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Content last modified 6/05/2009.

CONFIDENTIAL (FR)

May 12, 1976

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	Apr.	5-7-76	94.4	9.2	4.1	2.4
Unemployment rate (per cent)	Apr.	5-7-76	7.5	7.5 1/	7.8 1/	8.6 1/
Insured unemployment rate (%)	Apr.	5-7-76	4.2	4.2 1/	4.5 1/	6.4 1/
Nonfarm employment, payroll (mil.)	Apr.	5-7-76	78.9	5.2	3.6	3.2
Manufacturing	Apr.	5-7-76	19.0	6.6	5.0	4.4
Nonmanufacturing	Apr.	5-7-76	59.9	4.8	3.2	2.8
Private nonfarm:						
Average weekly hours (hours)	Apr.	5-7-76	36.0	36.2 1	36.5 1/	35.9 1/
Hourly earnings ($)	Apr.	5-7-76	4.77	4.77 1/	4.73 1/	4.47 1/
Manufacturing:						
Average weekly hours (hours)	Apr.	5-7-76	39.3	40.2 1/	40.5 1/	39.1 1/
Unit labor cost (1967=100)	Mar.	4-28-76	149.1	5.7	1.9	1.6
Industrial production (1967=100)	Mar.	4-14-76	120.9	7.0	8.4	9.8
Consumer goods	Mar.	4-14-76	132.2	5.5	6.1	11.8
Business equipment	Mar.	4-14-76	121.4	8.0	10.8	3.8
Defense & space equipment	Mar.	4-14-76	78.9	-3.0	-.5	-3.9
Material	Mar.	4-14-76	120.2	14.1	11.6	13.5
Consumer prices (1967=100)	Mar.	4-21-76	167.6	2.2	2.9	6.1
Food	Mar.	4-21-76	177.9	-10.0	-8.1	4.3
Commodities except food	Mar.	4-21-76	153.9	3.1	2.9	5.0
Services	Mar.	4-21-76	177.2	8.2	10.2	8.5
Wholesale prices (1967=100)	Apr.	5-6-76	181.0	10.0	2.4	5.3
Industrial commodities	Apr.	5-6-76	179.5	4.0	2.9	6.2
Farm products & foods & feeds	Apr.	5-6-76	184.9	33.4	2.4	2.9
Personal income ($ billion) 2/	Mar.	4-15-76	1333.5	6.9	10.2	10.7
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Mar.	4-30-76	48.0	6.7	12.1	34.2
Capital goods industries	Mar.	4-30-76	13.7	9.0	17.2	21.7
Nondefense	Mar.	4-30-76	11.0	2.7	8.3	15.6
Defense	Mar.	4-30-76	2.7	45.7	77.2	56.3
Inventories to sales ratio:						
Manufacturing and trade, total	Feb.	5-5-76	1.47	1.49 1/	1.53 1/	1.66 1/
Manufacturing	Mar.	4-30-76	1.60	1.62 1/	1.67 1/	1.95 1/
Trade	Feb.	5-5-76	1.32	1.33 1/	1.37 1/	1.41 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	Mar.	4-30-76	.842	.843 1/	.829 1/	.803 1/
Retail sales, total ($ bil.)	Apr.	5-10-76	53.3	.0	3.3	13.8
GAF	Apr.	5-10-76	13.1	-2.5	3.6	9.3
Auto sales, total (mil. units) 2/	Apr.	5-5-76	10.5	1.1	9.6	43.4
Domestic models	Apr.	5-5-76	9.0	.8	7.8	57.9
Foreign models	Apr.	5-5-76	1.5	3.1	22.7	-8.4
Plant & Equipment Expen. ($ bil.)						
All Industries	1975 1/	5-7-76	112.79	—	—	.3
	1976 3/	5-7-76	127.34	—	—	12.9
Manufacturing	1975 1/	5-7-76	47.95	—	—	4.2
	1976 3/	5-7-76	54.62	—	—	13.9
Nonmanufacturing	1975 1/	5-7-76	64.84	—	—	-2.4
	1976 3/	5-7-76	72.72	—	—	12.2
Housing starts, private (thous.) 2/	Mar.	4-16-76	1,444	-7.6	12.5	46.5
Leading indicators (1967=100)	Mar.	4-28-76	105.1	-.4	1.4	14.4

1/ Actual data. 2/ At Annual rate. 3/ Planned-McGraw-Hill April Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Most indicators of economic activity confirm a continued vigorous expansion of aggregate demand and activity. Employment rose sharply again in April, industrial production advanced further, and actual and planned capital spending by business have taken a pronounced turn upward, reflecting increased business confidence. Consumer price increases have continued to be quite moderate because of declines in food and fuel. However, these declines have now come to an end, suggesting a return to a somewhat higher rate of retail price increases in coming months.

Industrial production for April is estimated to have increased by three quarters per cent, about equal to the upward-revised March rise. Increases in April appear to have been widespread, with a relatively large rise in durable consumer goods; auto assemblies rose more than 3-1/2 per cent in April. Production of nondurable consumer goods, which had paced the recovery in production earlier, advanced by only a small amount last month. Business equipment production appears to have registered another increase. Steel output rose sharply in April and some strength was evident in other metals, while production of nondurable materials such as textiles, paper and chemicals increased only moderately. Over the past year, industrial production has advanced about 11-1/2 per cent, but the index still remains about 4 per cent below the high reached in the fall of 1973.

SELECTED UNEMPLOYMENT RATES

(Seasonally adjusted)

	1974	1975		1976		
	Apr.	Apr.	May	Feb.	Mar.	Apr.
Total	5.0	8.6	8.9	7.6	7.5	7.5
Men, 20 years and older	3.4	6.8	7.2	5.7	5.6	5.4
Women, 20 years and older	4.9	8.5	8.4	7.5	7.3	7.3
Teenagers	14.1	19.7	20.3	19.2	19.1	19.2
Household Heads	3.0	5.8	6.1	4.9	5.0	4.8
Full-Time Workers	4.5	8.3	8.5	7.1	7.0	7.0
White	4.4	7.9	8.3	6.8	6.8	6.7
Negro and other races	8.7	14.1	14.2	13.7	12.5	13.0
Total, using additive seasonal factors		8.6	8.7	7.9	7.7	7.4

NONFARM PAYROLL EMPLOYMENT
(In thousands, seasonally adjusted)

	Change From:			
	Sept. 74 to June 75	June 75 to Apr. 76	Feb. 76 to Mar. 76	Mar. 76 to Apr. 76
Nonfarm Total	-2,487	2,545	177	343
State and Local Government	400	397	27	65
Services and Finance	82	693	61	79
Nondurable Manufacturing	- 588	387	9	34
Trade	- 266	552	45	58
Durable Manufacturing	-1,416	469	80	70
Construction	- 510	-7	-20	30

NOTE: September 1974 was the specific peak and June 1975 was the specific low for total nonfarm payroll employment.

Major materials capacity utilization is estimated to have increased 0.3 per cent in April to nearly 82 per cent. The increase reflects mainly an upturn in primary metals production. The utilization rate for nondurable materials remained relatively stable, after recovering sharply earlier this year.

The labor market continued to show considerable strength in April. Both the civilian labor force and total employment rose by about 700,000 in April, with most of the job gain among adult men. Nonfarm payroll employment (establishment survey) rose by 340,000 and is now 2-1/2 million above its June 1975 low point. Manufacturing employment in April rose by 100,000, primarily in durable goods. The average workweek fell in manufacturing, but the decline was largely in overtime hours--the result of holidays during the survey week. The unemployment rate was unchanged at 7.5 per cent, but rates declined for married men and household heads.

The rise in production and employment in recent months has been in large part generated by vigorous growth in spending for consumer goods--particularly autos--and a renewal of inventory accumulation. Retail sales were about unchanged in April following a downward revised March gain of 1.3 per cent. April sales fell in most non-auto categories, with substantial declines in each of the GAF categories and in food purchases. However, beginning with the surge last December retail sales have risen at a 14.3 per cent annual rate over the past five months, substantially more than prices, and well above the long run average

RETAIL SALES
(Seasonally adjusted, percentage change from previous period)

	1975		1976	1976				Nov. 1975-April 1976[1/]
	III	IV	I	Jan.	Feb.	Mar.	Apr.	
Total sales	3.9	2.2	3.3	-.8	2.0	1.3	.0	14.3
(Real)[2/]	(1.5)	(1.0)	(3.0)	(-.9)	(2.2)	(1.4)	(n.a.)	(13.0)[3/]
Total, less auto and nonconsumption items	3.1	1.6	2.0	-.6	.8	2.2	-1.1	6.8
GAF	2.3	2.8	1.5	-4.4	3.9	2.3	-2.5	2.8
Durable	5.8	4.4	6.3	-.9	4.0	-.4	2.2	29.6
Auto	7.4	4.9	8.4	-3.2	7.7	-2.6	4.8	49.2
Furniture and appliances	2.3	5.1	1.2	-2.7	2.6	3.2	-2.5	-.1
Nondurable	3.0	1.2	1.9	-.7	1.0	2.2	-1.1	7.3
Apparel	3.0	.7	2.7	-1.8	2.5	.1	-7.5	-8.3
Food	2.8	1.0	2.2	1.4	-.1	1.9	-2.4	3.1
General merchandise	2.0	2.7	1.2	-5.6	4.7	2.6	-1.1	6.6
Gasoline stations	6.6	-1.2	2.6	.2	-.2	-.3	.8	12.4

1/ Annual rate.
2/ Deflated by consumer price index for all commodities.
3/ Staff estimate.

AUTO SALES
(Millions of units; seasonally adjusted annual rates)

	1975		1976	1976			
	III	IV	I	Jan.	Feb.	Mar.	Apr.
Total auto sales	9.2	9.2	10.1	9.6	10.2	10.4	10.5
Imports	1.7	1.3	1.3	1.2	1.4	1.4	1.5
Domestic	7.5	7.9	8.7	8.4	8.7	8.9	9.0
Large*	4.3	4.4	5.1	4.9	5.1	5.4	n.a.
Small	3.2	3.6	3.5	3.5	3.6	3.5	n.a.

*Over 112 inch wheelbase; Includes intermediates and larger models.

Personal Income & Saving
(Per cent change from previous quarter; seasonally adjusted at compound annual rate)

	1974-IV 1975-IV	1975 I	1975 II	1975 III	1975 IV	1976 I
Current dollars						
Personal Income	8.7	3.0	6.9	13.0	10.8	9.6
Wage & Salary Disbursements	7.8	-1.3	3.4	10.4	12.1	10.2
Disposable Personal Income	8.1	3.2	24.5	2.0	10.3	9.7
Constant dollars[1/]						
Personal Income	-2.5	-2.9	2.5	5.0	5.1	5.5
Wage & Salary Disbursements	-3.3	-7.0	-.8	2.6	6.3	6.2
Disposable Personal Income	-3.1	-2.8	19.7	-5.2	4.3	5.8
Addendum:						
Personal Saving Rate (per cent)	7.5[2/]	7.2	9.9	7.9	7.9	7.6

1/ Deflated by personal consumption expenditures deflator.

2/ Annual average.

average growth rate. Higher sales of the automotive group have dominated this expansion; excluding auto and nonconsumer items retail sales have increased at a 6.8 per cent annual rate since November.

Sales of domestic-type autos averaged 9.0 million units (annual rate) in April, a small increase from March and up moderately from the 8.7 million unit rate in the first quarter. The April increase continues an upswing which began in the fall, with sales now having regained the levels of late 1973. Sales of imported cars rose slightly in April to 1.5 million units (annual rate). While sales in this sector have improved somewhat following inventory shortages associated with the late model changeover, the foreign car market share, at 14 per cent, remains far below the 18 per cent average in 1975.

Sales of larger domestic models in March were again stronger than sales of small domestic models. At a rate of 5.4 million units in March, sales of larger cars were up 50 per cent from a year ago. These gains have been principally in intermediate-size cars--where the market share rose to 32 per cent (not seasonally adjusted) in the first quarter of 1976, 6 percentage points above a year earlier.

The strength in consumer spending has been buoyed by sustained increases in real personal income and by the recent sharp rise in wealth. Real disposable personal income has grown at about a 5 per cent annual rate in the past two quarters, after falling throughout 1974 and early 1975. These gains, together with the marked improvement in consumer attitudes, have generated higher purchases of durables, increased consumer borrowing and reduced saving rates.

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

	1975			1976	1976		
	II	III	IV	I	Jan.	Feb.	Mar.
Manufacturing & trade	-18.8	5.4	-1.3	n.a.	18.2	20.3	n.a.
Manufacturing	-12.5	-6.6	.6	6.1	5.5	3.6	9.1
Durable	-4.3	-8.6	-3.5	1.1	-1.1	0.4	4.1
Nondurable	-8.2	2.0	4.2	4.9	6.6	3.2	5.0
Trade, total	-6.3	11.9	-1.9	n.a.	12.7	16.8	n.a.
Wholesale	-2.7	3.1	-2.0	5.0	6.4	7.9	0.6
Retail	-3.6	8.8	.1	n.a.	6.3	8.8	n.a.
Auto	-1.7	5.5	.3	n.a.	-1.8	-1.2	n.a.

INVENTORY RATIOS

	1974	1975	1976	1976		
	I	I	I	Jan.	Feb.	Mar.
Inventory to sales:						
Manufacturing & trade	1.49	1.66	n.a.	1.49	1.47	n.a.
Manufacturing total	1.63	1.92	1.63	1.65	1.62	1.60
Durable	2.05	2.50	2.09	2.15	2.09	2.02
Nondurable	1.18	1.32	1.15	1.15	1.14	1.15
Trade, total	1.35	1.42	n.a.	1.33	1.32	n.a.
Wholesale	1.12	1.25	1.21	1.20	1.19	1.18
Retail	1.55	1.53	n.a.	1.43	1.42	n.a.
Inventories to unfilled orders						
Durable manufacturing	.699	.803	.842	.838	.842	.842

NEW ORDERS RECEIVED BY MANUFACTURERS
(Seasonally adjusted; average monthly percentage change from preceding period)

	1975		1976	1976 - QI			March 1975 to March 1976 2/
	QIII	QIV	QI	Jan.	Feb.	Mar.	
Total Durable Goods							
Current Dollars	2.5	.3	2.4	1.0	4.0	6.7	34.2
1967 Dollars 1/	2.2	-.5	1.9	.4	3.7	6.1	26.8
Nondefense Capital Goods							
Current Dollars	.6	.2	.6	1.9	3.5	2.7	15.6
1967 Dollars 1/	.2	-.4	.1	1.1	3.2	2.3	9.2

1/ FR deflation by appropriate wholesale price index.
2/ Per cent change, not at a monthly rate.

CONSTRUCTION CONTRACTS FOR COMMERCIAL AND INDUSTRIAL BUILDINGS
(Seasonally adjusted percentage change from preceding period)

	1975		1976	1976 - QI			March 1975 to March 1976
	QIII	QIV	QI	Jan.	Feb.	Mar.	
Total 1/	- 4.1	.6	- 8.6	-24.1	7.5	31.4 1/	37.0
Commercial	- 1.2	-3.2	3.6	- 4.9	4.3	9.3	39.0
Industrial	-13.5	18.8	-15.5	-31.1	26.0	-4.2	-9.8

1/ Components are seasonally adjusted by FR and may not add to total which is seasonally adjusted by Census.

The book value of manufacturers' inventories rose at a $9.1 billion annual rate in March (p)--the largest monthly increase since the involuntary increases of January 1975. For the first quarter as a whole, the gain in manufacturing inventories was at a $6.1 billion annual rate--up sharply from the $0.6 billion rate of increase in the fourth quarter. Durable goods producers have begun to rebuild stocks following nearly a year of liquidation, while nondurable goods producers continued to add to stocks during the first quarter at about the same pace as last fall. Inventories of both finished goods and materials and supplies rose significantly during March and the first quarter. The ratio of inventories to sales for durable manufacturing moved down to 2.02 in March, substantially below the very elevated levels of a year ago. In wholesale trade, inventories were about unchanged in March, but for the first quarter as a whole, these stocks rose at a $5.0 billion rate--up sharply from the $2.0 billion rate of decline in the preceding quarter. New orders for durable goods rose 6.7 per cent in March with gains reported by all major industries. Substantial further gains in production thus seem likely during the months ahead.

Business fixed investment has been slower than usual to respond to the rise in aggregate activity, but incoming data now indicate that the recovery in this sector is gathering momentum. The McGraw-Hill spring survey of anticipated plant and equipment expenditures--conducted in March and early April--reports that business expects to increase capital spending by 13 per cent in 1976. This represents a substantial upward

Survey Results of Anticipated Plant and Equipment Expenditures
1976
(Percent increase from 1975)

	McGraw-Hill		Edie[1]		Commerce[2]	
	Oct. 1975	April 1976	Fall 1975	April 1976	Dec. 1975	Feb. 1976
All Business	8.8	12.9	2.9	7.3	5.5	6.5
Manufacturing	8.4	13.9	1.3	8.1	5.0	8.1
Durable	1.0	8.1	-2.8	6.2	0.8	5.0
Nondurable	14.7	18.8	4.7	9.7	8.4	10.8
Nonmanufacturing	9.0	12.2	4.2	6.7	5.8	5.2
Mining	20.6	23.2	5.8	-3.7	-4.1	2.3
Railroads	-2.0	-9.8	-6.2	-5.9	-9.9	-18.4
Other Transportation	-1.1	5.6	-34.5	-15.3	-13.9	-17.3
Electric Utilities	13.0	18.0	15.6	15.6	17.7	15.7
Gas and Other Utilities	32.1	42.0	23.1	13.1	20.1	13.7
Communications	7.0	9.0	6.3	9.9	13.1	6.5
Commercial and Other	5.0	7.0	0.1	5.1	0.8	3.4

[1] Confidential

[2] The Commerce Department adjusts their survey results for systematic bias. Without bias adjustment the December survey showed a 7.3 per cent increase and the February survey showed a 9.0 per cent increase.

revision from the 9 per cent increase reported last fall, and is also significantly stronger than the latest BEA survey conducted in February. Upward revisions were particularly large in the cyclically-volatile manufacturing sector. Nonmanufacturing industries are now projecting an increase in capital spending of 12 per cent versus the earlier-announced 9 per cent rise. Lionel D. Edie has also completed a spring capital spending survey (results confidential) and their respondents report capital outlay increases of 7.3 per cent for 1976, up from 2.9 per cent announced last fall. Although coverage differences make exact comparisons between surveys difficult, these latest surveys are consistent in reporting upward revised investment plans in recent months.

Recent changes in orders and construction contracts tend to confirm the survey indications. New orders for nondefense capital goods rose 2.7 per cent in March, and have now increased for three consecutive months--the first such set of increases since the autumn of 1971. In real terms, March bookings for nondefense capital goods were 9.2 per cent above their low of March 1975, but they are still 28.4 per cent below the peak of April 1974. Construction contracts for commercial and industrial buildings (measured in square feet of floor space) rose sharply in March, but due to an earlier decline, total for the first quarter was the lowest since late 1963.

The recovery in total private housing starts continued during the first quarter of 1976, although starts in March declined 8 per cent from the sharply-increased February figure. The housing starts rate increased 4 per cent in the first quarter and has risen about two-fifths from its cyclical low a year earlier. The first quarter increase was concentrated in the single-family sector which averaged 1.1 million units--the highest rate in 2-1/2 years. Multifamily starts, in contrast, remain quite low.

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

	1975			1976			Per cent change in Mar. from:	
	QII	QIII	QIV	QI	Feb.(r)	Mar.(p)	Month ago	Year ago
Permits	.90	1.04	1.06	1.14	1.13	1.16	+2	+71
Starts	1.05	1.26	1.37	1.41	1.56	1.44	-8	+46
1-family	.83	.95	1.03	1.13	1.30	1.14	-12	+49
2- or more-family	.22	.31	.33	.28	.27	.31	+17	+39
Under construction 1/	1.05	1.04	1.04	n.a.	1.06	n.a.	+2 2/	-8 2/
1-family	.52	.53	.56	n.a.	.59	n.a.	+4 2/	+12 2/
2-or more-family	.53	.51	.48	n.a.	.47	n.a.	-1 2/	-25 2/
Completions	1.24	1.28	1.27	n.a.	1.27	n.a.	+5 2/	-6 2/
1-family	.81	.91	.90	n.a.	.93	n.a.	+1 2/	+18 2/
2-or more-family	.43	.37	.37	n.a.	.34	n.a.	+17 2/	-40 2/
MEMO:								
Mobile home shipments	.21	.23	.23	.26	.29	.24	-17	+20

1/ Seasonally adjusted, end of period.
2/ Per cent changes based on February.
NOTE--indicates change of less than 1 per cent.

HOME SALES

	New Homes Sales and Stocks			Sales Indexes of Unit Volume (1972=100, seasonally adjusted)		Median Prices of Homes Sold (thou. of dollars)	
	Homes Sold 1/ (thousands of units)	Homes for sale 2/ (thousands of units)	Months' supply	New homes 3/	Existing homes	New homes	Existing homes
1975							
QI	438	395	10.8	61	93	38.1	33.8
QII	554	379	8.2	77	105	39.0	35.4
QIII	564	384	8.2	79	111	38.8	36.1
QIV (r)	637	378	7.1	89	126	41.2	35.6
1976							
QI	601	391	7.8	84	121	42.8	36.6
Oct.	610	389	7.7	85	122	40.7	35.4
Nov.	660	381	6.9	92	126	41.1	35.7
Dec. (r)	641	378	7.1	89	131	42.1	35.8
1976							
Jan. (r)	570	380	8.0	79	116	41.5	36.3
Feb. (r)	677	386	6.8	94	122	42.8	36.2
Mar. (p)	555	391	8.5	77	124	43.7	37.2

1/ Seasonally adjusted annual rate.
2/ Seasonally adjusted, end of period.
3/ Converted to 1972 index for comparison with existing home sales, which are not available on any other basis.

Federal Sector Accounts
(billions of dollars)

	Fiscal Year 1975*	Fiscal Year 1976 e/ Admin. est. 1/	Fiscal Year 1976 e/ F.R. Board	Fiscal Year 1977 e/ Admin. est.	Fiscal Year 1977 e/ Cong. est. 5/	Fiscal Year 1977 e/ F.R. Board	CY 1976 e/ F.R. Board	F.R.B. Estimate: Calendar Quarters; Unadjusted data 1975 IV	1976 I	1976 II	1976 III 6/	1976 IV
Unified budget receipts	281.0	297.5	301.6	351.3	362.5	357.0	319.3	67.2	66.9	95.2	82.4	74.8
Unified budget outlays	324.6	374.4	372.1	395.8	413.3	412.0	388.9	93.7	89.6	97.9	100.4	101.0
Surplus/deficit (-), Unified budget	-43.6	-76.9	-70.5	-44.5	-50.8	-55.0	-69.6	-26.6	-22.7	-2.7	-17.9	-26.2
Surplus/deficit (-), off-budget agencies 2/	-9.5	-9.3	-9.8	-11.1	n.a.	-11.1	-13.5	-2.6	-3.8	-2.5	-4.5	-2.7
Means of financing combined deficits:												
Net borrowing from public	50.9	88.3	84.0	55.1	n.a.	65.6	82.7	25.9	24.1	10.5	19.4	28.7
Decrease in cash operating balance	1.6	-1.4	-5.0	0.0	n.a.	0.0	-.9	2.1	.4	-4.6	3.1	.1
Other 3/	.7	-.7	1.3	.5	n.a.	.5	1.3	1.2	2.0	-.7	-.1	.1
Cash operating balance, end of period	7.6	9.0	12.6	9.0	n.a.	9.5	9.4	8.5	8.0	12.6	9.5	9.4
Memo: Sponsored agency borrowing 4/	11.0	5.1	3.3	10.8	n.a.	n.e.	2.5	1.8	.3	.4	.9	.9
NIA Budget								Seasonally adjusted, annual rates				
Receipts	281.5	307.4	307.1 7/	364.7	n.a.	n.e.	328.7	302.4	311.1	323.6	334.9	345.3
Outlays	328.7	378.7	376.8	404.5	n.a.	n.e.	393.2	374.1	380.2	388.9	397.9	405.8
Surplus/deficit (-)	-47.2	-71.3	-69.7	-39.8	n.a.	n.e.	-64.5	-71.7	-69.1	-65.3	-63.0	-60.5
High Employment surplus/deficit (-) (NIA basis) 8/ 9/	5.6	n.a.	-8.6	n.a.	n.a.	-.9	-7.0	-7.8	-10.4	-8.8	-5.7	-3.0

*Actual e--estimated n.e.--not estimated n.a.--not available p--preliminary

1/ Spring update of FY 1977 Budget, 3/25/76; recent statements by OMB official indicate that outlays may be $2-$3 billion below the March estimate.
2/ Includes Federal Financing Bank, Postal Service, Export - Import Bank, Rural Electrification and Telephone revolving fund, Housing for the Elderly or Handicapped Fund and Pension Benefit Guaranty Corporation.
3/ Checks issued less checks paid, accrued items and other transactions.
4/ Includes Federal Home Loan Banks, Federal National Mortgage Association, Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives.
5/ Conference report on the First Concurrent Resolution, Fiscal Year 1977 Budget, May 6, 1976.
6/ Effective in CY 1976, the fiscal year for the U.S. Government changes from July 1 - June 30 to October 1 - September 30, hence 76 QIII represents a transition quarter.
7/ Quarterly average exceeds fiscal year total by $.5 billion for FY 1976 due to spreading of wage base effect over calendar year.
8/ Estimated by F.R.B. staff.
9/ The high employment budget estimates now fully incorporate taxes on inventory profits beginning 1973.

While investor caution concerning the profitability of multifamily housing is likely to continue to dampen the overall recovery in residential construction, a number of other factors suggest further gains in housing starts over the near term: Outstanding mortgage commitments at S&L's rose in March to a three-year high, reflecting continued substantial savings inflows; purchases of both new-and-existing single-family homes, while receding somewhat in the first quarter, remained at fairly high levels; and the rental vacancy rate has declined to about 5-1/2 per cent--the lowest rate since 1973.

The outlook for the Federal spending in the current fiscal year is essentially unchanged from last month's estimate. Outlays and receipts are projected at $372 billion and $302 billion respectively. A recent development of note has been a slight decline in defense spending in the first quarter. This, together with other spending shortfalls, has led the Administration to revise downward its outlay estimate to around $372 billion.

For fiscal 1977, the staff projects budget outlays of $412 billion. This estimate is $2 billion higher than that shown in the last Greenbook, mainly reflecting the outlay impact of higher interest rates currently projected by the staff. Federal revenues for the next fiscal year are now expected to total $357 billion, an upward revision of $5 billion, which reflects higher assumed levels of personal income and corporate profits. The FY 1977 deficit accordingly is estimated at $55 billion.

On a full employment basis, our estimates indicate that the Treasury's fiscal position will shift toward restraint in the coming fiscal year, moving from a deficit of $9 billion in fiscal 1976 to a slight deficit of $1 billion in fiscal 1977.

Growth in State and local purchases slowed distinctly in the first quarter. Preliminary NIA estimates show purchases increasing at a 4.5 per cent annual rate in current dollars and by only 0.5 per cent in real terms. This is the smallest quarterly increase in nominal purchases in fourteen years. The weakness in the first quarter was due to a $1.7 billion drop in outlays for structures and an unusually small gain in State and local government employment. However, new data suggest a resumption of more normal growth in both these areas. Value of construction put-in-place, as measured by the revised data series, increased sharply in March and State and local employment gains picked up beginning with February.

Recent information on wages, costs and prices has continued to be generally favorable. In April, the average hourly earnings index for private nonfarm production workers increased at an annual rate of 3.7 per cent--about the same as in the previous month.

Wage adjustments in major collective bargaining agreements (1,000 or more workers) had moderated in the first quarter. First-year wage increases averaged 8.8 per cent compared with 10.2 per cent in 1975. First quarter agreements, however, related to only 84 contract settlements (270,000 workers) and these include a sizable proportion of construction

PRODUCTIVITY AND COSTS
(Per cent change at a compound annual rate, seasonally adjusted)

	QI 75 to QI 76p	1975 QII to QIII	1975 QIII to QIV	QIV 75 to QI 76p
Output per hour				
Total private	5.2	9.9	.6	4.6
Private nonfarm	4.9	9.4	- .6	3.3
Manufacturing	4.9	10.0	5.4	1.4
Compensation per hour				
Total private	7.3	6.7	7.8	8.5
Private nonfarm	7.4	8.7	6.5	7.8
Manufacturing	7.3	6.5	6.1	8.8
Unit labor costs				
Total private	2.0	-2.9	7.1	3.7
Private nonfarm	2.4	- .7	7.2	4.3
Manufacturing	2.3	-3.2	.7	7.3

p = preliminary

AVERAGE HOURLY EARNINGS INDEX*
(Per cent change from preceding period, seasonally adjusted, compounded annual rate)

	1975 QII	1975 QIII	1975 QIV	1976 QI	1976 April**	April 1975- April 1976
Private Nonfarm	7.5	8.6	8.3	6.4	3.7	7.4
Construction	8.1	6.6	4.4	5.0	-6.1	5.2
Manufacturing	8.9	8.6	8.3	6.8	7.0	7.8
Transportaion & P.V.	8.8	13.2	11.3	8.1	8.3	10.5
Trade	6.1	8.7	6.4	4.6	2.5	6.2
Services	4.8	7.3	10.6	8.6	1.5	7.7

* Excludes the effects of interindustry shifts in employment and fluctuations in manufacturing overtime pay.

** Monthly change at an annual rate, not compounded.

and apparel workers--in both industries high unemployment and nonunion competition constrained wage increases. In the second quarter, 451 major agreements covering 1.6 million workers will be up for negotiation. The new Teamster settlement, which provides for a 9 per cent first-year wage increase, will be reflected in the second quarter data. Additional key negotiations are in the rubber, electrical equipment, and construction industries. A strike is currently in progress in rubber where the union and management remain far apart on the economic package.

Productivity in the private nonfarm sector rose at a 3.3 per cent annual rate in the first quarter of 1976, following the slight decline of the fourth quarter. With compensation per hour up at a 7.8 per cent annual rate in the first quarter, the rise of unit labor costs slowed to a 4.3 per cent annual rate--compared to 7.2 per cent in the fourth quarter of 1975.

After five months of little change, wholesale prices rose 0.8 per cent in April, as prices for farm and food products reversed their recent trend and rose steeply. Industrial commodity prices increased just 0.3 per cent. Higher prices were recorded for metals and metal products, paper and paper products, and machinery and equipment, but declines for fuels and power, and lumber and wood products, helped to brake the overall increase.

The consumer price index rose 0.2 per cent (seasonally adjusted) in March as reduced meat and gasoline prices continued to largely offset increases for other groups. Excluding food and energy, the index rose 0.5 per cent in March, below the average rate in the first quarter, but about in line with the average increase in the second half of 1975. Price increases in March for most nonfood commodities were moderate--except for another sharp rise in used cars. Service costs continued to rise rapidly.

The temporary factors which helped to retard inflation in consumer markets during recent months appear to have ended. Livestock prices have been rising since March, and recent gasoline price hikes should soon be reflected in the CPI. Moreover, service prices are still going up rapidly. Costs of medical care, with a 6 per cent weight in the CPI, have been rising quite rapidly and are likely to continue to do so in coming months, as are gas and electricity rates. In addition, there may be some further adjustments in such regulated prices as public transport and auto insurance, which had lagged markedly in recent years.

CONSUMER PRICES

(Per cent changes at annual rates; based on seasonally adjusted data)1/

	Relative importance Dec. 75	Dec. 74 to Dec. 75	Dec. 75 to Mar. 76	Feb. 76 to Mar. 76
All items	100.0	7.0	2.9	2.2
Food	24.7	6.5	-7.9	-10.0
Commodities (nonfood)	38.7	6.2	2.9	3.1
Services	36.6	8.1	10.6	8.2
Memo:				
All items less food and energy 2/3/	68.1	6.7	7.7	5.9
Petroleum products 2/	4.5	10.1	-15.7	-16.2
Gas and electricity	2.7	14.2	6.4	12.6

1/ Not compounded for one-month changes.
2/ Estimated series.
3/ Energy items excluded: gasoline and motor oil, fuel oil and coal, and gas and electricity.

WHOLESALE PRICES

(Per cent changes at annual rates; based on seasonally adjusted data)1/

	Relative importance Dec. 75	Dec. 73 to Dec. 74	Dec. 74 to June 75	June 75 to Oct. 75	Oct. 75 to Mar. 76	Mar. 76 to Apr. 76
All commodities	100.0	20.9	0.5	11.7	0.0	10.0
Farm and food products	22.8	11.0	-5.6	16.9	-14.1	33.4
Industrial commodities	77.2	25.6	3.0	9.9	5.3	4.0
Excluding fuels and related products and power	66.8	22.5	2.6	6.6	7.2	4.2
Materials, crude and intermediate2/	48.1	28.0	2.0	8.4	6.2	5.1
Finished goods						
Consumer nonfoods	18.7	20.5	3.8	11.3	3.2	-0.8
Producer goods	11.9	22.6	8.7	8.6	6.5	4.2
Memo:						
Consumer foods	11.1	13.0	5.0	10.6	-13.8	46.2

1/ Not compounded for one-month changes.
2/ Estimated series.

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator		Latest data Period	Level	Net change from Month ago	Three months ago	Year ago
Monetary and credit aggregates				SAAR (per cent)		
Total reserves		April	34.0	1.2	-2.4	-1.3
Nonborrowed reserves		April	34.0	1.6	-2.0	-1.1
Money supply						
M1		April	302.3	15.7	9.5	6.1
M2		April	690.0	14.6	12.6	10.1
M3		April	1139.1	14.5	13.3	12.5
Time and savings deposits (Less CDs)		April	387.7	14.1	15.0	13.4
CDs (dollar change in billions)		April	71.3	-1.8	-7.9	-17.1
Savings flows (S&Ls + MSBs & Credit Unions)		April	449.1	14.1	14.4	16.3
Bank credit (end of month)		April	737.7	4.9	7.1	4.8
Market yields and stock prices				Percentage or index points		
Federal funds	wk. endg.	5/5/76	5.03	.30	.48	-.39
Treasury bill (90 day)	"	5/5/76	4.88	-.06	.06	-.53
Commercial paper (90-119 day)	"	5/5/76	5.13	-.07	.13	-.85
New utility issue Aaa	"	5/7/76	8.66	--	-.02	-.61
Municipal bonds (Bond Buyer)	1 day	5/6/76	6.71	.06	-.15	-.15
FNMA auction yield	(FHA/VA)	5/13/76	8.94	--	-.13	-.35
Dividends/price ratio (Common stocks)	wk. endg.	5/7/76	3.77	.13	.14	-.36
NYSE index (12/31/65=50)	end of day	5/10/76	54.90	1.49	1.34	6.92

Credit demands		Net change or gross offerings: Current month 1976	Current month 1975	Year to date 1976	Year to date 1975
Business loans at commercial banks	April	-1.0	-.5	-3.4	-2.1
Consumer instalment credit outstanding	March	1.5	-.5	4.0	-0.8
Mortgage debt outst. (major holders)	February	4.3	2.7	7.7	5.4
Corporate bonds (public offerings)	April	2.4e	2.8	9.7e	13.6
Municipal long-term bonds (gross offerings)	April	2.2e	2.4	10.4e	9.3
Federally sponsored Agcy. (net borrowing)	April	.8	.7	1.1	.5
U.S. Treasury (net cash borrowing)	May	4.2	8.6	29.8	35.5
Total of above credits					

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Developments in domestic financial markets since the last FOMC meeting have been influenced by a tightening of the Federal funds rate in an environment of rapid expansion in the monetary aggregates. As market expectations changed, the earlier downtrend in interest rate patterns was reversed. Interest rates in all sectors of the money and bond markets increased moderately. Yields on home mortgages in the secondary market also backed up somewhat, and the more sluggish primary market rates stopped falling.

M_1 increased at an annual rate of more than 15 per cent in April, and growth in time and savings deposits at banks and nonbank thrift institutions remained strong. With bank loans to business registering another decline, banks continued to acquire a large volume of Treasury securities. Total funds raised in credit and equity markets by the business sector appear to have edged higher, however, and lower-rated issuers apparently continued to enjoy the improved access to open-market financing attained in recent months. Household demands for both consumer and home-mortgage credit have remained strong along with retail sales and real estate activity.

Money markets. In response to a 3/8 percentage point rise in the Federal funds rate, moderate upward pressure on all short-term market interest rates has developed since the April FOMC meeting. Treasury bill rates have risen 30 to 40 basis points during this period, despite $2.9 billion of Desk purchases for System and foreign accounts and net redemptions of nearly $3 billion in bills since early April.

Although commercial paper rates at first responded slowly to the increase in the funds rate, they have backed up about 25 basis points since late April. On average, the spread between commercial paper rates and the bank prime rate widened further in April, and outstanding commercial paper of nonfinancial corporations expanded by $1.0 billion during the month, according to preliminary data. Total commercial paper grew somewhat less, as bank-related paper declined by an estimated $400 million.

Bond and stock markets. Yields on most longer-term securities have also risen moderately since the April FOMC meeting. Continued favorable news concerning the strength of the economic recovery, together with an increasing conviction that the System may be shifting to a less accommodative monetary policy stance, have been factors in the adjustment of rates.

Treasury coupon yields have increased 30 to 40 basis points since the April FOMC meeting, reflecting the general tightening of credit market conditions as well as market adjustments to heavy financing activity. In its early May operation, the Treasury auctioned $2 billion of 2-year notes and $750 million of a reopened 24-year bond. In addition, $3.5 billion of 10-year notes were offered on a subscription basis at par and, when bids for this issue

SELECTED FINANCIAL MARKET QUOTATIONS
(One day quotes--in per cent)

	Apr. '75 FOMC Apr. 15	Feb. '76 FOMC Feb. 18	Mar. '76 FOMC Mar. 16	Apr. '76 FOMC Apr. 20	Apr. 27	May 4	May 11
Short-term							
Federal funds 1/	5.44	4.70	4.77	4.78	4.93	5.03	4.99 5/
Treasury bills							
3-month	5.48	4.92	5.01	4.73	4.89	4.87	5.08
6-month	5.80	5.27	5.48	5.08	5.22	5.28	5.44
1-year	6.28	5.61	5.88	5.42	5.59	5.64	5.83
Commercial paper							
1-month	6.00	5.00	5.13	4.75	4.75	4.88	5.00
3-month	6.13	5.25	5.38	5.00	5.00	5.13	5.25
Large neg. CD's 2/							
3-months	6.15	5.25	5.40	5.05	5.15	5.25	5.38
6-months	6.70	5.65	5.90	5.45	5.60	5.75	5.88
Federal agencies							
1-year	7.05	6.07	6.46	5.84	6.04	6.15	6.19p
Bank prime rate	7.50	6.75	6.75	6.75	6.75	6.75	6.75
Long-term							
Corporate							
New AAA 1/	9.65	8.64	8.63	8.42	8.38	8.58	8.66p
Recently offered 3/	9.60	8.68	8.64	8.44	8.54	8.57	8.62p
Municipal (Bond Buyer) 4/	7.03	6.95	6.98	6.54	6.55	6.55	6.71
U.S. Treasury (20-year constant maturity)	8.29	8.06	7.98	7.82	7.93	7.98	8.15p
Stock prices							
Dow-Jones	815.08	960.09	983.47	1003.46	995.51	993.70	1006.61
N.Y.S.E.	45.66	53.39	53.90	54.76	54.25	53.97	54.84
AMEX	82.77	101.14	103.62	103.07	102.82	101.97	104.75
Keefe Bank Stock	491	565	564	589	605	595	587

1/ Weekly average.
2/ Highest quoted new issues.
3/ One day quotes for preceding Friday.
4/ One day quotes for preceding Thursday.
5/ Average for first 6 days of statement week ending May 12.

p--preliminary.

amounted to $8.9 billion, the Treasury alloted $4.7 billion of the notes to subscribers. Altogether, these financings provided the Treasury with nearly $7.5 billion, $4.1 billion of which is being used to repay debt maturing on May 17.

Corporate bond yields,which had recorded 2-year lows of around 8.40 per cent in mid-April, have increased about 25 basis points since the last meeting. While the amount of bond financing by domestic corporations in April was below the exceptionally heavy pace of the previous month, volume remained high by historical standards. Gross issues, which had reached $4 billion in March, declined to $3.3 billion in April. The reduction was concentrated in publicly offered bonds; privately placed issues are estimated to have remained relatively large. The decline in public offerings reflected mainly a smaller volume of prime-rated industrial corporation issues, although offerings of public utilities were also somewhat lower. In contrast, publicly offered issues of finance companies--many of which are subsidiaries of industrial companies--increased in April to over $600 million.

New issues of common and preferred stock by domestic corporations totaled $1.0 billion during April, well below the extremely large March volume. Approximately half of the decline in stock offerings reflected postponements in late April when stock prices generally moved lower in reaction to undertainties

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

	1975		1976				
	Year	QIV	QI e/	Mar. e/	Apr. e/	May f/	June f/
			Gross Offerings				
Corporate securities--Total	4,474	4,359	4,558	5,900	4,300	4,800	4,800
Publicly offered bonds	2,715	1,939	2,433	3,000	2,400	2,400	2,500
By quality 1/							
Aaa and Aa	1,422	776	1,473	1,525	1,100	--	--
Less than Aa 2/	1,293	1,163	960	1,475	1,300	--	--
By type of borrower							
Utility	925	783	633	930	700	--	--
Industrial	1,429	756	1,300	1,480	850	--	--
Other	360	396	600	590	850	--	--
Privately placed bonds	852	1,378	883	1,000	900	900	1,000
Stocks	907	1,042	1,242	1,900	1,000	1,500	1,300
By type of issuer							
Manufacturing	123	158	308	425	200	--	--
Utility and transp.	598	664	833	1,275	400	--	--
Other	186	221	101	200	400	--	--
Foreign securities 3/	451	634	447	400	428	400	300
State and local government securities							
Long-term	2,544	2,252	2,739	3,232	2,200	2,900	2,900
Short-term	2,420	2,216	1,676	2,409	2,532	2,700	2,200
			Net Offerings				
U.S. Treasury	7,564	8,048	7,897	7,497	-1,650	6,400	1,400
Sponsored Federal Agencies	187	390	416	2,243	-395	-875	854

e/ Estimated.
f/ Forecast.
1/ Bonds categorized according to Moody's bond ratings.
2/ Includes issues not rated by Moody's.
3/ Includes only publicly offered issues of marketable securities.

about the course of monetary policy and interest rates. New stock offerings scheduled for May amount to $1.5 billion, including $450 million of issues postponed from April. Industrial concerns, including oil companies, account for more than half the May calendar.

The volume of new long-term tax-exempt issues fell sharply in April from the record March level, while issues of short-term debt increased slightly. However, the decrease in bond issues is expected to be only temporary, with a large volume of new offerings estimated for May and June. The relatively modest April volume, together with strengthened demand by banks and casualty insurance companies for tax-exempt securities, were largely responsible for stability in municipal bond yields during the latter half of the month. Yields moved up about 15 basis points in early May, responding to the rapid buildup in the calendar of forthcoming issues and to rate movements in other financial markets. Investors in the municipal market are still highly sensitive to risk; lower-rated issuers continue to pay a premium more than double the premium prevailing during the first half of last year.

Monetary aggregates. Growth of M_1 in April accelerated to a seasonally adjusted annual rate of 15.7 per cent, and involved large increases in both the currency and the demand deposit components. The April bulge appears to be associated in part with the recent sharp decline in Treasury balances at the Federal Reserve and commercial banks--balances that had risen to extraordinary levels in February and March. Some of these funds were undoubtedly lodged, temporarily, in private demand deposits.

Enlarged transactions demand associated with the vigorous expansion of the economy, and the timing of the Easter holiday period, may also have contributed to the rise in the narrowly defined money stock in April. In addition, it is possible that the money demand function is beginning to stabilize and that more rapid rates of growth in M_1 will now be associated with given growth rates in GNP than has been the case over the past year or two. However, there is still considerable uncertainty about the source of the bulge in M_1.

The more broadly defined money stock measures--M_2 and M_3--also expanded rapidly in April. This was due in part to the surge in M_1, but also reflected the continuing low rates on alternative market instruments relative to deposit rates. Time and savings deposits other than large CD's at commercial banks rose at an annual rate of almost 14 per cent, as time deposits rebounded after contracting slightly in March. Growth in savings deposits at banks, though moderating somewhat from earlier months, continued at a rapid pace in April. Business savings accounts expanded further, suggesting that business accumulations of such deposits in earlier months had not been simply in anticipation of April income tax payments. Net deposit flows to the nonbank thrift institutions also continued

MONETARY AGGREGATES[1/]
(Seasonally adjusted changes)

	1975			1976			Twelve months ending
	HI	HII	QIV	QI	Mar.	Apr. p	April 1976
				Per cent at annual rates			
M_1 (currency plus demand deposits)	4.0	4.8	2.5	3.0	6.1	15.7	6.1
M_2 (M_1 plus time deposits at commercial banks other than large CDs)	8.0	8.2	6.1	9.5	8.3	14.6	10.1
M_3 (M_2 plus deposits at thrift institutions)	10.2	11.4	9.2	11.1	10.5	14.5	12.5
Adjusted bank credit proxy	4.7	3.7	6.0	2.6	1.2	3.0	3.4
Total time and savings deposits at commercial banks	8.3	6.9	9.1	6.8	2.4	6.8	6.7
a. Other than large CD's	11.3	11.0	9.1	14.8	9.8	14.1	13.4
1. Savings deposits	15.7	16.9	14.7	28.6	23.3	21.4	23.3
2. Time deposits	8.3	6.8	4.9	4.4	-1.1	7.4	6.3
Deposits at nonbank thrift institutions:							
a. Savings and loan associations	15.1	18.2	15.6	15.0	15.9	14.9	18.0
b. Mutual savings banks	9.3	11.9	9.4	9.1	9.8	11.2	11.6
c. Credit unions	19.0	18.6	17.6	16.8	14.9	n.a.	19.3[2/]
				Billions of dollars (based on seasonally adjusted monthly data not annualized)			
Memoranda:							
a. Total U. S. Government deposits	0.1	0.3	0.2	1.1	0.1	-3.8	0.1
b. Negotiable CD's	-1.0	-0.2	1.3	-3.3	-2.3	-1.8	-1.4
c. Nondeposit sources of funds	-0.2	0.2	0.5	0.1	0.3	0.8	0.1

1/ Half-year and quarterly growth rates are based on quarterly average data.
2/ Twelve months ending March 1976.

relatively strong in April, as deposit balances at mutual savings banks and S&L's taken together expanded at an annual rate of about 13 per cent.

With demand deposits and other time and savings deposits growing rapidly, and with loan volume remaining sluggish, banks permitted large negotiable CD's outstanding to contract for the fourth consecutive month; since the beginning of 1976, CD's at weekly reporting banks have declined by about $15 billion. Reflecting the runoff of CD's as well as the decline in bank-related commercial paper, the adjusted credit proxy grew by only 3 per cent in April.

Loan developments. Business loans at commercial banks declined for the third consecutive month in April, and acquisitions of securities accounted for most of the 4.9 per cent expansion in total bank credit outstanding. Treasury issues again accounted for the bulk of the increase in bank investments, although holdings of other securities--particularly tax-exempt obligations--rose moderately.

Nonfinancial corporations have continued to meet their short-term financing needs primarily from internal cash flows and from the proceeds of capital market financings. Total short-term business credit outstanding was about unchanged in April, as the drop in business loans was offset by a rise in commercial paper

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

	1975			1976			
	H1	H2	QIV	QI	Feb.	Mar.	Apr.
Total loans and investments 2/	5.1	3.4	3.1	7.3	8.1	8.2	4.9
U.S. Treasury securities	96.7	15.2	4.2	53.4	62.8	55.4	40.8
Other securities	3.7	2.7	1.4	-3.6	-2.5	-10.8	3.3
Total loans 2/	-3.3	1.8	3.4	3.2	2.4	5.8	-1.0
Business loans 2/	-6.6	1.3	2.5	-5.3	-5.3	-12.7	-6.8
Real estate loans	2.2	2.3	4.3	5.4	5.4	6.3	6.2
Consumer loans	-6.7	5.5	5.2	3.7	1.4	2.8	n.a.
MEMO: Business loans plus nonfinancial commercial paper 3/	-6.9	-.8	-1.0	-3.4	-2.5	-12.5	--

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 foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank), and nonconsolidated nonbank subsidiaries of holding companies.

3/ Nonfinancial commercial paper is measured from end-of-month to end-of-month.

p - Preliminary.

n.a. - Not available.

issued by nonfinancial companies. There are few indications that banks have been easing their lending terms or standards materially. Although Citibank reduced its prime rate to 6-1/2 per cent at the end of April (in line with its current formula), other major banks held at 6-3/4 per cent since money market rates had come under upward pressure.

Average interest rates on new commitments for home mortgages at S&L's, which had drifted down by 50 basis points between the recent peak in October and the April FOMC meeting, remained unchanged since then. In the more sensitive secondary market, yields on GNMA-guaranteed mortgage-backed securities have increased 8 basis points since late April, reflecting the upturn in bond rates. With upward pressure on GNMA security yields, the volume of offerings rose sharply in the most recent FNMA commitment auctions for home loans, and average auction yields increased about 10 basis points.

During March, mortgage lending picked up further, but remained concentrated in loans for home purchase or construction; the multifamily and commercial components have continued quite weak. S&L's have been accounting for about 70 per cent of the total net change in home mortgage debt outstanding in recent months, while purchasers of GNMA-guaranteed mortgage-backed securities--chiefly thrift institutions, but to some extent pension funds and other bond investors as well--have been providing most of the

INTEREST RATES AND SUPPLY OF FUNDS FOR CONVENTIONAL HOME MORTGAGES AT SELECTED S&Ls

End of Period	Average rate on new commitments for 80% loans (Per cent)	Basis point change from previous week	Per cent of S&L's with funds in short suppy
1975--High	9.59	--	66
Low	8.80	--	7
1976			
Apr. 2	8.70	-5	1
9	8.70	0	0
16	8.75	+5	3
23	8.75	0	1
30	8.75	0	1
May 7	8.75	0	n.a.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

	Yields on GNMA guaranteed mortgage backed securities for immediate delivery 3/	FNMA AUCTIONS OF FORWARD PURCHASE COMMITMENTS 1/					
		Conventional			Govt.-underwritten		
		Amount ($ millions)		Yield to FNMA 1/	Amount ($ millions)		Yield to FNMA 2/
		Offered	Accepted		Offered	Accepted	
1975--High	7.99	100	51	10.92	643	366	9.95
Low	9.10	10	9	8.96	25	18	8.78
1976							
Apr. 5	8.27	56	32	9.05	106	56	8.94
12	8.12						
19	8.27	55	33	9.00	132	60	8.83
26	8.23						
May 3	8.31	110	60	9.09	483	222	8.94
10	8.31						

1/ FNMA auction are ordinarily held bi-weekly.
2/ Average gross yields before deducting fee of 38 basis points for mortgage servicing. Data 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.
3/ Average net yields to investors assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the prevailing ceiling rate on such loans.

balance. With stronger flows of savings to private sources, Federal and related agencies operating in the secondary mortgage market sold about $1.2 billion of residential mortgages in March.

By the end of March, S&L mortgage commitments outstanding (including loans in process) had reached a three-year high of $19.4 billion. With liquid asset holdings of about $33 billion and outstanding debt reduced further, S&L's continued to be in a relatively strong balance sheet position.

Consumer instalment credit extensions reached a record annual rate of $196 billion in March, and outstanding credit grew at a rate of more than 11 per cent. As in February, commercial banks accounted for the largest share of the expansion, while credit unions and finance companies also recorded sizable gains. Auto loans again paced the growth in total instalment credit, although all major types of consumer credit except mobile home loans increased substantially. The auto-credit advance was bolstered by a further lengthening of loan maturities, permitting the financing of more expensive cars with less than proportional increases in monthly payments.

As the economic recovery has progressed, consumers have been able to meet their debt obligations more readily. Both personal bankruptcies and delinquency rates on instalment loans have continued to decline from highs reached early last year.

CONSUMER INSTALMENT CREDIT

	1974	1975	1975 QIV	1976 QI	1976 Feb.	1976 Mar.
Total						
Change in outstandings						
$ Billion (SAAR)	9.5	3.6	10.1	15.9	14.0	18.2
Per cent	6.5	2.3	6.4	10.0	8.7	11.3
Bank share (%)	39.0	-1.8	33.7	31.6	40.7	37.9
Extensions						
$ Billion (SAAR)	166.1	166.9	180.0	193.4	189.9	195.8
Bank share (%)	43.6	44.0	44.3	42.9	43.9	43.5
Liquidations ($ billions (SAAR)	156.3	163.1	169.9	177.5	175.9	177.7
Automobile Credit						
Change in outstandings						
$ Billion (SAAR)	0.9	1.4	5.3	7.1	7.6	7.9
Per cent	1.8	2.7	10.2	13.3	14.2	14.9
Extensions, $ billion (SAAR)	43.3	46.7	51.3	53.7	52.5	54.4
New-car finance rate (%, APR)						
Finance companies	12.61	13.12	13.17	13.14p	13.14	13.10p
Banks (36-month loan)	10.97	11.36	11.24	11.17	11.18	11.13
New-car loans over 36 mos. (%)						
Finance companies	8.4	23.7	24.8	29.4	29.6	31.1
Commercial banks 1/	8.8	14.0	17.0	20.0	20.0	--

p/ Preliminary

1/ Series was begun in May 1974, with data reported for the mid-month of each quarter. 1974 figure is the average for May, August, and November.

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

	1975 YEAR	1975 Q-4	1976 Q-1	1976 Jan.*	1976 Feb.*	1976 Mar.*
1. Trade balance	9,045	2,165	-1,598	-574	-227	-797
2. Merchandise exports	107,184	27,689	26,827	8,940	8,777	9,110
3. Merchandise imports	98,139	25,524	28,425	9,514	9,004	9,907
4. Net service transactions	7,363	1,973				
5. Balance on goods and services 1/	16,408	4,138				
6. Remittances and pensions	-1,763	-432				
7. Gov't grants and capital, net	-4,546	-1,199				
8. Bank-reported private capital, net change	-9,855	-3,515	-2,561	-739	445	-2,040
9. Claims on foreigners (inc.-)	(-13,099)	(-4,799)	(-3,653)	(-1,326)	(-2,540)	(298)
10. Short-term	-10,846	-3,902	-3,377	-1,399	-2,441	548
11. Long-term	-2,253	-897	-276	73	-99	-250
12. Liabilities to foreigners (inc.+)	(3,244)	(1,284)	(1,092)	(587)	(2,985)	(-2,338)
13. Long-term liabilities	-355	91	141	27	-39	153
14. Short-term liabilities 2/	3,599	1,193	951	560	3,024	-2,491
15. to commercial banks abroad	(-501)	(-283)	(565)	(914)	(2,682)	(-2,889)
16. (of which liab. to branches) 3/	(231)	(1,234)	(-820)	(916)	(531)	(-2,267)
17. to other private foreigners	(1,823)	(865)	(291)	(-255)	(313)	(233)
18. to int'l regional organizations	(2,277)	(611)	(95)	(-99)	(29)	(165)
19. Private transactions in securities, net	-2,429	-826	-1,050	207	-770	-487
20. U.S. purchases (-) of foreign securities	(-6,328)	(-2,361)	(-2,556)	(-333)	(-1,201)	(-1,022)
21. of which: New bond issues	(-7,168)	(-2,573)	(-2,892)	(-557)	(-1,296)	(-1,039)
22. Foreign purch. (+) of U.S. corp. securities	(3,899)	(1,535)	(1,506)	(540)	(431)	(535)
23. Stocks	4,453	1,309	1,465	517	371	577
24. of which by OPEC	(1,469)	(519)	(531)	(197)	(177)	(157)
25. Bonds (includes U.S. Govt. agencies)	-554	227	41	23	60	-42
2 S. direct investment abroad, (inc.-)	-5,760	-1,765				
2 reign direct investment in U.S., (inc.+)	1,934	1,008				
28. Nonbank-reported: liquid claims, (inc.-)	-267	-113		400	271	
29. other claims, (inc.-)	-1,211	-529				
30. liabilities, (inc.+)	379	-75				
31. Changes in liab. to foreign official agencies	3,070[4]	2,449[4]	847	573	634	-1,332
32. OPEC countries (inc.+) 3/	4,208	1,261	-49	26	42	-117
33. Other countries (inc.+)	-1,138[4]	1,188[4]	896	547	592	-1,215
34. Changes in U.S. reserve assets (inc.-)	-607	89	-773	-404	-39	-330
35. Gold	--	--	--	--	--	--
36. Special drawing rights	-66	-21	-45	-45	--	--
37. Reserve position in the IMF	-466	-57	-237	-106	-76	-55
38. Convertible currencies	-75	167	-491	-253	37	-275
39. Errors and omissions	4,648	770				
Memo:						
40. Official settlements balance, S.A.		-2,538	-74			
41. N.S.A.	-2,463	-1,918	898	-169	-595	1,662
42. O/S bal. excluding OPEC, S.A.		-1,277	-123			
N.S.A.	1,745	-657	849	-143	-553	1,545

*/ Not seasonally adjusted (except for merchanidse trade data lines 1-3).
1/ Differs from "net exports" in the GNP account. The GNP basis excludes U.S. Government interest payments for foreigners from service imports and special military exports to Israel.
2/ Includes transactions in U.S. Treasury bonds and notes.
3/ Not seasonally adjusted. p = preliminary.
Excludes a $250 million increase in liabilities resulting from the revaluation of System iabilities to Belgium and Switzerland.

Foreign exchange markets. In the four-week period since the last greenbook, exchange market attention has focussed on the political-economic problems of the Italian lira and the British pound. The trade-weighted value of the dollar has changed very little during this time, with its movements largely mirroring the much larger movements of the lira. The dollar's value declined about 1/3 per cent, but it still remains about 4 per cent above the level it held in the September through February period.

The Italian lira drifted steadily downward during most of the period, both before and after the long expected resignation of Premier Aldo Moro's government on April 30. Attempts by Italy's EC partners and Switzerland to slow the decline by discouraging the importation of Italian banknotes into their countries seem to have had little effect. However, this pattern changed abruptly on May 6, following an announcement by the Italian government that it was requiring a 90 day, non-interest bearing deposit equal to 50 per cent of the value of (a) all foreign exchange purchased (except to import wheat) and (b) all additions to lira accounts held abroad. Over the next week the lira rose a net 8 per cent, more than offsetting the 5-1/2 per cent decline it had experienced earlier in the period. The major impact of this deposit requirement will probably come through an estimated 13 per cent reduction in the monetary base over the next three months, rather than through an increase in the direct cost of purchasing foreign exchange (which amounts to only about 2 per cent).

In addition to this deposit requirement the Italian government also took several minor steps to discourage the speculation against the lira that was taking place through the lagged receipt of foreign currency payments and through sales of forward lire. These actions, however, provide only temporary support for the lira. The basic problem of political uncertainty still remains, with parliamentary elections to be held June 20 and 21.

The pound sterling was very sensitive during the last four weeks to news reports about progress in the negotiations between the government and the unions on a wage limitation for next year. The U.K. currency declined 2-1/2 per cent early in the period, partly because of doubts that the unions would accept the government's proposed 3 per cent limit on wage increases. The Bank of England reacted to the pound's decline by raising the Minimum Lending Rate on April 23 a very sharp 1-1/2 percentage points to 10-1/2 per cent. This action boosted the pound slightly, and it was further sustained by the May 5 announcement of an agreement between the Government and the trade union leadership on a 4-1/2 per cent limit on wage increases for the year beginning August 1 -- an outcome generally considered to be highly favorable for the government's anti-inflationary program. The Trades Union Congress will hold a conference on June 16, at which time it will formally decide whether to approve the new pay agreement.

On May 4 the German monetary authorities announced a two-stage increase in bank reserve requirements. The Bundesbank stated that it wanted to offset the expansionary effects on the money supply of the large amount of dollars purchased in the foreign exchange market during the first quarter. However, it seems likely that the Bundesbank may also wish to move toward a less accomodative monetary policy as the German economic expansion progresses.

Reports received from the Bank of Mexico and the behavior of the forward peso discount both indicate that downward speculative pressure on the Mexican peso continues. This pressure abated slightly immediately after Easter, but soon returned to its pre-Easter levels.

There was very little market intervention by the System during the last four weeks. The System purchased only a nominal amount of Belgian francs in the market, but a substantial amount directly from the Belgian National Bank, and it repaid $64 million equivalent of the Belgian franc swap debt.

Euro-dollar interest rates rose about 1/4 per cent on average during the period -- following the general trend in U.S. rates.

On May 6 the IMF announced some of the details of its plan for selling 25 million ounces of the Fund's gold over the next four years. The Fund will auction approximately 780,000 ounces of gold about every six weeks for the next two years, with the first auction taking place on June 2. The schedule for the auctions in the last two years of the program will be decided upon at a later date. The Bank for International Settlements will be allowed to bid in the auctions, but member governments and central banks will not be allowed to bid until the new IMF amendment takes effect -- perhaps two years from now. The IMF also announced arrangements to sell an additional 25 million ounces of gold at the official price of 35 SDR/ounce. This restitution will take place every six months over the next four years. The U.S. Treasury will receive nearly 5 million ounces of the IMF's gold in exchange for dollars. The IMF's announcements had little impact on the market price for gold which has fluctuated very narrowly around the $128 level for the last four weeks.

OPEC investment flows. The estimated $37 billion OPEC goods and services surplus in 1975 shown in the table is almost $3 billion smaller than the estimate presented in the February green book, this adjustment reflecting a higher estimate of OPEC net payments for current invisibles. The $37 billion figure is substantially below recent comparable U.S. Treasury estimates of about $42 billion and is well above the Morgan Guaranty Trust Co. estimate of under $30 billion, but it agrees quite closely with the Bank of England's unpublished estimate that allows for some unidentified investment flows.

In the first quarter of 1976 the OPEC surplus is believed to have been about $10 billion, somewhat above the estimated average quarterly rate of $9 billion in the second half of last year when oil cash receipts did not fully reflect price and production increases occurring in the autumn. But OPEC acquisitions of assets in the United States amounting to $1.1 billion in the first quarter were substantially less than the $2.5 billion

Estimated Disposition of OPEC Surpluses
(in billions of dollars)

	1974 Year	1975 Year	1975 1st Half	1975 2nd Half	1976 Q-I
I. In United States	11.3	6.2	2.0	4.2	1.1
A. Short-term assets 1/	9.3	0.3	-1.2	1.4	-0.6
B. Treasury bonds + notes	0.4	1.9	1.2	0.7	0.5
C. Other assets 2/	1.6	4.0	2.0	2.1	1.2
II. In United Kingdom	7.2	0.2	0.7	-0.5	-0.3
A. Short-term assets in sterling 3/	5.3	0	0.4	-0.7	-0.4
B. Other loans + investments	1.2	0.2	0.3	0.2	0.1
III. In Euro-Currency Market	24.5	9.8	6.1	3.7	1.4
A. United Kingdom	13.8	4.1	2.1	2.0	-0.1
B. Other centers (est.)	10.7	5.7	4.0	1.7	1.5
IV. International Institutions	3.3	3.5	1.8	1.7	1.5
A. Bonds	1.5	0.9	0.8	0.1	0.3
B. IMF Oil Facility	1.8	2.6	1.0	1.6	1.2
V. All Other (residual)	11.3	14.8	6.8	8.0	n.a.
Total=investible surplus	57.6	34.5	17.4	17.1	n.a.
VI. OPEC grant aid	2.4	2.5	1.6	0.9	n.a.
VII. Surplus on goods and services 4/	60.0	37.0	19.0	18.0	10±

1/ Principally Treasury bills, repurchase agreements, bank deposits, and CD's.

2/ Long-term bank deposits, corporate and Federal Agency bonds, equities, real estate (estimated).

3/ Treasury bills and bonds, bank and other deposits.

4/ With oil receipts on a cash basis.

recorded in the third quarter and the $1.7 billion (revised) recorded in the fourth quarter of last year. In the first quarter, purchases of equities and Treasury, Agency, and corporate bonds totaling $1.3 billion (provisional) were at about the same quarterly rate as in the two preceding quarters. However, short-term holdings (Treasury bills, repurchase agreements, and bank deposits) were drawn down by $600 million, compared with a rise or a much smaller decline in the two previous quarters respectively, partly because of increased lending to the IMF Oil Facility. The $1.1 billion total inflow for the quarter also includes a $400 million rise in long-term bank deposits and a rough estimate of $50 million for real estate purchases, which last year are believed to have totaled about $250 million for the full year.

OPEC countries reduced their sterling holdings in the United Kingdom by $300 million equivalent in the first quarter, of which only $100 million occurred in March when the pound came under intense selling pressure. Liquidation of official sterling balances by all holders as a group was small in March, but intensified in April; to what extent OPEC countries may have stepped up such sales in April is not yet known.

OPEC holdings of Euro-currency deposits with banks in the United Kingdom, which had increased regularly in 1975 and early 1976, were drawn sharply by $900 million in March, to show a small net reduction for the quarter. The reasons for this shift are not known. The estimate of a $1.5 billion rise for the quarter in Euro-currency deposits in other centers is very tentative and, <u>inter alia</u>, because of data lags makes no allowance for any increase in OPEC deposits with U.S. bank branches in the Caribbean and the Far East following the $700 million rise in such deposits in the fourth quarter of last year.

Placements with international institutions were speeded up to $1.5 billion in the first quarter. Purchases of World Bank bonds were larger than the 1975 quarterly average, and lending to the IMF Oil Facility increased as the IMF made its final disbursements prior to the Facility's expiration on March 31.

U.S. International Transactions. U.S. merchandise trade recorded a $6.4 billion deficit in the first quarter of 1976 (seasonally) adjusted annual rate, balance-of-payments basis), a swing of more than $15 billion from the large surplus of $8.7 billion in the fourth quarter of 1975 and $9.0 billion for all of last year. With a continued large surplus in net service transactions expected for the first quarter, however, net exports of goods and services are believed to have recorded a small surplus. Other significant developments in the first quarter included (1) a continued net outflow of bank-reported private capital, largely through an increase in claims on foreign branches and affiliates of banks located in the United States and (2) further large U.S. purchases of foreign securities--mostly Canadian bond issues--which were offset in part by sizable foreign purchases of U.S. securities.

The sharp decline in the balance on U.S. merchandise trade in the first quarter of 1976 occurred as exports fell slightly while imports picked up strongly with the recovery in U.S. domestic activity. Merchandise exports declined by 3 per cent to $107.3 billion at an annual rate. About half of the decrease was in nonagricultural and about half in agricultural goods.

U.S. MERCHANDISE TRADE

	1973	1974	1975	1975 II	1975 III	1975 IV	1976 I
	(billions of dollars, seasonally adjusted annual rates) 1/						
Exports	71.4	98.3	107.2	103.4	106.4	110.8	107.3
Non-agricultural	53.4	75.9	84.9	83.8	84.1	87.7	86.2
Agricultural	18.0	22.4	22.3	19.6	22.3	23.0	21.2
Imports	70.4	103.6	98.1	90.3	97.9	102.1	113.7
Non-fuel	61.5	76.2	69.8	63.8	68.0	72.7	82.1
Fuel	8.9	27.4	28.3	26.4	30.0	29.4	31.6
Balance	+1.0	-5.3	+9.0	+13.1	+8.4	+8.7	-6.4

Index Numbers, 1973=100

	1973	1974	1975	1975 II	1975 III	1975 IV	1976 I
Exports							
Value	100.0	137.7	150.2	144.8	149.0	155.2	150.3
Price 2/	100.0	127.0	142.9	142.9	142.0	142.6	144.3
Volume	100.0	108.4	105.1	101.3	105.0	108.8	104.2
Imports							
Value	100.0	147.1	139.4	128.2	139.1	145.0	161.5
Price 2/	100.0	150.4	162.9	166.2	160.4	160.5	162.8
Volume	100.0	97.8	85.5	77.1	86.7	90.3	99.2

1/ Components may not add to totals because of rounding.
2/ As measured by the unit value index.

Much of the 2 per cent decline in the value of nonagricultural exports was concentrated in the volatile transportation equipment category. But the most significant development was that machinery exports, having increased steadily during 1975, showed no growth in the first quarter. The volume of machinery exports actually declined by 2.6 per cent as machinery prices continued to rise, though at a slower rate than in 1975. This decline in volume reflected the weakness in investment activity in most foreign industrial countries, as well as the slowdown in exports both to non-OPEC developing countries due to their continuing financial difficulties, and to OPEC countries because of problems of port congestion and other bottlenecks. However, the volume of new orders for machinery exports rose 7 per cent in the first quarter, though this number may be revised downward due to a questionable seasonal-adjustment factor.

The value of agricultural exports declined 8 per cent to a rate of $21.2 billion in the first quarter, in line with earlier projections. Most of the decline was in volume. Shipments to the Soviet Union and to the developing countries of Africa and Asia had been heavy in the second half of 1975 and were expected to slow down in early 1976. Recent additional Soviet grain purchases, have raised that country's total purchases from the 1975-76 U.S. crop by 2.7 million metric tons (mmt), to a total of 16.5 mmt, about the level previously projected. The U.S.S.R. has also made some purchases from the 1976-77 crop. In accordance with the U.S.-U.S.S.R. grain agreement of last October, these purchases have been made in smaller quantities over a longer period of time than in recent years,in an attempt to reduce disruption of the grain markets.

U.S. imports jumped by 11 per cent in the first quarter to $113.7 billion at an annual rate, with most of the increase in volume. Imports had dropped sharply in the first half of 1975 with the recession in domestic activity and especially with the liquidation of nonfarm business inventories. Since that time imports have risen strongly in volume, along with domestic activity. The volume of nonfuel imports climbed 12.3 per cent in the first quarter and is now back to the level of late 1974, although it is still 10 per cent below its pre-recession peak in early 1973. The increase in nonfuel imports in both volume and value was spread among all major commodity groups.

While the increase in nonfuel import volume was directly related to the recovery in domestic activity, it was also stimulated by the decline in import prices stemming from the appreciation of the dollar in exchange markets in the second half of 1975. The effective dollar exchange rate was more stable in the first quarter, and U.S. import prices rose slightly, following the rising trend in foreign prices. This price increase will offset some of the earlier stimulus to imports in the quarters ahead.

Fuel imports rose by 7.4 per cent to a $31.6 billion rate in the first quarter. The volume of imports rose 3.9 per cent; about one-third of the increase attributable to a decline in domestic production. Fuel import prices rose by 3.4 per cent, reflecting last October's OPEC price hike. From October to March the price of imported crude petroleum rose by about nine-tenths of the $1.0 per barrel posted OPEC price increase.

Net bank-reported private capital transactions for the first quarter showed an outflow of $2.6 billion (seasonally-adjusted quarterly rate), somewhat below the outflow of the previous quarter. Bank-reported claims on foreigners increased by $3.7 billion, continuing the rapid growth that has occurred since January 1974. The increase in the first quarter of 1976 took the form primarily of increases in claims on directly-related financial institutions abroad -- foreign branches of U.S. banks and overseas affiliates of agencies and branches of foreign banks in the United States -- supporting the continued brisk pace of lending in the Euro-markets.

Selected U.S. International Capital Transactions
(billions of dollars, seasonally adjusted)

	1974	1975					1976
	Year	Year	Q-1	Q-2	Q-3	Q-4	Q-1
Bank-reported private capital, net	-2.7	-9.9	-5.6	-4.0	3.2	-3.5	-2.6
Claims on foreigners (inc.-)	-19.5	-13.1	-3.7	-3.8	-.8	-4.8	-3.7
Liabilities to foreigners (inc.+) 1/	16.8	3.2	-1.9	-.2	4.0	1.3	1.1
Transactions in securities, net	-1.3	-2.4	-1.4	-.3	.1	-.8	-1.1
U.S. purch. (-) of foreign securities net	-2.0	-6.3	-2.0	-1.0	-.9	-2.4	-2.6
of which: New bond issues	(-2.4)	(-7.2)	(-2.1)	(-1.2)	(-1.3)	(-2.6)	(-2.9)
Foreign purchases (+) of U.S.							
(excl. Treasury issues) Securities net	.7	3.9	.7	.7	1.0	1.5	1.5
Stocks	.5	4.5	1.0	.9	1.3	1.3	1.5
of which by OPEC	(.2)	(1.5)	(.3)	(.3)	(.4)	(.5)	(.5)
Bonds (includes U.S. gov't agencies)	.1	-.6	-.3	-.2	-.3	.2	*
Changes in liabilities to foreign							
Official agencies (inc.+)	9.8	3.1[2/]	3.5	1.8	-4.7	2.4[2/]	.8
OPEC countries	10.0	4.2	.3	1.0	1.7	1.3	*
Other countries	-.2	-1.1[2/]	3.2	.8	-6.3	1.2[2/]	.9
Changes in U.S. reserve assets (inc.-)	-1.4	-.6	-.3	*	-.3	.1	-.8

*/ Absolute value less than $50,000.
1/ Includes Treasury bonds and notes.
2/ Excludes a $250 million increase in liabilities resulting from the revaluation of System swap liabilities to Belgium and Switzerland.

Components may not add to totals because of rounding.

The $1.1 billion increase in U.S. liabilities to private foreigners largely reflected an increase in liabilities to Canada, as deposits of the proceeds of Canadian bond issues in the U.S. market had not yet been converted to Canadian dollars.

Securities transactions in the first quarter showed a net outflow of $1 billion. Total new foreign bond issues sold in the United States in the first quarter amounted to $2.9 billion; preliminary data for April show an additional $0.5 billion in new foreign bond issues. Canadian issuers accounted for about 70 per cent the first quarter total. The remaining 30 per cent, issued by other foreigners, appear to have been purchased largely by foreign investors. These purchases are netted against the sales in the U.S. market and have no affect on net U.S. securities transactions. Foreigners also purchased $1.5 billion of U.S. securities during the first quarter, above the average quarterly rate of $1.1 billion in 1975. Identifiable OPEC purchases were one-third of the first quarter total.

<u>U.S. liabilities to foreign official insitutions</u> increased by $0.8 billion in the first quarter,

The lack of change in official holdings of OPEC countries in the first quarter, as contrasted with the average rate of increase of more than $1 billion per quarter in 1975, partly reflected the diversion of funds, particularly by Saudi Arabia, to the IMF oil facility. OPEC official holdings apparently jumped by $1.0 billion in April.

U.S. reserve assets increased by $775 million in the first quarter, more than the total increase for 1975. Most of the rise was in the form of System holdings of lire following the Italian drawing of $500 million under swap arrangements. The remainder reflected an increase in the U.S. reserve position in the IMF due to the dollar drawings by other members.

<u>Fixed Investment in Major Foreign Industrial Countries</u>. As the major industrial countries emerge from the most severe of the postwar recessions, many observers still have doubts about the underlying strength of the present recovery. A current concern of authorities in the major foreign countries is the role which might be played by fixed investment in consolidating the economic recovery and laying a foundation for future growth. A longer-range concern is the potentially adverse impact on new private investment of the continued large public sector deficits which are anticipated in most of these countries.

Several features of recent and current economic conditions bear on prospects for increased levels of investment. First, despite substantial rises in industrial output in recent months, capacity utilization in the major countries still remains below rates which were regarded as average in previous years, and well below rates which could be regarded as ceilings. Second, profits earned by enterprises in most countries have been weak for some time, and were especially so during the recession. In recent months authorities in several countries have begun aggressively to advocate increased profitability as a way to stimulate what they regard as essential new private investment.

A third important issue arises from the persistence of high rates of unemployment in the major OECD countries. Even where economic recovery seems to be gathering momentum, as in Germany, neither the authorities nor independent observers are very optimistic about labor market prospects. Because increasing the capital stock is viewed as an effective way to create more jobs in the long run, authorities are reviewing recent investment trends and turning more attention to ways in which capital formation can be accelerated.

Data on changes in real fixed investment over the 1970-1975 period are shown for six major foreign countries in the table on the following page. Also shown in the table is, for each country, the most recent national forecast of investment developments in 1976. As is evident from the table, the experiences in these countries are diverse, and their short-term prospects differ greatly. Although it is normal for private investment to lag behind other demand components during periods of economic recovery, in several countries the anticipated lag this time appears to be rather long.

Fixed capital formation in Germany has been weak for several years. Rapid increases took place in the 1970-71 period, but real investment gains fell off sharply thereafter. This weakening was partly the result of deteriorating profits and partly a consequence of policies pursued by German authorities to counter inflationary pressures. During 1973, for instance, a surtax was temporarily levied on new investments and depreciation rules were tightened. In 1974 real investment in Germany dropped by 8.2 per cent, with the residential construction sector especially hard-hit, due to overbuilding that had occurred in the early 1970's. Real capital outlays fell further in 1975, with the construction sector bearing the brunt of the decline.

Since 1974, there have been several modest programs to encourage new investment. The most important stimulus, however, came in December, 1974, with the government's announcement of a 7.5 per cent

Real Fixed Investment in Major Industrial Countries:
1970-75 and Forecasts for 1976
(Percentage change from previous period)

	1970-73 annual average	1974 Year	1975(p) Q1	Q2	Q3	Q4	Year	76f Year
United Kingdom - Total	2.2	-2.0	-1.7	-2.6	4.5	-3.7	0.2	-0.9
Machinery & Equipment	3.3	-1.5	-7.7	-3.0	2.9			
Construction	1.2	-2.5	4.4	-2.2	6.0			
Germany - Total	4.9	-8.2	-2.4	0.0	0.6	2.4	-4.8	4
Machinery & Equipment	5.9	-8.0	-1.8	1.8	1.2	4.0	-0.3	6
Construction	3.9	-8.4	-3.0	-1.9	0.0	0.6	-9.3	2
France - Total	6.2	3.1	-3.1	0.6	0.0	2.4	-4.0	0.6
Business1/	6.9	2.8						
Res. Construction	5.5	4.0						
Other2/	4.1	2.2						
Italy - Total	2.1	3.6	-3.6	-1.7	-3.1	-11.2	-12.7	-5
Machinery & Equipment	8.3	6.8	-6.6	-2.9	-3.0			
Construction	-2.1	1.3	-1.3	-0.7	-3.1			
Canada - Total	5.3	5.4	0.8	0.1	2.8	1.6	1.6	3.5
Machinery & Equipment	7.2	8.5	5.2	-1.3	2.5	-5.2	2.8	0.1
Construction	4.3	3.6	-1.8	1.0	3.0	5.9	0.8	6.0
Japan - Total	11.6	-9.8	-2.8	3.0	-0.6	-1.9	-3.4	5.6
Machinery & Equipment (Private)	10.8	-10.4	-6.4	-0.4	-2.1	-3.7	-14.4	5.5
Construction (Private)	12.6	-11.2	-5.7	14.6	-0.5	-1.1	5.0	
Public	13.4	-7.4	6.3	1.2	2.0	0.2	13.3	6.0

Sources: 1970-75 data from national sources and OECD. 1975 fourth quarter data for United Kingdom and Italy estimated as residuals. Blanks indicate appropriately detailed data not available.

p - preliminary; seasonally adjusted.

f - forecast: national sources and FRB staff.

1/ Includes investment by state-run enterprises.

2/ Includes investment by financial institutions and the public sector (excluding state-run enterprises).

investment bonus to be paid on buildings and equipment ordered prior to June 30, 1975, and delivered (or paid for) before specified dates. As expected, this program generated a large increase in the volume of new orders for capital goods just prior to the deadline. The subsequent decline in orders was, in addition, less than had been feared, and toward the end of 1975 domestic orders for capital goods resumed their upward trend. The outlook for total fixed investment in 1976 is now relatively optimistic, although the major economic institutes expect demand for machinery and equipment to grow substantially faster than construction output. Both the government and the Bundesbank have spoken out in favor of improved profit margins for domestic firms as a way to bolster the upward trend.

Fixed capital formation in France rose by a little over 3 per cent in 1974, and declined by an estimated 4 per cent in 1975. Private nonresidential investment, which was affected by stringent monetary conditions as well as by a weak profits picture, suffered a particularly sharp drop of about 10 per cent, but this was partially offset by accelerated outlays for public investment.

During 1975 French fiscal authorities introduced a number of investment incentive programs aimed at both the public and private sectors. Under a program set forth in April, FF 16 billion (about $3.8 billion) was made available, partly for public sector programs and partly for loans to small and medium-sized firms. The French also offered a deduction, equal to 10 per cent of the value of investment goods ordered by firms prior to December 31, 1975, from 1975 and 1976 valued-added tax liabilities. As in the German case, this program produced a surge of orders toward the end of the eligibility period. Additional incentives were set out in a FF 30.5 billion (about $6.8 billion) restimulation package announced in September 1975. The bulk of the investment funds were again earmarked for public purposes, but large amounts were also set aside for private industry. Most of the incentives under this program are in the form of reductions or postponements of 1975 and 1976 profits taxes and 10-15 year low-interest loans to industry.

Such measures notwithstanding, the outlook for French investment during 1976 cannot be described as optimistic. The most recent projection by the National Accounts Committee, made last month, forecasts an investment gain of only 0.6 per cent. Such gains as there are will result largely from public sector investment, which may rise by as much as 10 per cent. Nonresidential business investment may well show a further decline from 1975 levels, due primarily to the still-depressed state of capacity utilization in French industry.

In the United Kingdom real fixed investment declined by about 2 per cent in 1974, and may have increased marginally in 1975. Investment in machinery and equipment during 1975 appears to have suffered a large setback, but residential construction, public investment expenditures and outlays in connection with the North Sea oil fields provided some positive stimulus last year. U.K. authorities, like those in other countries, are looking to new investment as the most promising way to reduce the unemployment problem and are advocating higher enterprise profits as a way to stimulate more capital expenditures.

Evidence of the British government's shift of priorities toward increased private investment can be found in its White Paper on Public Expenditure, presented last February, and the FY1976/77 Budget, which was presented in April. Provisions of the budget call for continuation of the one-year write-off of fixed investment, abolition of certain duties, and extra funds aimed at industrial investment.

Whether these measures will have the desired effect this year remains in doubt. The most recent survey (early May) by the Confederation of British Industry shows some improvement in producer sentiment, but concludes that the U.K. profit picture is still unsatisfactory, and projects that manufacturing investment may fall by a further 8 per cent during 1976.

Of the major foreign industrial countries, Italy experienced the sharpest drop in fixed capital formation during 1975 -- an estimated 12.7 per cent decrease, after a weak gain of 3.6 per cent in 1974. The rapid fall of Italian real investment in 1975 followed a number of years of only moderate increases, except in 1973, when investment rose strongly. As elsewhere, the 1974-1975 recession led to low rates of capacity utilization (about 69 per cent on average during 1975), and a squeeze on profit margins.

While business surveys by the main economic institute, ISCO, do not explicitly cover investment intentions, other indicators, such as reports on new orders, until recently showed some slight improvement in outlook. However, confidence factors appear to have worsened again after the fall of the Italian government and as a result of the precipitous drop of the exchange value of the lira. On balance it appears likely that the Italian investment outlook for 1976 has worsened appreciably since the already pessimistic forecasts made at the end of 1975.

Canada was the only major industrial country to show a measurable, although modest, gain in fixed investment during 1975. The 1.6 per cent increase, which was largely accounted for by gains in the public sector, was down sharply from the 5.4 per cent rise shown in 1974. A major sourceof weakness through the first half of 1975 was residential construction, although this sector revived during the second half of the year. In the private sector, the main source of strength during the past year was investment in machinery and equipment.

Canada has relied less than most other major countries on investment incentives, although there is a special 5 per cent tax credit on new investment which may be increased in the new budget to be presented on May 25.. Compared with projections made late in 1975, the 1976 outlook has improved, and observers are confident that fixed capital formation will show moderate growth this year. The housing sector continues to show strength, and appears to be leading other types of investment expenditures. Large firms in energy, minerals and other primary product sectors will probably account for the bulk of nonresidential outlays this year.

Fixed investment expenditures in Japan reached a peak in the fourth quarter of 1973 and then declined through the first quarter of 1975. Quarterly data for 1975 show an erratic recovery of private construction activity and continued positive stimulus from the public sector, but an unbroken downward trend in private outlays for machinery and equipment. Overall, fixed capital formation in the last quarter of 1975 was still about 15 per cent below the peak level reached two years earlier.

The decline in business investment in Japan appears to stem more from demand factors than from policy actions, although some observers feel that in the early part of the recession fiscal policy may have acted pro-cyclically through cutbacks in public works expenditures. During 1975, fiscal policy resumed its usual countercyclical role, as public investment outlays were accelerated.

Economic developments in Japan often reflect close government-private sector cooperation. Reportedly at the urging of the Ministry of International Trade and Industry, the major steel firms are planning large investment increases for FY1976/77 (which began April 1). Available survey data show substantial increases in real nonmanufacturing investment, but no increase in manufacturing investment generally. Although total fixed investment in Japan is projected by the government to rise perhaps 5.5 per cent this year, most of the gain will be attributable to public works expenditures and continued advances in residential construction.

The U.K. Incomes Policy. On May 5, the U.K. government announced that it had reached an agreement with the Trades Union Congress that will limit pay increases to an average of about 4-1/2 per cent during the twelve months starting August 1, 1976 in return for a tax reduction. The agreement involves a £2-1/2 per week raise for all workers earning less than £50 per week; no more than a £4 raise for those earning more than £80 per week; and a five per cent limit to raises for those earning between £50 and £80 per week. (The average industrial wage is about £67 per week.) Under the present £6 per week limit on pay increases those with weekly salaries over £163 receive no wage increases; under the new agreement they will get a raise of £4 per week (less than 2-1/2 per cent).

The new pay limits will be subject to the same overall rules as the present £6 limit and the same enforcement procedures will apply (i.e., industry will not be able to pass on any part of an excessive wage bargain in the form of higher prices, and any excessive settlements by government bodies will not be funded). According to the government, there will be no exceptions to the wage limits. Price controls are to remain in effect throughout the period covered by the new wage agreement, but the present controls are to be modified to encourage investment and employment.

In the April 6 Budget message, the government offered the unions tax relief in return for a "low" pay limit. It was suggested in the Budget message that 3 per cent was an appropriate limit and that anything in excess would mean fewer tax concessions. However, even though the new agreement exceeds 3 per cent, the government intends to grant the full amount of the conditional tax reductions proposed in the Budget.

The initial reaction within the United Kingdom to the pay deal has been generally favorable. Both organized labor and industry have endorsed the new agreement. Although some individual unions and union leaders have expressed their opposition, at this time there seems to be more acceptance of the 4-1/2 per cent limit than there was for the present universally-adhered-to £6 limit at a comparable time last year.