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Part 2

March 12, 1975

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

March 12, 1975

II -- 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	Feb.	3-7-75	91.5	-7.6 ^{1/}	-.9 ^{1/}	1.1 ^{1/}
Unemployment rate (per cent)	Feb.	3-7-75	8.2	8.2 ^{1/}	7.2 ^{1/}	5.2 ^{1/}
Insured unemployment rate (%)	Feb.	3-7-75	5.9	5.5 ^{1/}	4.8 ^{1/}	4.3 ^{1/}
Nonfarm employment, payroll (mil.)	Feb.	3-7-75	76.6	-9.5	-9.4	-1.9
Manufacturing	Feb.	3-7-75	18.3	-27.4	-27.5	-9.3
Nonmanufacturing	Feb.	3-7-75	58.3	-3.7	-3.4	.7
Private nonfarm:						
Average weekly hours (hours)	Feb.	3-7-75	36.1	36.2 ^{1/}	36.2 ^{1/}	36.8 ^{1/}
Hourly earnings (\$)	Feb.	3-7-75	4.42	5.5	5.5	8.3
Manufacturing:						
Average weekly hours (hours)	Feb.	3-7-75	38.8	39.2 ^{1/}	39.5 ^{1/}	40.4 ^{1/}
Unit labor cost (1967=100)	Jan.	2-27-75	141.6	19.8	12.8	12.7
Consumer prices (1967=100)	Jan.	2-21-75	156.4	7.7	8.9	11.7
Food	Jan.	2-21-75	171.8	9.9	11.7	11.2
Commodities except food	Jan.	2-21-75	144.3	6.7	7.1	12.5
Services ^{2/}	Jan.	2-21-75	161.3	9.8	10.2	11.4
Wholesale prices (1967=100)	Feb.	3-6-75	170.7	-9.2	-6.4	14.6
Industrial commodities	Feb.	3-6-75	168.3	6.4	4.2	21.8
Farm products & foods & feeds	Feb.	3-6-75	177.5	-41.1	-32.9	-.6
Personal income (\$ billion) ^{3/}	Jan.	2-19-75	1193.6	2.6	2.9	7.8
(Not at Annual Rates)						
Mfrs. new orders dur. goods (\$ bil.)	Jan.	3-5-75	36.3	-4.0	-19.5	-12.5
Capital goods industries:	Jan.	3-5-75	11.7	-3.9	-8.9	-11.6
Nondefense	Jan.	3-5-75	10.0	-4.3	-12.0	-9.0
Defense	Jan.	3-5-75	1.6	-1.8	16.9	-25.0
Inventories to sales ratio:						
Manufacturing and trade, total	Jan.	2-14-75	1.67	1.60 ^{1/}	1.51 ^{1/}	1.49 ^{1/}
Manufacturing	Dec.	3-5-75	1.92	1.89 ^{1/}	1.65 ^{1/}	1.60 ^{1/}
Trade	Dec.	2-14-75	1.47	1.48 ^{1/}	1.36 ^{1/}	1.36 ^{1/}
Ratio: Mfrs.' durable goods inventories to unfilled orders	Jan.	3-5-75	.787	.754 ^{1/}	.705 ^{1/}	.723 ^{1/}
Retail sales, total (\$ bil.)	Feb.	3-10-75	46.1	.5	3.7	6.9
GAF	Feb.	3-10-75	11.5	.4	1.6	1.7
Auto sales, total (mil. units) ^{3/}	Feb.	3-6-75	9.2	13.3	31.7	2.4
Domestic models	Feb.	3-6-75	7.2	8.9	26.0	-3.0
Foreign models	Feb.	3-6-75	2.0	32.7	57.4	27.9
Plant & equipment expen. (\$ bil.) ^{4/}						
All industries	1975	3-7-75	116.06	--	--	7.1
Manufacturing	1975	3-7-75	49.30	--	--	3.3
Housing starts, private (thous.) ^{3/}	Jan.	2-19-75	987	12.9	-10.8	-31.3
Leading indicators (1967=100)	Jan.	3-3-75	157.4	-1.3	-7.5	-6.2

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

Incoming data over the past month indicate continued widespread weakness in economic activity. In February, production and employment again dropped sharply. The outlook for business investment has remained weak, but retail sales have firmed recently following the sharp declines last year. There was some improvement in the housing sector as starts turned up in January, and on the inflation front price pressures continue to moderate.

The index of industrial production is estimated to have fallen by 3 per cent in February following sharper declines in the two previous months. Since its September peak, production has been reduced about 12 per cent--approximately the same magnitude as the total drop in the 1957-58 recession but considerably more rapidly. February cutbacks were widespread among materials and final products including consumer durable and nondurable goods and business equipment. In the materials industries, further sizable reductions were reported in the production of textiles, paper, chemicals, and nonferrous metals. While raw steel figures indicate only a small decline, steel output was about 6 per cent below a year ago.

In February, capacity utilization in major materials industries again declined sharply to an estimated 69.5 per cent, a drop of a fourth since the peak in July 1973.

The labor market continued to weaken in February. Total employment again dropped sharply--by over half a million, but the

civilian labor force fell by a comparable amount and as a result, the unemployment rate remained unchanged at 8.2 per cent. Joblessness rose among adult men and other experienced groups. The average duration of unemployment lengthened markedly to almost 12 weeks-- nearly 2 weeks longer than in December.

Nonfarm payroll employment fell 600,000 in February bringing the total loss in jobs to 2.3 million since last October's peak. As in recent months, reductions were mainly in manufacturing, particularly in metal and metal-using industries, and in textiles and apparel. Factory hours declined sharply as scheduled hours continued to be reduced and overtime edged off further. In February, factory employment was at its lowest level since 1965. Employment in service-producing establishments was unchanged over the month.

Auto sales picked up moderately during the temporary rebate program. With the programs in effect for the entire month of February, sales of new domestic-type autos were at a 7.2 million annual rate, up from a 6.6 million rate in January and from the 5-3/4 to 6 million rate of the pre-rebate period in November and December. Small car sales, to which the rebates were geared, were at a record 3.6 million unit rate, up about a quarter from January and 80 per cent above November's depressed levels. Auto production, on the other hand, was curtailed further in February to a 4.4 million rate and, as a result, it is estimated stocks were reduced by 250,000 units

(seasonally adjusted) to 1.4 million units at the end of the month. This is equivalent to a 60-day supply at the improved February sales rate, down from the peak of 102 days supply in November. If sales were to fall back to the pre-rebate rate, stocks would be equivalent to a 76-day supply.

Imported auto sales spurted for the second month in a row to a 1.9 million unit rate, up from a 1.1 million rate in December. Seasonally adjusted, imports captured 22 per cent of the U. S. market, substantially higher than their average share in 1974 which was 16 per cent.

Retail sales excluding autos and nonconsumer items edged up about 0.2 per cent in February following an upward revised increase of 1.3 per cent in January. However, in real terms, the February level probably remains below the fourth quarter average.

Outlays for nondurable goods and autos accounted for most of the current dollar increase in total sales in February; purchases of durable goods other than autos continued to decline sharply.

In the business sector total new orders for durable goods fell 4 per cent further in January (p), but considerably less than the exceptionally sharp December drop which was revised downward. This was the fifth consecutive month of decline in the series and such orders are now more than one quarter below their August 1974 peak. Orders for nondefense capital goods, which portend future business

spending on machinery and equipment, dropped 4.3 per cent in current dollars and 6.6 per cent in constant dollars in January, (p); in real terms, such orders have fallen substantially--to a level about 35 per cent under the July 1974 peak. Unfilled orders for both total durables and nondefense capital goods also dropped in January--continuing the decline that began last fall.

Recent plant and equipment surveys indicate that the outlook for business capital spending remains weak, but there are signs that the period of large cuts in spending plans may be drawing to an end. The Commerce survey of anticipated plant and equipment expenditures, taken in late January and early February, reports that capital outlays in current dollars will rise by 3.3 per cent in 1975, only a bit below the 4.6 per cent rise reported in the survey taken at the end of 1974. According to the survey, total business spending will drop sharply in the first quarter, but then rise modestly in current dollars for the remainder of the year. Manufacturing industries, with an expected annual gain of 7 per cent, are still a source of support, especially in materials-producing industries. Outside of manufacturing, outlays are expected to rise only fractionally. Similar results were reported in the February McGraw-Hill survey.

The Conference Board reports that capital appropriations of large manufacturing firms dropped by 24 per cent in the fourth quarter of 1974; excluding the volatile petroleum industry, the

reported decline is 7½ per cent. This is the first decline in total appropriations since 1971 QII. In addition, floor space contracted for commercial and industrial buildings dropped slightly further in January--the fifth consecutive month of decline. The monthly square footage of contracts has now fallen to almost one half of its peak July 1973 level.

It now appears that substantial liquidation of inventories is occurring. Results of a survey of purchasing agents indicated strenuous efforts to reduce stocks, and in autos there is clear evidence of liquidation. The book value of manufacturers' inventories rose at a \$12.9 billion annual rate in January--off sharply from the \$39.2 billion December rate and the \$29.7 billion rate in the fourth quarter. Nondurable goods stocks declined and growth of durable inventories slowed substantially. A marked reduction in the rate of accumulation was evident at all stages of processing.

The upturn in private housing starts in January suggests that starts may have reached their low last December. While the increase only returned starts to the fourth quarter seasonally adjusted annual rate of 1 million units, the rise in January was broadly based both regionally and by type of structure. Moreover, mortgage market conditions have continued to improve, with interest rates generally easing markedly as flows to major lenders have continued to increase, and commitments for new mortgage loans have moved higher.

Nevertheless, further advances in starts during the first quarter may be quite selective reflecting builders' and lenders' concern about the still generally high level of construction costs and the overhang of all types of units either completed or under way. Even in the case of single-family units--favored last January by further liberalization in GNMA's program for subsidized interest rates--builders' inventories have remained large. And in the case of multi-family units, additional dampening factors have persisted including the expectation of further increases in maintenance costs in the face of on-going resistance to higher rents.

Wage increases, which had showed a marked slowing in recent months, picked up somewhat more rapidly in February. The average hourly earnings index for nonfarm production workers increased at an annual rate of 8.7 per cent--still well below the 10.1 per cent rate in the fourth quarter as a whole. Wages rose faster in most sectors, particularly in the manufacturing and services, where a moderating trend had been evident earlier.

However, further evidence of easing in price pressures has appeared at the wholesale and retail level, and farm prices have been falling since November. In February, the wholesale price index declined for the third consecutive month, falling 0.8 per cent, seasonally adjusted, because of a sharp drop in prices of farm and food products. From mid-February to early March, prices of grains and soybeans have dropped sharply further as have those for vegetable oils and sugar. Prices of industrial commodities rose 0.5 per cent in February, a rate that was substantially below those recorded throughout most of last year.

Wholesale prices of consumer finished goods, excluding foods increased only slightly in February, and since October have risen at a fraction of the rates of increase earlier in 1974. Moderation prices, has also been evident in producer finished goods which rose at a 5 per cent annual rate in February compared to 22 per cent over the past 12 months.

The rate of increase in consumer prices moderated somewhat further in January in response to slowing at wholesale and reduced demand. There were notable declines in prices of apparel, new and used cars, and, among foods, particularly for beef. However, prices increased for household durables, gasoline and a variety of other nondurables including some foods. Large advances in medical and utility costs continued to boost the rate of rise for services.

Our projections of Federal spending (NIA basis) for FY '75 remain essentially unchanged. This estimate continues to include about \$2 billion more in defense outlays than incorporated in the Administration's forecast, but recent upward revisions in Commerce Department data for CY '74-Q4 tend to support the higher estimate. For FY '76, our forecast of spending has been raised by about \$2 billion, partly to reflect the recent release of highway grants formerly included in the list of deferrals contemplated by the Administration.

Our outlook for Federal receipts has been modified somewhat to incorporate the impact of the \$1 per barrel additional fee on imported oil, which will add about \$2.4 billion in annual revenue.

Otherwise, our assumptions are unchanged. They incorporate the "Tax Reduction Act of 1975", already passed by the House, that would provide an \$8 billion rebate on CY '74 liabilities and about \$12 billion of temporary cuts in personal and business tax liabilities for CY '75. Final enactment is expected in late April and additional legislation is assumed to extend the tax cuts on a permanent basis. The House version of the Tax Reduction Act also contains an amendment that would eliminate oil and gas depletion allowances. This part of the Act is not incorporated in our projection due to expected resistance in the Senate.

Unified budget receipts are now projected at \$281.4 billion for both fiscal years 1975 and 1976. Given our current outlay estimates, we now expect the unified budget deficit to total \$35.9 in FY '75 and \$77.4 billion in FY '76 and the high-employment budget is expected to shift from a surplus of \$13.0 billion to a deficit of \$13.3 billion.

Table 1

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1974		1975	
	February	August	January	February
Total	5.2	5.4	8.2	8.2
Men 20 years and over	3.5	3.8	6.0	6.2
Women 20 years and over	5.1	5.3	8.1	8.1
Teenagers	15.0	15.3	20.8	19.9
Household heads	3.0	3.2	5.2	5.4
White	4.6	4.9	7.5	7.4
Negro and other races	9.2	9.4	13.4	13.5
White collar workers	3.1	3.2	4.6	4.5
Blue collar workers	6.0	6.6	11.0	10.9
State insured unemployment	3.3	3.3	5.5	5.9

Table 2

CHANGES IN NONFARM PAYROLL EMPLOYMENT
(In thousands)

	Employment (Feb. 1975)	Average Monthly Change		
		Feb. 1974- Feb. 1975	Oct. 1974- Feb. 1975	Jan. 1975- Feb. 1975
Total nonfarm	76,558	-125	-577	-608
Goods-producing	22,579	-197	-502	-613
Construction	3,587	- 45	- 81	-194
Manufacturing	18,282	-156	-425	-427
Service-producing	53,979	+ 72	- 75	+ 5
Trade	16,813	- 5	- 87	- 25
Services	13,753	+ 37	+ 12	+ 20
State and local government	11,941	+ 48	+ 40	+ 50

Table 3

AUTO SALES
(Seasonally adjusted annual rates)

	Total	Domestic		Imports
		Large	Small	
1974:QI	9.0	4.8	2.7	1.6
QII	9.2	5.4	2.5	1.3
QIII	10.1	5.5	3.0	1.6
QIV	7.4	3.9	2.2	1.3
Oct.	8.0	3.9	2.5	1.6
Nov.	7.0	3.7	2.0	1.3
Dec.	7.2	4.0	2.1	1.1
1975:Jan.	8.1	3.7	2.9	1.5
Feb.	9.2e	3.6	3.6	1.9e

Table 4

RETAIL SALES
(Percentage change, seasonally adjusted)

	1974 QII - QIII	1974 QIII- QIV	1975 Jan- Feb.	1974 QIV- 1975 Feb.
Total	4.4	-3.2	.5	2.4
Total ex autos and nonconsumer items	3.4	- .1	.2	.8
Durables	5.9	-10.9	.9	6.4
Furniture and appliance	2.0	- 7.0	-.4	-1.1
Nondurables	3.6	.4	.3	.7
Food	5.0	1.6	.6	2.8
Apparel	4.0	-4.6	.7	6.5
General Merchandise	.9	-1.5	.5	-1.5

Table 5

NEW ORDERS
(Per cent change from prior month)

	Total Durable		Nondefense Capital Goods	
	Current	Real	Current	Real
1974:July	1.8	- .7	6.6	4.4
Aug.	3.7	.9	-7.8	-11.1
Sept.	-6.2	-8.5	.2	-2.4
Oct.	-2.8	-4.6	-3.8	-6.8
Nov.	-4.2	-4.8	-6.7	-9.7
Dec.	-12.4	-13.3	-1.5	-2.9
1975:Jan.	-4.0	-4.4	-4.3	-6.6

Table 6

SURVEY RESULTS OF ANTICIPATED PLANT
AND EQUIPMENT EXPENDITURES
(Per cent change from prior year)

Survey date	1974	1975			
		McGraw- Hill Oct.	McGraw- Hill Feb.	Commerce Dec.	Commerce Feb.
All industry	12.7	11.8	5.8	4.6	3.3
Manufacturing	21.0	21.3	15.1	9.0	7.1
Durables	17.5	13.5	7.3	1.8	.0
Nondurables	24.7	29.1	22.7	16.0	14.1
Nonmanufacturing ^{2/}	7.6	5.2	- .6	1.6	.6
Railroads	29.5	29.0	21.0	27.7	13.6
Air & other transportation	1.2	3.7	-2.3	3.0	11.2
Electric utilities	10.6	.0	-4.0	1.2	- .7
Gas utilities	5.8	11.1	12.9	21.9 ^{1/}	4.1
Communications	8.6	4.0	-3.0	-1.8 ^{1/}	-2.8
Commercial & other	3.0	-1.0	-5.0	-4.3 ^{1/}	-3.5
Addenda:					
Materials producers	34.6	33.3	29.9	19.5	17.3
Other producers	9.5	9.4	- .1	-1.7	-3.5

^{1/} Confidential results.

^{2/} Contains industries not shown separately.

Table 7

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

	1974				1975
	QII	QIII	QIV	Dec.	Jan. (p)
Manufacturing and trade	42.8	59.2	51.5	42.5	n.a.
Manufacturing	28.2	37.7	29.7	39.2	12.9
Durable	17.4	23.3	19.1	26.2	13.9
Nondurable	10.8	14.5	10.6	13.1	-1.1
Trade, total	14.7	21.4	21.7	3.3	n.a.
Wholesale	7.7	8.6	6.8	2.8	n.a.
Retail	7.0	12.8	14.9	.4	n.a.
Auto	-1.0	4.0	11.8	1.3	n.a.

INVENTORY RATIOS

	1973	1974	1974	1975
	Dec.	Jan.	Dec.	Jan.
<u>Inventory to sales:</u>				
Manufacturing and trade	1.49	1.47	1.67	n.a.
Manufacturing, total	1.62	1.60	1.89	1.92
Durable	2.01	2.01	2.42	2.46
Nondurable	1.18	1.15	1.35	1.35
Trade, total	1.36	1.34	1.47	n.a.
Wholesale	1.13	1.12	1.23	n.a.
Retail	1.54	1.52	1.68	n.a.
<u>Inventories to unfilled orders</u>				
Durable manufacturing	.723	.723	.754	.787

Table 8

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

	1970 ^{1/}	1974			1975	Per cent change in January from:	
	QI	QIII	QIV	Dec. (r)	Jan. (p)	Month ago	Year ago
Permits	1.10	.91	.78	.82	.66	- 20	- 48
Starts	1.24	1.21	1.00	.87	.99	+ 13	- 31
1-family	.69	.86	.76	.68	.74	+ 10	- 7
2- or more-family	.55	.35	.24	.20	.24	+ 23	- 62
Under construction ^{2/}	.89	1.37	1.23	1.23	n.a.	- 2 ^{3/}	- 25 ^{3/}
Completions	1.40	1.56	1.62	1.58	n.a.	- 4 ^{3/}	-16 ^{3/}
MEMO:							
Mobile home shipments	.37	.36	.23	.22	.22		

^{1/} Previous cyclical trough.

^{2/} Seasonally adjusted, end of period.

^{3/} Per cent changes based on December.

Table 9

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

	Jan. 1975- Feb. 1975	Aug. 1974- Feb. 1975	Feb. 1974- Feb. 1975
Total private nonfarm	8.4	8.9	9.6
Manufacturing	10.8	10.3	11.0
Mining	22.8	14.2	13.7
Trade	8.4	8.0	9.6

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

Table 10

PRICE BEHAVIOR
(Percentage changes, seasonally adjusted annual rates)^{1/}

	Relative impor- tance	Dec. 1973 to June 1974	June to Sept. 1974	Sept. to Dec. 1974	Dec. 1974 to Jan. 1975	Jan. to Feb. 1975
WHOLESALE PRICES						
All commodities	100.0	18.2	35.2	13.4	-4.0	- 9.2
Farm and food products	29.1	-11.5	59.2	21.9	-30.5	-41.1
Industrial commodities ^{2/}	70.9	34.0	28.3	8.2	6.3	6.4
Materials, crude and intermediate	46.0	38.7	31.7	6.3	4.7	3.4
Finished goods:						
Consumer nonfood	17.5	26.8	18.5	10.6	8.9	1.6
Producer	8.6	20.0	31.8	18.7	15.5	5.3
Consumer foods	13.4	-1.1	29.4	29.1	-10.8	-12.3
CONSUMER PRICES						
All items	100.0	12.3	14.2	10.1	7.7	--
Food	24.8	10.9	12.3	14.6	9.9	--
Commodities (nonfood)	39.0	14.9	16.2	7.3	6.7	--
Services	36.2	10.1	13.9	10.9	9.8	--
Addendum						
All items less food and energy ^{3/4/}	68.3	10.2	15.3	9.6	8.0	--
Petroleum products ^{3/}	4.4	58.8	-4.1	-5.9	7.7	--
Gas and electricity	2.6	22.0	20.2	14.2	22.2	--

^{1/} Not compounded for one-month changes.

^{2/} Stage of processing components do not add to the total because they include some items found in farm and food products group.

^{3/} Confidential -- not for publication.

^{4/} Energy items excluded: gasoline and motor oil, fuel oil and coal, and gas and electricity.

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

	Fiscal 1975 ^{e/}		Fiscal 1976 ^{e/}		Calendar Years		F.R.B. Staff Estimates				
	Budget	F.R.	Budget	F.R.	1974	1975	Calendar Quarters				
	Document	Board	Document	Board	Actual	F.R.B. ^{e/}	1974	1975			
							IV*	I	II	III	IV
Federal Budget	Unadjusted data										
Surplus/deficit	-34.7	-35.9	-51.9	-77.4	-10.9	-63.2	-12.0	-17.5	-4.8	-18.3	-22.6
Receipts	278.8	281.4	297.5	281.4	280.5	272.8	66.8	64.1	77.5	66.4	64.8
Outlays	313.4	317.3	349.4	358.8	291.4	336.0	78.9	81.6	82.3	84.7	87.4
Means of financing:											
Net borrowing from the public	43.5	43.9	63.5	87.2	11.8	77.1	10.3	19.1	10.0	22.2	25.8
Decrease in cash operating balance	3.1 ^{2/}	4.5	-.4 ^{2/}	-.3	4.5	.9	2.8	-.8	2.0	-.3	--
Other ^{1/}	-11.9 ^{2/}	-12.5	-11.2 ^{2/}	-9.5	-5.4	-14.8	-1.1	-.8	-7.2	-3.6	-3.2
Cash operating balance, end of period	6.0 ^{2/}	4.7	6.4 ^{2/}	5.0	5.9	5.0	5.9	6.7	4.7	5.0	5.0
Memo: Sponsored agency borrowing ^{3/}	14.0	11.3	7.8	n.e.	7.7	n.e.	3.4	.1	.1	n.e.	n.e.
National Income Sector	Seasonally adjusted, annual rates										
Surplus/deficit	-36.1	-36.7 ^{4/}	-55.9	-80.5 ^{4/}	-7.7 ^{2/}	-74.3	-22.9 ^{2/}	-45.8	-71.9	-97.1	-82.4
Receipts	287.6	289.3 ^{4/}	305.1	289.9 ^{4/}	291.5 ^{2/}	276.7	296.4 ^{2/}	288.8	271.7	260.1	286.1
Expenditures	323.7	326.0	361.0	370.4	299.2	351.0	319.3	334.6	343.6	357.2	368.5
High Employment surplus/deficit (NIA basis) ^{2/5/}	n.a.	13.0	n.a.	-13.3	18.9	-8.5	17.2	12.4	-2.1	-27.7	-16.8

- * Actual e--Projected n.e.--Not Estimated n.a.--Not Available p--Preliminary
- ^{1/} Outlays of off-budget Federal agencies, checks issued less checks paid, accrued items, and other transactions.
- ^{2/} Estimated by F.R. Board Staff.
- ^{3/} Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.
- ^{4/} Quarterly average exceeds fiscal year total by \$.6 billion for fiscal 1975 and \$.9 billion for fiscal 1976 due to spreading of wage base.
- ^{5/} The high-employment budget estimates now fully incorporate taxes on inventory profits beginning in 1973.

DOMESTIC FINANCIAL SITUATION

III-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	February	35.0	-26.5	-17.4	3.2	
Reserves available (RPD's)	February	33.3	-5.9	-13.1	4.6	
Money supply						
M1	February	283.8	6.8	--	3.9	
M2	February	621.0	9.7	5.2	6.9	
M3	February	967.8	10.2	7.0	6.6	
Time and savings deposits						
(Less CDs)	February	337.2	12.2	9.7	9.6	
CDs (dollar change in billions)	February	92.2	-.7	6.7	24.0	
Savings flows (S&Ls + MSBs)	February	346.8	11.2	10.2	6.2	
Bank credit (end of month)	February	692.4	3.0	.6	6.3	
<u>Market yields and stock prices</u>						
			<u>Percentage or index points</u>			
Federal funds	wk. endg.	3/5/75	5.88	-.58	-3.14	-3.10
Treasury bill (90 day)	"	3/5/75	5.54	-.08	-1.91	-2.06
Commercial paper (90-119 day)	"	3/15/75	6.25	-.35	-2.97	-1.90
New utility issue Aaa	"	3/15/75	8.91	.02	-.59	--
Municipal bonds (Bond Buyer)	1 day	3/6/75	6.54	.20	-.35	1.27
FNMA auction yield (FHA/VA)		3/10/75	8.78	-.20	-.74	.34
Dividends/price ratio (Common stocks)	wk. endg.	2/28/75	4.58	-.21	-.65	.88
NYSE index (12/31/65=50)	end of day	3/4/75	44.13	2.86	8.39	-7.11
<u>Credit demands</u>						
			<u>Net change or gross offerings</u>			
			<u>Current month</u>		<u>Year to date</u>	
			<u>1974</u>	<u>1973</u>	<u>1974</u>	<u>1973</u>
Mortgage debt outst. (major holders)	December		2.0	3.8	42.8	58.5
			<u>1975</u>	<u>1974</u>	<u>1975</u>	<u>1974</u>
Consumer instalment credit outstanding	January		-.4	.9	7.1	19.1
Business loans at commercial banks	February		-1.8	1.7	-.7	3.8
Corporate bonds (public offerings)	February		3.2e	1.7	6.8e	3.8
Municipal long-term bonds (gross offerings)	February		2.0e	2.0	4.1e	4.3
Federally sponsored Agcy. (net borrowing)	February		-1.0e	-.3	-.3e	-.6
U.S. Treasury (net cash borrowing)	March		11.3e	4.3	19.1	3.4
Total of above credits			15.4	14.1	78.9	92.3

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Private short-term market interest rates have edged down since the February FOMC meeting in response to a further modest decline in the Federal funds rate and continued deterioration in short-term private credit demands. Treasury bill rates, on the other hand, backed up slightly in the inter-meeting period, reflecting the enlarged supply of bills in the weekly and monthly bill auctions, but the rate rise was held down by large demands for bills from foreign central banks, U.S. commercial banks, and thrift institutions. With loan demands remaining weak, large commercial banks made further cuts in the prime lending rate, which fell to the 7-3/4 to 8 per cent range in early March. However, the relative cost of bank credit remains high and non-price lending terms restrictive. Effective March 10, the Federal Reserve discount rate was lowered from 6-3/4 to 6-1/4 per cent.

In long-term markets, corporate bond rates moved moderately lower despite the continued heavy volume of financing by firms funding short-term debt, but rates on government bonds--both municipal and Treasury issues--have backed up approximately 15 to 30 basis points since the February meeting. In the case of municipals, heavy volume and increased investor caution due to the financing problems of the New York State Urban Development Corporation largely accounted for the rate rise. Yields on U.S. coupon securities were affected by the recent announcement that a substantial part of the near-term Treasury financing would be concentrated in intermediate and long-term issues.

After several months of little or no growth, demand deposits expanded in February, and preliminary data indicate that M_1 rose at close to a 7 per cent annual rate. Time and savings deposit inflows at banks and thrift institutions continued strong, allowing institutions to rebuild their liquidity and improving the mortgage market outlook. Reflecting the increased supply of mortgage funds at a time of slack demands for financing, home mortgage rates declined further in February.

Short-term markets. Private short-term interest rates changed little on balance in the weeks immediately following the February meeting, as the Federal funds rate appeared to lose its downward momentum and as growth in the monetary aggregates rebounded. However, further declines in the funds rate in early March were accompanied by modest downward movements in private rates which are currently 10 to 25 basis points below the levels prevailing at the time of the last meeting. The funds rate declined approximately 60 basis points in the inter-meeting period.

SELECTED SECURITY MARKET QUOTATIONS

	Aug. FOMC Aug. 20	Dec. FOMC Dec. 17	Jan. FOMC Jan. 21	Feb. FOMC Feb. 19	Mar. 4	Mar. 11
(Per Cent)						
<u>Short-term</u>						
Federal funds (weekly average)	12.23	8.72	7.17	6.29	5.88	5.69 <u>2/</u>
Treasury bills						
3-month	9.05	6.77	6.24	5.30	5.62	5.48
6-month	9.13	6.90	6.24	5.40	5.70	5.55
1-year	8.86	6.57	6.25	5.42	5.73	5.61
Commercial paper						
1-month	12.00	9.50	7.00	6.38	6.25	6.13
3-month	11.88	9.25	7.00	6.38	6.25	6.13
Large neg. CD's ^{1/}						
3-months	12.35	9.15	7.00	6.30	6.40	6.20
6-months	12.15	8.63	7.15	6.30	6.40	6.35
Federal agencies						
1-year	9.65	7.38	7.11	6.04	6.31	n.a.
Bank prime rate	12.00	10.50	9.75	8.75	8.50	8.00
<u>Long-term</u>						
Corporate						
New AAA	10.26	9.51	9.45	9.04	8.94	8.91 p
Recently offered	10.28	9.59	9.47	9.08	9.06	9.11 p
Municipal (Bond Buyer)	6.73	7.08	6.59	6.40	6.55	6.54
U.S. Treasury (20-year constant maturity)	8.58	7.82	7.80	7.64	7.78	n.a.
(Index points)						
<u>Stock prices</u>						
Dow-Jones	726.85	597.54	641.90	736.39	757.74	770.89
N.Y.S.E.	39.32	35.58	37.71	43.13	44.13	44.60

1/ Highest quoted new issues.

2/ Average for first 6 days of statement week ending March 12.

p/ Preliminary.

In response to continuing weak short-term credit demands and earlier declines in short-term market rates, most large banks further reduced their prime lending rates to 8 per cent by early March, with several going to 7-3/4 per cent, the lowest since June 1973. However, the cost of bank credit still remains high relative to current commercial paper rates of 6-1/4 per cent.

The Treasury has continued to raise \$400-\$500 million of net new money in each of its weekly and monthly bill auctions. However, the additional supply of bills thus far has been absorbed with only a small rise in rates due to the continued softening in private market rates and strong demands for Treasury issues, primarily from foreign central banks. Demands for bills have also been bolstered by the investment activity of domestic commercial banks and thrift institutions that have been using funds obtained from deposit inflows to rebuild liquidity positions. In addition, sponsored credit agencies have absorbed an increased volume of bills with funds obtained through loan repayments and, in some cases, from the issuance of new securities in excess of current needs.

Long-term markets. Corporate bond yields have moved lower since the last meeting, but rate declines have been modest in the face of a record volume of offerings. In February, corporate offerings reached a new high for the month of almost \$3.2 billion, with publicly-offered issues of foreign private and official institutions amounting to an additional \$600 million. As in January, industrial corporations continued to be the major issuers of domestic long-term debt--primarily for purposes of funding short-term liabilities.

Corporate bond issues generally were well received early in February, but the tone of the market deteriorated somewhat as the month progressed, due in part to the growing supply of securities in dealer inventories and the Treasury announcement of greater-than-expected coupon financing. While yield spreads between lower and higher quality obligations remained relatively wide, they narrowed slightly over the month. Moreover, investors appeared to be more willing to lengthen the maturity of their portfolios--almost two-thirds of the February issues carried maturities of 16 years or more, compared with less than half in January.

The pronounced six-week rally in the municipal bond market ended abruptly about a week prior to the last FOMC meeting, and since then

SECURITY OFFERINGS
(Monthly or monthly averages, in millions of dollars)

	1974		1975			
	Year ^{e/}	QIVE ^{e/}	Jan. ^{e/}	Feb. ^{e/}	Mar. ^{f/}	Apr. ^{f/}
	<u>Gross offerings</u>					
Corporate securities:						
Total	3,154	3,943	5,255	4,560	6,175	4,975
Public bonds	2,122	2,913	3,657	3,175	4,350	3,650
Privately placed bonds	509	474	900	800	1,000	750
Stocks	523	556	698	585	825	575
Foreign securities ^{1/}	98	323	470	610	355	300
State and local gov't securities						
Long-term	1,894	1,958	2,064	2,300	2,200	2,000
Short-term	2,454	2,474	2,108	2,400	2,300	2,200
	<u>Net offerings, total</u>					
U.S. Treasury ^{2/}	982 ^{3/}	3,433 ^{3/}	3,667 ^{3/}	4,100	11,300	2,900
Sponsored Federal agencies	1,394	1,115	567	-937	532	947

^{e/} Estimated.

^{f/} Forecast.

^{1/} Includes issues of foreign private and official institutions.

^{2/} Includes Federal Financing Bank.

^{3/} Actual.

yields have backed up more than 25 basis points. Contributing to the reversal were a growing calendar of new issues, inflated dealer inventories, and concern over the default of the New York State Urban Development Corporation on a note issue and a bank loan-- possibly the largest default by any State or local government body since the Depression.

Yields on Treasury coupon issues have risen approximately 20 to 30 basis points since the last FOMC meeting, mainly in response to the Treasury's financing announcement of February 24 in which it indicated that about \$7 billion of new money would be raised by mid-April through five separate auctions of coupon issues. While the volume of this financing was anticipated, the concentration of the financing exclusively in coupon issues surprised many market participants.

The staff's projection of total Treasury borrowing in the second half of fiscal year 1975 has been lowered by about \$3 billion to \$29 billion, reflecting an upward revision in projected receipts and a lower end-of-year cash balance. After taking into account the announced coupon auctions and probable continuation of sizable additions to weekly and monthly bill auctions through mid-April, it appears that about \$6 billion will remain to be raised during the last 2-1/2 months of the current fiscal year.

Stock prices continued to move higher during February, but at a slower pace than in January. Major stock market indices advanced 7 to 8 per cent from February 3 to March 11 with the Dow-Jones Industrial Average closing at 771. Although the average is more than 25 per cent above its 1974 low, it remains 280 points, or about 35 per cent, below its record high of January 11, 1973. Volume has continued heavy, averaging about 22 million shares a day since the last meeting.

Monetary and deposit aggregates. In February the narrowly defined money stock expanded at an annual rate of nearly 7 per cent, with both the currency and demand deposit components showing strength. However, the February increase did not fully offset the decline in January; indeed, on balance over the last three months, M_1 has changed little, and in February the demand deposit component of M_1 was at about the same level as in September of last year.

Time and savings deposits other than large CD's at banks and other thrift institutions continued to grow at substantial rates in February. Recent declines in market interest rates and an unusually large volume of Federal tax refunds in the first two months of 1975 probably contributed to the more rapid growth of both the narrow and broader monetary aggregates. With M_1 and thrift deposits both expanding, the growth rates of M_2 and M_3 rose sharply in February.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1974			1975		
	QII	QIII	QIV	Dec.	Jan.	Feb.
	<u>Per cent at annual rates</u>					
M ₁	7.0	1.6	4.6	2.1	-8.9	6.8
M ₂	7.9	4.5	7.0	2.5	3.3	9.7
M ₃	6.6	4.0	6.9	4.9	5.8	9.9
Adjusted bank credit proxy	20.4	6.6	4.3	7.6	3.6	-0.2
Time and savings deposits at commercial banks:						
a. Total	21.3	9.1	12.6	16.2	18.3	7.9
b. Other than large CD's	8.8	7.1	9.0	2.9	13.8	12.2
Deposits at nonbank thrift institutions: <u>1/</u>						
a. Savings and loans	5.2	3.3	9.3	12.3	12.3	14.9
b. Mutual savings banks	1.8	.4	4.8	4.5	4.3	8.4
c. Total	4.2	2.4	8.0	10.1	10.0	13.0
	<u>Billions of dollars</u> ^{2/}					
Memoranda:						
a. U.S. Government demand deposits	.7	.3	-1.5	-2.7	-1.2	-0.1
b. Negotiable CD's	4.4	1.2	1.8	4.8	2.6	-0.7
c. Nondeposit sources of funds	.3	.1	-0.1	.8	-.8	-1.2

1/ Based on month-end series.

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.

Given the strength in private deposits and the weakness in loan demand during the month, commercial banks allowed large negotiable CD's to run off and further reduced their Euro-dollar borrowings. As a result of these offsetting flows, the adjusted credit proxy in February showed little change on balance.

Bank and other institutional credit. Total loans and investments at commercial banks expanded at only a 3 per cent annual rate in February (last-Wednesday-of-the-month basis, seasonally adjusted), much less than in January. While bank investments in U.S. Government securities rose sharply in the wake of an unseasonably high volume of Treasury financing, holdings of other securities increased only moderately and outstanding bank loans declined.

All major categories of bank loans showed weakness during the month, reflecting reduced demands for short-term credit and the continuation of restrictive bank lending policies.^{1/} Business short-term credit demands have fallen, in part, because of the recession's impact on sales and inventory accumulation, and also because of the continued restructuring of corporate balance sheets. Banks, anticipating heavy loan losses and concerned about capital positions, have maintained a restrictive loan posture, placing greater emphasis

^{1/} There will be an analysis of the February bank lending practices survey in the Greenbook supplement.

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

	1974				1975	
	QII	QIII	QIV	Dec.	Jan.	Feb.
Total loans and investments ^{2/}	12.0	5.6	-2.8	-12.8	8.2	3.0
U.S. Treasury securities	--	-29.8	-26.1	-12.2	2.5	110.4
Other securities	10.8	--	6.5	--	5.2	4.3
Total loans ^{2/}	13.8	11.2	-2.9	-16.4	9.6	-7.9
Business loans ^{2/}	22.9	14.0	.4	-15.5	7.2	-11.7
Real estate loans	14.2	6.0	5.0	7.5	5.6	1.8
Consumer loans	4.4	7.2	-3.3	-7.1	-1.4	-1.4
Memo:						
Business loans plus non- financial commercial paper (per cent)	24.9	18.1	1.4	-15.1	12.8	-10.9

^{1/} Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.

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

on loan quality. But by delaying reductions in the prime rate, banks have encouraged prime borrowers to shift financing to the commercial paper market. The relatively high cost of bank credit has even made it profitable for non-prime bank customers to seek funds in money markets, despite the high cost of lower-grade commercial paper. However, market reports suggest that many non-prime borrowers who would like to sell commercial paper have been turned away by dealers worried about the marketability of the lower quality issues.

Despite the favorable rate spread, outstanding commercial paper showed no increase in February (after seasonal adjustment), partly as a result of the reduced short-term business credit demands discussed above, and partly because of the increased quality consciousness of investors in this market. Over the past three months, total short-term business credit, as approximated by the sum of business loans at banks and nonfinancial commercial paper, has contracted markedly.

Total consumer instalment credit outstanding at banks and nonbank lenders contracted in January for the third consecutive month, although the rate of decline was not so great as December's record pace. Automobile credit, buoyed by a modest pickup in new-car sales from the extremely low November and December levels,

contributed to a moderation in the decline in instalment credit, especially at commercial banks. Nonetheless, preliminary estimates indicate a continued small contraction in outstanding consumer loans at banks in February.

Consumers appear to be experiencing increasing difficulty in making instalment credit payments on time. In December, the seasonally adjusted auto loan delinquency rate at finance companies rose almost one-half per cent to a record 2.93 per cent, approximately one percentage point above the recent low in February 1972. At banks, the average delinquency rate on all types of instalment debt reached 2.80 per cent, also a record.

In the farm sector, funds at, or available to, rural banks are judged generally adequate to meet expected strong demands to finance expanded acreage and increased planting costs for spring crops. However, there are scattered reports that bankers are curtailing new crop-production credit to some present borrowers whose financial condition has deteriorated because of losses resulting from livestock enterprises, past drought, or previous declines in selected crop prices.

CONSUMER INSTALMENT CREDIT

	Credit flows				New car finance rates
	Net change in outstandings (SAAR, \$ billions)	total (SAAR, \$ billions)	Bank share (Per cent)	Open-end share* (Per cent)	New car APR Finance companies (Per cent)
1973 - I	23.7	162.4	42.5	25.9	11.85
II	20.2	164.2	41.8	27.3	11.94
III	21.0	170.1	42.3	27.1	12.28
IV	15.3	164.4	42.3	28.5	12.42
1974 - I	8.8	154.3	41.9	29.2	12.29
II	14.0	172.9	41.5	30.0	12.50
III	14.1	172.5	42.3	30.6	12.84
IV	-3.2	155.7	41.1	33.2	13.10
1974 - Oct.	4.8	163.5	41.1	32.8	12.97
Nov.	-4.8	151.3	42.8	34.4	13.05
Dec.	-9.8	152.4	39.5	32.7	13.10
1975 - Jan.	-4.8	154.3	41.7	32.4	n.a.

*Open-end credit consists of extensions on bank credit-card and check credit plans, and retail "other consumer goods" credit extensions.

Further indications of improvement in mortgage market conditions have appeared in recent weeks. An increasing number of lenders have been offering mortgages with less restrictive non-rate terms, and by March 7 average rates on conventional home mortgages at selected S&L's were 8.99 per cent--down 20 basis points from a month earlier and 104 basis points below the peak last fall. Yields in the secondary market also have dropped sharply in recent weeks, partly reflecting a limited supply of mortgages available for near-term delivery. The downtrend in mortgage market interest rates prompted another reduction in the ceiling rate on FHA/VA mortgages from 8-1/2 to 8 per cent, effective March 3.

With strong deposit inflows, S&L's have continued to rebuild their liquidity and have repaid more of their high-cost borrowings. In addition, new mortgage commitments in January rose further and outstanding commitments increased. Apparently to signal the desirability of further accumulation of liquid assets, the FHLBB raised the required liquidity of S&L's from 5 to 5-1/2 per cent, effective April 1, 1975. The liquidity of the vast majority of S&L's is already well above this minimum, however, so that the effect on portfolio positions is likely to be small.

CONVENTIONAL HOME MORTGAGES AT
SELECTED S&L's

		Average going rate on 80% loans (per cent)	Basis point change from month or week earlier	Rate Spread <u>1</u> / (basis points)	Federal Home Loan Bank districts with funds in short supply
1974--High		10.03 (9/27, 10/18)	--	97 (11/15)	12 (May, July-Nov.)
Low		8.40 (3/15, 3/22)	--	-106 (7/12)	0 (Feb.-Mar.)
1975--Jan.	3	9.59	0	n.a.	9
	10	9.50	- 9	- 12	5
	17	9.44	- 6	6	3
	24	9.33	-11	- 12	2
	31	9.29	- 4	29	3
Feb.	7	9.19	-10	30	2
	14	9.14	- 5	12	2
	21	9.04	-10	0	2
	28	9.02	- 2	8	1
Mar.	7	8.99	- 3	8	0

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.

FNMA AUCTION RESULTS
HOME MORTGAGE COMMITMENTS

Date of auction	Government-underwritten			Conventional		
	Amount (In \$ millions)		Average yield	Amount (In \$ millions)		Average yield
	Offered	Accepted		Offered	Accepted	
1974--High	1,155 (3/25)	333 (3/25)	10.59 (9/9)	164 (4/18)	63 (4/8)	10.71 (9/9)
Low	26 (11/18)	18 (11/18)	8.43 (2/25)	14 (10/21)	7 (11/18)	8.47 (3/11)
1975--Jan. 13	25.3	21.2	9.37	17.9	14.9	9.50
27	41.4	28.6	9.12	11.1	10.6	9.39
Feb. 10	24.6	18.1	8.98	14.8	9.1	9.20
24	36.2	23.8	8.87	20.0	9.1	9.04
Mar. 10	99.2	60.1	8.78	34.4	22.1	8.96

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 on 4-month commitments. Mortgage amounts offered by bidders relate to total bids received.

INTERNATIONAL DEVELOPMENTS

3/12/75

IV -- T - 1

U.S. International Transactions
(in millions of dollars; seasonally adjusted)

	1974p				1975p	
	YEAR	1H ¹	3Qr	4Q	Dec.*	Jan.*
<u>Goods and services, net 1/</u>		2,727	-332			
Trade balance	-5,763	-1,691	-2,550	-1,522	-789	-628
Exports	97,074	46,350	24,615	26,109	8,808	9,490
Imports	102,837	48,041	27,165	27,631	9,597	10,118
Net service transactions		4,418	2,218			
<u>Remittances and pensions</u>		-857	-468			
<u>Gov't grants and capital, net</u>		-2,073	-776			
<u>Bank-reported private capital, net change</u>	-3,107	-4,851	1,994	-250	-1,051	-947
<u>Claims on foreigners (inc. -)</u>	-18,838	-12,852	-1,996	-3,990	-1,884	249
Liquid	-5,445	-3,629	-431	-1,385	-816	-405
Other	-13,393	-9,223	-1,565	-2,605	-1,068	654
<u>Liabilities to foreigners (inc. +)</u>	15,731	8,001	3,990	3,740	833	-1,196
Liquid liabilities to:	15,732	7,819	4,010	3,903	893	-1,193
Commercial banks abroad	12,655	6,824	2,896	2,935	489	-881
(of which liab. to branches) ^{2/}	(1,950)	(2,635)	(-503)	(-182)	(-850)	(346)
Other private foreigners	2,926	1,228	893	805	463	-155
Int'l & regional organizations	151	-233	221	163	-59	-157
Long-term liabilities	-1	182	-20	-163	-60	-3
Private transactions in securities, net	-936	147	-131	-953	-358	-956
U.S. purchases (-) of foreign securities	-1,995	-959	-300	-736	-350	-1,055
(of which: New bond issues)	(-2,336)	(-1,150)	(-416)	(-770)	(-399)	(-1,076)
Foreign purchases (+) of U.S. securities	1,059	1,106	169	-217	-8	99
Stocks	307	388	84	-165	-13	199
Bonds	752	718	86	-52	5	-100
U.S. direct investment abroad, (inc.-)		-2,184	-1,971			
Foreign direct investment in U.S., (inc. +)		2,958	-50			
Nonbank-reported: <u>liquid claims, (inc. -)</u>	-19	-491	605	-133		
: <u>other claims, (inc. -)</u>		-2,552	-146			
: <u>liabilities, (inc. +)</u>		779	187			
<u>Changes in liab. to foreign official agencies</u>	9,500	4,095	1,380	4,025	1,513	-604
OPEC countries (inc. +) ^{2/ 3/}	9,691	3,359	3,926	2,406	723	580
Other countries (inc. +)	-191	736	-2,546	1,619	790	-1,184
<u>Changes in U.S. reserve assets (inc. -)</u>	-1,434	-568	-1,003	137	16	-31
Gold	--	--	--	--	--	--
Special drawing rights	-172	-29	-123	-20	-12	--
Reserve position in the IMF	-1,265	-453	-728	-84	-10	-34
Convertible currencies	3	-86	-152	241	38	3
<u>Errors and omissions</u>		2,870	711			
<u>Memo:</u>						
Official settlements balance, S.A.		-3,527	-377	-4,162		
N.S.A.	-8,066	-2,610	-1,609	-3,847	-1,529	635
O/S bal. excluding OPEC, S.A.		-168	3,549	-1,756		
N.S.A.	1,625	749	2,317	-1,441	-806	1,215

* For monthly data, only exports and imports are seasonally adjusted.

1/ Differs from "net exports" in the GNP account by the amount of special military shipments to Israel (excluded from GNP net exports).

2/ Not seasonally adjusted.

3/ Partly estimated.

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. The dollar depreciated against a weighted average of major foreign currencies by nearly 3 per cent in the three weeks ended March 5, but in the following week the dollar appreciated by about 3/4 per cent. Contributing to the dollar's rise in the latest week were discount rate reductions in Germany and the Netherlands (following earlier cuts in France and Switzerland), the release of favorable February wholesale price figures for the United States, and the release of German trade figures for January indicating some decline in Germany's trade surplus. Overhanging the market, however, and continuing to exert a depressing influence on the dollar were statements by various OPEC officials concerning a possible change in accepting dollars in payment for oil.

In recent days the Swiss franc tended to ease against European snake currencies following statements by BNS President Leutwiler that Switzerland intended to adopt a plan to link the franc with the snake.

Central bank intervention in dollars thus far in March has been fairly light compared with February's pace. The System sold some \$103 million equivalent of foreign currencies (predominantly marks) from March 3-12. In February the System sold \$616 million equivalent of foreign currencies. Most of March's System intervention was financed from mark balances purchased directly from the Bank of Italy which acquired marks as part of a drawing on the IMF. (The proceeds of Italy's Fund drawing were used to repay \$500 million of an earlier \$2 billion loan from the Bundesbank.)

Other major central banks have purchased, net, \$390 million so far in March. The Bundesbank accounted for \$39 million, while the Swiss National Bank has not intervened at all. In February major foreign central banks purchased \$1,284 million, of which \$310 million and \$181 million were accounted for by the Bundesbank and the BNS, respectively.

Euro-currency market. Euro-dollar deposit rates show net declines for the past four weeks, with most of the decreases coming in the latest week. Rate movements within the four weeks largely reflected continuing declines in short-term rates in the United States. From the week of February 12 to the week of March 12 the 3-month deposit rate was down 30 basis points and the overnight rate 40 basis points, both decreases being somewhat smaller than the declines in comparable U.S. rates (as shown in the table).

U.S. banks' gross liabilities to their foreign branches continued declining to \$2.0 billion in the week of February 12 and then rose somewhat before dropping back to \$1.9 billion in the week of March 5.

The fall in Euro-dollar deposit rates has been substantially less than the fall in the prime rate at U.S. banks in the past month. Consequently, the cost of short-term Euro-dollar loans has risen about one percentage point compared with the cost of bank loans in the United States.

Euro-currency deposits with banks in the United Kingdom held by nonresidents resumed their growth in the fourth quarter, following an absolute decline in the third quarter. However, the 4-1/2 per cent increase from end-September to end-December was only about one-third

SELECTED EURO-DOLLAR AND U.S. MONDY 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-Nov.	9.22	9.45	-0.23 (0.57)	10.08	8.88	1.20 (1.31)
Dec.	8.48	8.53	-0.05 (0.69)	10.28	8.96	1.32 (1.64)
1975-Jan.	7.16	7.13	0.03 (0.65)	8.49	7.45	1.04 (1.78)
Feb.	6.02	6.24	-0.22 (0.30)	7.26	6.10	1.16 (1.40)
Jan. 29	7.09	6.99	0.10 (0.72)	8.01	6.25	1.76 (2.06)
Feb. 5	6.07	6.46	-0.39 (0.14)	7.25	6.00	1.25 (1.50)
12	6.10	6.28	-0.18 (0.35)	7.10	6.13	0.97 (1.20)
19	6.04	6.29	-0.25 (0.28)	7.49	6.14	1.35 (1.61)
26	5.91	6.15	-0.24 (0.27)	7.33	6.13	1.20 (1.45)
Mar. 5	5.89	5.88	0.01 (0.52)	7.35	6.05	1.30 (1.55)
12 ^{p/}	5.70	5.65	0.05 (0.55)	6.81	5.80	1.01 (1.25)

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

SELECTED EURO-DOLLAR AND U.S. COSTS FOR PRIME BORROWERS
(1975; Friday dates)

	Feb. 7	Feb. 21	Mar. 7	Mar. 11 ^{d/}
1) 3-mo. Euro-\$ loan ^{a/}	8.19	8.38	8.06	7.88
2) 90-119 day com'l. paper ^{b/}	6.50	6.38	6.38	6.25
3) U.S. bank loan:				
a) predominant prime rate	9.00	8.75	8.25	8.00
b) with 15% comp. bal's. ^{c/}	10.59	10.29	9.70	9.41
c) with 20% comp. bal's. ^{c/}	11.25	10.94	10.31	10.00
Differentials:				
(1) - (2)	1.69	1.94	1.68	1.63
(1) - (3a)	-0.81	-0.37	-0.19	-0.12
(1) - (3b)	-2.40	-2.00	-1.64	-1.53
(1) - (3c)	-3.06	-2.56	-2.25	-2.12

^{a/} 1-1/8 per cent over deposit bid rate.

^{b/} offer rate plus 1/8 per cent.

^{c/} prime rate adjusted for compensating balances.

^{d/} Tuesday.

as fast as the rate of expansion in the first four months of the year. Euro-currency deposits of OPEC countries continued to become an increasingly large part of the London total, their percentage rising to 16-1/2 per cent in December from 14 per cent in September and 5 per cent in December 1973.

The proportion of total nonresident Euro-currency deposits in the U.K. that was denominated in U.S. dollars held steady at about 80 per cent in October-November before declining to 79.6 per cent at the end of December simultaneously with rising shares for the German mark and Swiss franc. But the dollar share of the London deposits owned by OPEC countries rose from 88.7 per cent at the end of September to 90.2 per cent at the end of December.

The Euro-currency market received a much smaller share of the OPEC countries' total surplus on goods and services in the second half of 1974 than in the first. That share appears to have been about 30 per cent in the third quarter and 25-35 per cent in the fourth, down from estimates of 67 and 53 per cent in the first two quarters, respectively.

U.S. International Transactions. In January, total U.S. liabilities to foreign official institutions declined by \$0.6 billion for the first monthly decline since August 1974. Holdings of OPEC countries rose by \$0.6 billion, about the same average monthly rate as in the fourth quarter of 1974, but only about half the rate of increase in the third quarter. Meanwhile, assets of other countries decreased by \$1.2 billion in January, with much of this decline accounted for by a \$0.9 billion decrease in holdings of the Bank for International Settlements. Preliminary weekly data for February indicate a reversal of the net outflow of official funds in January. Liabilities to foreign official institutions in February appear to have increased by as much as \$1-1/2 billion, with the increase in OPEC holdings again about \$1/2 billion.

U.S. bank-reported liabilities to foreign branches and other private foreigners fell by \$1.2 billion in January, with most of the decline occurring in liabilities to the United Kingdom, Switzerland and Japan. This shifting of funds may have been in response to the greater reduction in U.S. relative to foreign interest rates in January. U.S. bank claims on foreigners also declined in January, by \$0.2 billion, with the decline more than accounted for by a \$0.8 billion drop in claims on Japan. Much of the decline was in U.S. bank dollar acceptances financing Japanese trade with the United States and other countries. This drop might be explained, in part, by the recent declines in Japanese imports and exports, and in part by an increase in direct financing of Japanese imports by OPEC countries or increased borrowing by Japan in other money markets.

down in direct placements in the United States by OPEC countries beginning last October, helped to depress the dollar in foreign exchange markets during this period.

The U.S. merchandise trade account showed a deficit of \$7.5 billion (seasonally adjusted, annual rate) in January, compared with the annual-rate deficit of \$9.5 billion for December and \$6.0 billion for the fourth quarter. The most notable developments in January, on a month-to-month basis, were the increases in petroleum imports and agricultural exports.

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

	1974	1974				1975			
	Year ^r	1Q	2Q	3Q ^r	4Q ^r	Oct. ^r	Nov. ^r	Dec. ^r	Jan. ^p
<u>EXPORTS</u>	<u>97.1</u>	<u>89.1</u>	<u>96.3</u>	<u>98.9</u>	<u>104.7</u>	<u>103.3</u>	<u>105.2</u>	<u>105.7</u>	<u>113.9</u>
Agric.	22.3	23.6	22.8	21.0	22.4	20.2	23.1	23.9	29.8
Nonagric.	74.7	65.5	73.4	77.9	82.4	83.1	82.1	81.8	84.1
<u>IMPORTS</u>	<u>102.9</u>	<u>89.4</u>	<u>102.8</u>	<u>109.1</u>	<u>110.8</u>	<u>107.7</u>	<u>109.4</u>	<u>115.2</u>	<u>121.4</u>
Fuels	27.1	20.4	28.2	30.1	29.3	28.0	28.5	31.2	39.7
Nonfuels	75.8	69.0	74.5	79.0	81.5	79.6	80.9	84.0	81.7
<u>TOTAL BALANCE</u>	<u>-5.8</u>	<u>-0.3</u>	<u>-6.5</u>	<u>-10.1</u>	<u>-6.0</u>	<u>-4.3</u>	<u>-4.2</u>	<u>-9.5</u>	<u>-7.5</u>
BALANCE excl. fuel imp. & agr. exp.	-1.1	-3.5	-1.1	-1.1	+0.9	+3.5	+1.2	-2.2	+2.4

Note: Details may not add to totals because of rounding.
r = revised. p = preliminary.

The reported volume of imports of petroleum and products (not seasonally adjusted) jumped from 7.4 million barrels per day in December

to 9.8 million in January. The January increase largely reflects a statistical aberration for that month. Importers rushed to file oil import declarations earlier than usual to avoid payment of the higher import fees of \$1-a-barrel which became effective on February 1. Data compiled by the Federal Energy Administration, which monitors the physical arrival of oil imports, indicate that the actual quantity of oil arriving in January was about the same as in December. With further increases in the import fees now suspended, the recorded volume of imports in February-March on average is likely to swing below the December rate. The unit value of petroleum imports in January was at about its mid-1974 level of \$11.50 per barrel.

The value of agricultural exports rose by 25 percent in January over the December level, with all of the increase in higher volumes. Particularly large shipments of wheat went to India and Pakistan as crop conditions have been unfavorable in that region. Higher volumes of wheat and feedgrain shipments also went to Western Europe. Preliminary weekly data compiled by the Department of Agriculture indicate a lower volume of these exports for February. The unit value for agricultural exports in January was essentially unchanged from the very high December level, despite a continued decline in domestic commodity-market prices. The export unit value has held up because of an average lag of three months or more between the placing of agricultural export orders and final shipment of the commodities. Thus, in coming months the export unit

value is expected to decline from its December-January level, which reflected the higher domestic prices of last fall.

Apart from agricultural exports and fuel imports, U.S. trade was in approximate balance in December-January, down from a \$2.4 billion annual-rate surplus during the preceding two months. This change was accounted for by a 5 percent rise in nonfuel imports, mostly due to price increases. Non-agricultural exports showed little change as higher export prices were counterbalanced by lower volumes. The sharpest declines in export volumes were in capital goods and consumer goods, reflecting the recession in economic activity abroad.

The increase in nonfuel imports was concentrated in food and some industrial materials. Food imports were up due to higher sugar prices, and both the unit value and volume of industrial supplies and materials other than fuels rose slightly. Imports of automotive vehicles from Canada declined sharply while automotive imports from Europe and Japan showed little change. Non-Canadian auto imports have held up despite high inventory levels in recent months because of the introduction of new models and sharply rising sales. Foreign car sales in January-February were up by nearly 50 percent over their depressed November-December level.

Economic activity in major foreign industrial countries.

Recession in the major foreign countries has proved more serious and widespread than expected earlier. Real GNP declined in Canada, Germany, the United Kingdom and Japan in the fourth quarter of 1974 from the third quarter level. Industrial output (see table below) has dropped even more sharply in recent months in several major countries. In some countries -- such as Japan and Italy -- the decline in industrial production has been more severe than in any previous postwar recession. In all of the countries listed in the table below, industrial output is now at lower levels than a year earlier.

Industrial Production in Major Industrial Countries
 Percentage change from preceding 3-months (SAAR)

	<u>1973</u>		<u>1974</u>				<u>Latest 3-months</u>	<u>Latest Month</u>
	Q3	Q4	Q1	Q2	Q3	Q4		
Canada	-2.6	10.1	10.0	-3.6	-4.7	-5.4	-5.4	Dec.
France	6.8	-2.2	10.3	3.3	1.1	-22.3	-22.3	Dec.
Germany	-1.5	5.3	-0.7	-0.7	-10.7	-10.3	-15.3	Jan. ^{1/}
Italy	22.2	6.6	9.2	-1.7	-9.6	-26.7	-23.1	Jan.
Japan	11.3	11.3	-7.9	-7.8	-12.6	-19.6	-25.5	Jan.
U.K.	5.0	-4.6	-20.5	18.6	4.5	-9.1	-9.1	Dec.
U.S.	5.9	1.1	-6.6	1.8	0.2	-12.1	-22.1	Jan.

^{1/} Staff estimate.

Sources: National country sources; Italian data seasonally adjusted by Federal Reserve Staff.

The economic decline in most countries has affected almost all sectors. The automobile and textile industries have been particularly hard hit, along with output of chemicals and iron and steel. Consumption and construction expenditures have been weak in all major countries and fixed investment expenditures have also been weak in Japan and Germany.

Most countries are experiencing a weakness or decline in foreign and domestic orders. Inventories continue to rise in France and Italy, and have reached exceptionally high levels in Japan. However, they are not abnormally high in Germany or the United Kingdom.

The rate of unemployment in the major countries has increased in recent months and in Germany, France and Japan has reached relatively high levels as compared to previous cycles. (Given the major differences in the way in which countries define unemployment, the data below should be regarded as orders of magnitude and they do not justify drawing inter-country comparisons.) The number of workers on short-time in most countries has also risen due to the depressed levels of output. For the six countries listed in the table below, the number of unemployed workers (seasonally

Unemployment Rate in Major Foreign Industrial Countries
(Per cent of labor force unemployed, monthly averages, seasonally adjusted)

	1973	1974				Latest	Month
	Q4	Q1	Q2	Q3	Q4		
Canada	5.5	5.4	5.3	5.3	5.6	6.8	Feb.
France	2.2	2.3	2.3	2.5	3.2	3.6	Jan.
Germany	1.5	1.9	2.3	2.9	3.5	3.5	Jan.
Great Britain	2.2	2.4	2.4	2.7	2.7	3.1	Feb.
Italy	3.1	2.8	2.7	2.8	3.2	3.2	Oct.
Japan	1.1	1.3	1.2	1.4	1.6	1.7	Jan.

Sources: OECD, Main Economic Indicators, and national country sources; U.S. Embassy in Paris for French data.

adjusted) increased from 3.0 million in the fourth quarter of 1973 to more than 4 million in the fourth quarter of last year. Incomplete data suggest that this number increased further in January.

With the weakening in demand and the consequent buildup of undesired inventories in recent months, increases in consumer prices have decelerated in some countries, particularly in Japan, but price advances still remain high. Price pressures have also weakened because the major impact from higher oil and food prices have worked their way through the system. Cost-of-living adjustments in Italy and the United Kingdom have resulted in some wage escalation, but the rate of increase in French wages has been decelerating. Recent wage settlements in Germany have been about half as large as last year, while Japanese wages are being negotiated. Wholesale prices have been declining very recently in France, Italy and Japan, but have not yet slackened in the United Kingdom. This easing in wholesale prices reflects partly the decline during the past 6 to 8 months in a number of world commodity prices.

Consumer Prices for Major Industrial Countries
(Percentage change from previous month, not seasonally adjusted)

	<u>1974</u>					<u>1975</u>		<u>% change from previous year</u>	<u>Latest Date</u>
	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>		
Canada	1.0	0.6	0.9	1.1	1.0	0.5	--	12.1	Jan.
France	0.8	1.1	1.2	0.9	0.8	1.1	--	14.5	Jan.
Germany	0.2	0.3	0.5	0.7	0.3	0.9	--	6.1	Jan.
Italy	2.2	2.9	1.9	1.9	0.8	1.3	--	24.1	Jan.
Japan	0.7	1.7	2.5	0.2	0.6	0.2	0.4	13.7	Feb.
U.K.	0.1	1.1	2.0	1.8	1.5	2.5	--	19.9	Jan.
U.S.	1.3	1.2	0.9	0.8	0.7	0.5	--	11.7	Jan.

Sources: National country sources.

Despite the severity of the decline in economic activity and rising unemployment, countries thus far have been cautious in adopting stimulative policies. The emphasis has been on assuming a somewhat easier monetary policy stance. The decline in interest rates in recent months, however, is due to the weakness of demand as well as a deliberate easing of policies. Continuing a trend that began in the fall, a number of additional discount rate reductions have taken place during the past month. The discount rate has been reduced in the past month by Germany (the fourth time since October), France (twice in January-February), the Netherlands, Switzerland and Belgium, while the minimum lending rate has been reduced since January of 1974 in eleven successive steps by the Bank of England. While monetary conditions appear to be easing, the major foreign countries, with the exception of Germany and Canada, have not yet made extensive use of fiscal policy to restimulate their economies.

Real GNP in Germany fell 1.6 per cent in the fourth quarter from the third quarter last year. Industrial production, which has been declining since last June, fell over 4 per cent in December from November, and preliminary data suggest a levelling off in January. Both the construction and automotive sectors have been very depressed, although recently signs of a mild pick-up in activity have become evident.

Since last September the authorities have moved to cushion the decline in domestic demand. The measures taken have included special

assistance to the construction sector, an investment bonus tax measure, increased unemployment benefits, a tax reform package that is expected to increase disposable income by DM 12-14 billion, and several reductions in reserve requirements and the central bank's lending rates.

Gross domestic product in the United Kingdom fell 1 per cent from the third to the fourth quarter of last year, while total industrial production declined 2.3 per cent. The manufacturing sector appears to be much weaker than other sectors of the economy, with chemicals and textiles recently registering the largest declines in output. Most other economic indicators, such as unemployment and new orders for machinery, reflect a deterioration in the economic situation.

The policy stance has changed little in recent months. The Bank of England suspended its supplementary deposit scheme at the end of February, but this scheme has not had a significant impact since the liabilities of most banks have been below the point at which the scheme would have required supplementary deposits. The design of the 1975/76 budget, to be announced next month, will be strongly influenced by two factors. One is whether the improvement in the current account balance in January will be maintained, while the other is whether the recent 30 per cent wage boost for miners will be viewed as exceptional or whether it will set the tone for other wage settlements.

The recent sharp decline in French industrial output mainly reflects the effects of the tight policies pursued last year, as well as

weak end-of-year demand from traditional trading partners. Orders are declining in many sectors, although some industries, such as heavy equipment, are expected to maintain their current level of output for several months. Although export prospects are considered fairly encouraging according to business surveys, foreign sales are not expected to compensate for the weak domestic demand.

In view of rising unemployment and other adverse economic indicators, public aid has been channeled to several sectors, including automobiles, construction and farming. The monetary authorities have made selected adjustments in their credit policy, including a reduction in reserve requirements.

The decline in Italian industrial production in recent months has been very steep, falling about 7 per cent from September to January. The decline in output has been widespread, with automobiles and textiles being especially hard hit. Although the rate of unemployment has increased since last July, it is still relatively low as compared with the level in recent years.

The authorities have eased their policies only slightly, with the Bank of Italy cutting its discount rate in December and accelerating the flow of credit to certain sectors, such as housing and exports. The Government has also decided to increase budget expenditures by \$1.5 billion, channeling these funds mainly to construction, the regional governments and export credits.

Most economic indicators in Japan are adverse, with domestic orders and retail sales off in recent months and inventories of finished goods at extraordinarily high levels. Real GNP declined 0.4 per cent from the third to the fourth quarter of 1974 and real GNP for 1974 was off 1.8 per cent from 1973 according to preliminary reports.

The decline in Japanese industrial production since October has been the sharpest in the postwar period, but the authorities have so far relaxed their restrictive policies only slightly. The first quarter credit ceilings for the large city banks have been raised slightly, credit allocations to depressed industries have been increased, and expenditures on public works have been accelerated. The main reason that further substantial relaxation has not occurred is that the Government wants to minimize the rate of inflation until the spring wage settlement has been negotiated. Unless that wage settlement is substantially above the expected rate of inflation, it is likely that monetary policy will be relaxed in the spring.

Real GNP in Canada, which had remained flat through the third quarter of the year, fell in the fourth quarter, while the decline in industrial production has accelerated since the second quarter of last year. The drop in output has been widespread, with business investment in plant and equipment being the only major GNP component to show any strength.

Although the government's November 18 budget represented a shift to a more expansionary fiscal position, there are fears by some that the government's anti-recession measures are not strong enough to stem rising unemployment and falling industrial production. There are reports that another budget might be introduced this spring incorporating additional income tax cuts.