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CONFIDENTIAL (FR)

June 16, 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	May	6-4-76	94.6	1.5	4.7	1.9
Unemployment rate (per cent)	May	6-4-76	7.3	7.5 1/	7.6 1/	8.9 1/
Insured unemployment rate (%)	May	6-4-76	4.3	4.2 1/	4.4 1/	6.7 1/
Nonfarm employment, payroll (mil.)	May	6-4-76	79.0	.9	3.2	3.3
Manufacturing	May	6-4-76	18.9	-2.6	3.5	4.2
Nonmanufacturing	May	6-4-76	60.1	2.0	3.1	3.0
Private nonfarm:						
Average weekly hours (hours)	May	6-4-76	36.3	36.0 1/	36.4 1/	35.9 1/
Hourly earnings ($)	May	6-4-76	4.84	4.78 1/	4.75 1/	4.49 1/
Manufacturing:						
Average weekly hours (hours)	May	6-4-76	40.3	39.4 1/	40.3 1/	39.0 1/
Unit labor cost (1967=100)	Apr.	5-28-76	148.9	6.5	-.3	1.0
Industrial production (1967=100)	May	6-15-76	123.2	8.8	7.9	11.9
Consumer goods	May	6-15-76	133.9	9.9	5.8	10.5
Business equipment	May	6-15-76	123.8	19.7	11.3	7.7
Defense & space equipment	May	6-15-76	78.9	10.7	-1.0	-4.6
Material	May	6-15-76	123.8	10.8	12.7	18.0
Consumer prices (1967=100)	Apr.	5-21-76	168.3	5.0	2.9	6.0
Food	Apr.	5-21-76	178.9	6.7	-5.1	4.6
Commodities except food	Apr.	5-21-76	154.4	3.9	3.4	4.7
Services	Apr.	5-21-76	178.0	5.4	7.6	8.3
Wholesale prices (1967=100)	May	6-4-76	181.6	3.3	5.6	5.0
Industrial commodities	May	6-4-76	179.6	.7	2.9	6.0
Farm products & foods & feeds	May	6-4-76	186.8	12.3	14.4	2.1
Personal income ($ billion) 2/	Apr.	5-19-76	1347.6	10.4	10.4	11.5
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Apr.	6-2-76	48.1	.5	11.4	25.3
Capital goods industries	Apr.	6-2-76	13.7	.3	16.3	14.3
Nondefense	Apr.	6-2-76	11.5	4.4	10.8	11.3
Defense	Apr.	6-2-76	2.2	-16.8	56.6	33.7
Inventories to sales ratio:						
Manufacturing and trade, total	Apr.	6-14-76	1.45	1.45 1/	1.49 1/	1.64 1/
Manufacturing	Apr.	6-2-76	1.57	1.59 1/	1.65 1/	1.87 1/
Trade	Apr.	6-14-76	1.32	1.31 1/	1.33 1/	1.42 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	Apr.	6-2-76	.845	.846 1/	.838 1/	.821 1/
Retail sales, total ($bil.)	May	6-10-76	52.6	-1.2	.1	9.3
GAF	May	6-10-76	12.9	-.3	-1.9	4.2
Auto sales, total (mil. units) 2/	May	6-3-76	10.0	-4.2	-1.3	30.3
Domestic models	May	6-3-76	8.5	-5.4	-2.4	37.3
Foreign models	May	6-3-76	1.5	3.7	4.9	1.3
Plant & Equipment Expen. ($ bil.)	1975	6-7-76	112.78	--	--	.3
All Industries	1976 3/	6-7-76	121.03	--	--	7.3
	QI'76	3/ 6-7-76	114.72	2.6	--	.1
	QII'76	3/ 6-7-76	121.14	5.6	--	7.7
	QIII'76	3/ 6-7-76	123.00	1.5	--	9.7
Capital Appropriations, Mfg.	QI'76	6-7-76	11,134	-12.4	--	-2.8
Housing starts, private (thous.) 2/	Apr.	5-18-76	1,372	-4.3	11.0	39.7
Leading indicators (1967=100)	Apr.	5-28-76	107.8	1.1	2.7	14.0

1/ Actual data. 2/ At Annual rate. 3/ Planned-Commerce May Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Economic data during the past month reflect continued expansion of the economy, although at a more moderate pace than earlier this year. Employment and production gains were again strong, but there are indications that consumer spending has lost some momentum. In addition, although capital spending has grown rather briskly so far this year, recent survey results suggest that businessmen retain a cautious attitude in regard to expenditure plans. Meanwhile, the movement in wages and prices remains moderate compared to the experience of recent years; however, production costs--especially labor compensation--continue to rise at a rate well above the growth in productivity and, as a result, are still placing significant upward pressure on prices.

Industrial production is estimated to have increased 0.7 per cent further in May, a rise similar to the increases in recent months (the April index was revised downwards and now shows a 0.5 per cent rise). Gains in output were widespread among products and materials and would have been somewhat larger except for the rubber strike. Auto assemblies rose only 0.4 per cent in May as production of compact and sub-compact cars was reduced. The rubber striks has had no discernible impact on auto assemblies as yet. Indeed, it has been reported that the existing stockpile of tires is sufficient to permit uninterrupted production through the end of the 1976 model year in late July or August.

NONFARM PAYROLL EMPLOYMENT
(In thousands; seasonally adjusted)

	Change From:			
	Sept. 74 to June 75	June 75 to May 76	Mar. 76 to Apr. 76	Apr. 76 to May 76
Nonfarm Total	-2,487	2,656	312	57
(Strike adjusted)		(2,748)		(149)
Construction	- 510	10	26	10
Manufacturing	-2,004	828	92	- 41
(Strike adjusted)		(848)		(20)
Durable	-1,416	501	59	32
Nondurable	- 588	327	33	- 73
Trade	- 266	580	58	13
Services and Finance	82	771	80	66
State and local government	400	418	41	27

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

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1974	1975	1976		
	May	May	Mar.	Apr.	May
Total	5.1	8.9	7.5	7.5	7.3
Men, 20 years and older	3.3	7.2	5.6	5.4	5.6
Women, 20 years and older	5.0	8.4	7.3	7.3	6.8
Teenagers	15.3	20.3	19.1	19.2	18.5
Household Heads	2.9	6.1	5.0	4.8	4.8
Married Men	2.2	5.7	4.1	3.9	4.0
White	4.6	8.3	6.8	6.7	6.6
Negro and other races	9.1	14.2	12.5	13.0	12.2
State Insured*	3.3	7.0	4.2	4.2	4.3
Total, using additive seasonal factors		8.7	7.7	7.4	7.1

*Per cent of covered workers under regular state programs.
NOTE: May 1975 was the specific high for the total unemployment rate.

Output of other durable consumer goods showed strong gains. Production of business equipment rose 1.6 per cent, but output of construction products declined somewhat. Production of steel, aluminum, and other nonferrous metals accelerated. Output of most nondurable goods and nondurable materials increased moderately. But in recent months, the main impetus behind overall production gains has begun to shift to durables, while increases in total nondurables have tailed off somewhat.

Paralleling the gain in production, jobs continued to expand in May. Nonfarm payroll employment grew 150,000 (strike adjusted) and is now 260,000 above its prerecession high. The average workweek also rose sharply from the holiday-depressed April level but was only slightly higher than in March. The unemployment rate fell 0.2 percentage points to 7.3 per cent, with improvement for women and youth. Jobless rates for married men and persons covered by regular State unemployment insurance programs were essentially unchanged from their March and April levels.

The surge in consumer spending that has been a major source of support for previous increases in production and employment has lost some of its momentum in the past two months. Total retail sales declined 1.2 per cent in May following a slight drop in April. The advance estimate for the May level is only slightly above the first quarter average.

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

	1975	1976		1976		
	III-IV	IV-I	I-May	Mar.	April	May
Total sales	2.2	3.3	.3	1.4	-.1	-1.2
(Real*)	(1.0)	(3.0)	n.a.	(1.5)	(-1.5)	n.a.
Total, less auto and nonconsumption items	1.6	1.9	.0	2.0	-1.2	-.3
GAF	2.8	1.4	-1.3	2.1	-3.6	-.3
Durable	4.4	6.4	1.0	.0	2.7	-3.0
Auto	4.9	8.7	1.1	-1.8	4.0	-3.9
Furniture and appliances	5.1	1.0	2.1	2.4	-.1	-.3
Nondurable	1.2	1.9	-.1	2.1	-1.4	-.4
Apparel	.7	2.8	-5.3	.3	-7.2	1.0
Food	1.0	2.0	-1.6	1.3	-2.2	-.2
General merchandise	2.7	1.1	-1.2	2.4	-3.6	-.7
Gasoline	-1.2	3.0	.1	.8	-.1	-.4

*Deflated by an unpublished Bureau of Economic Affairs price measure.

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

	1975		1976	1976				
	III	IV	I	Jan.	Feb.	Mar.	Apr.	May
Total auto sales	9.2	9.2	10.1	9.6	10.2	10.4	10.5	10.0
Imports	1.7	1.3	1.3	1.2	1.4	1.4	1.5	1.5
Domestic	7.5	7.9	8.7	8.4	8.7	8.9	9.0	8.5
Large	4.3	4.4	5.1	4.9	5.1	5.4	5.5	5.2
Small	3.2	3.6	3.5	3.5	3.6	3.5	3.4	3.2

Sales of new domestic-type autos were at an 8.5 million unit annual rate, off 500,000 from April and 200,000 below the first quarter average. However, preliminary data for early June suggest a pronounced rebound of auto sales. Retail sales excluding autos and building materials fell by only 0.3 per cent last month, with losses widespread by type of stores. The recent FTC ruling on Holder in Due Course may be causing some selective reductions of availability of consumer credit and, thereby, may be slightly curtailing sales for some items.

The most recent consumer attitude surveys weakened after improving for more than a year. The Conference Board survey--taken in late March and early April--indicated increased concern about future income and economic conditions. These attitudes were apparently unrelated to actual developments at the time of the survey, since appraisals of current economic conditions were little changed from those reported in the February survey. Most questions in the Michigan survey, which was taken more recently in late April and May, remained at about the greatly improved first quarter level, although there was a slight decline in the five questions used for the index of consumer sentiment. Experience suggests that weakening of attitudes in these two surveys is probably coincident with the recent decline in retail sales, and does not necessarily have implications for future spending. Moreover, the continued growth of employment and earnings in May and real personal income gains of 0.5 per cent in April should support further increases in consumption.

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

	1975			1976		
	II	III	IV	I	Mar.	Apr.
Manufacturing and trade	-18.8	5.4	-1.3	19.5	19.9	10.7
Manufacturing	-12.5	-6.6	.6	6.3	9.9	.8
Durable	-4.3	-8.6	-3.5	1.8	6.0	-.8
Nondurable	-8.2	2.0	4.2	4.5	3.9	1.6
Trade, total	-6.3	11.9	-1.9	13.2	10.0	9.9
Wholesale	-2.7	3.1	-2.0	5.1	1.1	3.1
Retail	-3.6	8.8	.1	8.0	8.9	6.8
Auto	-1.7	5.5	.3	-.5	1.5	-.4

INVENTORY RATIOS

	1973	1974	1975	1976		
	I	I	I	I	Mar.	Apr.
Inventory to sales:						
Manufacturing and trade	1.47	1.49	1.66	1.48	1.45	1.45
Manufacturing total	1.60	1.63	1.92	1.63	1.59	1.57
Durable	1.91	2.05	2.50	2.09	2.02	2.00
Nondurable	1.23	1.18	1.32	1.15	1.14	1.13
Trade, total	1.34	1.35	1.42	1.33	1.31	1.32
Wholesale	1.20	1.10	1.26	1.19	1.18	1.18
Retail	1.42	1.52	1.57	1.42	1.41	1.42
Inventories to unfilled orders						
Durable manufacturing	.802	.699	.803	.846	.846	.845

Inventory and investment data both indicate an underlying caution in business attitudes. Book value of business inventories rose at a $10.7 billion annual rate in April, about half the first quarter rate of increase. At manufacturers, durable stocks were run off slightly following a large March rate of increase, while nondurable stocks rose at about half the average rate of the last two quarters. The book value of trade inventories rose at about a $10 billion annual rate in April, somewhat below the $13 billion first quarter average rate of rise.

The slower rate of accumulation in April appears to be signaling a transition, as soft-goods stocks adjust back to a more "normal" rate of expansion after the extraordinarily large first quarter rise. Hard goods, however, are probably only at the beginning of their inventory build-up. Current inventory-sales ratios on a book value basis are low by postwar standards and suggest that stocks will be built-up as sales increase. For producers of durable goods in April, the inventory-sales ratio had fallen below the average level recorded in the expansion years of 1972 through 1974. The inventory-sales ratio for manufacturers of nondurable goods declined further in April.

The May Commerce survey of anticipated plant and equipment expenditures by business reported a 7.3 per cent increase for 1976. These plans represent some improvement over the 6.5 per cent increase reported in the February Commerce survey, but they are considerably less optimistic than the McGraw-Hill spring survey that, on the basis of a smaller and less representative sample, reported a 12.9 per cent increase. The new Commerce survey indicates that nondurable manufacturers and utilities are planning the largest increases for the year.

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

	McGraw-Hill		Commerce [1]		
	Oct. 1975	April 1976	Dec. 1975	Feb. 1976	May 1976
All Business	8.8	12.9	5.5	6.5	7.3
Manufacturing	8.4	13.9	5.0	8.1	9.5
Durable	1.0	8.1	.8	5.0	4.1
Nondurable	14.7	18.8	8.4	10.8	14.1
Nonmanufacturing	9.0	12.2	5.8	5.2	5.7
Mining	20.6	23.2	-4.1	2.3	.5
Transportation	-1.4	.4	-12.5	-17.7	-14.0
Utilities	16.0	21.7	18.1	15.4	14.5
Communications	7.0	9.0	13.1	6.5	8.6
Commercial and Other	5.0	7.0	.8	3.4	3.3

[1] The Commerce Department adjusts their survey results for systematic bias. Without bias adjustment the December survey showed a 7.3 per cent increase, the February survey showed a 9.0 per cent increase, and the May survey showed a 8.3 per cent increase.

Manufacturers' New Capital Appropriations[1]
(Per cent change from prior period based on seasonally adjusted quarterly totals)

	1975				1976
	QI	QII	QIII	QIV(r)	QI(p)
Manufacturing	-9.7	-3.3	-5.3	21.1	-12.4
Ex Petroleum	-15.4	-14.7	-3.8	20.6	-1.3
Durable	-27.4	-19.6	-4.2	16.5	10.2
Nondurables	9.2	8.2	-5.8	23.6	-23.7
Ex Petroleum	6.4	-8.6	-3.4	25.1	-12.9

[1] Sources is Conference Board Survey of 1000 largest manufacturing companies as ranked by total assets.

New capital appropriations of large manufacturing firms declined 12.4 per cent in the first quarter. Excluding the volatile petroleum industry, however, the total for manufacturing eased off only 1.3 per cent after a whopping 20.6 per cent rise in the previous quarter. Backlogs of unspent appropriations remain quite high relative to the current rate of spending; it would take 4.1 quarters to work off existing backlogs.

A more encouraging aspect of the available evidence about business fixed investment is that new orders for nondefense capital goods rose 4.4 per cent in April. This is the largest of four consecutive increases that have resulted in a total increase of 12.9 per cent since December. In real terms, new orders are now 13 per cent above their low of March 1975 but still one-fourth below their peak of April 1974. So far, the rise in new orders has not resulted in any build-up in unfilled orders, as shipments have kept pace with incoming orders.

As is typical of the early stages of recovery in capital spending, the prospects for nonresidential structures are weak relative to equipment. In April, the value of nonresidential construction put in place decreased, and contracts for commercial and industrial buildings (measured in square feet) edged off slightly following 2 months of gains. There has been no sustained advance in the latter series, which was one third lower in April than the average monthly rate in the peak year of 1973. But this series has not been a reliable

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

	1975		1976	1976				April 1975 to
	QIII	QIV	QI	Jan.	Feb.	Mar.	Apr.	April 1976 2/
Total Durable Goods								
Current Dollars	7.3	1.0	7.0	.8	4.2	6.5	.5	25.3
1967 Dollars 1/	6.7	-1.5	5.5	.3	4.0	5.9	-4.6	13.3
Nondefense Capital Goods								
Current Dollars	1.9	.6	.6	1.9	3.5	2.6	4.4	11.3
1967 Dollars 1/	.7	-1.3	.1	1.1	3.2	2.3	4.0	5.1

1/ FR deflation by appropriate wholesale price index.

2/ Per cent change, not at a monthly rate.

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

	1975		1976	1976				Apr. 1975 to
	QIII	QIV	QI	Jan.	Feb.e	Mar.	Apr.	Apr. 1976
Total 1/	-4.1	.6	-8.6	-24.1	7.5	31.4	-.7	-5.1
Commercial	-1.5	3.5	2.0	-7.4	3.1	10.9	-9.2	-5.6
Industrial	-9.7	11.7	-13.4	-30.4	24.3	-4.7	25.1	7.9

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

leading indicator in recent quarters, largely because it does not cover the nonbuilding construction components--public utilities, pipelines, mining, and oil and gas drilling--which have recently been the source of strength in nonresidential construction.

Private housing starts declined 4 per cent further in April to a seasonally adjusted annual rate of 1.37 million units. Residential building permits were also lower and have moved up only a little since November. The pattern of total housing starts in recent months reflects the continued low level of multi-family construction. Starts in this sector began to recovery last summer from their extremely low level but have averaged only 290,000 annual rate since the beginning of the year. The pace of single-family starts on the other hand, although off somewhat in recent months was still over a million units in April. This was within 30 per cent of the peak-year pace of 1972, when starts were bolstered by several now-curtailed housing subsidy programs.

Conditions in real estate and mortgage markets continued to suggest moderate near term strength in overall housing activity as mortgage lending commitments outstanding at S&Ls increased further in April. However, home sales (both new and existing) have leveled off in recent months at rates below the levels reached late last year. A major impediment to stronger gains in housing activity is the continuing caution of investors and lenders who remain wary of the profitability of both condominium and rental units in multi-family

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

	1975			1976			Per cent change in Apr. from:	
	QII	QIII	QIV	QI	Mar.(r)	Apr.(p)	Month ago	Year ago
Permits	.90	1.04	1.06	1.13	1.13	1.10	-3	+32
Starts	1.05	1.26	1.37	1.41	1.43	1.37	-4	+40
1-family	.83	.95	1.03	1.12	1.12	1.07	-5	+38
2- or more-family	.22	.31	.33	.28	.31	.31	-3	+47
Under construction 1/	1.05	1.04	1.04	1.05	1.05	1.06	+1	-2
1-family	.52	.53	.56	.59	.59	.60	+1	+16
2- or more-family	.53	.51	.48	.46	.46	46	--	-19
Completions	1.24	1.28	1.28	1.30	1.39	1.26	-9	+1
1-family	.81	.91	.91	.97	1.02	.98	-4	+25
2- or more-family	.43	.37	.37	.33	.37	.28	-24	-39
MEMO:								
Mobile home shipments	.21	.23	.23	.27	.24	.24	+1	+29

1/ Seasonally adjusted, end of period.
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	
	Homes Sold 1/ (thousands of units)	Homes for sale 2/ (thousands of units)	Months' supply	New homes 3/	Existing homes	New homes (thou. of dollars)	Existing homes (thou. of dollars)
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	637	378	7.1	89	126	41.2	35.6
1976							
QI (r)	611	389	7.6	85	121	42.8	36.6
1975							
Oct.	610	389	7.7	85	122	40.7	35.4
Nov.	660	381	6.9	92	126	41.1	35.7
Dec.	641	378	7.1	89	131	42.1	35.8
1976							
Jan. (r)	573	379	7.9	80	116	41.6	36.3
Feb. (r)	677	385	6.8	94	122	42.9	36.2
Mar. (r)	583	389	8.0	81	124	43.6	37.2
Apr. (p)	613	393	7.7	85	124	44.1	37.7

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.

structures. In the case of condominiums, considerable overbuilding in many areas along with publicity about earlier abuses by some developers have sharply reduced the number of such starts. Construction of rental units has been hampered by the failure of rents to rise enough to cover higher development and operating costs. However, there is evidence of some tightening in many local apartment markets and the national vacancy rate for rental units of all types--currently around 5-1/2 per cent--nearly matches the level prevailing when the last multifamily building boom commenced in early 1970.

Other factors are apparently still hampering investor interest in multifamily construction. The well-publicized multifamily loan experience of some lenders, highlighted by the problems of the REITs, apparently has limited activity by most groups of lenders. Also, increased costs and more direct limitations associated with environmental restrictions and "no growth" policies have probably caused some multifamily developers and lenders to curtail plans unitl more profitable conditions prevail.

The caution being exhibited by businessmen and consumers likely stems in part from both the severity of the recent recession and the fear of an acceleration of inflation. Of late, however, price increases have continued to be relatively restrained. Wholesale prices rose 0.3 per cent in May, after rising 0.8 per cent in April. The May increase was principally the result of a 1.0 per cent rise in the farm

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	Mar. 76 to Apr. 76
All items	100.0	7.0	2.9	5.0
Food	24.7	6.5	- 7.9	6.7
Commodities (nonfood)	38.7	6.2	2.9	3.9
Services	36.6	8.1	10.6	5.4
Memo:				
All items less food and energy 2/3/	68.1	6.7	7.7	6.6
Petroleum products 2/	4.5	10.1	-15.7	-5.9
Gas and electricity	2.7	14.2	6.4	2.6

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 May 76	Apr. 76 to May 76
All commodities	100.0	20.9	0.5	11.7	0.0	7.2	4.0
Farm and food products	22.8	11.0	-5.6	16.9	-14.1	25.3	12.3
Industrial commodities	77.2	25.6	3.0	9.9	5.3	2.4	0.7
Excluding fuels and related products and power	66.9	22.5	2.6	6.6	7.2	1.1	-2.1
Materials, crude and intermediate2/	48.3	28.2	2.0	8.4	6.2	1.9	-1.3
Finished goods							
Consumer nonfoods	18.6	20.5	3.8	11.3	3.2	-0.4	0.0
Producer goods	11.8	22.6	8.7	8.6	6.5	2.5	0.7
Memo:							
Consumer foods	11.1	13.0	5.0	10.6	-13.8	33.4	12.4

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

and food products group where manufacturered animal feeds, sugar, coffee and soybeans accounted for most of the rise. Industrial prices edged up only 0.1 per cent as increases--mainly for machinery and equipment; hides, skins and leather; crude petroleum and gas fuels; and wastepaper and paper products--were only a little larger than price declines, chiefly for textile products, apparel, lumber and plywood. The May WPI, however, did not reflect the bulk of the recently announced price increases for steel or the widespread increases posted for gasoline; some of these will be reflected in the June data and should result in larger increases in industrials over the next several months.

The consumer price index which has also moderated significantly from last year's pace, was up 0.4 per cent, seasonally adjusted, in April. The CPI excluding food and energy prices rose 0.5 per cent, seasonally adjusted, in April and has been quite stable around this rate for nearly a year. Both meat and gasoline prices rose rapidly in April, but because of its timing the B.L.S. survey did not pick up these increases in the April index; they will be reflected in the May index, which is scheduled for release on June 22.

Even though the recovery has been underway for over a year, capacity constraints do not appear to threaten a near-term worsening of price developments. Major material capacity utilization now stands at 82.6 per cent, considerably below the 93 per cent rate recorded in

PAYROLL EMPLOYMENT: PRERECESSION PEAK AND CURRENT LEVELS
(Seasonally adjusted, in thousands)

Selected Industry	Prerecession Peak	(date)	May 1976	Per Cent Difference
Total nonfarm	78,830	(9/1974)	78,999	0.2%
Goods-producing	25,115	(12/1973)	23,101	- 8.0
Contract construction	4,116	(2/1974)	3,402	-17.4
Manufacturing	20,367	(12/1973)	18,928	- 7.1
Durable goods	12,097	(12,1973)	11,028	- 8.8
Primary metals	1,361	(12/1973)	1,180	-13.3
Fabricated metals	1,533	(12/1973)	1,388	- 9.5
Machinery ex. electrical	2,257	(10,1974)	2,058	- 8.8
Electrical equipment	2,083	(12/1973)	1,832	-12.0
Transportation equipment	1,910	(8/1973)	1.752	- 8.3
Nondurable goods	8,277	(1/1974)	7,900	- 4.6
Food	1,738	(3/1974)	1,701	- 2.1
Textiles	1,030	(3/1973)	973	- 5.5
Apparel	1,418	(4/1973)	1,314	- 7.3
Printing	1,116	(9/1974)	1,077	- 3.5
Chemicals	1,067	(9/1974	1,026	- 3.8
Transportation and public utilities	4,721	(2/1974)	4,497	- 4.7

INDUSTRIAL PRODUCTION: PRERECESSION PEAKS AND APRIL LEVELS
(Seasonally adjusted, 1967=100)

Sector	Prerecession Peak	(date)	April 1976	Per Cent Difference
Total	127.5	(11/1973)	122.5	- 3.9%
Manufacturing	127.4	(11/1973)	121.5	- 4.6
Durable	124.3	(11/1973)	113.6	- 8.6
Nondurable	131.5	(2/1974)	132.9	1.1
Total final products	123.7	(11/1973)	121.9	- 1.5
Consumer goods	133.5	(11/1973)	133.5	0
Business equipment	132.5	(9/1974)	122.0	- 7.9
Materials	131.5	(11/1973)	122.7	- 6.7

1973. Similarly, industrial employment remains well below its prerecession peak in major goods-producing sectors and so also does industrial production.

Although prices of many industrial materials have risen since the first of the year, the principal upward pressure on prices continues to be rising unit labor costs. The hourly earnings index--the closest measure to a national wage rate--increased at a seasonally adjusted annual rate of 8.9 per cent in May, with gains concentrated in transportation--reflecting the recent Teamster settlement--and services. Total labor compensation (both wages and fringe benefits) has been rising at roughly an 8 per cent annual rate so far this year. This relatively high rate of increase--coming in a period when joblessness has exceeded 7 per cent for nearly 1-1/2 years--illustrates the importance of past inflation in the wage determination process and is well above productivity gains. The consequent rise in labor costs is bound to place upward pressure on prices despite considerable excess capacity. An apparent example of such cost pressure is the recently announced 6 to 8 per cent increase in the prices for structural steel. Because the market for such steel is depressed, the increases, which are to be effective by mid-July, are widely interpreted to be in response to the scheduled August rise in steelworker wages and other cost increases.

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

	1975		1976			May 75 to	Dec. 75 to
	QIII	QIV	QI	April**	May**	May 76	May
Private Nonfarm	8.6	8.3	6.4	6.0	8.9	7.7	7.0
Construction	6.6	4.4	4.8	0.9	8.4	6.6	6.2
Manufacturing	8.6	8.3	6.8	7.4	3.6	7.5	6.6
Trade	8.7	6.4	4.7	4.2	8.7	6.2	6.1
Services	7.3	10.6	8.3	7.4	12.2	8.5	7.6
Trans. & Public Utilities	12.9	11.7	8.1	4.7	13.4	10.3	9.4

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

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

The staff is currently projecting a Federal budget deficit of about $73 billion for the fiscal year ending in June, an increase of more than $2 billion above last month's forecast. The estimate for Federal spending remains essentially unchanged at $372 billion, while incoming data suggest that revenues will total $299 billion for the current fiscal year, somewhat less than projected in the May Greenbook.

For fiscal 1977, the staff projects a deficit of $59 billion. The outlays estimate is unchanged from last month at $412 billion but the receipts estimate is down by $4 billion to $353 billion, reflecting lower estimates of corporate profits and personal income. The staff's revenue forecast assumes that Congress will permanently extend the Revenue Adjustment Act of 1975, which is due to expire at the end of this month. In addition, it is possible that the Congress will enact a package of tax reform measures which would tend to reduce some of the existing preference items. Such action is called for by the First Concurrent Resolution on the budget, which specifies a revenue gain of $2.0 billion for fiscal 1977 from this source. However, because of the considerable uncertainty in this area the staff estimates have not incorporated this item.

On a full employment basis, our current estimates indicate that budget policy will shift moderately toward restraint in the coming year, moving from a deficit of $9.0 billion in fiscal 1976 to one of $4.0 billion in fiscal 1977. These data reflect a small downward

revision in the growth rate of potential GNP from 4 per cent to 3.75 per cent beginning with 1976, recently adopted by the Council of Economic Advisers.

State and local purchases appear to be rebounding from the low rate of growth experienced in the first quarter. Employment has risen substantially since January and the value of construction put-in-place, which increased by $0.7 billion in April, has risen by $4 billion from the low registered in February.

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. 1/	Fiscal Year 1977 e/ Cong. est. 2/	Fiscal Year 1977 e/ F.R. Board	CY 1976 e/ F.R. Board	F.R.B. Estimates: Calendar quarters; unadjusted data 1975 IV*	1976 I*	1976 II	1976 III 3/	1976 IV
Unified budget receipts	281.0	297.9	298.7	351.5	362.5	352.9	314.8	67.2	66.9	92.3	81.5	74.1
Unified budget outlays	324.6	372.2	371.5	397.2	413.3	412.0	386.3	93.7	89.6	97.4	100.5	98.8
Surplus/deficit (-),unified budget 4/	-43.6	-74.3	-72.8	-45.7	-50.8	-59.1	-71.6	-26.6	-22.7	-5.1	-19.1	-24.7
Surplus/deficit (-), off-budget agencies	-9.5	-9.3	-8.9	-11.1	n.a.	-11.1	-12.5	-2.6	-3.8	-1.6	-4.5	-2.7
Means of financing combined deficits:												
Net borrowing from public	50.9	81.8	82.7	55.1	n.a.	65.6	81.5	25.9	24.1	9.3	19.4	28.7
Decrease in cash operating balance	1.6	-2.3	-5.5	1.2	n.a.	4.1	-1.6	2.1	.5	-5.0	4.3	-1.4
Other 5/	.7	4.1	4.5	.5	n.a.	.5	4.2	1.2	1.8	2.4	-.1	.1
Cash operating balance, end of period	7.6	9.9	13.1	4.8	n.a.	4.7	10.2	8.5	8.0	13.1	8.8	10.2
Memo: Sponsored agency borrowing 6/	11.0	5.1	3.1	10.8	n.a.	n.a.	2.6	1.8	.3	.3	.8	1.2
NIA Budget								Seasonally adjusted, annual rates				
Receipts	281.5	307.4	306.6 7/	364.7	n.a.	n.e.	327.1	302.1	312.2	321.6	332.2	342.4
Outlays	328.7	378.7	376.7	404.5	n.a.	n.e.	392.9	374.2	381.3	387.6	396.5	406.2
Surplus/deficit (-)	-47.2	-71.3	-70.1	-39.8	n.a.	n.e.	-65.8	-72.1	-69.1	-66.0	-64.3	-63.8
High Employment surplus/deficit (-) (NIA basis) 8/9/	5.6	n.a.	-8.9	n.a.	n.a.	-4.1	-8.1	-7.8	-11.7	-8.6	-7.0	-5.2

*Actual e--Estimated n.e.--Not Estimated n.a.--Not Available p--Preliminary

1/ Treasury statement, May 28, 1976.
2/ First Concurrent Resolution on the Budget, April 29, 1976.
3/ Effective in CY 1976, the fiscal year for the U.S. Government changes from July 1 - June 30 to October 1 - September 30. Hence, 1976 QIII represents a transition quarter.
4/ 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.
5/ Checks issued less checks paid, accrued items and other transactions.
6/ Includes Federal Home Loan Banks, Federal National Mortgage Association, Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives.
7/ Quarterly average exceeds fiscal year total by $.7 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 incorporates taxes on inventory profits beginning 1973.

III-T-1

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator		Latest data Period	Latest data Level	Net change from Month ago	Net change from Three months ago	Net change from Year ago
Monetary and credit aggregates				SAAR (per cent)		
Total reserves		May	34.15	4.4	1.1	- -
Nonborrowed reserves		May	34.03	1.9	.7	-0.1
Money supply						
M1		May	303.1	5.6	8.9	5.4
M2		May	697.0	8.8	10.9	10.0
M3		May	1151.0	10.4	12.1	12.3
Time and savings deposits (Less CDs)		May	393.8	11.1	12.5	13.8
CDs (dollar change in billions)		May	68.2	-3.2	-7.2	-16.9
Savings flows (S&Ls + MSBs + Credit Unions)		May	454.0	12.8	13.9	15.9
Bank credit (end of month) 1/		May	741.9	5.2	5.9	5.2
Market yields and stock prices			Percentage or index points			
Federal funds	wk. endg.	6/9/76	5.44	.42	.57	.29
Treasury bill (90 day)	"	6/9/76	5.46	4.42	4.38	.34
Commercial paper (90-119 day)	"	6/9/76	5.88	4.63	4.63	4.33
w utility issue Aaa	"	6/11/76	8.72	-.10	.09	-.23
unicipal bonds (Bond Buyer)	1 day	6/10/76	6.86	.03	-.12	.06
FNMA auction yield	(FHA/VA)	6/14/76	9.14	.02	.08	.80
Dividends/price ratio (Common stocks)	wk. endg.	6/9/76	3.86	.09	.15	-.21
NYSE index (12/31/65=50)	end of day	6/14/76	5.47	.26	.94	6.08

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 1/	May	.3	-1.8	-3.9	-4.5
Consumer instalment credit outstanding	April	1.4	-.2	5.4	-1.0
Mortgage debt outst. (major holders)	March	4.2	2.5	11.9	7.9
Corporate bonds (public offerings)	May	2.2e	3.8	11.9e	17.4
Municipal long-term bonds (gross offerings)	May	34.5e	29.0	14.2e	12.2
Federally sponsored Agcy. (net borrowing)	May	-.7	-1.5	.4	-1.1
U.S. Treasury (net cash borrowing)	June	3.9	.6	33.4	36.1
Total of above credits		45.8	32.4	73.3	67.0

e - Estimated

1/ Data revised to reflect seasonal factor adjustment and benchmark to December 31, 1975, Call Report.

DOMESTIC FINANCIAL DEVELOPMENTS

Recent financial data suggest that some of the credit market developments normally associated with a cyclical upswing in economic activity may now be emerging. Further growth in outlays for inventories and fixed capital apparently is generating an enlarged demand for external funds in the business sector; in addition to continuing their high volume of capital market financing, firms have, of late, become modest net borrowers of short-term funds both at commercial banks and in the commercial paper market. Perhaps with an eye to a prospective strengthening in business loan demands, as well as to the potential impace of higher market rates of interest on savings and small denomination time deposits, money market banks have begun to expand their CD liabilities. And thrift institutions, although experiencing no significant reduction to date in their deposit inflows, nonetheless have dipped modestly into their ample stores of liquid assets to meet takedowns of mortgage commitments.

These developments have left their imprint on market rates of interest. With the Federal funds rate rising from 5-1/4 to 5-1/2 per cent immediately after the last FOMC meeting, most other short-term yields also have increased further since mid-May. Yields on commercial paper and CD's have posted the largest gains, advancing generally 1/4 to 1/2 of a percentage point, while yields on Treasury bills maturing in over 3 months have risen no more than 1/8 of a point. Since money market rates turned upward in mid-April, the spreads between Treasury and private yields have widened, on balance, by 1/8 to 1/4 of a per-

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

	May '75 FOMC May 20	Apr. '76 FOMC Apr. 20	May '76 FOMC May 18	May 25	June 1	June 8	June 15
Short-term							
Federal funds 1/	5.13	4.78	5.28	5.50	5.54	5.44	5.48 5/
Treasury bills							
3-month	5.11	4.73	5.28	5.46	5.55	5.45	5.37
6-month	5.37	5.08	5.73	5.84	5.90	5.77	5.74
1-year	5.70	5.42	6.03	6.17	6.27	6.15	6.07
Commercial paper							
1-month	5.25	4.75	5.25	5.50	5.63	5.63	5.75
3-month	5.50	5.00	5.50	5.75	5.88	5.88	6.00
Large neg. CD's 2/							
3-months	5.60	5.05	5.63	5.95	5.95	5.90	5.85
6-months	6.10	5.45	6.15	6.50	6.55	6.38	6.25
Federal agencies							
1-year	6.44	5.84	6.65	6.83	6.81	n.a.	n.a.
Bank prime rate	7.25	6.75	6.75	6.75	7.00	7.25	7.25
Long-term							
Corporate 1/							
New AAA utility	9.54	8.42	8.82	8.82	8.95	8.83	8.72p
Recently offered 3/	9.61	8.44	8.78	8.83	8.84	8.80	8.79p
Municipal (Bond Buyer) 4/	6.88	6.54	6.83	6.91	7.03	6.89	6.86
U.S. Treasury (20-year constant maturity)	8.14	7.82	8.13	8.14	8.10	8.07	8.02p
Stock prices							
Dow-Jones	830.49	1003.46	989.45	971.69	973.13	959.97	985.92
N.Y.S.E.	47.80	54.76	53.92	52.98	53.16	52.62	54.04
AMEX	87.37	103.07	104.43	102.88	102.91	101.46	103.23
Keefe Bank Stock	528	564	589	591	583	581	589

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 June 16.
n.a.--not available.
p--preliminary.

centage point; simultaneously, the spread between market yields and commercial bank loan rates has diminished somewhat, despite the recent increase from 6-3/4 to 7-1/4 per cent in the prime rate at most major banks.

In long-term credit markets, the general level of interest rates has changed little since the last Committee meeting. Earlier, when the money markets first began to firm and market expectations shifted, long rates had risen only slightly less than short rates, but since late May, long rates have edged down. Credit market participants recently have drawn encouragement from incoming data suggesting a moderation in the pace of economic expansion and in the rise of industrial prices, and they have become more sanguine about the near-term outlook for System policy in light of the stabilization of the funds rate and the return of growth in the monetary aggregates to a relatively moderate pace.

Monetary Aggregates and Bank Credit

Since rising strongly in early April, M_1 has fluctuated from week-to-week within a rather narrow range, growing only modestly on balance. On a monthly average basis, it rose at a 5-1/2 per cent annual rate in May, as compared with 15 per cent in April.[1/] In contrast to the persistent weakness in money demand noted throughout most of 1975, the 8 per cent growth rate of M_1 since January is more nearly in line with

1/ Preliminary data from the Demand Deposit Ownership Survey indicate that the household sector accounted for much of the surge in M_1 during April. Gross demand deposits of households are estimated to have risen at about a 19 per cent seasonally adjusted annual rate in that month.

MONETARY AGGREGATES[1/]
(Seasonally adjusted changes)

	1975			1976			Twelve months ending
	HI	HII	QIV	QI	Apr.	May p	May 1976
	Per cent at annual rates						
M_1 (currency plus demand deposits)	4.0	4.7	2.3	2.6	14.9	5.6	5.4
M_2 (M_1 plus time deposits at commercial banks other than large CDs)	8.0	8.3	6.4	10.1	14.9	8.8	10.0
M_3 (M_2 plus deposits at thrift institutions)	10.2	11.5	9.4	11.4	14.9	9.8	12.3
Adjusted bank credit proxy	4.7	3.7	6.0	2.3	3.0	-3.9	2.9
Total time and savings deposits at commercial banks	8.3	7.3	9.7	7.8	8.1	1.0	7.1
a. Other than large CD's	11.3	11.4	9.8	15.9	14.9	11.1	13.8
1. Savings deposits	15.7	17.0	14.4	28.3	22.1	17.7	23.3
2. Time deposits	8.3	7.4	6.6	6.7	9.1	5.6	6.9
Deposits at nonbank thrift institutions:							
a. Savings and loan associations	15.1	18.2	15.6	15.0	14.3	13.9	17.6
b. Mutual savings banks	9.3	11.9	9.4	9.1	10.5	10.7	11.3
c. Credit unions	19.0	18.6	17.6	16.8	12.8	n.a.	18.6[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	-3.8	0.2	-0.1
b. Negotiable CD's	-1.0	-0.2	1.3	-3.2	-1.8	-3.2	-1.4
c. Nondeposit sources of funds	-0.2	0.2	0.5	-0.1	-0.7	0.1	--

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

the average relationship among changes in money, income, and interest rates that prevailed before mid-1974.

Although the data thus far available for early June are consistent with the staff's expectation of further moderate expansion in M_1, a recent statutory change in New York State has injected a new element of uncertainty into the outlook for this aggregate. Effective June 1, mutual savings banks and State-chartered savings and loan associations in that State were permitted to offer regular checking accounts to consumers. Given the major share of MSB's in the New York market for consumer time and savings deposits, the possibility exists that a significant volume of demand deposits will be transferred from commercial banks to MSB's--thereby imparting a downward bias to M_1 as it is currently measured.[1/]

Growth in the broader money stock measures--M_2 and M_3--also slackened in May. The moderation in M_1 expansion accounted for most of this deceleration, but slower growth of time and savings deposits (excluding CD's) contributed as well. Inflows to savings and small denomination time deposits may have been reduced somewhat by an unusually early reduction in the volume of tax refunds as well as by the initial effects of higher market rates of interest.

Market yields, even on Treasury securities, now stand above Regulation Q ceiling rates in all maturity categories. As yet, the

1/ A survey by the New York State savings bank association indicated that inflows to the new accounts at 28 MSB's amounted to $11 million during the first 4 days of June. It is impossible, on the basis of available information, to make any blow-up of these data, but they do suggest that the demand deposit flows in New York could have a small, but noticeable, impact on the June growth rate of M_1.

differentials are not sufficient to stimulate significant disintermediation by potential holders of longer-dated time deposits. However, with 3-month Treasury bills bearing coupon equivalent yields in excess of 5-1/2 per cent, commercial banks appear to be experiencing a reversal of the inflows of interest-sensitive funds to passbook accounts that occurred earlier this year when money market yields declined. Growth in savings deposits at commercial banks slowed from a 22 per cent annual rate in April to an 18 per cent rate in May, and a marked further diminution has been discernible in recent weeks.[1/]

Perhaps reflecting in part their higher rate ceilings, deposits at thrift institutions rose only slightly less rapidly in May than they did in April. Furthermore, sample data for the first 5 days of June indicate fairly substantial deposit gains at New York City MSB's, although these inflows may have been bolstered by the $273 million of Citicorp floating rate notes redeemed by investors on June 1.

The volume of large negotiable CD's outstanding at weekly reporting banks continued to decline in the first half of May, as inflows of other deposits apparently were more than adequate to finance the desired expansion of asset portfolios. Since mid-May, however, the money market banks have become more aggressive bidders for CD funds--especially, according to market reports, in maturities of 6 months

1/ Savings deposits at all commercial banks are estimated to have declined slightly on a seasonally adjusted basis in the week ended June 2--the first weekly decline since late 1974. Unadjusted data for weekly reporting banks show outflows since mid-May from savings accounts of individuals and of State and local governments. Business savings accounts registered a modest outflow for the first time in the week ended June 2.

or more--and through June 2 had raised their outstandings by $1 billion (seasonally adjusted).

Total bank credit expanded at a 5 per cent annual rate in May (last-Wednesday-of-month basis), about the same increase as in April. As in previous months, net acquisitions of Treasury securities accounted for the bulk of asset growth; despite some strength in real estate loans, total loans were essentially unchanged during the month.

Business Credit

Business short-term credit outstanding rose at a 3 per cent annual rate in May after remaining unchanged in April. Despite the still considerable cost advantage of open market financing, nonfinancial firms as a group divided their short-term borrowing fairly evenly between banks and the commercial paper market. At large banks, borrowing by the trade, mining and utility sectors picked up, and borrowing by manufacturing concerns exhibited less weakness than in earlier months of the year.

Although increased needs for working capital have led to some firming in business demands for short-term financing, businesses continue to seek funds primarily in the longer-term markets. The desire for balance sheet restructuring appears to remain the major--but perhaps no longer completely dominant--motivation in most industries. Gross issues of publicly offered corporate bonds totaled $2.2 billion during May, somewhat below the average monthly volume to date this year.

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

	1975			1976			
	H1	H2	QIV	Q1	Mar.	Apr.	May
Total loans and investments 2/	4.2	4.5	4.6	5.5	6.9	5.4	5.2
U.S. Treasury securities	83.7	22.1	14.1	44.3	54.0	24.5	40.0
Other securities	4.1	2.9	.8	-4.1	-10.0	5.9	--
Total loans 2/	-3.8	2.3	4.3	2.1	3.8	1.9	.5
Business loans 2/	-6.9	-1.7	--	-7.4	-17.6	-6.2	2.1
Real estate loans	2.2	4.3	7.0	8.9	8.8	6.9	8.6
Consumer loans	-6.2	5.0	5.6	3.7	4.1	11.0	n.a.
MEMO: Business loans plus nonfinancial commercial paper 3/	-7.1	-3.5	-3.4	-5.3	-17.2	--	3.2

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.

NOTE: DATA REVISED TO REFLECT REVISIONS IN SEASONAL FACTORS AND BENCHMARKING TO THE DECEMBER 31, 1975, CALL REPORT. A DESCRIPTION OF THE REVISION WILL BE AVAILABLE IN THE GREENBOOK SUPPLEMENT.

While the increase in interest rates caused several firms to postpone offerings previously slated for the month, other firms accelerated the timing or enlarged the size of their issues rather than risk a further advance in rates. Most of the postponed issues have been rescheduled for June, and the domestic bond calendar this month currently stands at $3.0 billion--the second largest monthly volume of 1976. In addition, a scheduled $750 million World Bank issue has boosted the projected volume of foreign offerings to about $1 billion.

The projected average monthly volume of public bond offerings during the first half of 1976, at about $2.5 billion, is only 10 per cent less than the average for all of last year. The quality composition of offerings has not changed significantly--firms rated Aaa or Aa have continued to account for somewhat more than half of the dollar volume. However, borrowing by both utility and industrial firms has diminished noticeably, and offerings by financial firms have risen sharply.

In the private placement market, staff estimates indicate that the pace of financing thus far in 1976 is ahead of the record of 1975. Assets of life insurance companies--the principal lenders in this market--increased by a record amount of almost $8 billion (excluding capital gains on equities) during the first 3 months of 1976. Because commercial and multifamily mortgage lending activity has been light, an unusually large share of these funds flowed into corporate debt obligations. This further improved the cost and availability of long-term financing for the smaller and lower-rated firms that traditionally are heavily dependent on the private market.

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

	1975		1976				
	Year	QIV	QI e/	April e/	May e/	June f/	July f/
			Gross offerings				
Corporate securities-- Total	4,476	4,361	4,414	4,300	4,400	5,500	4,300
Publicly offered bonds	2,717	1,939	2,430	2,400	2,200	3,000	2,200
By quality 1/							
Aaa and Aa	1,422	776	1,470	1,100	1,200	--	--
Less than Aa 2/	1,295	1,163	960	1,300	1,000	--	--
By type of borrower							
Utility	925	783	630	700	530	--	--
Industrial	1,432	780	1,200	850	845	--	--
Other	360	376	600	850	825	--	--
Privately placed bonds	852	1,378	786	900	900	1,000	900
Stocks	907	1,044	1,198	1,000	1,300	1,500	1,200
By type of issuer							
Manufacturing	123	158	323	350	650	--	--
Utility and transp.	598	664	750	450	450	--	--
Other	186	221	125	200	200	--	--
By type of issue							
Preferred	288	413	260	200	300	--	--
Common	619	631	938	800	1,000	--	--
Foreign securities 3/	451	634	447	428	350	1,040	300
State and local government securities							
Long-term	2,544	2,252	2,781	2,354	3,453	2,900	2,200
Short-term	2,420	2,216	1,678	2,453	2,316	2,000	1,600
			Net offerings				
U.S. Treasury	7,564	8,048	7,897	-1,650	3,970	2,300	8,000
Sponsored Federal agencies	187	390	416	-395	-867	774	478

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.

Firms also continue to tap the equity markets at a record pace. New stock offerings--including both common and preferred--increased to $1.3 billion in May. An unprecedented volume of offerings by manufacturing concerns accounted for one-half of this total. The equity calendar for June, which includes a $650 million AT&T common stock issue, currently is estimated at $1.5 billion--a level exceeded only once this year.

Other Securities Markets

State and local governmental units sold a record $3-1/2 billion of new long-term debt obligations during May, and they likely will market just under $3 billion of such issues in June. The massive volume of long-term financings during the current quarter appears to reflect, to a significant degree, a continuation of financial restructuring efforts by States and municipalities. During the first quarter, these units made sizable net repayments of short-term debt, and although the gross volume of short-term issues has risen during the second quarter, the level is substantially less than seasonal.

Nearly half of the short-term State and local borrowing this quarter is accounted for by the three-stage New York State note financing. The final part of this operation was completed on June 15, but not without some last minute worries. Several developments in late May and early June have raised additional doubts about the financial future of New York City. These included Moody's downgrading of certain MAC bonds from A to B; the inability of City University of

New York to meet its payroll; and expressions of concern by the Emergency Financial Control Board and the Treasury about the adequacy of the City's budgetary restraints for the next two fiscal years.

In the Treasury securities market, the Federal Government has raised $3 billion, net, in two note auctions and has redeemed $0.6 billion, net, in regular bill auctions since the May Committee meeting. Because of unexpected strength in its cash balance, the Treasury was able to meet its seasonal financing need prior to the June 15 tax date through the issuance of only $2 billion of nine-day cash management bills--roughly half the amount projected earlier by the Department. Treasury borrowing will pick up seasonally in the third quarter: the Board staff projects that $18 to $20 billion in new money will be raised, as compared with $23.5 billion in the same period last year.

Mortgage Market and Consumer Credit

All indications are that the demand for residential mortgage credit remains firm, albeit with considerable geographic variation. There have been reports in recent weeks of one-fourth percentage point increases in mortgage loan rates in some locales, and indeed, the average rate on new commitments did edge upward by five basis points in early June. Yields in the secondary market have fluctuated narrowly of late, after having risen 30 to 40 basis points from their April lows.

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&Ls with funds in short supply
1975-- High	9.59	--	66
Low	8.80	--	7
1976-- High	9.10	--	10
Low	8.70	--	0
1976			
May 7	8.75	0	1
14	8.75	0	2
21	8.78	+3	1
28	8.78	0	3
June 4	8.78	0	1
11	8.83	+5	n.a.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

	FNMA AUCTIONS OF FORWARD PURCHASE COMMITMENTS						Yields on GNMA guaranteed mortgage backed securities for immediate delivery
	Conventional			Govt.-underwritten			
	Amount ($ millions)		Yield to FNMA 1/	Amount ($ millions)		Yield to FNMA 1/	
	Offered	Accepted		Offered	Accepted		
1975-- High	100	51	10.92	643	366	9.95	9.10
Low	10	9	8.96	25	18	8.78	7.99
1976-- High	131	91	9.31	634	321	9.20	8.44
Low	33	25	9.00	58	32	8.83	8.00
1976							
May 3	111	60	9.09	483	222	8.94	8.16
10							8.16
17	129	70	9.24	634	321	9.13	8.44
24							8.44
June 1	131	91	9.31	350	225	9.20	8.44
7							8.39
14	77	70	9.30	147	99	9.14	8.34

1/ 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.

2/ Average net yields to investors assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the coupon rate 50 basis points below the prevailing ceiling rate on such loans.

During April, the most recent month for which data are available, net acquisitions of mortgages by all savings and loan associations were $3.7 billion (seasonally adjusted) and the volume of loan commitments outstanding rose to a three-year high of $19.8 billion (also seasonally adjusted).[1/] Despite strong deposit gains, these institutions experienced a decline in their aggregate liquidity ratio from 10.65 per cent at the end of February to 10.43 per cent at the end of April. The sharp falloff during May in net repayments of FHLB advances (to $121 million versus over $600 million per month, on average, during the first four months of 1976), suggests that S&L's may have found it necessary to dip further into their liquid assets in order to accomodate takedowns of commitments.

Extensions and repayments of consumer instalment loans both fell off considerably in April, leaving the growth rate of outstanding credit a little above the average pace of the first quarter. Auto credit, registering its largest increase in more than three years, led the advance. Commercial banks accounted for nearly 40 per cent of the gain in total credit, well above the average of the preceding six months.

A new F.T.C. rule limiting the application of the holder-in-due-course doctrine in consumer credit transactions went into

1/ It should be noted that, although these figures are very substantial in nominal terms, they remain well below previous peaks after allowance for inflation.

effect for sellers of goods on May 14. A proposed rule for creditors was previously published by the Board for comment, but final issuance must await further action by the F.T.C. The Board staff has conducted an informal telephone survey of financial and retail firms in order to assess the economic impact of these developments.

Partly because of the prevailing uncertainty about the scope and intent of the seller rule, as well as about the nature of the creditor rule that the Board ultimately will issue, the responses of those contacted varied considerably. The general impression conveyed, however, was that the aggregate effect on the cost and availability of consumer credit and on product markets--though adverse--probably will be limited. Some changes in financing arrangements likely will occur. For example, there may be some shift from indirect to direct financing of retail transactions, as indirect lenders terminate financing for any dealers that appear unlikely to stand behind the goods they sell--although cutbacks by some lenders probably will be offset in part by the captive finance companies. At the same time, it is reported that direct lenders have tightened their credit standards and have become more cautious with respect to the financing of certain types of expenditures, especially those on mobile homes, used cars, and home improvements. In general, finance rates will tend to drift upward in response to the increased costs associated with the new rule, and the prices of some goods may rise as discounters and marginal firms disappear and as new firms find entry more difficult.

CONSUMER INSTALMENT CREDIT

	1974	1975	1975 QIV	1976 QI	1976 Mar.	1976 Apr.
Total						
Change in outstandings						
$ Billion (SAAR)	9.5	3.6	10.1	15.9	18.2	17.2
Per cent	6.5	2.3	6.4	10.0	11.3	10.
Bank share (%)	39.0	-1.8	33.7	31.6	37.9	39.
Extensions						
Billion (SAAR)	166.1	166.9	180.0	193.4	195.8	189.
Bank share (%)	43.6	44.0	44.3	42.9	43.5	42.
Liquidations ($ billions, SAAR)	156.3	163.1	169.9	177.5	177.7	172.
Automobile Credit						
Change in outstandings						
$ Billion (SAAR)	0.9	1.4	5.3	7.1	7.9	8.5
Per cent	1.8	2.7	10.2	13.3	14.9	15.8
Extensions, $ billion (SAAR)	43.3	46.7	51.3	53.7	54.4	53.
New-car finance rate (%, APR)						
Finance companies	12.61	13.12	13.17	13.15	13.13	13.
Banks (36-month loan)	10.97	11.36	11.24	11.17	11.13	11.
New-car loans over 36 mos. (%)						
Finance companies	8.4	23.7	24.8	29.3	30.8	32.
Commercial banks 1/	8.8	14.0	17.0	20.0	--	--

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		1976			
		YEAR	Q-4	Q-1	Feb.*	Mar.*	Apr.*
1.	Trade balance	9,045	2,165	-1,404	-227	-603	-450
2.	Merchandise exports	107,184	27,689	27,002	8,777	9,285	9,279
3.	Merchandise imports	98,139	25,524	28,406	9,004	9,888	9,729
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	-2,592	-67	-2,059	3,049
9.	Claims on foreigners (inc.-)	(-13,099)	(-4,799)	-3,889	(-2,573)	(95)	(-2,314)
10.	Short-term	-10,846	-3,902	-3,599	-2,474	359	-2,077
11.	Long-term	-2,253	-897	-290	-99	-264	-237
12.	Liabilities to foreigners (inc.+)	(3,244)	(1,284)	(1,297)	(2,506)	(-2,154)	(5,363)
13.	Long-term liabilities	-355	91	166	-40	179	24
14.	Short-term liabilities 2/	3,599	1,193	1,131	2,546	-2,333	5,339
15.	to commercial banks abroad	(-501)	(-283)	(805)	(2,204)	(-2,671)	(4,715)
16.	(of which liab. to branches) 3/	(231)	(1,234)	(-831)	(531)	(-2,278)	(3,184)
17.	to other private foreigners	(1,823)	(865)	(231)	(313)	(173)	(673)
18.	to int'l regional organizations	(2,277)	(611)	(95)	(29)	(165)	(-49)
19.	Private transactions in securities, net	-3,898	-1,344	-1,528	-947	-591	-243
20.	U.S. purchases (-) of foreign securities	(-6,328)	(-2,361)	(-2,508)	(-1,201)	(-974)	(-377)
21.	of which: New bond issues	(-7,168)	(-2,573)	(-2,892)	(-1,296)	(-1,039)	(-470)
22.	Foreign purch. (+) of U.S. corp. securities	(2,430)	(1,017)	(980)	(254)	(383)	(134)
23.	Stocks 4/	2,984	790	939	194	425	154
24.	Bonds (includes U.S. Govt. agencies)	-554	227	41	60	-42	-20
25.	U.S. direct investment abroad, (inc.-)	-5,760	-1,765				
26.	Foreign direct investment in U.S., (inc.+)	1,934	1,008				
27.	Nonbank-reported: liquid claims, (inc.-)	-267	-113		271		
	other claims, (inc.-)	-1,211	-529				
	liabilities (inc.+)	379	-75				
30.	Changes in liab. to foreign official agencies	4,539 5/	2,968 5/	2,863	800	209	904
31.	OPEC countries (inc.+) 3/	5,677	1,780	1,500	219	1,058	372
32.	of which: stocks	(1,469)	(519)	(531)	(177)	(157)	(256)
33.	Other countries (inc.+)	-1,138 5/	1,188 5/	1,363	581	-849	532
34.	Changes in U.S. reserve assets (inc.-)	-607	89	-773	-39	-330	-521
35.	Gold	--	--	--	--	--	--
36.	Special drawing rights	-66	-21	-45	--	--	14
37.	Reserve position in the IMF	-466	-57	-237	-76	-55	-170
38.	Convertible currencies	-75	167	-491	37	-275	-365
39.	Errors and omissions	4,648	770				
	Memo:						
40.	Official settlements balance, S.A.		-3,057	-2,090			
41.	N.S.A.	-3,932	-2,437	-1,006	-761	121	-383
42.	O/S bal. excluding OPEC, S.A.		-1,277	-590			
43.	N.S.A.	1,745	-657	494	-542	1,179	-11

*/ Not seasonally adjusted (except for merchandise 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.
4/ Excludes OPEC transactions which are included in liabilities to foreign official agencies.
5/ Excludes a $250 million increase in liabilities resulting from the revaluation of System swap liabilities to Belgium and Switzerland.

Revised Data will be available in the Friday Supplement

INTERNATIONAL DEVELOPMENTS

In the past five weeks, market attention has focussed on the continuing weakness of the pound sterling and the sharp fluctuations of the Swiss franc. During this period the dollar has appreciated against all major currencies except the Swiss franc and the Canadian dollar, perhaps because of rising interest rates in the U.S. relative to those abroad. On a trade-weighted basis the dollar has appreciated about 1 per cent.

The heavy selling pressure on the British pound, which began in early March, continued during the period. From May 12 to June 4 the pound declined a further 6-1/2 per cent to the $1.71 level, despite the fact that the Bank of England

raised its Minimum Lending Rate from 10-1/2 to 11-1/2 per cent on May 21. On June 7, the Bank of England announced that it had received a $5.3 billion package of standby credits from the G-10 countries, Switzerland, and the Bank for International Settlements (including $1 billion from their $3 billion swap line with the Federal Reserve and a $1 billion swap arrangement with the U.S. Treasury). The pound recovered a sharp 3 per cent that day, but the following day the downward pressure resumed.

Early in the period the Swiss franc was very strong, rising about 4 per cent through June 2. But then the Swiss National Bank took a series of actions to reverse the trend. The BNS (a)

, (b) stated that it would intervene massively to extend the Swiss franc's turnaround, (c) provided an exchange rate guarantee to induce three Swiss banks to purchase $290 million equivalent of marks and lend them to the German government, and (d) took further steps to discourage the speculative purchase of Swiss francs. In an initial reaction to these measures the Swiss franc fell back to its level of mid-May, but in recent days it has begun to strengthen again.

Until about June 7 the Netherlands guilder was under downward pressure within the European joint float. In response the Netherlands central bank , tightened short term interest rates about 2-1/2 percentage points to the 6 per cent level, and, on June 1, increased the discount rate from 4 to 4-1/2 per cent. These actions caused a temporary abatement of the selling pressure on the guilder, but in the last few days it has re-emerged,

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The Italian lira, after first falling about 25 per cent and then recovering about 9 per cent earlier in the year, has been remarkably stable during the last five weeks. The lira was unchanged on net,

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. The System purchased $80 million equivalent of marks, $29 million equivalent of Belgian francs,

and $4 million equivalent of Netherland guilders - part of which were used to make a $20 million equivalent repayment on the Belgian-franc swap debt and the final $80 million equivalent repayment on the swap debt to the Bundesbank.

Euro-dollar interest rates rose a full percentage point on average during the last half of May, but have since declined about half that amount.

On June 2 the IMF auctioned the first 780,000 ounces of the 25 million ounces of gold it plans to sell over the next four years. All of the gold was sold at a common price of $126 per ounce. The free market price of gold seemed little affected by the auction itself, but over the last five weeks the price has declined about $3.00 per ounce to its present level of about $125.00.

International capital markets. Borrowing in international capital markets increased sharply in the first quarter of 1976 to over $16 billion. Although Euro-currency bank loans declined, new issues of Euro-bonds and foreign bonds reached record levels. All of the increase in total borrowing over the fourth quarter of 1975 was taken up by borrowers in developed countries and by international institutions; borrowing by developing countries declined. In April and May international borrowing decreased as the volume of bond issues contracted, at least partly because of rising interest rates in U.S. financial markets.

Euro-bond issues of $4.7 billion in the first quarter (World Bank data) were $2.2 billion (85 per cent) larger than the 1975 quarterly

Borrowing in Selected International Financial Markets
(in millions of dollars)

	1974	1975				1976
	Year	Year	1st H	Q-3	Q-4	Q-1
I. Publicized Euro-credits: 1/ total	28,532	20,575	8,538	4,835	7,203	6,310
Developed countries	17,243	5,090	2,264	1,367	1,459	1,680
France	3,331	506	377	84	45	164
South Africa	724	548	238	160	150	275
United Kingdom	5,723	603	253	318	32	458
United States	1,354	514	336	138	40	6
Others	6,111	2,919	1,060	667	1,192	777
Oil-exporting countries	789	3,208	1,443	770	995	752
Algeria	-	500	100	-	400	-
Indonesia	368	1,608	1,063	-	545	106
Iran	115	245	5	220	20	330
Others	306	855	275	550	305	316
Other developing countries	8,953	9,221	3,391	2,455	3,374	2,171
Brazil	1,605	2,120	723	738	659	680
Mexico	1,478	2,158	661	455	1,042	367
Philippines	883	253	110	-	143	532
Others	4,987	4,690	1,897	1,262	1,530	592
Other countries and international institutions	1,548	3,056	1,439	242	1,375	1,708
II. Euro-bonds: total	4,515	10,199	5,579	2,419	2,201	4,736
By borrower:						
Developed countries	2,288	8,071	4,396	1,732	1,943	3,036
Developing countries	113	488	349	139	-	166
Int'l. inst. (mainly) and other	2,114	1,640	834	548	258	1,534
By currency: 2/						
U.S. dollar	3,079	4,807	1,979	1,574	1,330	3,035
German mark	644	2,892	2,327	399	240	951
Other	788	2,500	1,279	481	744	750
III. Foreign Bonds: total	6,573	11,505	4,644	2,655	4,206	5,062
By borrower:						
Developed countries	2,937	6,895	2,775	1,630	2,490	3,632
Developing countries	817	318	194	46	78	-
Int'l. inst. (mainly) and other	2,813	4,292	1,675	979	1,638	1,430
By market country: 2/						
United States 3/	2,373	7,168	3,329	1,266	2,573	2,892
Switzerland	986	3,372	1,369	857	1,148	1,437
Other OECD countries	642	779	817	352	348	548
OPEC countries	2,572	186	14	133	38	185

1/ Credits of over one-year maturity. Data are based on completions of loan arrangements and not on drawdowns. 2/ 1975 quarterly and half-yearly data do not add to totals because of lack of revised figures for currency and market breakdowns. 3/ Balance of payments basis. Source: IBRD; Federal Reserve for bond issues in United States.

average and were more than twice the level of the last year's fourth quarter. Lower interest rates in the U.S. and Euro-dollar money markets contributed to the higher volume of new issues as Euro-bond yields to continued to drop throughout the first quarter from their highs of last September. In the secondary market, yields on straight dollar issues of U.S. companies and European companies in the first quarter averaged 50 and 65 basis points, respectively, below the fourth quarter. On the demand side for funds, large items in the first quarter were two public issues in March by the European Community totaling $495 million equivalent, part of the $1.3 billion EC package for relending to Italy ($1 billion) and Ireland ($300 million), and about $550 million of World Bank private placements. International institutions in general issued four times the amount of bonds as the 1975 quarterly average; the comparable increase in borrowings by issuers in developed countries was 50 per cent. Developing countries continued to be a very minor element in the demand for funds in the Euro-bond market.

Partial data indicate that new Euro-bond issues fell in both April and May from the preceding month, and were well below the first quarter monthly average. Yields continued to fall in April, but moved up in May as U.S. bond yields rose. April issues included a $500 million EC private placement for three years and seven months, much shorter than the normal maturity.

New issues of foreign bonds came to $5.1 billion in the first quarter, about 75 per cent more than the 1975 quarterly average. First

quarter volume was much higher in all markets, including the United States ($2.9 billion) and Switzerland ($1.4 billion). Long-term interest rates in both countries averaged well below fourth-quarter levels. Flotations in the United States exceeded the already high fourth-quarter amount, the rise reflecting a further sharp increase in Canadian issues to $2.1 billion. In April and May, on the other hand, there was a much smaller volume of foreign bond issues, averaging perhaps $700 million a month, principally because issues in the United States decreased sharply.

In contrast to international bond market developments, the $6.3 billion of publicized medium-term Euro-currency bank credits in the first quarter represented a decrease of 13 per cent from the advanced level of the preceding quarter, although it was still well above the quarterly average for last year. The drop reflected principally a decline of about one-third in loans arranged by non-oil developing countries; in particular, credits to Mexico were only one-third their amount in the fourth quarter (when they were exceptionally large) and were at about the same rate as in last year's first half. Conversely, loans to the Philippines increased sharply, and those to Brazil continued to be large. The oil-exporting countries raised somewhat less than in the fourth quarter. However, Iran began to borrow on a large scale, and is continuing to do so; in addition to the $330 million of credits arranged in the first quarter, Iran has since completed another $350 million and is negotiating for several hundred million dollars of additional loans. Algeria has also recently raised a new $430 million loan.

Credits to borrowers in developed countries increased in the first quarter, particularly to the United Kingdom where all the credits were for North Sea oil exploration. French borrowings were again on a reduced scale, but Electricité de France is now negotiating a standby for upwards of $400 million to back issues of commercial paper in the United States. Credits completed by international institutions in the first quarter showed another substantial rise, reflecting loans of $600 million to the International Investment Bank in Moscow for the Siberian gas pipeline and $300 million to the EC as part of the $1.3 billion Italy-Ireland package.

U.S. International Transactions. Data available for April indicate: (1) a U.S. trade deficit unchanged from the rate in the first quarter; (2) a sharp reduction in the volume of new Canadian bond placements in the United States; and (3) a $3 billion bank-reported net capital inflow, following a $2.1 billion net outflow in March.

The U.S. merchandise trade deficit of $5.4 billion (seasonally adjusted annual rate, balance of payments basis) in April, about the same rate as in the first quarter, followed a sharp swing from surplus in the fourth quarter to deficit in the first quarter.

U.S. Merchandise Trade, Balance-of-Payments Basis
(billions of dollars, seasonally adjusted annual rates)

	1975	1 9 7 5				1 9 7 6		
	Year	1Q	2Q	3Q	4Q	1Q[r]	March[r]	April
EXPORTS	107.2	108.2	103.4	106.4	110.8	108.0	111.4	111.3
Agric.	22.3	24.3	19.6	22.3	23.0	21.2	20.2	23.2
Nonagric.	84.9	83.9	83.8	84.1	87.7	86.8	91.2	88.1
IMPORTS	98.1	102.2	90.3	97.9	102.1	113.6	118.7	116.7
Fuels	28.3	27.6	26.4	30.0	29.4	31.6	32.0	38.7
Nonfuels	69.8	74.7	63.8	68.0	72.7	82.1	86.6	78.0
TOTAL BALANCE	+9.0	+6.0	+13.1	+8.4	+8.7	-5.6	-7.2	-5.4
BALANCE excl. fuel imp. & agr. exp.	+15.1	+9.2	+20.0	+16.1	15.0	+4.7	+4.6	+10.1

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

Exports in April were $111.3 billion at an annual rate, a level about 3 per cent above the rate of the first quarter but only slightly above that of the fourth quarter of 1975.

Agricultural export volumes were unexpectedly strong in April, owing to increased shipments of feed corn to the European Community and the U.S.S.R. Recent increases in the spot prices of corn, wheat, and soybeans--partially reflecting increased demand from a more buoyant world economy--suggest that in the coming months prices of U.S. agricultural exports will increase.

Non-agricultural exports were at an annual rate of $88.1 billion in April. These exports, which had fallen sharply in January-February, have picked up in March-April to a rate slightly above that of the fourth quarter of 1975. Both the decline and pickup were diffused among the major commodity groups and the major trading areas. Machinery exports in March-April at $30.6 billion (S.A.A.R.) were only slightly above the fourth quarter rate, even though they were 4.2 per cent above the January-February level. However, new orders for machinery exports have improved in March-April after little change in the second half of 1975. The increase in new orders for machinery exports reflects the expected improvement in investment demand abroad.

Imports in April totaled $116.7 billion (S.A.A.R.), about 3 per cent above the first-quarter rate. Fuel imports in April jumped to $38.7 billion at an annual rate, from a first-quarter rate of $31.6

billion. A small part of this increase was a rise in the price of imported petroleum and petroleum products from an average of $12.00 per barrel in the first quarter to $12.19 per barrel in April; but most of the increase came from an unusually sharp rise in the oil import volume to 8.3 million barrels per day (mbd) in April from an average of 6.7 mbd in the first quarter. It is not expected that fuel import volumes will remain at April rates in the remainder of the quarter.

Non-fuel imports in April declined from the unexpectedly high March level to about the January-February level. Half of the increase in non-fuel imports during 1976 has been accounted for by a steady rise in imports of industrial supplies associated with the rebuilding of materials inventories by U.S. firms. Imports of automobiles from Canada and Japan have also contributed to the increase in non-fuel imports. Car imports from Japan during the first four months of 1976 have been at an annual rate of $4.9 billion, compared with a $3.3 billion rate for the fourth quarter of 1975. This level of imports has resulted in the rebuilding of inventories depleted in the latter part of 1975. However, foreign car sales have increased less than anticipated, suggesting that part of the inventory accumulation was unintended.

Bank-reported private capital transactions recorded a $3 billion inflow during April, following a $2.1 billion outflow for March. The apparent reversal in the direction of net capital movements is a product of the timing of data collection rather than any shift

in the underlying incentive for banks to continue to export funds. It reflects the fact that member banks reduce the cost of reserve requirements by borrowing abroad on Friday for repayment Monday. The balance-of-payments data are collected at the end of each month for the outstanding foreign claims and liabilities of banks, and hence weekend Eurodollar borrowings by member banks--an increase in short-term liabilities to foreign banks--are only included in the data for those months whose last business day falls on Friday; this was the case for April, but not for March.

Bank-Reported Private Capital Transactions
(billions of dollars)

For Month End	Reporting Day	Net-Bank-Reported Private Capital Transactions (-= outflow)	Change in Bank-Reported Short-term Liabilities to Foreign Banks* (-= outflow)
1975			
December	Wednesday	-3.0	-2.6
1976			
January	Friday	-0.2	1.4
February	Friday	-0.7	2.2
March	Wednesday	-2.1	-2.7
April	Friday	3.0	4.7

*/ Including overseas branches of U.S. banks.

Net private transactions in securities in April showed an outflow of $243 million. The volume of new foreign bond issues in the U.S. market was substantially reduced in April ($470 million) compared with the first-quarter monthly average of slightly under $1 billion. A fall in new Canadian issues fully accounted for the decline. Preliminary data show $0.5 billion of new foreign bond issues in May. Activity in new Canadian issues for the rest of the year may be restrained by the Bank of Canada's expression of concern that high levels of external borrowing may, by exerting upward pressure on the exchange rate, "prejudice a healthy expansion of the Canadian economy." Foreign net purchases of U.S. stocks--excluding OPEC purchases--fell to $154 million in April from the March level of $425 million, as foreign investors reacted to the end of the rally in U.S. stock prices.

U.S. liabilities to non-OPEC foreign official institutions increased by $532 million in April.

. OPEC funds in the United States, including $256 million in net purchases of U.S. stocks, increased by about $400 million in April. The increase in OPEC investments in the U.S. in the first quarter has now been revised upward by $1.0 billion, reflecting a previously reported transfer to Saudi Arabia by a U.S. company.

Economic Activity in Major Foreign Countries. Economic activity in most foreign countries has continued to rebound strongly from its recession low. By March/April 1976, the average weighted level of industrial production in the six major foreign countries was more than 10 per cent above its recession trough, and less than 5 per cent below its previous peak. Production has been increasing in most major European countries since the third quarter of 1975. In Japan a sharp acceleration in activity occurred in the first quarter of 1976, after slower growth in the preceding 9 months. In Canada, where the recession was milder than elsewhere, moderate growth in output is continuing. (See Table I). It is generally agreed that the expansion will continue through the first half of 1977, -- though below current rates -- except possibly in Italy, where sustained expansion appears unlikely.

Forecasts for the rate of growth of real GNP in the OECD countries in the coming year have been revised upward considerably from the moderate rates forecast last December. Recent OECD forecasts show that real GNP in the six major foreign industrial countries will average about 4.7 per cent higher in 1976 than in 1975, up from a 3 per cent growth forecast made in December. Latest official country forecasts as well as FRB staff projections are in close agreement with those of the OECD -- within about one-half percentage point -- except for Japan, where our staff projection is for a rise of over 7 per cent in 1976 compared with 5.5 per cent by the OECD. Several factors contribute to this more optimistic outlook abroad. Inventory liquidation is ending

Table I
Industrial Production in Major Foreign Countries

	Percentage Change Over Previous Period (SAAR)									Levels (1970=100)		
	1974				1975				1976			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Peak	Trough	Latest
Japan	4.9	11.2	-16.1	-26.3	-34.1	13.0	8.2	3.3	25.3	131.9 (73Q4)	105.9 (75Q1)	125.2 (Apr.76)
Germany	0	-2.4	-8.2	-11.2	-10.4	-7.8	-1.2	21.1	8.7	113.7 (74Q1)	102.7 (75Q3)	110.0 (Apr.76)
France	9.1	0	3.3	-24.3	-13.0	-12.1	-4.9	16.5	24.0	125.0 (74Q3)	109.0 (75Q3)	122.0 (Apr.76)
U.K.	-20.2	13.0	1.2	-12.6	-0.4	-19.7	-1.2	1.2	5.3	110.7 (73Q3)	995 (75Q3)	101.0 (Apr.76)
Italy	5.7	3.2	-10.0	-35.1	-3.7	-13.9	-9.8	24.8	15.2	122.9 (74Q2)	103.6 (75Q3)	115.3 (Apr.76)
Canada	6.6	-1.2	-2.4	-7.0	-11.2	-2.0	-1.2	4.5	10.8	127.3 (74Q1)	119.6 (75Q3)	124.9 (Mar.76)

Sources: National Sources.

earlier than expected; improved consumer confidence has resulted in a lowering of saving rates in many countries from the high levels prevailing in 1975; and intra-OECD trade has grown more rapidly than expected, in line with the increased demand for industrial materials and consumer goods. Japan has benefitted especially from a large increase in exports to the United States.

Temporary factors, such as the impact of reflationary programs undertaken in some countries last fall and the timing of inventory adjustments, largely explain the higher projected first half 1976 growth rates relative to those of the second half. The projected lag in the recovery of investment expenditure is explained by the very high estimated margins of unused capacity compared with previous cycles.

Several major uncertainties cloud these projections. Substantial speculative stock building in response to accelerating materials prices would entail a more rapid surge in production during the coming months, while increasing the risk of a subsequent reversal. Personal saving rates, which are declining now, may rise again if inflation starts to accelerate. Investment demand, on the other hand, may be stronger than projected to the extent that estimates of capacity utilization overstate the degree of current slack by not making full allowance for the impacts of low investment and relative price shifts in recent years on reducing the rate of capacity growth. On balance, it appears that the larger chance of error in the growth projections is that demand will rise more rapidly than expected.

One characteristic feature of the current expansion is the unresponsiveness of unemployment rates to the improvement in output. The OECD Secretariat forecasts that only Germany, of the major foreign industrial countries, will succeed in achieving an average unemployment rate for 1976 below its actual level in March 1976, and even for Germany the forecast improvement is moderate. Two factors contribute to this pessimism. First, labor-force participation rates in a number of countries have been depressed below trend, so that a reversal of this pattern, as activity expands, would lead to substantial increases in the labor force. Second, in some countries there appears to be substantial under-utilization of employed workers so that increases in production will generate less than proportional increases in employment.

Table II presents a rough attempt to measure the extent to which employed workers are underutilized in the major foreign countries by computing a "productivity gap" -- the percentage shortfall of actual production levels from the production levels that would be attainable if the currently employed labor force were producing at its trend level of output per worker. Two measures of attainable production are computed. The first (column 1) is obtained by extrapolating the 1964-1973 trend growth of labor productivity through to January 1976. The second (column 2) is calculated on the arbitrary, and probably extreme, assumption that trend productivity growth since 1973 has been 25 per cent below its 1964-1973 rate for all countries except Japan, and 50 per cent lower

Table II
Productivity Gaps in Major Foreign Countries

	Attainable Production (1970=100) Jan. 1976 a/ (1)	Adjusted Attainable Production (1970=100) Jan. 1976 b/ (2)	Actual Industrial Production Index (1970=100) Jan. 1976 (3)	Gap of Actual Production (per cent) From Attainable Production (4)=(3)÷(1)-1	Gap of Actual Production (per cent) From Adjusted Attainable Production (5)=(3)÷(2)-1
France c/	129.4	122.0	117.0	-9.6	-4.1
Germany	110.7	104.6	105.3	-4.9	0.7
Italy	133.0	124.7	108.4	-18.5	-13.1
United Kingdom	110.0	106.2	102.0	-7.3	-4.0
Japan	143.3	126.4	115.7	-193.	-8.5
Canada	124.2	120.7	122.0	-1.8	1.1

a/ Level of industrial production that would be attained if the currently employed labor force were producing at its historic trend ratio of output per worker.

b/ Attainable level of industrial production if trend productivity growth is assumed to have fallen below its 1964-1973 average by 25 per cent for all countries except Japan, and by 50 per cent for Japan.

c/ December employment and production data.

for Japan. Column 3 gives actual industrial production levels for January 1976. The final columns compute the gap between actual and attainable production. It can be seen that the productivity shortfalls are very substantial for Italy and Japan, and moderate for France and the United Kingdom. In Germany and, especially, Canada, productivity does not appear to have fallen sharply below trend -- particularly if the lower productivity growth trend is assumed -- suggesting that in these countries under-employment of labor is not pervasive. Based on this analysis, one would expect employment to increase more sharply in Canada and Germany than in the other countries as activity continues to expand.

Despite continuing labor slack, and substantial though slowly falling margins of underutilized capacity, rates of inflation, after some slowing in 1975, remain high in many foreign countries. Although rates of price rise have moderated in Germany and Canada, inflation rates have increased in several countries since the end of 1975. Some of these increases reflect the recent sharp run-up in raw materials prices, while the depreciation of the British pound and Italian lira has strengthened inflationary pressures in these two countries.

In Japan GNP increased by 3.5 per cent in the first quarter of 1976 over the fourth quarter of 1975. This strong growth -- probably exaggerated by overly strong seasonal adjustment -- reflects especially sharp increases in exports (9 per cent), residential construction (13 per cent), and private consumption (4 per cent). These developments contrast with the slower growth of last year, which was in large part sustained

by increases in government expenditures. Further gains in industrial production occurred in April, though exports did not continue the rapid growth of previous months. Private non-residential investment remains weak, with little upturn expected until the end of this year or the beginning of 1977.

In Germany the current expansion is broadly based. Private consumption demand has been growing steadily, and the volume of exports is recovering from the sharp fall of 1975. Imports, which remained relatively strong in 1975, have also been growing, both to satisfy final demand and for the rebuilding of inventories. New orders for machinery and equipment, which rose sharply in mid-1975 in response to special investment incentives, fell off as expected thereafter, but have continued to grow steadily since the fourth quarter of 1975. This suggests that investment demand may be stronger this year than earlier anticipated.

In France, the sharp recovery in industrial production (over 8 per cent in the past two quarters) is largely attributable to the ending of the de-stocking process. The turn in the inventory cycle has led to a rise in imports relative to exports, though exports have also risen somewhat and recently export orders have begun to show renewed strength. Consumer demand, which continued to grow throughout 1975, has stabilized recently. The latest survey of investment intentions suggests that there will be a further decline in investment in real terms in 1976, though forecasters expect greater buoyancy to emerge as the recovery proceeds, aided by a sharp increase in public investment.

The United Kingdom recently has shown some signs of recovery. Industrial production has been rising slowly over the past two quarters, and GDP, after a substantial recovery in the fourth quarter of 1975 (over 2 per cent on a quarterly basis), is estimated to have risen another 1 per cent in the first quarter of this year. Exports in particular have been growing strongly and should continue to be a source of strength in light of the improved competitive position of U.K. exports due to the depreciation of sterling and rising incomes in other countries. Consumer demand has also been growing moderately, although the decline of real personal disposable income probably will inhibit further growth.

In Italy, the very rapid increase in industrial production over the past two quarters (9.5 per cent) is not considered sustainable. The deteriorating external situation and the sharp acceleration in the inflation rate have forced the Italian government to adopt restrictive policy measures which place prospects for any further recovery in serious doubt.

In Canada, moderate expansion appears to be underway. Industrial production which, on a quarterly basis, had been falling since the first quarter of 1974, turned up in the fourth quarter of 1975 and grew strongly in the first quarter of this year. Residential construction has been very strong; inventory liquidation appears to be ending; personal consumption continues to grow in line with real disposable income; and manufacturing exports, particularly to the United States, are expected to add strength to the upturn.

Prospects for the smaller European countries also have been improving recently. Having lagged behind the major countries in entering the recession, they appear to be benefitting from increases in import demand by the major countries and are now entering the recovery phase of the cycle, albeit at a more moderate rate than most of the larger countries.

The U.K. Incomes Policy. The Trades Union Congress, at a special conference held June 16, voted overwhelmingly (9.3 million to .5 million) to support the next phase of the U.K. government's pay policy. The policy involves limiting wage increases to an average of 4-1/2 per cent for the year beginning August 1 in return for some reductions in personal income taxation. (See the May Greenbook for details on the U.K. incomes policy.)