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# Part 1

## CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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### Summary and Outlook

Prepared for the Federal Open Market Committee  
By the staff of the Board of Governors of the Federal Reserve System

CONFIDENTIAL (FR)

March 12, 1975

**SUMMARY AND OUTLOOK**

By the Staff  
Board of Governors  
of the Federal Reserve System

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## **SUMMARY AND OUTLOOK**

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DOMESTIC NONFINANCIAL DEVELOPMENTS

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Summary. General business activity continued to drop rapidly in February. Industrial production has apparently declined by a little less than in January, but nonfarm employment fell by a little more. Business demands for fixed capital and inventories have continued to drop and recent surveys indicate a pronounced weakness in fixed capital spending plans for 1975 as a whole. Consumer demands, however, have shown signs of leveling off. There were also indications that the anticipated turnaround in residential construction may soon develop--private housing starts turned up in January, and new commitments for mortgage loans rose further. Although production adjustments may be near completion in a few sectors--notably autos--strong efforts to liquidate inventories appear to be continuing, and further curtailments in industrial activity and employment are likely in coming months.

Further progress has been evident in moderating the rate of inflation. The over-all index of wholesale prices declined for the third month in a row in February, due to a drop in farm and food prices. Moreover, the deceleration over recent months in the price rise for consumer finished goods at wholesale suggests a further moderation in retail price increases.

The index of industrial production apparently fell by about 3 per cent in February, with reductions widespread among consumer goods and business equipment and materials. The index has dropped by around 12 per cent in the 5 months since its September peak--equalling the total decline over an 8-month period in 1957-58.

Employment was curtailed substantially further in February and the factory workweek was cut sharply. Unemployment rates increased for adult males and heads of households, but the over-all unemployment rate was unchanged, reflecting a sharp reduction in the labor force as teenagers and women dropped out of the labor market. The insured unemployment rate rose by 0.4 percentage points in February, and further upward pressure on the over-all unemployment rate in March is suggested by the continued rise in the number of workers drawing unemployment benefits.

Despite further layoffs and reduced workweeks cutting into wage and salary income, consumer spending has stabilized at a low level, and auto sales have picked up in response to the rebate program. Over-all, sales of domestic models were at a 7.2 million annual rate in February, up about one-fourth from the pre-rebate period. The increase was entirely in small cars, on which the rebates were largely concentrated. Sales of foreign models also rose strongly. By the end of February, domestic model auto stocks had declined about one-fourth from the November-December high. Production rates are scheduled to rise by about 800 thousand units (annual rate) in March--but only to about a 5-1/4 million rate--and stocks in dealers' hands may be reduced somewhat further this month. Aside from autos and nonconsumption items, retail sales in current dollars increased by almost 1-1/2 per cent in January and edged up slightly further in February.

Recent data indicate further weakness ahead in business fixed investment as well as in inventory spending. Total new orders for durable goods dropped sharply again in January, although less than in December. In current dollars, these orders in January were more than a

quarter below their mid-'74 peak. The outlook for continued weakness in capital spending was confirmed by a further sharp drop in nondefense capital goods orders in January and a large decline in fourth quarter capital appropriations of major manufacturing firms. In comparison with these substantial drops, the reduction in business plans for plant and equipment spending in 1975 shown in the recent Commerce survey--from a 4.6 per cent to a 3.3 per cent current dollar increase--was rather small. This, as well as a declining volume of publicly announced cancellations, suggests that the period of sharp cutbacks in capital spending plans may have passed.

Vigorous efforts at inventory liquidation are still underway. The physical volume of inventories in manufacturing apparently rose slightly further in January, but the proportion of purchasing agents reporting inventory reductions in February was the largest since 1958. Moreover, the substantial decline in dealers' stocks of autos in both January and February and the continued sharp downward adjustment in industrial production in a period of near stability in real retail sales suggests a liquidation of stocks in other lines.

Outlook. The contours of the current staff GNP projection have not changed much since the last Greenbook. Real GNP is projected to fall sharply during the current quarter, to decline less rapidly in the spring, and to begin a recovery in the third quarter of this year.

Our underlying policy assumptions are also relatively unchanged. On the monetary side, we assume that growth in  $M_1$  over 1975 as a whole will average about 6 per cent. Interest rates toward the end of 1975 and in early 1976 are now projected to rise somewhat less rapidly than we expected a month ago, because we have reduced our projection of upward price pressures. On the fiscal side, there have been a few minor changes in assumptions: a \$1 billion increase in highway grants has been added to expenditures in FY 1976 following the President's release of such funds; and the \$1 per barrel oil import fee imposed at the beginning of February has been incorporated in the projection. This fee yields about \$2.4 billion a year in revenues, and by itself tends to increase the average price of gasoline by 1 cent per gallon. We continue to assume the tax package in the House's Tax Reduction Act of 1975 (HR 2166).

We are now projecting a drop in real GNP of about 11 per cent during the first quarter--slightly larger than in the last Greenbook. Inventory liquidation is now expected to be somewhat greater--mainly because of the substantial reduction in auto stocks. However, consumer outlays have been somewhat stronger than we anticipated, and it now appears that the net export position this quarter will not deteriorate as much as expected earlier.

Following a decline of 3-1/2 per cent (annual rate) in real GNP in the second quarter, we continue to project an upturn in economic activity this summer, with real growth rising at an average rate of 6 per cent in the second half. The upturn is expected to stem from the effects



of fiscal stimulus in consumer markets, the completion of inventory adjustments in some lines, and a recovery in housing. The rate of growth is projected to moderate in the first half of 1976, however, reflecting reduced fiscal stimulus and a cyclical climb in interest rates that damps the recovery in housing. We continue to expect an increase in the unemployment rate to the 9-1/2 per cent range around mid-year, and a slight moderation in unemployment thereafter.

The staff has become more optimistic with regard to the outlook for prices. We continue to project a 7 per cent annual rate of increase in the fixed-weighted GNP price index this quarter--compared with a 12-1/2 per cent rate in the fourth quarter of 1974. But we have trimmed our estimates of price rises beginning in the second half of this year; by the second quarter of 1976 the annual rate of increase is projected at 4.5 per cent--about a percentage point less than last month. Smaller price increases are now expected for foods, other nondurable goods, and capital equipment. These downward revisions are based partly on the assumption that wage rate increases will slow further. But another important element is the expectation that the more competitive pricing that has recently developed in response to weak markets will continue. Thus, our projection now shows a slower rate of recovery for corporate profits, although the increase from the projected low in the second quarter of 1975 is still comparable to postwar experience for periods of recovery.

## STAFF GNP PROJECTIONS

	Changes in nominal GNP (\$ billions)		Per cent change, annual rate					
			Real GNP		Gross private product fixed weighted price index		Unemployment rate (per cent)	
			2/12/75	3/12/75	2/12/75	3/12/75	2/12/75	3/12/75
1971 <u>I</u> /	77.8	77.8	3.3	3.3	4.3	4.3	5.9	5.9
1972 <u>I</u> /	103.1	103.1	6.2	6.2	3.3	3.3	5.6	5.6
1973 <u>I</u> /	136.9	136.9	5.9	5.9	6.3	6.3	4.9	4.9
1974 <u>I</u> /	101.8	102.4	-2.2	-2.2	11.4	11.4	5.6	5.6
1975	55.8	53.2	-4.5	-4.6	8.8	8.8	9.1	9.1
1973-III <u>I</u> /	31.0	31.0	1.6	1.6	8.4	8.4	4.8	4.8
IV <u>I</u> /	35.1	35.1	2.3	2.3	9.1	9.1	4.8	4.8
1974-I <u>I</u> /	14.8	14.3	-7.0	-7.0	14.1	14.1	5.2	5.2
II <u>I</u> /	25.0	25.0	-1.6	-1.6	12.3	12.3	5.1	5.1
III <u>I</u> /	32.5	32.5	-1.9	-1.9	13.8	13.8	5.5	5.5
IV <u>I</u> /	11.7	13.9	-9.1	-9.1	12.0	12.6	6.6	6.6
1975-I	-14.5	-16.2	-10.5	-10.9	7.0	7.0	8.5	8.4
II	9.5	9.0	-3.6	-3.7	6.5	6.5	9.2	9.2
III	40.5	36.5	5.1	4.9	6.5	5.5	9.5	9.5
IV	46.5	46.0	6.5	6.9	5.8	5.2	9.3	9.3
1976-I	38.0	35.5	4.5	4.6	5.5	4.8	9.3	9.3
II	36.0	33.0	4.0	4.2	5.4	4.5	9.3	9.2
Change:								
73-IV to 74-IV	84.0	86.2	-5.0	-5.0	12.9	13.0	1.8	1.8
74-II to 75-II	39.2	39.2	-6.3	-6.5	9.6	9.8	4.1	4.1
74-IV to 75-IV	82.0	75.3	- .9	- .9	6.4	6.0	2.7	2.7
75-II to 76-II	161.0	151.0	5.0	5.1	5.8	5.0	.1	.0

I/ Actual.

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

	1974		1975				1976	
	III	IV	I	II	Projection		I	II
			III	IV	III	IV		
Gross National Product	1416.3	1430.2	1414.0	1423.0	1459.5	1505.5	1541.0	1574.0
Final purchases	1407.6	1412.4	1425.0	1439.5	1470.8	1510.0	1540.5	1571.5
Private	1095.3	1088.6	1095.1	1104.1	1128.4	1156.6	1178.8	1201.7
Excluding net exports	1098.4	1087.4	1094.3	1104.7	1130.9	1161.9	1186.9	1210.7
Personal consumption expenditures	901.3	895.8	909.7	918.8	939.7	963.1	981.0	998.5
Durable goods	136.1	120.7	124.0	121.5	126.2	131.2	136.2	138.7
Nondurable goods	389.0	391.7	395.7	400.5	407.7	417.5	421.9	428.7
Services	376.2	383.5	390.0	396.8	405.8	414.4	422.9	431.1
Gross private domestic investment	205.8	209.4	173.6	169.4	179.9	194.3	206.4	214.7
Residential construction	46.2	40.4	36.6	40.1	44.2	48.7	52.7	55.8
Business fixed investment	150.9	151.2	148.0	145.8	147.0	150.1	153.2	156.4
Change in business inventories	8.7	17.8	-11.0	-16.5	-11.3	-4.5	.5	2.5
Nonfarm	6.6	17.5	-9.5	-15.5	-10.8	-4.5	.5	2.5
Net exports of goods and services <sup>1/</sup>	-3.1	1.2	.8	-.6	-2.5	-5.3	-8.1	-9.0
Exports	143.6	146.4	135.9	129.1	130.1	134.3	138.5	145.3
Imports	146.7	145.3	135.1	129.7	132.6	139.6	146.6	154.3
Gov't. purchases of goods and services	312.3	323.8	329.9	335.4	342.4	353.4	361.7	369.8
Federal	117.2	124.5	125.5	126.9	128.7	133.9	136.3	138.2
Defense	78.4	84.0	84.0	84.5	85.7	89.5	91.0	92.5
Other	38.8	40.6	41.5	42.4	43.0	44.4	45.3	45.7
State & local	195.1	199.3	204.4	208.5	213.7	219.5	225.4	231.6
Gross national product in constant (1958) dollars	823.1	803.8	781.0	773.7	783.0	796.3	805.2	813.5
GNP implicit deflator (1958 = 100)	172.1	177.9	181.0	183.9	186.4	189.1	191.4	193.5
Personal income	1168.2	1186.9	1193.4	1212.6	1243.1	1269.7	1293.1	1318.0
Wage and salary disbursements	763.0	769.2	762.3	769.8	783.2	800.4	816.7	832.9
Disposable income	993.1	1008.8	1014.1	1047.0	1091.3	1096.5	1105.9	1125.6
Personal saving	65.5	86.5	77.8	101.4	124.4	105.5	96.4	98.1
Saving rate (per cent)	6.6	8.6	7.7	9.7	11.4	9.6	8.7	8.7
Corporate profits & inventory val. adj.	105.8	104.4	86.5	78.6	90.1	105.1	108.6	111.9
Corporate profits before tax	157.0	134.3	114.5	103.5	108.5	117.5	119.0	120.5
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts <sup>2/</sup>	302.8	296.4	288.8	271.7	260.1	286.1	305.1	312.0
Expenditures	304.7	319.3	334.6	343.6	357.2	368.5	375.2	380.6
Surplus or deficit (-) <sup>2/</sup>	-1.9	-22.9	-45.8	-71.9	-97.1	-82.4	-70.1	-68.6
High employment surplus or deficit (-)	24.7	17.2	12.4	-2.1	-27.7	-16.8	-5.7	-3.1
State and local government surplus or deficit (-), (N.I.A. basis)	2.1	-.1	-3.4	-4.9	-5.8	-4.0	-3.2	-3.8
Total labor force (millions)	93.6	94.0	94.0	94.3	94.5	94.5	94.7	94.9
Armed forces "	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Civilian labor force "	91.4	91.8	91.8	92.1	92.3	92.3	92.5	92.7
Unemployment rate (per cent)	5.5	6.6	8.4	9.2	9.5	9.3	9.3	9.2
Nonfarm payroll employment (millions)	78.7	78.3	76.6	76.2	76.0	76.2	76.3	76.7
Manufacturing	20.1	19.6	18.2	17.6	17.5	17.5	17.6	17.7
Industrial production (1967 = 100)	125.4	121.4	110.7	108.8	110.6	113.3	115.3	116.9
Capacity utilization, mfg. (per cent)	79.4	75.6	68.0	66.3	66.9	68.0	68.7	69.1
Major materials (per cent)	88.5	79.3	69.8	67.7	68.6	69.6	70.7	71.4
Housing starts, private (millions, A.R.)	1.21	1.00	1.05	1.25	1.45	1.60	1.70	1.63
Sales new autos (millions, A.R.)	10.07	7.38	8.50	7.75	8.25	9.00	9.50	9.50
Domestic models	8.52	6.05	6.75	6.25	6.75	7.50	8.00	8.00
Foreign models	1.55	1.33	1.75	1.50	1.50	1.50	1.50	1.50
<sup>1/</sup> Net exports of g. & s. (Bal. of Paymts.)	-1.3 <sup>3/</sup>	.8	.5	-.9	-2.8	-5.6	-8.4	-9.3
Exports	146.8 <sup>3/</sup>	152.8	142.3	135.5	136.5	140.7	144.9	151.7
Imports	148.1	152.0	141.8	136.4	139.3	146.3	153.3	161.0

<sup>2/</sup> Federal government N.I.A. receipts are reduced in 1975-II and III to reflect the \$8.0 billion rebate of 1974 individual income taxes and in 1975-III and IV to effect the \$8.4 billion reduction in 1975 individual income taxes in those quarters. In 1976-I and following quarters revenues are reduced by the continuing tax cut.

<sup>3/</sup> Includes shipments of military equipment and supplies to Israel which are not included in GNP exports; amounts billions of dollars are: 1974-III, \$.3; 1974-IV, \$.4; 1975-I and II, \$.3.

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CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1974		1975				1976	
	III	IV	Projection				I	II
			I	II	III	IV		
-----Billions of Dollars-----								
Gross National Product	32.5	13.9	-16.2	9.0	36.5	46.0	35.5	33.0
Inventory change	-4.8	9.1	-28.8	-5.5	5.2	6.8	5.0	2.0
Final purchases	37.3	4.8	12.6	14.5	31.3	39.2	30.5	31.0
Private	29.4	-6.7	6.5	9.0	24.3	28.2	22.2	22.9
Net exports	-1.6	4.3	-.4	-1.4	-1.9	-2.8	-2.8	-.9
Excluding net exports	31.0	-11.0	6.9	10.4	26.2	31.0	25.0	23.8
Personal consumption expenditures	32.2	-5.5	13.9	9.1	20.9	23.4	17.9	17.5
Durable goods	6.6	-15.4	3.3	-2.5	4.7	5.0	5.0	2.5
Nondurable goods	13.2	2.7	4.0	4.8	7.2	9.8	4.4	6.8
Services	12.4	7.3	6.5	6.8	9.0	8.6	8.5	8.2
Residential fixed investment	-2.6	-5.8	-3.8	3.5	4.1	4.5	4.0	3.1
Business fixed investment	1.5	.3	-3.2	-2.2	1.2	3.1	3.1	3.2
Government	7.9	11.5	6.1	5.5	7.0	11.0	8.3	8.1
Federal	2.9	7.3	1.0	1.4	1.8	5.2	2.4	1.9
State and local	5.0	4.2	5.1	4.1	5.2	5.8	5.9	6.2
GNP in constant (1958) dollars	-4.0	-19.3	-22.8	-7.3	9.3	13.3	8.9	8.3
Final purchases	-.8	-25.2	-4.4	-4.0	6.8	8.9	4.6	6.5
Private	-.9	-25.6	-5.2	-5.2	6.2	9.0	5.7	5.9
-----In Per Cent Per Year <sup>1/</sup> -----								
Gross National Product	9.7	4.0	-4.5	2.6	10.7	13.2	9.8	8.8
Final purchases	11.3	1.4	3.6	4.1	9.0	11.1	8.3	8.3
Private	11.5	-2.4	2.4	3.3	9.1	10.4	7.9	8.0
Personal consumption expenditures	15.7	-2.4	6.4	4.1	9.4	10.3	7.6	7.3
Durable goods	22.0	-38.1	11.4	-7.8	16.4	16.8	16.1	7.5
Nondurable goods	14.8	2.8	4.1	4.9	7.4	10.0	4.3	6.6
Services	14.3	8.0	7.0	7.2	9.4	8.8	8.5	8.0
Gross private domestic investment	-10.9	7.2	-52.8	-9.3	27.2	36.1	27.3	17.1
Residential structures	-19.7	-41.5	-32.6	44.1	47.6	47.4	37.1	25.7
Business fixed investment	4.1	.8	-8.2	-5.8	3.3	8.7	8.5	8.6
Gov't purchases of goods and services	10.8	15.6	7.8	6.8	8.6	13.5	9.7	9.3
Federal	10.5	27.3	3.3	4.5	5.8	17.2	7.4	5.7
Defense	9.7	31.8	.0	2.4	5.8	19.0	6.9	6.8
Other	12.2	19.9	9.2	9.0	5.8	13.7	8.4	3.6
State and local	10.9	8.9	10.6	8.3	10.4	11.3	11.2	11.5
GNP in constant (1958) dollars	-1.9	-9.1	-10.9	-3.7	4.9	6.9	4.6	4.2
Final purchases	-.4	-11.8	-2.2	-2.0	3.5	4.6	2.3	3.3
Private	-.5	-14.4	-3.2	-3.2	4.0	5.7	3.5	3.7
GNP implicit deflator	11.9	14.4 <sup>2/</sup>	7.2 <sup>2/</sup>	6.5	5.5	5.9 <sup>2/</sup>	5.0 <sup>2/</sup>	4.5
Private GNP fixed weighted index <sup>3/</sup>	13.8	12.6	7.0	6.5	5.5	5.2	4.8	4.5
Personal income	12.4	6.6	2.2	6.6	10.4	8.8	7.6	7.9
Wage and salary disbursements	9.9	3.3	-3.5	4.0	7.1	9.1	8.4	8.2
Disposable income	11.5	6.5	2.1	13.6	18.0	1.9	3.5	7.3
Corporate profits before tax	62.8	-46.5	-47.2	-33.2	20.8	37.5	5.2	5.1
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	21.2	-8.2	-9.9	-21.7	-16.0	46.4	29.3	9.4
Expenditures	19.2	20.6	20.6	11.2	16.8	13.3	7.5	5.9
Nonfarm payroll employment	1.7	-1.7	-8.5	-2.1	-1.0	1.1	.5	2.1
Manufacturing	-.6	-10.4	-25.5	-12.5	-2.3	.0	2.3	2.3
Industrial production	-.2	-12.3	-30.9	-6.6	6.7	10.2	7.4	5.7
Housing starts, private	-60.7	-53.4	22.0	100.9	81.1	48.3	27.4	-15.5
Sales new autos	43.5	-71.2	76.2	-30.9	28.4	41.6	24.1	.0
Domestic models	31.7	-74.6	55.3	-26.5	36.0	52.4	29.5	.0
Foreign models	138.3	-46.2	199.7	-46.0	.0	.0	.0	.0

<sup>1/</sup> Percentage rates are annual rates compounded quarterly.<sup>2/</sup> Excluding Federal pay increases rates of change are: 1974-IV, 13.7 per cent; 1975-I, 7.0 per cent; 1975-IV, 5.2 per cent; and 1976-I, 4.8 per cent.<sup>3/</sup> Using expenditures in 1967 as weights.

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

	1972		1973				1974	
	III	IV	I	II	III	IV	I	II
Gross National Product	1169.3	1204.7	1248.9	1277.9	1308.9	1344.0	1358.8	1383.8
Final purchases	1159.1	1193.7	1238.9	1267.2	1297.0	1315.1	1341.9	1370.3
Private	904.0	931.1	969.9	993.9	1020.1	1028.7	1045.6	1065.9
Excluding net exports	908.8	936.4	970.7	993.4	1013.4	1019.4	1034.3	1067.4
Personal consumption expenditures	736.8	757.2	781.7	799.0	816.3	823.9	840.6	869.1
Durable goods	121.2	124.3	132.4	132.1	132.4	124.3	123.9	129.5
Nondurable goods	302.0	310.9	323.3	332.7	343.8	352.1	364.4	375.8
Services	313.6	322.0	325.9	334.2	340.1	347.4	352.4	363.8
Gross private domestic investment	182.1	190.2	199.0	205.1	209.0	224.5	210.5	211.8
Residential construction	54.5	56.7	58.5	58.7	58.1	53.6	48.4	48.8
Business fixed investment	117.5	122.5	130.5	135.6	139.0	141.9	145.2	149.4
Change in business inventories	10.2	11.0	10.0	10.7	11.8	28.9	16.9	13.5
Nonfarm	9.6	10.4	6.5	7.7	7.4	24.0	13.1	10.4
Net exports of goods and services <sup>1/</sup>	-4.8	-5.3	-.8	.5	6.7	9.3	11.3	-1.5
Exports	73.3	78.5	88.8	95.4	103.7	113.6	131.2	138.5
Imports	78.1	83.8	89.5	94.9	96.9	104.3	119.9	140.0
Gov't. purchases of goods and services	255.1	262.6	269.0	273.3	276.9	286.4	296.3	304.4
Federal	102.7	105.2	106.4	106.2	105.3	108.4	111.5	114.3
Defense	72.6	74.7	75.0	74.0	73.3	75.3	75.8	76.6
Other	30.1	30.5	31.4	32.2	32.0	33.1	35.7	37.7
State & local	152.4	157.4	162.6	167.1	171.6	177.9	184.8	190.1
Gross national product in constant (1958) dollars	798.1	814.2	832.8	837.4	840.8	845.7	830.5	827.1
GNP implicit deflator (1958 = 100)	146.5	148.0	150.0	152.6	155.7	158.9	163.6	167.3
Personal income	950.3	985.0	1013.6	1039.2	1068.0	1099.3	1112.5	1134.6
Wage and salary disbursements	631.4	647.5	667.6	683.8	698.2	717.0	727.6	745.2
Disposable income	807.2	838.1	869.5	892.1	913.9	939.4	950.6	966.5
Personal saving	49.3	58.9	65.3	69.6	73.2	89.3	84.4	71.5
Saving rate (per cent)	6.1	7.0	7.5	7.8	8.0	9.5	8.9	7.4
Corporate profits & inventory val. adj.	92.9	99.8	103.9	105.0	105.2	106.4	107.7	105.6
Corporate profits before tax	100.2	108.2	120.4	124.9	122.7	122.7	135.4	139.0
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	228.4	235.6	249.1	255.0	261.8	268.3	278.1	288.6
Expenditures	238.2	261.2	260.2	262.4	263.4	270.6	281.0	291.6
Surplus or deficit (-)	-9.8	-25.6	-11.2	-7.4	-1.7	-2.3	-2.8	-3.0
High employment surplus or deficit (-)	1.3	-19.2	-8.5	-3.4	4.6	4.8	14.0	19.6
State and local government surplus or deficit (-), (N.I.A. basis)	9.2	19.1	13.2	10.4	8.4	-4.6	3.2	2.0
Total labor force (millions)	89.3	89.6	90.0	90.8	91.3	92.1	92.7	92.9
Armed forces "	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.2
Civilian labor force "	86.9	87.1	87.6	88.5	89.0	89.8	90.5	90.6
Unemployment rate (per cent)	5.6	5.3	5.0	4.9	4.8	4.8	5.2	5.1
Nonfarm payroll employment (millions)	74.0	74.9	75.8	76.5	77.1	77.8	78.0	78.3
Manufacturing	17.5	19.5	19.8	20.0	20.1	20.3	20.2	20.2
Industrial production (1967 = 100)	116.3	120.2	123.1	124.8	126.7	127.0	124.9	125.5
Capacity utilization, mfg. (per cent)	79.4	81.5	82.8	83.3	83.3	82.6	80.5	80.1
Major materials (per cent)	90.6	92.3	93.0	93.4	93.5	92.3	90.2	90.2
Housing starts, private (millions, A.R.)	2.36	2.39	2.39	2.21	2.01	1.58	1.63	1.57
Sales new autos (millions, A.R.)	11.21	11.68	12.18	12.03	11.33	10.15	9.04	9.20
Domestic models	9.59	9.90	10.26	10.17	9.66	8.51	7.49	7.95
Foreign models	1.61	1.78	1.92	1.85	1.67	1.64	1.55	1.25
<sup>1/</sup> Net exports of g. & s. (Bal. of Paymts.)	-4.8	-5.3	-.7	.5	6.6	11.2 <sup>2/</sup>	11.6 <sup>2/</sup>	-.7 <sup>2/</sup>
Exports	73.3	78.5	88.8	95.4	103.7	116.0 <sup>2/</sup>	132.6 <sup>2/</sup>	140.8 <sup>2/</sup>
Imports	78.1	83.8	89.5	94.9	97.1	104.8	121.0	141.5

<sup>2/</sup> Includes shipments of military equipment and supplies to Israel which are not included in GNP exports; amounts in billions of dollars at annual rates are 1973-IV, \$2.4; 1974-I, \$.3; 1974-II, \$.3.

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1972		1973				1974	
	III	IV	I	II	III	IV	I	II
-----Billions of Dollars-----								
Gross National Product	26.3	35.4	44.2	29.0	31.0	35.1	14.8	25.0
Inventory change	2.2	.8	-1.0	.7	1.1	17.1	-12.0	-3.4
Final purchases	24.0	34.6	45.2	28.3	29.8	18.1	26.8	28.4
Private	22.7	27.1	38.8	24.0	26.2	8.6	16.9	20.3
Net exports	2.1	-.5	4.5	1.3	6.2	2.6	2.0	-12.8
Excluding net exports	20.6	27.6	34.3	22.7	20.0	6.0	14.9	33.1
Personal consumption expenditures	16.2	20.4	24.5	17.3	17.3	7.6	16.7	28.5
Durable goods	5.0	3.1	8.1	-.3	.3	-8.1	-.4	5.6
Nondurable goods	4.6	8.9	12.4	9.4	11.1	8.3	12.3	11.4
Services	6.6	8.4	3.9	8.3	5.9	7.3	5.0	11.4
Residential fixed investment	1.6	2.2	1.8	.2	-.6	-4.5	-5.2	.4
Business fixed investment	2.8	5.0	8.0	5.1	3.4	2.9	3.3	4.2
Government	1.3	7.5	6.4	4.3	3.6	9.5	9.9	8.1
Federal	-3.2	2.5	1.2	-.2	-.9	3.1	3.1	2.8
State and local	4.5	5.0	5.2	4.5	4.5	6.3	6.9	5.3
GNP in constant (1958) dollars	11.5	16.1	18.6	4.6	3.4	4.9	-15.2	-3.4
Final purchases	9.7	15.6	20.2	4.1	3.1	-7.0	-5.8	-1.0
Private	11.7	14.4	19.1	4.3	3.3	-9.0	-6.1	-.8
-----In Per Cent Per Year <sup>1/</sup> -----								
Gross National Product	9.5	12.7	15.5	9.6	10.1	11.2	4.5	7.6
Final purchases	8.7	12.5	16.0	9.5	9.7	5.7	8.4	8.7
Private	10.7	12.5	17.7	10.3	11.0	3.4	6.7	8.0
Personal consumption expenditures	9.3	11.5	13.6	9.2	8.9	3.8	8.4	14.3
Durable goods	18.4	10.6	28.7	-.9	.9	-22.3	-1.3	19.3
Nondurable goods	6.3	12.3	16.9	12.1	14.0	10.0	14.7	13.1
Services	8.9	11.2	4.9	10.6	7.3	8.9	5.9	13.6
Gross private domestic investment	15.9	19.0	19.8	12.8	7.8	33.1	-22.7	2.5
Residential structures	12.7	17.2	13.3	1.4	-4.0	-27.6	-33.5	3.3
Business fixed investment	10.1	18.1	28.8	16.6	10.4	8.6	9.6	12.1
Gov't. purchases of goods and services	2.1	12.3	10.1	6.5	5.4	14.4	14.6	11.4
Federal	-11.5	10.1	4.6	-.7	-3.3	12.3	11.9	10.4
Defense	-16.3	12.1	1.6	-5.2	-3.7	11.4	2.7	4.3
Other	1.3	5.4	12.3	10.6	-2.5	14.5	35.3	24.4
State and local	12.7	13.8	13.9	11.5	11.2	15.5	16.4	12.0
GNP in constant (1958) dollars	6.0	8.3	9.5	2.2	1.6	2.4	-7.0	-1.6
Final purchases	5.1	8.1	10.4	2.0	1.5	-3.3	-2.8	-.5
Private	7.6	9.2	12.0	2.5	1.9	-5.1	-3.5	-.5
GNP implicit deflator	3.3	4.1	5.5	7.3	8.3	8.6	12.3	9.4
Private GNP fixed weighted index <sup>2/</sup>	3.6	3.8	7.4	8.1	8.4	9.1	14.1	12.3
Personal income	8.6	15.4	12.1	10.5	11.6	12.2	4.9	8.2
Wage and salary disbursements	7.5	10.6	13.0	10.1	8.7	11.2	6.0	10.0
Disposable income	9.0	16.2	15.8	10.8	10.1	11.6	4.9	6.9
Corporate profits before tax	18.7	36.0	53.3	15.8	-6.9	.0	-48.3	11.1
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	7.9	13.2	25.0	9.8	11.1	10.3	15.4	16.0
Expenditures	-8.7	44.6	-1.5	3.4	1.5	11.4	16.3	16.0
Nonfarm payroll employment	3.6	4.8	5.0	3.9	3.0	3.8	1.0	1.6
Manufacturing	3.3	7.3	6.3	4.4	2.1	3.7	-2.4	-.3
Industrial production	9.1	14.1	10.0	5.6	6.2	1.0	-6.5	1.9
Housing starts, private	15.4	4.7	1.0	-27.0	-32.0	-61.4	11.6	-14.4
Sales new autos	22.2	17.9	18.3	-5.0	-21.3	-35.5	-37.1	7.4
Domestic models	20.8	13.4	15.4	-3.5	-18.6	-39.8	-40.0	27.1
Foreign models	30.9	48.0	35.4	-12.9	-35.0	-5.9	-20.0	-57.8

<sup>1/</sup> Percentage rates are annual rates compounded quarterly.<sup>2/</sup> Using expenditures in 1967 as weights.

GROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Expenditures and income figures are billions of dollars)

	1969	1970	1971	1972	1973	1974	1975 Proj.
Gross National Product	930.3	977.1	1054.9	1158.0	1294.9	1397.3	1450.5
Final purchases	922.5	972.6	1048.6	1149.5	1279.6	1383.0	1461.3
Private	712.5	753.1	814.4	893.8	1003.2	1073.8	1121.1
Excluding net exports	710.6	749.5	814.6	899.8	999.3	1071.8	1123.0
Personal consumption expenditures	579.5	617.6	667.1	729.0	805.2	876.7	932.8
Durable goods	90.8	91.3	103.9	118.4	130.3	127.5	125.7
Nondurable goods	245.9	263.8	278.4	299.7	338.0	380.2	405.4
Services	242.7	262.6	284.8	310.9	336.9	369.0	401.8
Gross private domestic investment	139.0	136.3	153.7	179.3	209.4	209.4	179.3
Residential construction	32.6	31.2	42.8	54.0	57.2	46.0	42.4
Business fixed investment	98.5	100.6	104.6	116.8	136.8	149.2	147.7
Change in business inventories	7.8	4.5	6.3	8.5	15.4	14.2	-10.8
Nonfarm	7.7	4.3	4.9	7.8	11.4	11.9	-10.1
Net exports of goods and services <sup>1/</sup>	1.9	3.6	- .2	-6.0	3.9	2.0	-1.9
Exports	55.5	62.9	65.4	72.4	100.4	139.9	132.4
Imports	53.6	59.3	65.6	78.4	96.4	138.0	134.3
Gov't. purchases of goods and services	210.0	219.5	234.2	255.7	276.4	309.2	340.3
Federal	98.8	96.2	97.6	104.9	106.6	116.9	128.8
Defense	78.4	74.6	71.2	74.8	74.4	78.7	85.9
Other	20.4	21.6	26.5	30.1	32.2	38.2	42.8
State & local	111.2	123.3	136.6	150.8	169.8	192.3	211.5
Gross national product in constant (1958) dollars	725.6	722.5	746.3	792.5	839.2	821.1	783.5
GNP implicit deflator (1958 = 100)	128.2	135.2	141.4	146.1	154.3	170.2	185.1
Personal income	750.9	808.3	864.0	944.9	1055.0	1150.5	1229.7
Wage and salary disbursements	509.7	542.0	573.0	626.8	691.7	751.2	778.9
Disposable income	634.4	691.7	746.4	802.5	903.7	979.7	1062.2
Personal saving	38.2	56.2	60.5	52.6	74.4	77.0	102.3
Saving rate (per cent)	6.0	8.1	8.1	6.6	8.2	7.9	9.6
Corporate profits & inventory val. adj.	79.8	69.2	78.7	92.2	105.1	105.9	90.1
Corporate profits before tax	84.9	74.0	83.6	99.2	122.7	141.4	111.0
Federal government receipts and expenditures, (N.I.A. basis)							
Receipts	197.3	192.0	198.5	227.2	258.5	291.4	276.7
Expenditures	189.2	203.9	220.3	244.7	264.2	299.1	351.0
Surplus or deficit (-)	8.1	-11.9	-21.9	-17.5	-5.6	-7.7	-74.3
High employment surplus or deficit (-)	8.8	3.7	-4.7	-6.7	- .7	18.9	-8.5
State and local government surplus or deficit (-), (N.I.A. basis)	.7	1.8	3.4	12.3	9.2	1.8	-4.5
Total labor force (millions)	84.2	85.9	86.9	89.0	91.0	93.2	94.3
Armed forces "	3.5	3.2	2.8	2.4	2.3	2.2	2.2
Civilian labor force "	80.7	82.7	84.1	86.5	88.7	91.0	92.1
Unemployment rate (per cent)	3.5	4.9	5.9	5.6	4.9	5.6	9.1
Nonfarm payroll employment (millions)	70.4	70.9	71.2	73.7	76.8	78.3	76.3
Manufacturing	20.2	19.3	18.6	19.1	20.1	20.0	17.7
Industrial production (1967 = 100)	110.7	106.7	106.8	115.2	125.6	124.3	121.4
Capacity utilization, mfg. (per cent)	86.5	78.3	75.0	78.6	83.0	78.9	67.3
Major materials (per cent)	90.0	86.2	85.3	89.6	93.0	87.0	69.2
Housing starts, private (millions, A.R.)	1.47	1.43	2.05	2.36	2.05	1.34	1.34
Sales new autos (millions, A.R.)	9.57	8.40	10.24	10.93	11.44	8.87	8.38
Domestic models	8.46	7.12	8.68	9.32	9.67	7.45	6.81
Foreign models	1.11	1.28	1.56	1.61	1.77	1.42	1.56
<sup>1/</sup> Net exports of g. & s. (Bal. of Paymts.)	1.3	2.9	- .2	-6.0	4.4 <sup>2/</sup>	2.5 <sup>2/</sup>	-2.2 <sup>2/</sup>
Exports	55.0	62.3	65.4	72.4	101.0 <sup>2/</sup>	143.0 <sup>2/</sup>	138.8 <sup>2/</sup>
Imports	53.6	59.4	65.6	78.4	96.6	140.5	141.0

<sup>2/</sup> Includes shipments of military equipment and supplies to Israel which are not included in GNP exports; amounts in billions of dollars are: 1973, \$.6; 1974, \$.325; and 1975, \$.150.

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1969	1970	1971	1972	1973	1974	Proj. 1975
-----Billions of Dollars-----							
Gross National Product	66.1	46.8	77.8	103.1	136.9	102.4	53.2
Inventory change	.7	-3.3	1.8	2.2	6.9	-1.2	-25.0
Final purchases	65.4	50.1	76.0	100.9	130.1	103.4	78.3
Private	55.0	40.6	61.3	79.4	109.4	70.6	47.3
Net exports	-.6	1.7	-3.8	-5.8	9.9	-1.9	-3.9
Excluding net exports	55.6	38.9	65.1	85.2	99.5	72.5	51.2
Personal consumption expenditures	43.3	38.1	49.6	61.9	76.2	71.5	56.1
Durable goods	6.8	.5	12.6	14.5	11.9	-2.8	-1.8
Nondurable goods	15.1	17.9	14.6	21.3	38.3	42.2	25.2
Services	21.4	19.9	22.2	26.1	26.0	32.1	32.8
Residential fixed investment	2.5	-1.4	11.6	11.2	3.2	-11.2	-3.6
Business fixed investment	9.7	2.1	4.0	12.2	20.0	12.4	-1.5
Government	10.4	9.5	14.7	21.5	20.7	32.8	31.1
Federal	.0	-2.6	1.4	7.3	1.7	10.3	11.9
State and local	10.4	12.1	13.3	14.2	19.0	22.5	19.2
GNP in constant (1958) dollars	19.0	-3.1	23.8	46.2	46.7	-18.1	-37.6
Final purchases	18.7	-.4	-22.5	-44.4	43.0	-15.9	-21.4
Private	20.6	6.2	18.5	46.1	45.2	-17.5	-23.6
-----Per Cent per Year <sup>1/</sup> -----							
Gross National Product	7.6	5.0	8.0	9.8	11.8	7.9	3.8
Final purchases	7.6	5.4	7.8	9.6	11.3	8.1	5.7
Private	8.4	5.7	8.1	9.7	12.2	7.0	4.4
Personal consumption expenditures	8.1	6.6	8.0	9.3	10.5	8.9	6.4
Durable goods	8.1	.6	13.8	14.0	10.1	-2.1	-1.4
Nondurable goods	6.5	7.3	5.5	7.7	12.8	12.5	6.6
Services	9.7	8.2	8.5	9.2	8.4	9.5	8.9
Gross private domestic investment	10.3	-1.9	12.8	16.7	16.8	.0	-14.4
Residential structures	8.3	-4.3	37.2	26.2	5.9	-19.6	-7.8
Business fixed investment	10.9	2.1	4.0	11.7	17.1	9.1	-1.0
Gov't purchases of goods & services	5.2	4.5	6.7	9.2	8.1	11.9	10.1
Federal	.0	-2.6	1.5	7.5	1.6	9.7	10.2
Defense	.1	-4.8	-4.6	5.1	-.5	5.8	9.1
Other	-.5	5.9	22.7	13.6	7.0	16.6	12.0
State and local	10.3	10.9	10.8	10.4	12.6	13.3	10.0
GNP in constant (1958) dollars	2.7	-.4	3.3	6.2	5.9	-2.2	-4.6
Final purchases	2.7	-.1	3.1	6.0	5.5	-1.9	-2.6
Private	3.7	1.1	3.9	6.7	6.5	-2.6	-3.5
GNP implicit deflator	4.8	5.5	4.6	3.4	5.6	10.3	8.8
Private GNP fixed weighted index <sup>2/</sup>	4.7	4.8	4.3	3.3	6.3	11.4	8.8
Personal income	9.0	7.6	6.9	9.4	11.7	9.1	6.9
Wage and salary disbursements	9.6	6.3	5.8	9.3	10.4	8.6	3.7
Disposable income	7.3	9.0	7.9	7.5	12.6	8.4	8.4
Corporate profits before tax	-3.1	-12.8	13.0	18.7	23.7	15.2	-21.5
Federal Government receipts and expenditures (N.I.A. basis)							
Receipts	12.7	-2.7	3.4	14.5	13.8	12.7	-5.0
Expenditures	4.2	7.8	8.0	11.1	8.0	13.2	17.4
Nonfarm payroll employment	3.7	.7	.4	3.5	4.2	2.0	-2.6
Manufacturing	2.0	-4.1	-4.0	2.8	5.0	-.2	-11.6
Industrial production	4.7	-3.6	.1	7.9	9.0	-1.0	-10.8
Housing starts, private	-2.7	-2.3	43.2	14.9	-13.2	-34.6	.1
Sales new autos	-.6	-12.3	21.9	6.7	4.7	-22.5	-5.5
Domestic models	-1.8	-15.9	21.9	7.4	3.7	-23.0	-8.6
Foreign models	9.0	15.5	21.8	3.3	9.8	-20.1	10.2

<sup>1/</sup> Percentage rates are annual rates compounded quarterly<sup>2/</sup> Using expenditures in 1967 as weights



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DOMESTIC FINANCIAL DEVELOPMENTS

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Summary. Private short-term interest rates have fluctuated in a relatively narrow range since the last Committee meeting. The recent slowing of the decline in the Federal funds rate, in conjunction with renewed growth of the money supply, has apparently induced more cautious investor judgments about the prospects for further near-term rate declines.

The volume of private short-term credit contracted in February as the decline in production and inventory investment reduced overall business needs for funds, and firms continued to substitute long for short-term credit. Because short-term business credit demands were weak, increased offerings of Treasury bills were absorbed with only minor upward rate pressures.

In long-term securities markets, new issue volume remained large. While interest rates on corporate bonds edged down a little, on balance, investors continued to show a distinct preference for high quality issues and the market in general exhibited a relatively cautious tone. In the municipal bond market the early 1975 rally ended abruptly around mid-February, partly as a result of the default of a New York State agency on its obligations. Municipal yields subsequently rose more than 25 basis points. Similar yield increases occurred in the market for intermediate-term Treasury issues, following announcement that \$7 billion would be raised by the Treasury in the coupon area during March and early April. Banks and other financial institutions, which have absorbed most of the expanding Treasury

deficit to date, do not generally appear interested in longer-term issues at this time.

Some lenders in the mortgage market have eased non-rate terms, and rates on home mortgages have declined another 10 basis points or so since the last FOMC meeting. However, while outstanding commitments to acquire home mortgages have risen this year, net mortgage debt formation has continued to decline.

Outlook. Credit demands between now and mid-year are expected to remain strong in markets for corporate bonds, State and local government securities, and Treasury debt. Businesses and consumers, on the other hand, are expected to continue reducing their short-term indebtedness as economic activity contracts. These demands are summarized in Table 1 (on page 17), while the expected supplies of funds are shown in Table 2.

As line 9 of the first table shows, net funds raised by nonfinancial sectors during the second quarter of 1975 are expected to be little different from the average of the second half of last year. Over half of the borrowing will be by the U. S. Treasury, however, whereas in the second half of last year the Treasury accounted for only a little over 10 per cent of such credit market borrowing. Reduced private credit demands should provide room for the additional Treasury borrowing, with banks in particular investing heavily in U. S. government obligations. Continued debt repayment by privately owned Federal agencies will also release funds that may move into Treasury issues.

Bank credit expansion, which has been quite sluggish thus far this year, is likely to accelerate over the coming months as banks take on an increasing volume of Treasury issues. While bank time and savings deposits (other than large CD's) may not expand any more rapidly than in recent months, the staff expects demand deposits to show more normal growth as businesses and consumers adjust to transaction needs that would be anticipated as economic recovery gets under way.

Deposit inflows to thrift institutions are also likely to remain strong into early summer. These institutions are likely to acquire additional Treasury issues as part of their continued effort to rebuild liquidity, but in addition they will probably increase mortgage commitments further and ease both rate and non-rate mortgage terms. In addition, over the next few months take-downs of existing commitments are likely to pick-up somewhat, as the residential housing market turns around.

The pattern of demand and supply suggests that very large Treasury credit demands could be fairly readily absorbed by markets this spring, with heavy reliance on institutional investors and little or no need to attract individuals into the market. It appears unlikely, however, that any significant further decline in short-term open market interest rates will develop without a clear signal of further monetary policy ease, such as a drop in the Federal funds rate. Moreover, in the absence of such a signal, short-term rates may be expected to begin rising later this spring, in reaction to the

cumulative pressure of current and prospective Treasury credit needs, and particularly if signs of economic recovery should become evident.

Longer-term market interest rates are likely to fluctuate in a narrow range over the months ahead as the large volume of offerings limits significant downward movements. Further reductions in such rates depend fundamentally on abatement of heavy credit demands and a further moderation of inflationary expectations. However, if short-term rates were to drop further over the near-term, some spill-over effect on longer-term markets might develop, especially if bank lending rates and terms were to ease substantially further and attract corporate borrowers back to banks.

Table 1

FUNDS RAISED IN CREDIT MARKETS  
 Quarterly flows at seasonally adjusted annual rates  
 1974-75  
 (\$ billion)

	(Flow of Funds basis)			
	1974		1975 proj.	
	QIII	QIV	QI	QII
	(1)	(2)	(3)	(4)
1. Nonfinancial business	78.9	61.1	35.0	32.5
2. Short-term <u>1/</u>	50.2	22.0	- 8.0	- 3.5
3. Long-term <u>2/</u>	28.7	39.1	43.0	36.0
4. Residential mortgages	35.3	34.0	20.0	24.0
5. Consumer credit	15.8	- 2.6	- 2.0	- 1.5
6. U. S. Govt. <u>3/</u>	18.2	21.0	65.0	90.0
7. State and local	15.1	17.0	14.5	19.5
8. Other	11.3	15.8	5.5	1.5
9. Total funds raised- nonfinancial sectors	<u>174.7</u>	<u>146.4</u>	<u>137.5</u>	<u>165.0</u>
10. Sponsored agencies <u>4/</u>	33.9	19.2	- 6.5	- 7.0
11. Credit & equity borrowing of private financial institutions <u>5/</u>	23.9	- 7.1	- .5	- .5
12. Total funds raised in credit markets-all sectors <u>5/</u>	<u>232.5</u>	<u>158.6</u>	<u>130.5</u>	<u>167.5</u>

1/ Business bank loans and open-market paper.

2/ Bonds, equities, and non-residential mortgages.

3/ Direct marketable and nonmarketable debt, savings bonds, and issues by on-budget and off-budget agencies.

4/ FNMA, FHLB, FICB, Banks for Coops, Land Banks, and GNMA guaranteed mortgage backed securities.

5/ Excludes FHLB advances to savings and loan associations.

NOTE: Totals may not add due to rounding.

Table 2  
**FUNDS ADVANCED IN CREDIT MARKETS**  
 Quarterly flows at seasonally adjusted annual rates  
 1974-75  
 (\$ billions)

	(Flow of Funds basis)			
	1974		1975 proj.	
	QIII	QIV	QI	QII
	(1)	(2)	(3)	(4)
1. Private financial institutions-- Total <u>7/</u>	<u>104.6</u>	<u>92.2</u>	<u>104.5</u>	<u>136.5</u>
2. Domestic commercial banks and affiliates	39.7	20.6	28.5	54.5
3. Thrift institutions <u>1/ 7/</u>	7.4	20.0	30.0	38.5
4. Insurance and pension funds <u>2/</u>	40.8	46.3	44.5	44.5
5. All other <u>3/</u>	<u>16.7</u>	<u>5.3</u>	<u>0.5</u>	<u>0.5</u>
6. U. S. Govt.	<u>49.7</u>	<u>37.0</u>	<u>13.5</u>	<u>13.5</u>
7. Direct <u>4/</u>	5.0	13.8	14.0	14.0
8. Sponsored credit agencies <u>5/</u>	34.0	21.5	- 4.5	- 4.5
9. Federal Reserve	<u>10.7</u>	<u>1.7</u>	<u>4.0</u>	<u>4.0</u>
10. Households	54.6	8.0	5.5	- 3.0
11. All other <u>6/</u>	23.8	21.3	7.0	11.0
12. Total funds advanced in credit markets <u>7/</u>	<u>232.5</u>	<u>158.6</u>	<u>130.5</u>	<u>158.0</u>

1/ Savings and loan associations, mutual savings banks, and credit union.

2/ Life and other insurance companies, private and public pension funds.

3/ Finance companies, REITS, open-end investment companies, securities brokers and dealers, and foreign banking agencies in the United States.

4/ Lending by on-budget and off-budget agencies.

5/ FNMA, FHLB, FICB, Land Banks, Banks for Coops. Includes GNMA guaranteed mortgage backed securities.

6/ Businesses, state and local governments, and rest of world.

7/ Net of FHLB advances to savings and loan associations.

NOTE: Totals may not add due to rounding.

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INTERNATIONAL DEVELOPMENTS

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Summary. After a brief rally early in February, the dollar weakened further in foreign exchange markets during the remainder of the month. Most recently, however, it has strengthened again. In the week ended March 12, the weighted average value of the dollar against 10 leading foreign currencies was up about 3/4 percent from the low of the previous week, but was about 2 percent lower than one month earlier, and about 5 percent lower than in March 1973 just after the second devaluation of the dollar.

The brief rally early in February reflected substantial intervention purchases of dollars by the Federal Reserve and foreign central banks. The latest strengthening seems to be more broadly based, reflecting sharper declines in short-term European interest rates than in U.S. rates, recent evidence of moderation of inflation in the United States, and a decline in the German trade surplus in January. Federal Reserve purchases of dollars for foreign currencies swelled from \$159 million in January to \$616 million in February, but have been only \$103 million in the first 12 days of March. Support purchases of dollars by foreign central banks have also been small recently.

The U.S. merchandise trade deficit in January was \$7.5 billion at an annual rate, up only moderately from the fourth quarter rate of \$6.0 billion despite a large bulge in recorded oil imports prompted by the \$1-a-barrel oil tariff increase of February 1. Nonfuel imports increased somewhat, mainly due to price increases. Agricultural exports

increased sharply, and other exports were little changed in value, but down in volume.

Preliminary and partial data on international capital flows in January and February help to explain the continuing weakness of the U.S. dollar in foreign exchange markets. Bank-reported private capital flows in January show a small net reduction of about \$250 million in claims on foreigners, a reversal of the \$2 billion-a-month increases in November and December. On the other hand, there was a substantial reduction -- about \$1.2 billion -- in liabilities to private foreigners, in contrast to inflows through December. Thus the net outflow through banks to private foreigners in January was about \$1.0 billion, about the same as in December; earlier last year there had been substantial net inflows.

Foreign official holdings of U.S. assets declined in January by about \$0.6 billion. Assets of OPEC countries increased by \$0.6 billion, but those of other countries decreased by \$1.2 billion, including a decrease of \$0.9 billion in BIS holdings. In February, foreign official holdings apparently increased substantially, but the increase of about \$1/2 billion in OPEC holdings remained well below the inflows of last summer and fall.

U.S. purchases of foreign securities have been about \$1-1/2 billion in January-February, compared with only \$650 million in November-December.



Recession in leading countries abroad has proved a good deal more serious than earlier expected. Industrial production dropped sharply in the fourth quarter in all leading countries and unemployment rose further. Central banks' discount rates have been reduced during the past month in France, Switzerland, Germany, the Netherlands, United Kingdom, and Belgium.

Outlook. The recent OECD review of the economic outlook in major countries suggests that output in most major countries will continue to decline into the second quarter as inventories are worked off. There are said to be signs of an upturn in new orders in Germany, in response to recent stimulative policy actions, but in Japan, where industrial production declined further in January, the authorities are postponing major easing actions until after the spring wage settlements scheduled for April-May.

Both U.S. exports and imports are expected to decline in the months ahead as a result of weakness in demand both here and abroad. Recent declines in spot prices of agricultural commodities will probably soon be reflected in a sharp decline in agricultural export values. The balance on goods and services is still expected to shift increasingly into deficit, as net investment income from petroleum declines. But capital outflows, which have been large early this year, may now diminish as foreign interest rates decline and as foreign investor interest in the U.S. stock market revives.