

Prefatory Note

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

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

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

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

Part 1

April 9, 1975

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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)

April 9, 1975

SUMMARY AND OUTLOOK

By the Staff
Board of Governors
of the Federal Reserve System

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. There have been indications in recent weeks that the rate of decline in economic activity has been decelerating. Industrial production and nonfarm employment dropped further in March, but at less than the pace of recent months. Business orders for durable goods picked up in February for the first time in half a year and consumer retail sales other than autos apparently showed some further increase in real terms in March. Business demands for capital goods have continued to drop, and inventory liquidation is apparently proceeding at full tilt, suggesting further curtailments of industrial activity and manufacturing employment in coming months. But success in the effort to reduce inventories has improved the likelihood of a turnaround in activity in the not too distant future. This prospect has been enhanced by the passage of the tax bill, which will begin in May to support stronger growth in disposable income and consumer spending.

There have also been further indications of a weakening of inflationary pressures. The over-all index of wholesale prices in March declined for the fourth month in a row--with farm and food prices down again and prices of industrial products showing the smallest increase (except for one other month) in two years. At retail, prices in February continued upward at a pace substantially slower than during last year.

The index of industrial production, according to preliminary estimates, dropped by about 1 per cent in March, well below the rate of decline in the previous four months. Production of business equipment and materials continued to fall, but output of consumer goods stabilized as auto assemblies rose and nondurable goods output leveled off.

Employment fell substantially further in March--although less than in other recent months. At the same time, the labor force increased by 300,000 and the unemployment rate resumed its climb, reaching 8.7 per cent. Increased joblessness was widespread among labor force groups, with layoffs increasing the rates for blue collar workers sharply further. Among industries, the cut in payroll employment was concentrated in manufacturing and in construction.

Retail markets generally have had a better tone in the past few months and according to recent surveys, consumer sentiment--although still depressed--has improved from its low late last year. Aside from autos, retail sales of consumer items rose in March by about 1-1/2 per cent (according to our estimate based on weekly figures) for the third monthly increase in a row. These sales had been trending downward in the latter months of last year.

As anticipated, auto sales fell in March, following the termination of most of the rebate programs. Unit sales of domestic models were at a 6 million annual rate, 16 per cent below February, and about back to the immediate pre-rebate level. All of the drop in sales occurred among small cars, which had benefited from the rebates. Sales of foreign models--which had also risen sharply--dropped relatively as much, as did domestic makes in March, but remained at higher levels than in December. It is not clear as yet how much the rebates may have stimulated auto demand, as opposed to borrowing from future sales. But the promotions did succeed in reducing dealers' overstocked positions

substantially and stimulated a pickup in output in March. Auto assemblies are expected to increase somewhat further in April.

There have been mixed signs recently on the outlook for business spending, though there is little doubt that real capital outlays will continue to fall through at least the fall of this year. Total new orders for durables rose by 2-1/2 per cent in February, but the nondefense capital goods component, which leads business spending for machinery and equipment, declined further by 1-1/2 per cent. This was much less than the rate of decline over the previous half year. But the volume of publicly announced cancellations of investment plans by industrial firms increased again in March after declining for several months, and contracts for commercial and industrial buildings dropped sharply to the lowest level in a dozen years.

Indications are that a liquidation of inventories of major proportions occurred in the first quarter. The book value of manufacturers' inventories rose at only a \$2.2 billion annual rate in February--substantially less than the increase accounted for by rising prices--and wholesalers' stocks dropped at a \$6.8 billion annual rate. The proportion of purchasing agents reporting decumulation in March was as high as in February. Given the run-off of dealers' stocks of autos, and the substantially larger decline in production of materials than of final products, it appears that a liquidation in GNP terms of at least \$15 to \$20 billion occurred during the first quarter.

Outlook. The current staff GNP projection shows a somewhat stronger economy during the spring and summer than contemplated in the last Greenbook. Real GNP is now projected to decline only slightly during the current quarter and to rebound somewhat more vigorously in the third quarter. Thereafter, the general contour of the projection has not changed significantly, and the recovery is still projected to lose some momentum early next year. By the second quarter of 1976, however, the level of real GNP will be about 1-1/4 per cent higher than projected a month ago.

Our fiscal policy assumptions have incorporated the Tax Reduction Act of 1975 as well as a likely renewal for 1976 of its provisions other than the tax rebate, the one-time payment to social security recipients, and the housing tax credit. These assumptions imply a first round impact on personal and corporate disposable incomes of \$21 billion in CY 1975, dropping to \$15 billion in CY 1976--somewhat more than we assumed in the previous Greenbook. Apart from this legislation, projected Federal spending for fiscal 1976 has been increased by an additional \$2-1/2 billion, mainly in the area of transfer payments. On the monetary side, we assume that growth in M_1 will be stronger in the second quarter than in the first, will average about 6 per cent over 1975 as a whole, and will continue at a 6 per cent rate in 1976. Because of the stronger performance projected for nominal GNP in the second quarter, we no longer expect any further significant decline in interest rates from current levels; rates should be moving up, along with recovery in real activity, over the bulk of the projection period.

Following an estimated 11 per cent drop in real GNP, at annual rates, during the first quarter, we now project a decline of less than 1 per cent during the current quarter. The rate of inventory liquidation is expected to moderate from a large first quarter figure. This may be associated with a turnaround in production rather soon. Inventories are projected to continue falling throughout 1975, but with declines successively smaller as the year progresses.

Another element of projected strength in the second quarter is residential construction. We continue to expect a rise in starts this quarter and a strong upturn in residential construction expenditures, mainly reflecting the momentum of improvement in mortgage market conditions. While the tax credit for houses completed or under construction should also have a stimulative effect on sales rather soon, the effect on starts is likely to be delayed and is not expected to be large in any event.

The impact of the tax legislation on personal consumption may be rather modest in the second quarter because the stimulus will not be felt until late in the period. However, the bulge in disposable personal income coming from Federal tax relief--though showing up initially in higher personal savings--will provide the basis for a vigorous rise in consumption expenditures during the third and fourth quarters. In early 1976, when the effects of the one-time rebate and benefit increases to social security recipients wear off, consumption increases are expected to revert to more moderate dimensions. This and the projected cyclical

rise in interest rates are the main factors that dampen the projected recovery in real GNP early next year. Real GNP growth is projected to slow from close to a 7 per cent growth rate during the second half of 1975 to a 4-1/2 to 5 per cent rate in early 1976.

Unemployment is still expected to rise further during the next few months--though less sharply than projected last month--to about a 9-1/4 per cent rate in the third quarter, and then to moderate slightly thereafter. Our price projection remains essentially unchanged, with incoming data for the most part confirming the pronounced moderation in inflation that we had projected, beginning in the first quarter of 1975.

STAFF GNP PROJECTIONS

	Per cent change, annual rate							
	Changes in nominal GNP (\$ billions)		Gross private product fixed weighted price index				Unemployment rate (per cent)	
			Real GNP					
	3/12/75	4/9/75	3/12/75	4/9/75	3/12/75	4/9/75	3/12/75	4/9/75
1971 <u>1/</u>	77.8	77.8	3.3	3.3	4.3	4.3	5.9	5.9
1972 <u>1/</u>	103.1	103.1	6.2	6.2	3.3	3.3	5.6	5.6
1973 <u>1/</u>	136.9	136.9	5.9	5.9	6.3	6.3	4.9	4.9
1974 <u>1/</u>	102.4	102.5	-2.2	-2.1	11.4	11.4	5.6	5.6
1975	53.2	65.8	-4.6	-3.9	8.8	9.3	9.1	9.0
1973-III <u>1/</u>	31.0	31.0	1.6	1.6	8.4	8.4	4.8	4.8
IV <u>1/</u>	35.1	35.1	2.3	2.3	9.1	9.1	4.8	4.8
1974-I <u>1/</u>	14.8	14.8	-7.0	7.0	14.1	14.1	5.2	5.2
II <u>1/</u>	25.0	25.0	-1.6	-1.6	12.3	12.3	5.1	5.1
III <u>1/</u>	32.5	32.5	-1.9	-1.9	13.8	13.8	5.5	5.5
IV <u>1/</u>	13.9	14.6	-9.1	-9.0	12.6	12.6	6.6	6.6
1975-I	-16.2	-15.4	-10.9	-11.2	7.0	8.1	8.4	8.3
II	9.0	20.0	-3.7	- .7	6.5	6.7	9.2	9.1
III	36.5	42.5	4.9	6.5	5.5	5.5	9.5	9.3
IV	46.0	46.0	6.9	6.8	5.2	5.2	9.3	9.2
1976-I	35.5	37.0	4.6	4.9	4.8	4.8	9.3	9.0
II	33.0	35.5	4.2	4.7	4.5	4.5	9.2	9.0
Change:								
73-IV to 74-IV	86.2	86.9	-5.0	-4.9	13.0	13.0	1.8	1.8
74-II to 75-II	39.2	51.7	-6.5	-5.8	9.8	10.4	4.1	4.0
74-IV to 75-IV	75.3	93.1	- .9	.3	6.0	6.6	2.7	2.6
75-II to 76-II	151.0	161.0	5.1	5.7	5.0	5.0	.0	- .1

1/ Actual.

April 9, 1975

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	Projection				I	II
			I	II	III	IV		
Gross National Product	1416.3	1430.9	1415.5	1435.5	1478.0	1524.0	1561.0	1596.5
Final purchases	1407.6	1413.1	1433.5	1448.1	1485.8	1526.9	1556.6	1589.8
Private	1095.3	1089.3	1101.8	1111.8	1142.7	1172.8	1194.2	1219.3
Excluding net exports	1098.4	1087.4	1097.3	1110.7	1145.0	1178.4	1203.6	1230.1
Personal consumption expenditures	901.3	895.8	912.5	926.1	953.0	979.0	999.0	1019.0
Durable goods	136.1	120.7	125.5	123.7	128.7	134.0	138.0	140.5
Nondurable goods	389.0	391.7	396.0	402.9	415.0	426.2	433.0	441.3
Services	376.2	383.5	391.0	399.5	409.3	418.8	428.0	437.2
Gross private domestic investment	205.8	209.4	166.8	172.0	184.2	196.5	209.0	217.8
Residential construction	46.2	40.4	35.8	38.8	45.0	50.4	53.1	56.6
Business fixed investment	150.9	151.2	149.0	145.8	147.0	149.0	151.5	154.5
Change in business inventories	8.7	17.8	-18.0	-12.6	-7.8	-2.9	4.4	6.7
Nonfarm	6.6	17.5	-16.8	-11.6	-7.5	-3.9	4.4	6.7
Net exports of goods and services ^{1/}	-3.1	1.9	4.5	1.1	-2.3	-5.6	-9.4	-10.8
Exports	143.6	147.5	143.2	134.9	135.9	140.1	144.3	151.1
Imports	146.7	145.7	138.7	133.8	138.2	145.7	153.7	161.9
Gov't. purchases of goods and services	312.3	323.8	331.7	336.3	343.1	354.1	362.4	370.5
Federal	117.2	124.5	126.7	127.8	129.4	134.6	137.0	138.9
Defense	78.4	84.0	84.7	84.9	85.9	89.7	91.2	92.7
Other	38.8	40.6	42.0	42.9	43.5	44.9	45.8	46.2
State & local	195.1	199.3	205.0	208.5	213.7	219.5	225.4	231.6
Gross national product in constant (1958) dollars	823.1	804.0	780.5	779.1	791.5	804.6	814.2	823.6
GNP implicit deflator (1958=100)	172.1	178.0	181.4	184.2	186.7	189.4	191.7	193.8
Personal income	1168.2	1186.9	1193.7	1224.0	1252.3	1280.8	1304.6	1333.4
Wage and salary disbursements	763.0	769.2	764.5	777.1	793.8	811.7	828.5	846.2
Disposable income	993.1	1008.8	1020.8	1088.9	1083.5	1104.9	1119.5	1141.9
Personal saving	65.5	86.5	82.2	136.6	103.9	98.9	93.1	95.1
Saving rate (per cent)	6.6	8.6	8.1	12.5	9.6	9.0	8.3	8.3
Corporate profits & inventory val. adj.	105.8	105.6	90.9	88.3	100.0	113.6	118.9	124.2
Corporate profits before tax	157.0	134.1	101.0	98.5	107.5	120.5	123.0	128.0
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts ^{2/}	302.8	295.6	278.4	240.1	278.9	291.8	307.3	316.5
Expenditures	304.7	319.3	337.5	353.4	360.8	372.0	379.1	387.6
Surplus or deficit (-) ^{2/}	-1.9	-23.7	-59.1	-113.3	-81.9	-80.2	-71.8	-71.1
High employment surplus or deficit (-)	24.7	17.6	10.2	-37.7	-9.1	-13.6	-9.4	-10.4
State and local government surplus or deficit (-), (N.I.A. basis)	2.1	.0	-3.4	-2.8	-2.3	-1.0	-.5	-1.3
Total labor force (millions)	93.6	94.0	94.1	94.3	94.5	94.6	94.7	95.0
Armed forces "	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Civilian labor force "	91.4	91.8	91.8	92.0	92.2	92.3	92.4	92.7
Unemployment rate (per cent)	5.5	6.6	8.3	9.1	9.3	9.2	9.0	9.0
Nonfarm payroll employment (millions)	78.7	78.3	76.8	76.3	76.3	76.5	76.7	77.1
Manufacturing	20.1	19.6	18.4	17.9	17.8	17.8	17.9	18.0
Industrial production (1967 = 100)	125.4	121.4	111.1	110.6	113.0	115.5	118.0	119.8
Capacity utilization, mfg. (per cent)	79.4	75.7	68.2	67.5	68.4	69.4	70.3	70.8
Major materials (per cent)	88.5	79.3	69.9	69.7	71.3	73.1	74.4	75.1
Housing starts, private (millions, A.R.)	1.21	1.00	1.02	1.26	1.53	1.63	1.73	1.70
Sales new autos (millions, A.R.)	10.07	7.38	8.31	7.80	8.25	9.00	9.50	9.50
Domestic models	8.52	6.05	6.60	6.30	6.75	7.50	8.00	8.00
Foreign models	1.55	1.33	1.71	1.50	1.50	1.50	1.50	1.50
^{1/} Net exports of g. & s. (Bal. of Paymts.)	-1.3 ^{3/}	3.3 ^{3/}	6.0 ^{3/}	2.6 ^{3/}	-.8	-4.1	-7.9	-9.3
Exports	146.8 ^{3/}	151.1 ^{3/}	146.8 ^{3/}	138.5 ^{3/}	139.5	143.7	147.9	154.7
Imports	148.1	147.8	140.8	135.9	140.3	147.8	155.8	164.0

^{2/} Federal government N.I.A. receipts are reduced to reflect the \$8.1 billion rebate of 1974 individual income taxes and \$9.3 billion reduction in 1975 individual income taxes in those quarters. This latter reduction enacted only for 1975, is assumed to be continued in 1976.

^{3/} 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.

April 9, 1975

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1974		1975				1976	
	III	IV	I	II	III	IV	I	II
-----Billions of Dollars-----								
Gross National Product	32.5	14.6	-15.4	20.0	42.5	46.0	37.0	35.5
Inventory change	-4.8	9.1	-35.8	5.4	4.8	4.9	7.3	2.3
Final purchases	37.3	5.5	20.4	14.6	37.7	41.1	29.7	33.2
Private	29.4	-6.0	12.5	10.0	30.9	30.1	21.4	25.1
Net exports	-1.6	5.0	2.6	-3.4	-3.4	-3.3	-3.8	-1.4
Excluding net exports	31.0	-11.0	9.9	13.4	34.3	33.4	25.2	26.5
Personal consumption expenditures	32.2	-5.5	16.7	13.6	26.9	26.0	20.0	20.0
Durable goods	6.6	-15.4	4.8	-1.8	5.0	5.3	4.0	2.5
Nondurable goods	13.2	2.7	4.3	6.9	12.1	11.2	6.8	8.3
Services	12.4	7.3	7.5	8.5	9.8	9.5	9.2	9.2
Residential fixed investment	-2.6	-5.8	-4.6	3.0	6.2	5.4	2.7	3.5
Business fixed investment	1.5	.3	-2.2	-3.2	1.2	2.0	2.5	3.0
Government	7.9	11.5	7.9	4.6	6.8	11.0	8.3	8.1
Federal	2.9	7.3	2.2	1.1	1.6	5.2	2.4	1.9
State and local	5.0	4.2	5.7	3.5	5.2	5.8	5.9	6.2
GNP in constant (1958) dollars	-4.0	-19.1	-23.5	-1.4	12.4	13.1	9.6	9.4
Final purchases	-.8	-25.0	-1.3	-4.5	10.3	10.1	4.1	7.5
Private	-.9	-25.4	-2.6	-4.7	10.0	9.9	5.3	7.0
-----In Per Cent per Year ^{1/} -----								
Gross National Product	9.7	4.2	-4.2	5.8	12.4	13.0	10.1	9.4
Final purchases	11.3	1.6	5.9	4.1	10.8	11.5	8.0	8.8
Private	11.5	-2.2	4.7	3.7	11.6	11.0	7.5	8.7
Personal consumption expenditures	15.7	-2.4	7.7	6.1	12.1	11.4	8.4	8.3
Durable goods	22.0	-38.1	16.9	-5.6	17.2	17.5	12.5	7.4
Nondurable goods	14.8	2.8	4.5	7.2	12.6	11.2	6.5	7.9
Services	14.3	8.0	8.1	9.0	10.2	9.6	9.1	8.9
Gross private domestic investment	-10.9	7.2	-59.7	13.1	31.5	29.5	28.0	17.9
Residential structures	-19.7	-41.5	-38.3	38.0	80.9	57.4	23.2	29.1
Business fixed investment	4.1	.8	-5.7	-8.3	3.3	5.6	6.9	8.2
Gov't purchases of goods and services	10.8	15.6	10.1	5.7	8.3	13.5	9.7	9.2
Federal	10.5	27.3	7.3	3.5	5.1	17.1	7.3	5.7
Defense	9.7	31.8	3.4	.9	4.8	18.9	6.9	6.7
Other	12.2	19.9	14.5	8.9	5.7	13.5	8.3	3.5
State and local	10.9	8.9	11.9	7.0	10.4	11.3	11.2	11.5
GNP in constant (1958) dollars	-1.9	-9.0	-11.2	-.7	6.5	6.8	4.9	4.7
Final purchases	-.4	-11.7	-.7	-2.2	5.4	5.1	2.1	3.7
Private	-.5	-14.3	-1.6	-2.9	6.4	6.3	3.2	4.3
GNP implicit deflator	11.9	14.4	7.9	6.5	5.5	5.9	5.0	4.5
Private GNP fixed weighted index ^{3/}	13.8	12.6	8.1	6.7	5.5	5.2	4.8	4.5
Personal income	12.4	6.6	2.3	10.5	9.6	9.4	7.6	9.1
Wage and salary disbursements	9.9	3.3	-2.4	6.8	8.9	9.3	8.5	8.8
Disposable income	11.5	6.5	4.8	29.5	-2.0	8.1	5.4	8.2
Corporate profits before tax	62.8	-46.8	-67.8	-9.5	41.9	57.9	8.6	17.3
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	21.2	-9.2	-21.3	-44.7	82.1	19.8	23.0	12.5
Expenditures	19.2	20.6	24.8	20.2	8.6	13.0	7.9	9.3
Nonfarm payroll employment	1.7	-1.7	-7.8	-2.3	.0	1.1	1.0	2.1
Manufacturing	-.6	-10.4	-22.4	-10.1	-2.2	.0	2.3	2.3
Industrial production	-.2	-3.2	-29.9	-1.5	8.8	9.3	8.6	6.3
Housing starts, private	-60.7	-53.0	8.2	132.9	117.4	28.8	26.9	-6.8
Sales new autos	43.5	-71.2	60.8	-22.3	25.2	41.6	24.1	.0
Domestic models	31.7	-74.6	41.8	-16.9	31.8	52.4	29.5	.0
Foreign models	138.3	-46.2	172.6	-40.7	.0	.0	.0	.0

1/ Percentage rates are annual rates compounded quarterly.

2/ Excluding Federal pay increases rates of change are: 1974-IV, 13.7 per cent; 1975-I, 7.7 per cent; 1975-IV, 5.2 per cent; and 1976-I, 4.8 per cent.

3/ Using expenditures in 1967 as weights.

April 9, 1975

CONFIDENTIAL - FR

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 ^{1/}	-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
^{1/} Net exports of g. & s. (Bal. of Paymts.)	-4.8	-5.3	-.7	.5	6.6	11.2 ^{2/}	11.6 ^{2/}	-.7 ^{2/}
Exports	73.3	78.5	88.8	95.4	103.7	116.0 ^{2/}	132.6 ^{2/}	140.8 ^{2/}
Imports	78.1	83.8	89.5	94.9	97.1	104.8	121.0	141.5

^{2/} 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 ^{1/} -----								
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 ^{2/}	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

^{1/} Percentage rates are annual rates compounded quarterly.

^{2/} 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	1397.4	1463.3
Final purchases	922.5	972.6	1048.6	1149.5	1279.6	1383.2	1473.6
Private	712.5	753.1	814.4	893.8	1003.2	1074.0	1132.3
Excluding net exports	710.6	749.5	814.6	899.8	999.3	1071.9	1132.9
Personal consumption expenditures	579.5	617.6	667.1	729.0	805.2	876.7	942.7
Durable goods	90.8	91.3	103.9	118.4	130.3	127.5	128.0
Nondurable goods	245.9	263.8	278.4	299.7	338.0	380.2	411.4
Services	242.7	262.6	284.8	310.9	336.9	369.0	403.3
Gross private domestic investment	139.0	136.3	153.7	179.3	209.4	209.4	179.9
Residential Construction	32.6	31.2	42.8	54.0	57.2	46.0	42.5
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	-10.3
Nonfarm	7.7	4.3	4.9	7.8	11.4	11.9	10.0
Net exports of goods and services ^{1/}	1.9	3.6	- .2	- 6.0	3.9	2.1	- .6
Exports	55.5	62.9	65.4	72.4	100.4	140.2	138.5
Imports	53.6	59.3	65.6	78.4	96.4	138.1	139.1
Gov't. purchases of goods and services	210.0	219.5	234.2	255.7	276.4	309.2	341.3
Federal	98.8	96.2	97.6	104.9	106.6	116.9	129.6
Defense	78.4	74.6	71.2	74.8	74.4	78.7	86.3
Other	20.4	21.6	26.5	30.1	32.2	38.2	43.3
State & local	111.2	123.3	136.6	150.8	169.8	192.3	211.7
Gross national product in constant (1958) dollars	725.6	722.5	746.3	792.5	839.2	821.2	788.9
GNP implicit deflator (1958=100)	128.2	135.2	141.4	146.1	154.3	170.2	185.3
Personal income	750.9	808.3	864.0	944.9	1055.0	1150.5	1237.7
Wage and salary disbursements	509.7	542.0	573.0	626.8	691.7	751.2	786.8
Disposable income	634.4	691.7	746.4	802.5	903.7	979.7	1074.5
Personal saving	38.2	56.2	60.5	52.6	74.4	77.0	105.4
Saving rate (per cent)	6.0	8.1	8.1	6.6	8.2	7.9	9.8
Corporate profits & inventory val. adj.	79.8	69.2	78.7	92.2	105.1	106.2	98.2
Corporate profits before tax	84.9	74.0	83.6	99.2	122.7	141.4	106.9
Federal government receipts and expenditures, (N.I.A. basis)							
Receipts	197.3	192.0	198.5	227.2	258.5	291.3	272.3
Expenditures	189.2	203.9	220.3	244.7	264.2	299.1	355.9
Surplus or deficit (-)	8.1	-11.9	-21.9	-17.5	-5.6	- 7.8	-83.6
High employment surplus or deficit (-)	8.8	3.7	-4.7	-6.7	- .7	19.0	-12.6
State and local government surplus or deficit (-), (N.I.A. basis)	.7	1.8	3.4	12.3	9.2	1.8	- 2.4
Total labor force (millions)	84.2	85.9	86.9	89.0	91.0	93.2	94.4
Armed forces "	3.5	3.2	2.8	2.4	2.3	2.2	2.3
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	9.0
Nonfarm payroll employment (millions)	70.4	70.9	71.2	73.7	76.8	78.3	76.5
Manufacturing	20.2	19.3	18.6	19.1	20.1	20.0	18.0
Industrial production (1967 = 100)	110.7	106.7	106.8	115.2	125.6	124.8	112.6
Capacity utilization, mfg. (per cent)	86.5	78.3	75.0	78.6	83.0	78.9	68.4
Major materials (per cent)	90.0	86.2	85.3	89.6	93.0	87.1	71.8
Housing starts, private (millions, A.R.)	1.47	1.43	2.05	2.36	2.05	1.34	1.36
Sales new autos (millions, A.R.)	9.57	8.40	10.24	10.93	11.44	8.87	8.34
Domestic models	8.46	7.12	8.68	9.32	9.67	7.45	6.79
Foreign models	1.11	1.28	1.56	1.61	1.77	1.42	1.55
^{1/} Net exports of g. & s. (Bal. of Paymts.)	1.3	2.9	- .2	-6.0	4.4 ^{2/}	3.2 ^{2/}	.9 ^{2/}
Exports	55.0	62.3	65.4	72.4	101.0 ^{2/}	142.6 ^{2/}	142.1 ^{2/}
Imports	53.6	59.4	65.6	78.4	96.6	139.5 ^{2/}	141.2

^{2/} 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.

April 9, 1975

CONFIDENTIAL - FR

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1969	1970	1971	1972	1973	1974	Prof. 1975
-----Billions of Dollars-----							
Gross National Product	66.1	46.8	77.8	103.1	136.9	102.5	65.9
Inventory change	.7	-3.3	1.8	2.2	6.9	-1.1	-24.5
Final purchases	65.4	50.1	76.0	100.9	130.1	103.6	90.4
Private	55.0	40.6	61.3	79.4	109.4	70.8	58.3
Net exports	-.6	1.7	-3.8	-5.8	9.9	-1.8	-2.7
Excluding net exports	55.6	38.9	65.1	85.2	99.5	72.6	61.0
Personal consumption expenditures	43.3	38.1	49.6	61.9	76.2	71.5	66.0
Durable goods	6.8	.5	12.6	14.5	11.9	-2.8	.5
Nondurable goods	15.1	17.9	14.6	21.3	38.3	42.2	31.2
Services	21.4	19.9	22.2	26.1	26.0	32.1	34.3
Residential fixed investment	2.5	-1.4	11.6	11.2	3.2	-11.2	-3.5
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	32.1
Federal	.0	-2.6	1.4	7.3	1.7	10.3	12.7
State and local	10.4	12.1	13.3	14.2	19.0	22.5	19.4
GNP in constant (1958) dollars	19.0	-3.1	23.8	46.2	46.7	-18.0	-32.3
Final purchases	18.7	-.4	-22.5	-44.4	43.0	-15.9	-16.4
Private	20.6	6.2	18.5	46.1	45.2	-17.5	-18.3
-----Per Cent per Year ^{1/} -----							
Gross National Product	7.6	5.0	8.0	9.8	11.8	7.9	4.7
Final purchases	7.6	5.4	7.8	9.6	11.3	8.1	6.5
Private	8.4	5.7	8.1	9.7	12.2	7.1	5.4
Personal consumption expenditures	8.1	6.6	8.0	9.3	10.5	8.9	7.5
Durable goods	8.1	.6	13.8	14.0	10.1	-2.1	.4
Nondurable goods	6.5	7.3	5.5	7.7	12.8	12.5	8.2
Services	9.7	8.2	8.5	9.2	8.4	9.5	9.3
Gross private domestic investment	10.3	-1.9	12.8	16.7	16.8	.0	-14.1
Residential structures	8.3	-4.3	37.2	26.2	5.9	-19.6	-7.6
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	10.4
Federal	.0	-2.6	1.5	7.5	1.6	9.7	10.9
Defense	.1	-4.8	-4.6	5.1	-.5	5.8	9.7
Other	-.5	5.9	22.7	13.6	7.0	18.6	13.4
State and local	10.3	10.9	10.8	10.4	12.6	13.3	10.1
GNP in constant (1958) dollars	2.7	-.4	3.3	6.2	5.9	-2.1	-3.9
Final purchases	2.7	-.1	3.1	6.0	5.5	-1.9	-2.0
Private	3.7	1.1	3.9	6.7	6.5	-2.6	-2.8
GNP implicit deflator	4.8	5.5	4.6	3.4	5.6	10.3	8.9
Private GNP fixed weighted index ^{2/}	4.7	4.8	4.3	3.3	6.3	11.4	9.3
Personal income	9.0	7.6	6.9	9.4	11.7	9.1	7.6
Wage and salary disbursements	9.6	6.3	5.8	9.3	10.4	8.6	4.7
Disposable income	7.3	9.0	7.9	7.5	12.6	8.4	9.7
Corporate profits before tax	-3.1	-12.8	13.0	18.7	23.7	15.2	-24.4
Federal Government receipts and expenditures (N.I.A. basis)							
Receipts	12.7	-2.7	3.4	14.5	13.8	12.7	-6.5
Expenditures	4.2	7.8	8.0	11.1	8.0	13.2	19.0
Nonfarm payroll employment	3.7	.7	.4	3.5	4.2	2.0	-2.3
Manufacturing	2.0	-4.1	-4.0	2.8	5.0	-.2	-10.0
Industrial production	4.7	-3.6	.1	7.9	9.0	-.6	-9.8
Housing starts, private	-2.7	-2.3	43.2	14.9	-13.2	-34.6	1.6
Sales new autos	-.6	-12.3	21.9	6.7	4.7	-22.5	-5.9
Domestic models	-1.8	-15.9	21.9	7.4	3.7	-23.0	-8.8
Foreign models	9.0	15.5	21.8	3.3	9.8	-20.1	9.5

1/ Percentage rates are annual rates compounded quarterly.

2/ Using expenditures in 1967 as weights.

Domestic Financial Developments

Summary. Since the mid-March FOMC meeting, many market participants have come to the view that interest rates are at or near their cyclical lows. This belief was strengthened when the Federal funds rate stabilized in the face of accelerated growth in the monetary aggregates. At the same time, the President's acceptance of the tax bill increased the likelihood of expanding economic activity this summer and confirmed the large size of near-term Treasury financing needs.

The strengthened expectations of higher interest rates occurred while bond markets were already laboring under the burden of record corporate offerings, a continuing flow of new Treasury coupon issues, and rising concerns that a few State and local Governments might not be able to service their debt. As a result, long-term yields--already rising at the time of the last meeting--have moved substantially higher. Corporate bond yields, for example, have advanced more than 50 basis points over the intermeeting period; as a result, more than half the earlier declines from the 1974 highs have now been erased. In this environment, \$1.2 billion of scheduled corporate offerings were postponed during late March and early April, and maturities of many other offerings were shortened to satisfy investor preferences.

The rise in bond yields has begun to influence the mortgage market. Mortgages have become less attractive to diversified lenders, and thrift institutions have stepped up their purchases of GNMA-guaranteed mortgage-backed securities whose yields have followed bond

rates upward. Yields in the secondary market for mortgages have also edged up since the March meeting, and interest rates at which new conventional mortgages are being committed have shown little further net decline.

With some investors backing away from longer-term instruments, significant amounts of funds were placed temporarily in short-term markets, augmenting the already large market demand for liquid assets from banks, thrift institutions, and the Federal Home Loan Banks. At banks, the combination of strong consumer deposit inflows and weak loan demands encouraged substantial acquisitions of shorter-term Treasury issues and increased financing of dealer security positions. Thrift institutions also acquired a large volume of Treasury securities and negotiable CD's, and continued to pay down advances from the FHLBanks. The Home Loan Banks in turn used their increased liquidity to purchase Treasury securities and to retire maturing debt.

For all of these reasons, short-term yields at first did not rise in parallel with those on longer-term instruments. But by late March and early April, the market adjustment had spread to all but the shortest-term assets; 90-day Treasury bills rose as much as 60 basis points and one year bills increased by as much as 1 percentage point. Most recently, a technical rally has reduced these rates 20 and 10 basis points, respectively, from their highs.

Outlook. Staff projections had already assumed a large increase in credit demands emanating from the Treasury in the second quarter. However, the enactment of the Tax Reduction Act of 1975,

which shifts forward the payment of tax rebates and the timing of reduced withholding taxes on 1975 incomes, adds further to the volume of Treasury securities that will be offered before mid-year.^{1/} Nevertheless, it still seems likely that upward yield pressures emanating from the accelerated Treasury offerings will be offset in large degree by strong demands from financial institutions for such securities. Banks and thrift institutions--facing still weak loan demands and benefiting from a bulge in deposits created by the proceeds of tax rebates--will likely be a main source of demand for Treasury securities. In addition, further temporary shifts in investor preferences from long- to short-term instruments in anticipation of rising interest rates may benefit the Treasury bill market.

It appears to the staff that much of the recent back up in interest rates reflects a market adjustment to the prospective enlargement of Treasury offerings in the second quarter and that this adjustment is now about completed. Barring further exogenous shocks or an upward adjustment in the Federal funds rate--to which the markets are now extremely sensitive--yields might, therefore, retreat somewhat from recent highs. Any such tendency may be limited or nonexistent in long-term markets, however, since the volume of corporate bond offerings is expected to remain quite large. In addition, as the Spring progresses investors may continue quite wary, especially if signs of an imminent turn-around in economic activity strengthen--as projected.

^{1/} The staff now expects \$14 billion of net new issues between early April and the end of June, \$8 billion more than in the last Greenbook. About \$6 billion of this increase reflects the tax bill (\$4 billion simply reflecting shifts from the third to the second quarter), with the balance reflecting higher projected spending levels.

INTERNATIONAL DEVELOPMENTS

Summary. The dollar has risen in the exchanges in recent weeks, primarily reflecting the apparent bottoming out of the decline in short-term U.S. interest rates while short-term rates in most foreign countries continued to decline. Favorable U.S. price and foreign trade figures have also contributed to the dollar's buoyancy. At present the dollar is some 2½ per cent above its recent low (week ended March 5) against a weighted average of major foreign currencies, and about 4 per cent below its March 1973 level. The System has purchased a substantial amount of marks (in the market) and Swiss francs (directly from the BNS) toward repayment of its recent swap drawings.

Some of the firming in the dollar's exchange value after February was probably related to changes in the net foreign position of banks. In February, U.S. banks increased their claims on foreigners by about \$750 million and also reduced their liabilities to foreigners by about \$1½ billion -- a net outflow of about \$2 billion; in March there was an increase of perhaps \$500 million in liabilities to foreigners, and bank lending may not be continuing at the February rate in view of the very large credits already extended to many countries over the previous year. Claims on Japan were reduced by about \$1½ billion between December and the end of February.

Foreigners have been extremely active in U.S. securities markets this year. Sales of new issues of foreign bonds to U.S. investors were over \$1 billion in January, nearly \$400 million in February, and roughly \$1/2 billion in March -- a total nearly equal to that for the full year 1974. At the same time foreign purchases of U.S. corporate stocks rose sharply from \$190 million in January to a record \$534 million in February -- including sizable Middle East purchases. There are reports that foreign interest in U.S. stocks was also strong in March -- though it is doubtful that the February inflow was matched.

New issue activity in the Euro-bond market has also been reviving, with placements in the first quarter reaching about 75 per cent of the 1974 total. Half of the issues were denominated in German marks and only about 20 per cent in dollars, almost reversing the usual pattern. New issue volume has also been heavy in many national markets abroad, and, as in the United States, the drop in long-term interest rates from their 1974 cyclical highs seems to have slowed.

There are some signs that OPEC investors may be active purchasers of these issues, as well as of U.S. securities. One indication is the slowdown in the accumulation of OPEC funds in money-market assets in the United States and in the United Kingdom. In the United States, OPEC funds increased by only \$500 million in February, entirely at the New York FRB, and in March there was a drop of \$1.3 billion at the New York Fed, with no indication of a

major rise in funds held at commercial banks. In London, although there was a very large rise in non-sterling assets in early January, when heavy tax payments were made to OPEC countries, there was only a small increase in OPEC funds in the following month. Of course, there may have been sizable placements in continental banks, and perhaps some shift into non-dollar assets, such as the DM bonds mentioned above. Recently there has been some hardening of Euro-dollar rates that may also indicate a slowdown in OPEC placements as well as a general tendency for interest rates to stabilize.

The U.S. merchandise trade balance for the months of January and February combined registered a surplus of about \$1 billion at an annual rate. This was a better performance than had generally been expected; non-agricultural exports were off only slightly from fourth-quarter rates, agricultural exports were at peak rates, and, on the import side, fairly sizable declines were registered in a number of categories, though imports of fuels stayed high. (January oil imports had been exaggerated by speeded up tabulation of import documents to escape the import tax.)

Outlook. Although the trade balance now estimated for the first quarter is near zero, compared with a deficit rate of about \$6 billion projected earlier, a gradual increase in the deficit through the year is still expected -- in large part because agricultural exports have passed their peak and fuel imports are likely to rise again after mid-year. The January-February trade results do not yet give a sufficient basis for a further revision, and the outcome is still most unclear because of uncertainties about the timing of economic recovery here and abroad.

Other countries have followed the U.S. lead in reducing interest rates, and rates abroad now seem to be stabilizing. Rate relationships may still leave some net incentive for capital outflows from the United States, but not nearly as much as earlier in the year.