularly high on FHA-insured loans--especially those associated with the Sec. 235 interest-rate subsidy programs which were suspended early in 1973.

Agricultural finance. As livestock prices have moved downward since August 1973, financial losses have been experienced by the cattle-feeding industry. Last summer and early fall, feeders paid extremely high prices for feeder cattle, in the expectation that beef prices would rise further after removal of price controls in September. Feeders also held animals past normal slaughter weights, first in anticipation of still higher prices and subsequently in hopes of a reversal in the downward price trend that ensued. As prices fell, feeders lost money on the initial weight they had purchased as well as on the weight put on during feeding.

Primary lenders for cattle feeding operations--banks and production credit associations (PCA's)--confirm that their borrowers have suffered financial losses. Lenders surveyed in late May reported

that some nonfarm investors have lost their entire cattle equity, and that some farmer-borrowers have mortgaged land to repay cattle loans. However, each lender reported that most loans are being repaid, so that loan losses are small. The lenders believe that the period of greatest losses has passed, because the sale of cattle purchased at last year's peak prices is largely completed.

Farm Credit System data through April indicate that farm borrowing increased at roughly last year's pace.

NET CHANGE IN OUTSTANDING FARM DEBT
January 1 - April 30

	1966-70 average	1971	1972	1973	1974
	<u>Net change (millions of dollars)</u>				
Production credit associations	398	510	441	523	652
Federal Land Banks	240	240	321	646	746
	<u>Percentage change</u>				
Production credit associations	11.4	11.4	7.2	7.9	8.3
Federal Land Banks	4.5	3.3	4.1	7.1	6.8

Interest rates on agricultural loans have continued to rise. Several Federal Land Banks raised their rates to 8 per cent on May 1, with three-fourths now charging 8 per cent. PCA rates as of April 1 averaged 9.34 per cent, 163 basis points above a year earlier. At large commercial banks, rates on both feeder cattle and farm production loans in early April rose only slightly from March, thus remaining roughly at the level first reached in September 1973.

Federal finance. On May 30, the Administration released the Mid-Session Review of the 1975 Budget showing the same budget estimates released earlier for the debt ceiling hearings (see May Greenbook). At this point, our estimate of the Federal deficit for the current fiscal year is nearly \$1.0 billion less than the Administration's \$3.5 billion figure, because of our lower expenditure assumptions. Experience in recent years has shown, however, that there is an exceptional amount of error in budget estimates for June, because the Administration has fairly wide latitude in determining the June outlays figure and because the heavy corporate tax payments made in June are difficult to forecast accurately.

Our estimate of fiscal 1975 outlays has not changed significantly since the last Greenbook, but the legislative assumptions underlying our receipts projections have been changed. First, we have dropped the assumption that Congress will reduce overwithholding, as proposed by the Administration (the Administration no longer seeks this action); thus, our estimate of receipts for fiscal year 1975 has been increased by \$4.0 billion. Second, our revenue estimates, as well as the Administration's, now include the revenue impact of the "Oil and Gas Energy Tax Act of 1974", which was recently reported out by the House Ways and Means Committee. As a result of these changes in legislative assumptions and partially offsetting changes in income assumptions, we have increased our estimate of Federal

receipts to \$296.0 billion in fiscal 1975, with the deficit reduced from \$13.0 billion to \$8.0 billion.

Because of the large number of important tax and expenditure bills pending in Congress, considerable uncertainty still pervades projections of both Federal receipts and expenditures. On the outlays side, Congress has not completed action on any of the regular appropriations bills for the fiscal year beginning July 1. Receipts projections are complicated by the large number of proposed tax measures--in addition to the Energy Tax Act--on which some Congressional action is due in the next few months. By the end of June, the Ways and Means Committee expects to complete action on a general tax reform bill, which may include some revision of the minimum tax on preference income, and a change in the tax on capital gains. Meanwhile, in the Senate, there are a number of proposals, generally involving floor action, for cuts in personal income taxes and for increased taxes on business in general and on the oil industry in particular.

Provisions of the Ways and Means Energy Tax Act mentioned above, include: (1) a tax on windfall profits on oil production which is largely rescinded if plowed back into development of domestic sources of oil; (2) the phase-out, generally by 1977, of percentage depletion for oil and unregulated natural gas; and (3) a number of ~~foreign~~ foreign income tax measures designed to reduce the tax advantage of foreign production. The Ways and Means Committee estimates indicate that annual revenues, derived from their proposed Energy Tax Act,

would be about \$1.3 billion in the first full year, increasing to about \$3.4 billion in 1979. However, the outcome of this bill and other tax measures is highly uncertain due to the expectation of an unusual amount of floor action in the House and Senate.

Recently, the House passed a \$19.3 billion increase in the temporary debt ceiling to \$495 billion, \$10 billion less than requested by the Administration. Thus far, the Senate has taken no action on the temporary debt ceiling, which is due to expire on June 30 when the ceiling reverts to its \$400 billion permanently authorized level. It should be noted, however, that the whole House and the Senate Banking Committee, in separate legislation, recently approved renewal of authority, which expired last October, for the Treasury to borrow up to \$5 billion directly from the Federal Reserve.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	May ^e	June	July	August
Total net borrowing	-0.4	-2.9	3.6	1.4
Weekly and monthly bills	.6	.4	.4	1.0
Tax bills	--	-4.5	--	--
Coupon issues, net	4.2	.8	--	--
As yet unspecified new borrowing	--	--	3.0	4.4
Special foreign series	.3	-.2	--	--
Agency transactions, debt repayment, etc.	-5.5	.6	.2	-4.0
Plus: <u>Other net financial sources</u> a/	.4	-1.5 ^{b/}	.9 ^{b/}	-2.4
Plus: <u>Budget surplus or deficit</u> (-)	-5.1	8.1	-8.2	-1.1
Equals: <u>Change in cash balance</u>	-5.1 ^{c/}	3.7	-3.7	-2.1
Memoranda: Level of cash balance, end of period	6.4 ^{c/}	10.1	6.4	4.3
Derivation of budget surplus or deficit:				
Budget receipts	19.2	32.1	20.3	24.0
Budget outlays	24.3	24.0	28.5	25.1
Maturing coupon issues held by public	5.6 ^{d/}	--	--	4.4
Sales of financial assets	.1	.6	.2	.7
Budget agency borrowing	.1	.4	.1	.4
Net borrowing by government-sponsored agencies	1.8	2.6	1.9	1.1

e--Estimated.

a/ Checks outstanding less checks paid and other accrual items.

b/ Reflects assumption of \$1.2 billion in deferred receipts from auction of offshore oil leases.

c/ Actual.

d/ In the May refinancing, \$3.75 billion of notes and \$.3 billion of bonds were sold to provide funds for a partial refinancing of the \$5.6 billion of publicly-held bonds and notes maturing May 15.

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

	Fiscal 1974 e/		Fiscal 1975 e/		Calendar Years		F.R.B. Staff Estimates				Half-Yr. 1975 Jan-June	
	Adm. Est.	F.R. Board	Adm. Est.	F.R. Board	1973	1974	Calendar Quarters					
	5-30-74	Board	5-30-74	Board	Actual	FRB e/	1974	I*	II	III		IV
<u>Federal Budget</u>							<u>Unadjusted data</u>					
Surplus/deficit	-3.5	-2.8	-11.4	-8.0	-7.9	-7.6	-7.1	10.4	-4.1	-6.8	2.9	
Receipts	266.0	265.7	294.0	296.0	250.4	281.1	60.5	81.0	72.9	66.7	156.3	
Outlays	269.5	268.5	305.4	304.0	258.3	288.7	67.6	70.6	77.0	73.5	153.4	
<u>Means of financing:</u>												
Net borrowing from the public	n.a.	3.5	n.a.	n.e.	7.9	8.6	3.4	-5.8	5.6	5.4	n.e.	
Decrease in cash operating balance	n.a.	2.5	n.a.	n.e.	.7	2.0	2.0	-1.7	-.4	2.1	n.e.	
Other <u>1/</u>	n.a.	-3.2	n.a.	-1.1	-.7	-3.0	1.7	-2.9	-1.1	-.7	.7	
Cash operating balance, end of period	n.a.	10.1	n.a.	n.e.	10.4	8.4	8.4	10.1	10.5	8.4	n.e.	
Memo <u>2/</u> : Sales of financial assets <u>3/</u>	n.a.	1.5	n.a.	5.3	3.6	3.1	.1	.5	1.5	1.0	2.7	
Budget agency borrowing <u>4/</u>	1.7	1.5	n.a.	n.e.	-.1	1.8	.4	.6	.4	.4	n.e.	
Sponsored agency borrowing <u>5/</u>	13.6	14.6	n.a.	n.e.	16.3	13.4	--	5.3	4.6	3.4	n.e.	
<u>National Income Sector</u>							<u>Seasonally adjusted annual rates</u>					
Surplus/deficit	-.6	.0	-12.8	-9.5	.9	-2.8	2.6	-.7	-5.7	-7.5	-10.9	
Receipts	278.2	278.5	304.3	306.8	265.0	295.2	284.9	292.2	298.6	305.1	313.0	
Expenditures	278.8	278.5	317.1	316.3	264.0	298.0	282.3	292.9	304.3	312.6	323.9	
High Employment surplus/deficit (NIA basis) <u>8/</u>	n.a.	.7	n.a.	9.3	-1.3	3.0	2.2	1.6	1.6	6.8	14.4	
* Actual	e--projected		n.e.--not estimated		n.a.--not available		p.--preliminary					

II - 35

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. Most of the market activities of budget agencies are expected to be handled by the Federal Financing Bank in fiscal year 1975.
- 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.c., 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 and \$.6 billion for fiscal 1975 due to spreading of wage base effect over calendar year.
- 7/ Fiscal year exceeds quarterly average by \$.9 billion due to seasonal adjustment.
- 8/ Estimated by F.R. Board Staff.

INTERNATIONAL DEVELOPMENTS

6/12/74

III -- T - 1

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

	1973			1974		
	IH	3Q	4Q	1Q	MAR.*	APR.*
<u>Goods and services, net</u> ^{1/}	785	2,149	3,965			
Trade balance ^{2/}	-1,282	612	1,358	87	-455	-115
Exports ^{2/}	31,901	18,143	20,211	22,292	7,578	8,102
Imports ^{2/}	-33,183	-17,531	-18,853	-22,205	-8,033	-8,217
Service balance	2,067	1,537	2,607			
<u>Remittances and pensions</u>	-786	-404	-724			
<u>Govt. grants & capital, net</u>	-1,258	-862	-1,296			
<u>U.S. private capital</u> (- = outflow)	-8,259	-1,197	-4,189			
Direct investment abroad	-2,971	-478	-1,407			
Foreign securities	-75	-204	-512	-669	-312	-183
Bank-reported claims -- liquid	-418	-303	-379	-2,438	-762	483
" " " other	-3,796	436	-1,423	-3,156	-2,120	-1,984
Nonbank-reported claims -- liquid	-763	-20	-50	-426		
" " " other	-236	-628	-418			
<u>Foreign capital (excl. reserve trans.)</u>	2,818	3,541	5,219			
Direct investment in U.S.	807	753	507			
U.S. corporate stocks	1,426	869	502	378	49	16
New U.S. direct investment issues	658	197	368	25		
Other U.S. securities (excl. U.S. Treas.)	158	121	-206	295		
Liquid liabilities to:	-774	955	4,255	4,273	2,242	221
Commercial banks abroad	-1,209	816	3,374	4,288	2,355	70
Of which liab. to branches ^{3/}	(7)	(93)	(212)	(3,403)	(3,597)	(-1,958)
Other private foreign	393	189	500	578	273	267
Intl. & regional organizations	42	-50	381	-593	-386	-116
Other nonliquid liabilities	544	646	-207			
<u>Liab. to foreign official reserve agencies</u>	9,884	-2,117	-2,685	-655	1,406	1,629
<u>U.S. monetary reserves</u> (increase, -)	237	-13	-15	-210	55	-63
Gold stock	--	--	--	--	--	--
Special drawing rights	9	--	--	--	--	--
IMF gold tranche	-5	-13	-15	-209	-4	-63
Convertible currencies	233	--	--	-1	59	--
<u>Errors and omissions</u>	-3,421	-1,097	-275			
<u>BALANCE</u> (deficit -)						
Official settlements, S.A.	-10,121	2,130	2,700	865		
" " , N.S.A.	-9,226	940	3,000	1,469		
Net liquidity, S.A.	-8,166	1,498	-1,126	-544	-1,461	-1,566
" " , N.S.A.	-8,230	602	-161	-69		
Liquidity, S.A. ^{4/}	-9,347	1,175	-1,555	-3,408		
" " , N.S.A.	-9,352	131	-501	-2,870	-3,703	-1,787
Basic balance, S.A.	-1,554	2,549	214			
" " , N.S.A.	-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. After showing considerable weakness in March and April, the overall U.S. payments position appeared to strengthen somewhat in May. During the last half of May, the dollar appreciated by about 1-1/2 percent, on average, against the major foreign currencies, while the official settlements balance for the month was probably close to zero. By contrast, during both April and March there were official settlements deficits of about \$1-1/2 billion (not seasonally adjusted, not at an annual rate), and during each month the dollar depreciated by about 2 percent, on average. Preliminary data indicate that the official settlements balance in the first week of June was in substantial deficit -- over \$1 billion -- mainly reflecting oil payments to Venezuela.

In April, the merchandise trade deficit decreased to \$1-1/2 billion from \$5-1/2 billion in March (annual rate) despite a steep rise in the value of fuel imports. This rise was more than offset by a decline in nonfuel imports and a sharp increase in nonagricultural exports, neither of which is expected to continue at this rate. Bank-reported net capital outflows continued to rise during the month of April, but may have subsided or even been reversed in May.

The rise in the price of oil continues to transform the U.S. balance of payments. The fuel import bill is now running at an annual rate of more than \$30 billion, a rate which may well be maintained through the first half of 1975, provided prices remain fairly stable. A relatively small

part of the increase in the fuel import bill has been offset by a rise in income receipts from the operations of U.S. oil companies abroad. Apart from possible further changes in the value of oil imports or income receipts, the balance on goods and services will probably deteriorate fairly steadily through the second quarter of 1975, mainly because of an anticipated decline in the prices of agricultural exports as supplies of these commodities increase.

Some improvement in capital flows is still anticipated, but the timing and magnitude of such changes remains highly uncertain. The tightening in U.S. credit markets and the attractiveness of investment opportunities in the United States are conducive to a reversal of the large net capital outflows reported by U.S. banks in recent months, and we may have begun to see the beginning of such a reversal in May.

Abroad, the impact of the higher oil prices has led to substantial deteriorations in the trade and current account positions of the major foreign industrial countries in the first few months of 1974, with two exceptions: the German surpluses on trade and current account have increased, and the Canadian current account position remains in rough balance. A number of countries have borrowed heavily abroad to finance their growing current account deficits and to support their exchange rates. The most critical situation is the Italian, where official intervention in support of the lira has taken place at the rate of \$1 billion a month thus far this year, and where the prospects of future borrowing in the private capital market seem limited. Political differences over domestic economic policies led to the fall of the Italian government this week.

Foreign exchange markets. The decline of the dollar's exchange value, which had amounted to over 9 per cent (weighted average) since the end of January, was halted in mid-May, and the dollar has subsequently appreciated by about 2 per cent. The dollar's weighted average exchange value is currently about 6 per cent higher than in October, 1973.

It is difficult to pinpoint exactly the reasons for the dollar's turnaround. The immediate stimulus was the news report from Basle on May 14 that the Federal Reserve, the Bundesbank, and the Banque Nationale Suisse were seriously considering concerted intervention to maintain orderly exchange market conditions. In fact, there were no immediately subsequent intervention purchases of dollars, but perhaps this report tended to change market participants' expectations about the possibilities of the dollar moving any lower. Later in the month the release of U.S. trade figures for April, showing a swing back into surplus (Census basis) caught the market by surprise and stimulated an increased demand for dollars. Also a factor, probably, was the renewed commitment of Germany to its participation in the snake, disappointing market expectations of a German revaluation or independent float. Late in May, with the dollar's rise on the basis of the U.S. trade figures, the Bundesbank sold nearly \$400 million, while the System purchased a substantial amount of marks. In the following few days a portion of this intervention was reversed, as speculation on a mark revaluation again flared briefly. On June 11 the Bundesbank again purchased dollars as the dollar spurted in reaction to developments in Italy.

The Italian lira remained under strong selling pressure in recent weeks. The Bank of Italy sold some \$900 million in May and by June 10 had

sold an additional \$400 million. The lira dropped fairly sharply against the dollar on June 10 on the news that the Italian government had fallen (after less than three months in power) because of the inability of the coalition to agree on policy measures to remedy Italy's acute economic and financial difficulties.

Among other major currencies, the other mark bloc currencies -- the snake currencies and the Swiss franc -- moved roughly in line with the mark against the dollar, while the French franc, sterling, and the yen, have shown no great change against the dollar over the past few weeks. The Canadian dollar turned easier on June 10 and 11 as U.S. firms reportedly repatriated funds for corporate tax payments. The Bank of Canada sold roughly U.S. \$30 million to moderate the rate movement.

In the gold market prices have ranged between \$153.50 and \$165.50 over the past month, with prices currently at the low end of that range. Market expectations of possible official sales (particularly by Italy) seem to have dominated expectations that U.S. citizens may soon be allowed to deal in gold.

Euro-dollar market. Over the past four weeks the overnight Euro-dollar rate has declined slightly, and is now a bit lower in comparison with the U.S. Federal funds rate. It averaged 11.19 per cent in the week of June 12, and after adjustment for reserve requirements the effective cost to U.S. banks was about 70 basis points above the Federal funds rate, compared with about 85 points four weeks earlier. The 3-month Euro-dollar deposit rate, averaging 11.63 per cent in the week of June 12, was likewise slightly lower than four weeks earlier, but with the U.S. 60-89 day CD rate also down a bit the rate differential is about the same.

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

Average for month or week ending Wednesday	(1) Over-night Euro-\$	(2) Federal Funds	(3) Differential (1)-(2)(*)	(4) 3-month Euro-\$ Deposit	(5) 60-89 day CD rate	(6) Differential (4)-(5)(*)
1974-Feb.	8.44	8.98	-0.54 (0.19)	8.51	8.07	0.44 (0.48)
Mar.	8.74	9.24	-0.50 (0.26)	9.13	8.60	0.53 (0.58)
Apr.	9.73	10.47	-0.74 (0.11)	10.48	10.05	0.43 (0.47)
1974-May 1	10.74	11.17	-0.43 (0.50)	11.45	10.75	0.70 (0.76)
8	10.89	11.29	-0.40 (0.55)	11.43	11.00	0.43 (0.46)
15	11.33	11.46	-0.13 (0.86)	11.74	10.88	0.86 (0.93)
22	10.68	10.98	-0.30 (0.63)	11.79	10.88	0.91 (0.99)
29	10.86	11.54	-0.68 (0.26)	11.83	10.75	1.08 (1.17)
June 5	11.24	11.44	-0.20 (0.78)	11.86	10.75	1.11 (1.21)
12 ^{p/}	11.19	11.45	-0.26 (0.71)	11.63	10.75	0.88 (0.96)

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

pp/ Preliminary

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

	May 3	May 10	May 31	June 7 ^{d/}
1) 3-mo. Euro-\$ loan ^{a/}	11.75	12.06	12.38	12.44
2) 90-119 day com'l. paper ^{b/}	11.13	11.13	10.88	10.88
3) U.S. bank loan:				
a) predominant prime rate	10.75	11.25	11.50	11.50
b) with 15% comp. bal's. ^{c/}	12.65	13.24	13.53	13.53
c) with 20% comp. bal's. ^{c/}	13.44	14.06	14.38	14.38
Differentials:				
(1) - (2)	.62	.93	1.50	1.56
(1) - (3a)	1.00	.81	.88	.94
(1) - (3b)	-.90	-1.18	-1.15	-1.09
(1) - (3c)	-1.69	-2.00	-2.00	-1.94

a/ 1/2 per cent over deposit bid rate.

b/ offer rate plus 1/8 per cent.

c/ prime rate adjusted for compensating balances.

d/ Euro-dollar loan rate is for June 10, U.S. rates are for June 7.

U.S. banks' gross liabilities to their foreign branches continued to increase through most of May, reaching an average of \$3.7 billion in the week of May 22 compared with about \$2 billion in mid-March. The increase in liabilities was strongly encouraged by massive inflows of Arab-owned dollars into call deposits with U.S. bank branches in London. Rates paid on Arab-owned call Euro-dollars have reportedly been below both the overnight rate and the call rate received by other depositors. In the past three weeks, however, liabilities to branches have declined quite sharply to \$3.0 billion in the seven days ending June 7.

In the London interbank market, more tiers have emerged in the rate structure as lenders have become more conscious of the quality of borrowers or have run up against country exposure limits. Some sources say U.S. regional banks now pay 1/8 or 1/4 per cent over the quoted interbank offer rate, while Italian and Japanese banks pay premiums ranging from 1/8 to 3/8 per cent.

Relationships between the cost of short-term Euro-dollar loans and short-term borrowing costs in the United States have shown somewhat diverse movements in recent weeks. From May 3 to June 7 the 90-119 day commercial paper rate moved down, both absolutely and by close to a full percentage point in relation to short-term Euro-dollar loan rates. But, as shown in the accompanying table, the increase in U.S. bank loan costs has approximately paralleled the rise in the 3-month Euro-dollar loan rate.

The amount of publicized new credits arranged in the market for longer-term Euro-currency bank loans declined to \$2.2 billion in May, according to World Bank initial estimates which show a \$4.5 billion average monthly

rate in the first quarter and \$2.7 billion for April. In May, loans of \$100 million or more were arranged by the Kingdom of Denmark (\$300 million), the Irish Republic (\$250 million), Yugoslavia (\$216 million, for a nuclear power project), the National Bank of Hungary, Petroleos Mexicanos, and the Mexican Federal Electricity Commission (\$100 million each). Negotiations for a \$200 million loan to the Italian Railways have been delayed by the Italian government crisis.

U.S. balance of payments. According to preliminary data, the U.S. official settlements balance was in approximate balance in May (not seasonally adjusted) following deficits of \$1-1/2 billion in both March and April. In addition, the average foreign currency value of the dollar began to appreciate after mid-May, following a fairly steady depreciation since January. The balance swung back to a substantial deficit of \$1.4 billion in the week of June 5, as foreign official holdings rose because of very large oil payments to Venezuela.

Some basis for the improvement in May can be seen in preliminary data on bank reported capital flows. U.S. bank liabilities to foreign branches rose by \$2 billion in May, more than double the average increase in March-April. Almost all of the May increase, however, was accounted for by a large end-of-week inflow on the last day of the month, which was reversed early in June. There may also have been a net inflow in May of private capital through agencies and branches of foreign banks, and a drop in the (gross) outflow of funds attributed to U.S. bank claims on foreigners.

Available information for April shows that the trade deficit narrowed substantially -- from \$0.5 billion in March to \$0.1 billion (seasonally adjusted, not at an annual rate) in April. The improvement in the trade balance was more than offset by an increased deficit on the capital account. Bank reported claims on foreigners rose by \$1.5 billion (not seasonally adjusted) in April, including an unusually large \$0.6 billion jump in long-term claims. Of the total, claims by U.S. banks

increased by \$2.0 billion (nearly all for their own account), while claims by U.S. branches and agencies of foreign banks declined by \$0.5 billion. Meanwhile, bank liquid liabilities to private foreigners rose by \$1/4 billion in April. On balance, banks reported a net outflow of \$1-1/2 billion in April, twice the outflow in February and March combined. However, the April increase is considerably overstated because March, as in the case of May, ended with a large temporary end-of-week inflow of \$2 billion.

MONTHLY CHANGES IN BANK REPORTED TRANSACTIONS
(billions of dollars, not seasonally adjusted)

	1974			
	Jan.	Feb.	Mar.	April
<u>Changes in bank-reported claims</u>	-0.3	-2.0	-2.9	-1.5
Short-term	-0.4	-1.9	-2.7	-0.9
Liquid	-0.6	-0.9	-0.8	0.5
Nonliquid	0.2	-1.0	-1.9	-1.4
Long-term	0.1	-0.1	-0.2	-0.6
<u>Changes in liabilities to private</u>				
<u>foreigners</u>	0.4	1.7	2.3	0.3
Liquid	0.4	1.7	2.2	0.2
Long-term	--	--	0.1	0.1
<u>Net inflow or outflow (-)</u>	0.1	-0.3	-0.6	-1.2

The substantial net outflow of liquid and nonliquid bank funds that took place between February and April reflected heavy dollar borrowing by foreigners -- both directly from U.S. banks and indirectly through foreign branches -- to meet their rising oil import bills. This outflow

also reflected the dismantling of U.S. capital controls on outflows of bank funds at the end of January, as well as the easing of foreign controls over capital inflows.

Security transactions in April were about in balance, with foreign purchases of U.S. bonds of about \$200 million offsetting U.S. purchases of foreign bonds, mostly Canadian. The first foreign issue subject to the Interest Equalization Tax to be floated in the New York market since the tax rate was set at zero in January appeared in April, and amounted to \$41 million.

U.S. foreign trade. In April the U.S. trade balance (balance of payments basis) was again in deficit -- \$1.4 billion at a seasonally adjusted annual rate. This compares with a revised March deficit rate of \$5.5 billion. The smaller deficit in April occurred as imports increased by only 2 percent while exports showed an unusually strong (7 percent) increase. However, for March-April combined, compared with January-February, exports increased by less than 7 percent while imports increased by nearly 15 percent, resulting in a downward swing in the trade balance of about \$6-1/2 billion (annual rate) between the two periods. (See table below)

By area, about half of this \$6-1/2 billion deterioration was accounted for by a reduction in our trade surplus with EC(9) countries, particularly with Germany. The other half of the decline can be attributed to an increasing deficit with the developing countries, primarily the oil producing countries of Venezuela and Nigeria.

U.S. MERCHANDISE TRADE, BALANCE OF PAYMENTS BASIS
(billion of dollars, seasonally adjusted annual rate)

	1973				1974		
	Q-1	Q-2	Q-3	Q-4	Jan.-Feb.	Mar.-Apr.	Change
<u>EXPORTS</u>	<u>60.9</u>	<u>66.7</u>	<u>72.6</u>	<u>80.8</u>	<u>88.3</u>	<u>94.1</u>	<u>+5.8</u>
Agriculture	14.7	16.5	19.0	21.2	22.9	24.8	+1.9
Nonagriculture	46.2	50.2	53.5	59.7	65.4	69.3	+3.9
<u>IMPORTS</u>	<u>64.7</u>	<u>68.0</u>	<u>70.1</u>	<u>75.4</u>	<u>85.0</u>	<u>97.5</u>	<u>+12.5</u>
Fuels	6.7	7.8	9.0	11.5	17.7	26.2	+8.5
Nonfuels	58.0	60.2	61.1	63.9	67.3	71.3	+4.0
<u>TRADE BALANCE</u>	<u>-3.8</u>	<u>-1.3</u>	<u>+2.4</u>	<u>+5.4</u>	<u>+3.3</u>	<u>-3.4</u>	<u>-6.7</u>

Note: Details may not add to totals because of rounding.

The major factor contributing to the worsening of the balance has been, and will continue to be, the fuel import bill. In April, fuel imports amounted to \$30 billion (annual rate) compared to a \$15 billion rate just four months earlier in January. Most of the increase, has come about because of price rises. The average price of imported oil in April was \$11.67 per barrel compared to \$7.11 per barrel in January. The Arab oil embargo affected the volume of imports throughout the period. In April, oil imports rose to a rate of 6.7 million barrels per day (they were 6.0 million b/d in January) and this rise only partly reflected the effects of the lifting of the embargo in March. The volume of imported oil is expected to increase further in the coming months as imports from Saudi Arabia return to more normal levels.

Aside from fuels, there were also significant changes in other commodity categories. Nonagricultural exports showed considerable strength,

particularly in April. Part of the increase was due to higher export prices, but an equally important part was due to an increased volume of shipments. Price rises (particularly for fertilizer) contributed to the strong increase in chemicals exports and to the strength in nonferrous metals exports. Increased volumes were particularly apparent in exports of machinery, automotive products to countries other than Canada, and steel mill products. Export orders for durable goods continued to rise in April and the backlog of unfilled orders was still high, giving rise to expectations of continued strength in U.S. exports of these commodities in the coming months.

Agricultural exports increased by more than 8 percent from January-February to March-April but most of the increase was due to higher prices. By April, however, export prices of most major agricultural commodities appear to have leveled off or turned down slightly and the value of agricultural exports in April was the same as in March.

The value of nonfuel imports increased in March-April from the rate of the previous two months in spite of a sharp decline in April. The growth in the volume of these imports as a whole continues to be relatively weak. Moderate volume increases were the primary cause of increases in the value of imports of foreign cars, capital goods, and food (mostly coffee). Higher import prices were more important for increases in steel, other metals, and consumer goods imports. Foreign car sales in the United States continue to be very sluggish; in May such sales averaged 1.2 million units (annual rate) compared to sales of 1.8 million units in 1973. Projections of

foreign car sales for the rest of 1974 have been revised downward to an annual rate of about 1-1/4 million units. Since foreign cars were still being imported at over a 2 million unit rate in April, the volume of imports may be cut sharply in the second half of the year, particularly if stocks are adjusted to the estimated level of sales.

Balance of payments of major industrial countries. Early estimates -- such as those by the Secretariat of the OECD and the IMF -- of the effects of the oil-price increases on the payments positions of the OECD countries indicated that there would be a deterioration of the combined OECD current account of about \$45 billion in 1974. This would result in an aggregate current account deficit (defined to include official transfers) of about \$40 billion. The trade statistics for the first few months of this year confirm that a substantial worsening of the trade and current balance is, in fact, taking place for the major industrial countries, with the exceptions of Germany and Canada.

Authorities in some countries appear to be expecting their own current account positions to turn out better than is forecast by the OECD Secretariat or the IMF; the basis for the relatively favorable outlook is, in some cases, a planned export promotion drive, or, in other cases, merely a different assessment of the situation. Indeed, in the United Kingdom, and perhaps in other countries, reliance is being placed on the growth of net exports to help stimulate domestic recovery. It is not clear, however, that these national forecasts are consistent. Some part of the higher growth of net exports in one country will come at the expense of another OECD country. Attempts to reduce a deficit by increasing exports to the non-oil LDCs are also likely to be frustrated in the aggregate because the impact of the oil-price increase on the balance of payments of the non-oil LDCs will

1/

CURRENT ACCOUNT BALANCES FOR MAJOR INDUSTRIAL COUNTRIES
(billions of dollars, annual rates)

	1965-70 Average	1972	1973	1973				1974 QI	April
				QI	II	III	IV		
France ^{2/}	-0.3	0.3	-0.2 ^e	-0.8	1.7	-1.7	0.2 ^e	n.a.	n.a.
Germany	0.8	1.0	4.9	2.4	5.5	6.4	5.1	11.4	n.a.
Italy	2.0	1.5	n.a.	-3.7	-3.4	-1.3	n.a.	n.a.	n.a.
United Kingdom	0.2	0.2	-3.6	-1.8	-2.0	-3.5	-6.9	-9.4	-8.9
Japan	1.2	6.6	-0.1	2.0	-1.6	0.5	-1.0	-13.1	-9.9
Canada ^{3/}	-0.4	-0.6	-0.3	-1.0	0.5	-0.4	-0.5	n.a.	n.a.
United States ^{4/}	1.2	-8.4	3.0	-2.2	-1.8	5.0	11.2	9.8	n.a.

1/ Data for 1972 and 1973 were converted from local currencies using quarterly exchange rates (from FRB Bulletin), and for 1965-70 using average annual exchange rates; unless indicated otherwise, current account figures are from national sources; all current account figures include government transfers; figures for France, Japan and Italy are not seasonally adjusted, others are; details may not add to totals because of rounding; (e) indicates estimate.

2/ Data for 1965-70 are from the OECD and gives France's balance with non-franc area; thereafter data are from national sources and are with world.

3/ The Canadian current account figures for 1972 and 1973 are, at present, being revised considerably; however, the revised numbers have not yet been released.

4/ Figure for 1974-QI excludes Indian rupee transaction.

probably necessitate a reduction in their imports from the OECD countries. Finally, since the capacity of the oil-exporting countries to absorb imports is believed to be limited, one country's success in reducing its deficit by increasing its exports to the oil-producing countries implies that another's will tend to increase. Thus, the aggregate OECD deficit cannot be significantly reduced and some countries' expectations about increases in net exports will not materialize.

When the oil-price increases occurred, some countries were in relatively strong payments positions, notably Germany and the United States, and others, in particular Italy and the United Kingdom, were in relatively weak positions. A movement by the latter towards balance would require that other countries allow their current accounts to deteriorate by more than the amount implied by the oil-price increase. There is little evidence that such equilibrating movements have begun to take place in two most extreme cases of Italy and Germany: the underlying Italian situation may well have worsened, while the underlying German position has markedly strengthened. On the other hand, the British non-oil current account seems to be moving in the desired direction.

Changes in exchange rates or demand management policies that might bring about the desired current account adjustments do not seem to be occurring on the required scale. Some changes in effective exchange rates have taken place, and the appreciation of the DM and depreciation

of the lira are in the direction that the non-oil deficits would indicate. But demand management policy has been mostly concerned with the internal objective of reducing the rate of inflation and not primarily with balance of payments goals, except in the Italian case. There is no general understanding that demand management should be co-ordinated so that countries in relatively strong external positions should deflate less and the weaker deflate more. In particular, German monetary policy currently appears to be among the most restrictive in industrial countries.

Most of the impact of the oil-price increases has been absorbed by external financing, and very large amounts of borrowing, or decreases in net lending, have already taken place this year. The greater part of this financing has been in the Euro-currency market. This financing -- not all of which related to the oil crisis -- has sometimes been in response to official encouragement or requests, as in the United Kingdom, Italy and France, or to changes in regulations on capital flows, as in Japan and again in France. Because of the large shifts in net borrowing that have taken place this year, the official reserves of some of the countries that have experienced a large deterioration in their current account positions have not declined commensurately. As long as such large-scale financing is feasible, adjustment can be postponed, but for some countries the limits on continued borrowing in private capital markets may soon be reached.

The German balance of payments continues to show exceptional strength. In 1973 the trade balance surplus reached a record \$15.4 billion and the current account surplus was \$4.8 billion. For 1974 the trade surplus was originally forecast by the Bundesbank early this year at \$5-1/2-7-1/2 billion. However, the cumulative trade surplus for January-April has already reached \$6.7 billion and the current account surplus for the first four months was \$3.7 billion.

The surplus on current account grew in 1973 despite the substantial cumulative revaluation of the DM, and this year despite the greatly increased cost of oil. The continued strength of German exports is not fully understood. German industry seems to have been operating at lower levels of capacity utilization than foreign competitors, giving German exporters a delivery time advantage and offsetting the increasing foreign-currency price of exports. Mark revaluations may have created anticipations of future revaluations and led to speculative buying, although it is not clear that this factor could have been important after the revaluations of the first half of the year. An additional factor is the strong rise in German exports to Eastern Europe in 1973.

Also contributing to the trade surplus was a slowing down of imports in 1973. For the early part of the year this was attributed to a speculative drawing down of inventories of imported goods and anticipation of further DM revaluations. For the latter half of 1973 and early 1974, the slower growth of domestic activity was reflected in a smaller than normal increase in import demand.

The usual German deficit on services and transfers rose last year because of the stimulus to German tourism from the DM revaluation and an increase in foreign worker remittances due to the strong rise in domestic earnings; however, in November 1973 further recruitment of foreign workers was suspended and it is expected that ~~up to 100,000 workers~~ (4 per cent of the total) will return home in 1974, tending to reduce remittances and strengthening the German current account still further.

Although the original forecasts for the German trade and current account surplus in 1974 already seem to be far too low, the surplus for the entire year may well be lower than that indicated by the present rate. New foreign orders grew sharply during January-March, but reports for April indicate a leveling off. Also, domestic activity is expected to pick up in the second half of the year, increasing import demand. On the other hand, Germany's trading partners will not be operating at full capacity this year, tending to offset Germany's previous advantages in merchandise deliveries.

Despite stringent measures to discourage capital inflows, the German capital account was heavily in surplus in 1973. Because the inflows were reversed in the latter half of last year and early this year, the capital control measures were greatly liberalized this February. Recently capital flows may have again reversed themselves.

Italy's balance of payments, which had deteriorated sharply in 1973, has, under the impact of the oil-price increases, become

extremely grave this year. In 1973, the current account, which normally is in surplus, went into a deficit of about \$2 billion. The causes were the sharp deterioration of Italy's terms of trade due to the rise in the world price of raw materials and foodstuffs, and the strong economic upswing which led to a large increase in imports of food and industrial materials. Capital outflows, motivated in part by lack of confidence in the Italian economic and political situation, weakened the external position further. A substantial part of these outflows shows up as an increase in the current account deficit, because of overinvoicing of imports, underinvoicing of exports, and lower recorded receipts from tourism and emigrant remittances due to the purchase abroad of exported Italian banknotes. The official settlements deficit, adjusted for about \$4.4 billion of compensatory Euro-currency borrowing, was about \$4.8 billion in 1973.

The oil-price impact was expected to add about \$5-6 billion to the current account deficit this year. Preliminary trade data for the first four months indicate that this pessimistic forecast is being borne out. The overall deficit is larger because of heavy capital outflows.

To prevent a further lira depreciation, the Bank of Italy has intervened at the rate of \$1 billion a month this year. In order to finance the intervention Italy has been forced to borrow heavily. It has arranged the following official credits: \$1.87 billion from the European Monetary Cooperation Fund (3 months, renewable once--which

the EMCF may roll over into a one-year loan) all of which has been drawn; a standby credit of \$1.2 billion from the IMF (not yet drawn); and \$4 billion in swaps from **central** banks (also not drawn). In addition, state corporations have been directed to borrow in the Euro-currency market and have raised \$2.3 billion so far this year which the Bank of Italy has drawn on. The interest costs of this borrowing have been rising to what may be unacceptable levels, and the Italians may decide no longer to tap this market. Italy's foreign exchange holdings are nearly exhausted, and the amount of unused medium- or long-term credit that is available is manifestly inadequate to finance the deficit.

The Italian authorities have reacted to the balance of payments crisis partly by tightening credit, and partly by restrictions on capital outflows and trade. In May they imposed an import deposit measure requiring importers of specified goods to deposit for 6 months 25 or 50 per cent of the value of imports in a non-interest bearing account at the Bank of Italy. The measure is intended to absorb liquidity as well as reduce imports. However, the gravity of the crisis will require further measures to be taken.

After an effective depreciation of about 15 per cent from January 1973 to February 1974, the lira has not been allowed to depreciate further, because the authorities apparently believe that the present rate is now at a proper level and that further depreciation will be inflationary.

The United Kingdom's trade balance deteriorated steadily and sharply from 1972 through 1974-Q1; the current balance has also worsened steadily and sharply, from approximately zero in 1972 to a deficit at an annual rate of about \$10 billion in 1974-Q1. In April the trade balance -- and consequently the current balance -- showed what is hoped to be a significant reversal of the downward trend. Exports rose sharply, both because of an assumed increase in export unit values and continued growth of export volume.

Much of the very sharp increase in the trade deficit since 1973-Q3 is attributable to the higher cost of petroleum imports. The non-oil current account balance began to improve in January and it is widely expected that the deficit will decline and be eliminated by the end of 1974, as export volume increases strongly and the terms of trade improve somewhat further.

A major share of the burden of financing the current account deficit has fallen on the nationalized industries and local authorities who have borrowed almost \$1.5 billion this year and about \$4 billion since official encouragement of such borrowing began in March 1973. As a result of this, official reserves have increased almost \$1 billion over the past year, despite sizeable deficits on current and private capital accounts.

In France, the trade balance showed a surplus of about \$1.4 billion in 1973, and the current account a deficit of nearly \$150 million.

For the first four months of 1974 the trade deficit was \$1.1 billion. This substantial deterioration occurred despite strong export growth over the last year. Export orders continue to be high, but export growth will be adversely affected by the slowdown of activity in most of France's major trading partners.

The French have begun an export promotion program directed towards oil-producing countries with large populations, non-oil LDC's which are producers of other raw materials, and East European countries. The French, perhaps unrealistically, hope to bring their trade account into balance by end-1975.

The French have responded to the oil-price impact on their external position by leaving the EEC snake and allowing the franc to float downward, and by increasing net capital inflows, through removal of restrictions on long-term borrowing. The Treasury and public sector enterprises have already negotiated loans of about \$3 billion in the Euro-currency market. As a result of this borrowing, official reserves have remained unchanged.

Among the smaller industrial countries, Denmark, which uses oil for 90 per cent of its energy supplies, has been particularly badly hurt by the oil-price increases. The trade deficit for 1974-Q1 was \$700 million, almost double the level for the first quarter last year, and the first quarter current account deficit of about \$500 million was \$36 million greater than the current account deficit for all of 1973.

The current account deficit for 1974 is expected to be about \$1-1/2 billion. To help finance this deficit, the Danes have recently activated about \$50 million of a \$150 million standby credit arranged between the leading Danish commercial banks and a group of international banks. The Danish Government has also adopted an extensive excise tax measure to cut consumer spending and imports.

Japan's trade and current accounts worsened substantially in 1973, with the trade surplus declining from \$9.0 billion in 1972 to \$3.7 billion, and current account from \$6.6 billion to rough balance. Mainly because of the increase in oil prices the deterioration in the trade balance has continued into 1974, and the cumulative deficit for January-April was \$1.5 billion. The cumulative current account deficit (not seasonally adjusted), was \$4.1 billion for the same months.

The OECD has forecast a 1974 current account deficit of \$7.5 billion. However, the Japanese authorities expect a much lower deficit, primarily on the basis of a significantly slower growth of imports than is forecast by the OECD.

Because of very large long-term capital outflows in 1973 (\$9.7 billion), the overall balance of payments showed a deficit of \$10.1 billion last year. This year net long-term capital outflows have declined, and the Japanese have increased their short-term foreign borrowing, particularly in the Euro-dollar market. As a result of this reduction in net capital outflows, the overall deficit for 1974-Q1 was only \$4.2

billion despite the current account deficit (not seasonally adjusted) of \$3.3 billion.

Because of Canada's self-sufficiency in energy resources, the current balance is likely to be affected only indirectly by the oil-price increases. There is little reason to alter the OECD's pre-oil crisis forecast of a current account deficit of about \$1/2 billion, unless there is a serious recession in the United States, which accounts for 70 per cent of Canada's trade.

APPENDIX A

BANK CREDIT REVISION*

Seasonally adjusted bank credit data (last-Wednesday-of-the-month series) have been revised for the period July 1973 through April 1974 on the basis of the December 31, 1973, Call Report data. These revised data have been used in the current Greenbook tables.

According to the December Call Report data, growth in total commercial bank credit was at a somewhat faster pace than the partially estimated data had indicated. The annual rate of growth of total loans and investments in the fourth quarter of 1973 had been estimated to be 4.4 per cent, but on the basis of Call data was changed to 6.3 per cent (Table 1). In the first quarter of 1974, the growth rate for total credit changed only nominally, rounding off at 16 per cent in both cases. (All 1974 data are subject to further revision when the June 30, 1974, Call Report becomes available.)

The higher year-end credit level reflected larger holdings of total loans and "other" securities (securities other than U.S. Treasury issues) than had been estimated (Table 2). In each of the major bank credit areas--total loans, U.S. Treasury securities, and other securities--the ratio of nonmember to country member assets increased between June and December, and thereby raised the basic monthly series level by raising the assets of nonmembers. The upward revision of total bank credit as of the year end was in part offset by a downward revision for both members and nonmembers of U.S. Treasury security holdings between the last Wednesday of December (December 26) and the Call date (December 31). The previous estimate was based on the typical increase of holdings of Treasury securities between these two dates but this did not occur last year. There was a decline, in fact, and the downward revision resulted in a considerably larger reduction of Federal securities in bank portfolios in the fourth quarter than had been estimated.

On the other hand, holdings of other securities were substantially larger on the December Call date than estimated. This was due in part to a considerably stronger expansion in bank holdings of these securities between December 26 and December 31 than had been reflected in the "window dressing" estimate. Perhaps the unusually rapid accumulation of these securities in the last five days of December was related to the decline in holdings of U.S. Treasury securities noted above.

* Prepared by Mary Jane Harrington, Economist, Banking Section, Division of Research and Statistics.

Total loans were also higher on the December Call date than estimates had indicated. In the fourth quarter, bank loans expanded at an annual rate of 7.1 per cent compared with the estimate of 5.5 per cent. Loans were \$2.9 billion higher on December 31 than estimated, and about half of the shortfall of the previous estimate was due to an overestimate of interbank loans which are deducted from the level of total loans.

Real estate, agricultural, security, and nonbank financial loans were all somewhat higher on the December Call date than had been previously estimated, while business loans were lower. Differences in the major loan items were relatively small, however. For example, real estate loans increased at an annual rate of 15.9 per cent over the fourth quarter of 1973 compared with an estimated 14.2 per cent, and business loans increased 4.6 per cent compared with an estimated 5.1 per cent. Consumer loans--which are taken from Consumer Credit Statistics--were not affected by the benchmark revision.

Table I
 Seasonally Adjusted Bank Credit^{1/}
 Comparison of Old and Revised Series
 (Seasonally adjusted changes at annual percentage rates)

	Total loans ^{2/} & investments		U.S. Treasury securities		Other securities		Total loans ^{2/}		Business loans ^{2/}		Real estate loans	
	Old	Revised	Old	Revised	Old	Revised	Old	Revised	Old	Revised	Old	Revised
1973 Year	12.6	13.5	-14.1	-14.7	9.4	11.6	18.0	18.7	20.9	20.5	19.2	20.0
2nd Half	8.0	9.6	-27.3	-28.6	12.7	16.8	11.8	13.1	11.3	10.6	15.9	17.4
3rd Qtr.	11.4	12.7	-34.4	-33.8	12.3	15.3	17.8	18.8	17.3	16.5	17.0	18.1
4th Qtr.	4.4	6.3	-22.0	-25.5	12.6	17.6	5.5	7.1	5.1	4.6	14.2	15.9
Oct.	6.7	7.7	-29.8	-27.7	29.1	31.8	5.2	5.4	--	-.8	14.9	15.9
Nov.	5.0	7.4	-8.7	-2.2	-2.8	-0.9	8.9	11.0	9.9	9.2	13.6	15.7
Dec.	1.5	3.6	-28.6	-48.0	11.4	21.6	2.4	4.8	5.3	5.3	13.5	15.5
1974 1st Qtr.	16.2	15.9	18.8	25.8	9.1	6.8	17.9	17.4	23.2	22.2	12.0	12.2
Jan.	15.8	14.7	15.8	36.4	16.9	10.1	15.5	13.6	16.6	15.2	14.4	13.2
Feb.	15.0	15.5	40.1	39.7	10.2	10.1	13.5	14.2	9.7	9.0	7.1	--
Mar.	17.1	16.8	--	--	--	--	24.0	23.6	42.1	41.6	14.1	14.0
Apr.	16.5	16.0	8.6	10.7	4.6	3.6	20.7	20.1	35.0	34.4	14.0	11.9

^{1/} Last Wednesday of month series

^{2/} Includes outstanding amounts of loans sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

NOTL: Data revised to reflect adjustments to December 31, 1973 Call Report benchmarks.

Table II
 Seasonally Adjusted Bank Credit ^{1/}
 Comparison of Old and Revised Series
 (in billions of dollars)

	Total loans ^{2/} & investments		U.S. Treasury securities		Other securities		Total loans ^{2/}		Business loans ^{2/}		Real estate loans	
	Old	Revised	Old	Revised	Old	Revised	Old	Revised	Old	Revised	Old	Revised
1973 July	612.2	612.8	59.6	59.8	121.3	121.5	431.3	431.5	151.4	151.2	109.7	109.9
August	620.7	622.1	57.7	57.9	123.0	123.6	440.0	440.6	153.6	153.4	111.4	111.7
Sept.	622.8	624.8	56.3	56.4	123.8	124.7	442.7	443.7	154.0	153.7	112.9	113.2
Oct.	626.3	628.8	54.9	55.1	126.8	128.0	444.6	445.7	154.0	153.6	114.3	114.7
Nov.	628.9	632.7	54.5	55.0	126.5	127.9	447.9	449.8	155.5	155.0	115.6	116.2
Dec.	629.7	634.6	53.2	52.8	127.7	130.2	448.8	451.6	156.3	155.8	116.9	117.7
1974 Jan.	638.0	642.4	53.9	54.4	129.5	131.3	454.6	456.7	158.5	157.8	118.3	119.0
Feb.	646.0	650.7	55.7	56.2	130.6	132.4	459.7	462.0	159.7	158.9	119.0	119.9
March	655.2	659.8	55.7	56.2	130.6	132.4	468.9	471.2	165.3	164.4	120.4	121.3
April	664.2	668.6	56.1	56.7	131.1	132.8	477.0	479.1	169.9	168.9	121.8	122.5

^{1/} Last Wednesday of month series.

^{2/} Includes outstanding amounts of loans sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

NOTE: Data revised to reflect adjustments to December 31, 1973 Call Report benchmarks.