

## **Prefatory Note**

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

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

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

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

CONFIDENTIAL (FR)

May 10, 1978

**CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

**By the Staff  
Board of Governors  
of the Federal Reserve System**

TABLE OF CONTENTS

	<u>Section</u>	<u>Page</u>
DOMESTIC NONFINANCIAL DEVELOPMENTS	II	
Employment and production.....		1
Income and consumer sector activity.....		3
Business investment.....		6
Residential construction.....		10
Government sector activity.....		13
Prices, wages, and costs.....		15
TABLES:		
Average monthly changes in employment.....		2
Selected unemployment rates.....		2
Personal income.....		4
Auto sales.....		5
Contracts and orders for plant and equipment.....		7
Plant and equipment expenditures.....		9
Recent plant and equipment survey performance.....		9
Business inventories.....		11
Inventory ratios.....		11
Recent changes in consumer prices.....		16
Recent changes in producer prices.....		18
Hourly earnings index.....		19
Major collective bargaining settlements.....		21
Productivity and costs.....		22
CHARTS:		
New orders for nondefense capital goods.....		8
New private housing starts.....		12
Saving by State and local governments.....		14
DOMESTIC FINANCIAL DEVELOPMENTS	III	
Monetary aggregates and bank credit.....		3
Business credit.....		8
Short- and intermediate-term business borrowing.....		8
Longer-term business credit.....		10
Government securities markets.....		14
Mortgage markets.....		16
Consumer credit.....		18

TABLE OF CONTENTS

Continued

	<u>Section</u>	<u>Page</u>
DOMESTIC FINANCIAL DEVELOPMENTS	III	
TABLES:		
Selected financial market quotations.....		2
Monetary aggregates.....		6
Commercial bank credit.....		9
Security offerings.....		11
Interest rates and supply of funds for conventional home mortgages at selected S&Ls.....		19
Secondary home mortgage market activity.....		19
Consumer instalment credit.....		22

CHARTS:

Treasury yield curves.....	4
Stock prices and trading volume.....	13
Savings and loan liquidity.....	18

INTERNATIONAL DEVELOPMENTS

IV

Foreign exchange markets.....	1
Borrowing in international capital markets.....	4
U.S. international transactions.....	8
The trade deficit.....	9
Exports.....	9
Nonpetroleum imports.....	10
Petroleum imports.....	10
Foreign official assets in the United States, .....	11
Bank-reported private capital transactions.....	11
Foreign private net purchases of U.S. corporate stocks.....	12
U.S. net purchases of foreign securities.....	13
OPEC banking and security holdings.....	13
Foreign economic developments.....	14

TABLES:

Borrowing in international capital markets.....	5
U.S. international transactions summary.....	8
U.S. merchandise trade.....	9
U.S. bank-reported private capital flows.....	12
Real GNP industrial production in major industrial countries...	16
Consumer and wholesale prices in major industrial countries...	17
Trade and current-account balances of major industrial countries.....	18

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 rate)						
Civilian labor force	Apr.	5-5-78	99.8	4.5	2.7	3.1
Unemployment rate (%) <sup>1/</sup>	Apr.	5-5-78	6.0	6.2	6.3	7.1
Insured unemployment rate (%) <sup>1/</sup>	Apr.	5-5-78	3.2	3.5	3.5	3.8
Nonfarm employment, payroll (mil.)	Apr.	5-5-78	85.2	8.8	6.9	4.3
Manufacturing	Apr.	5-5-78	20.2	3.6	5.0	3.7
Nonmanufacturing	Apr.	5-5-78	64.9	10.4	7.4	4.5
Private nonfarm:						
Average weekly hours (hr.) <sup>1/</sup>	Apr.	5-5-78	36.2	36.1	35.6	36.2
Hourly earnings (\$) <sup>1/</sup>	Apr.	5-5-78	5.62	5.56	5.49	5.17
Manufacturing:						
Average weekly hours (hr.) <sup>1/</sup>	Apr.	5-5-78	40.5	40.5	39.6	40.3
Unit labor cost (1967=100)	Mar.	5-1-78	166.1	8.0	16.8	8.7
Industrial production (1967=100)	Mar.	4-14-78	141.0	17.3	3.7	4.2
Consumer goods	Mar.	4-14-78	146.8	25.0	2.7	2.7
Business equipment	Mar.	4-14-78	156.7	14.7	7.0	8.2
Defense & space equipment	Mar.	4-14-78	81.2	15.0	8.6	3.4
Materials	Mar.	4-14-78	139.5	14.8	2.0	3.0
Consumer prices (1967=100)	Mar.	4-28-78	190.2	10.2	9.0	6.6
Food	Mar.	4-28-78	204.3	16.1	15.5	8.3
Commodities except food	Mar.	4-28-78	170.9	7.1	5.9	4.6
Services	Mar.	4-28-78	204.7	10.0	8.8	7.7
Wholesale prices (1967=100)	Apr.	5-4-78	206.2	12.9	12.6	6.2
Industrial commodities	Apr.	5-4-78	205.6	8.8	7.7	6.5
Farm products & foods & feeds	Apr.	5-4-78	206.2	25.0	30.3	4.9
Personal income (\$ bil.) <sup>2/</sup>	Mar.	4-18-78	1652.2	14.3	7.3	10.2
(Not at annual rates)						
Mfrs. new orders dur. goods (\$ bil.)	Mar.	5-3-78	69.0	3.3	4.3	16.4
Capital goods industries	Mar.	5-3-78	21.9	6.2	2.6	27.9
Nondefense	Mar.	5-3-78	17.5	-2.3	2.9	19.6
Defense	Mar.	5-3-78	4.5	60.3	1.3	75.5
Inventories to sales ratio: <sup>1/</sup>						
Manufacturing and trade, total	Feb.	5-9-78	1.43	1.47	1.45	1.45
Manufacturing	Mar.	5-3-78	1.52	1.53	1.52	1.55
Trade	Feb.	5-9-78	1.33	1.36	1.33	1.31
Ratio: Mfrs.' durable goods inventories to unfilled orders <sup>1/</sup>	Mar.	5-3-78	.603	.612	.624	.651
Retail sales, total (\$ bil.)	Mar.	4-10-78	62.8	1.9	1.3	8.4
GAP <sup>3/</sup>	Mar.	4-10-78	13.6	1.1	-3.9	8.1
Auto sales, total (mil. units.) <sup>2/</sup>	Apr.	5-8-78	12.1	1.6	21.7	4.2
Domestic models	Apr.	5-8-78	10.1	2.0	25.8	8.6
Foreign models	Apr.	5-8-78	2.1	-.3	5.0	-12.6
Housing starts, private (thous.) <sup>2/</sup>	Mar.	4-18-78	2,074	31.8	-5.9	-.8
Leading indicators (1967=100)	Mar.	5-1-78	134.1	-.1	-.8	3.2

<sup>1/</sup> Actual data used in lieu of per cent changes for earlier periods.

<sup>2/</sup> At annual rate.

<sup>3/</sup> Excludes mail order houses.

DOMESTIC ECONOMIC DEVELOPMENTS

---

Economic activity has rebounded vigorously in recent months. Employment and industrial production rose markedly in April to levels well above their respective first quarter averages. In addition, consumer goods demand has continued strong, and capital spending appears to have picked up following disruptions earlier in the year. Housing starts bounced back sharply in March but remained below the advanced levels experienced in late 1977. However, price increases have intensified this year, especially in the food sector.

Employment and Production

Nonfarm payroll employment rose by 465,000 in April (strike-adjusted), about a third faster than the rapid pace of the first quarter. Growth in payrolls was further swelled by the return from strike of coal workers. Contract construction employment rose by about 175,000--the second month of sharp increase--to a level nearly 400,000 above a year earlier. Manufacturing employment accounted for 60,000 new jobs in April--somewhat less than the rapid increases in the two previous months. As has been the case since September, the bulk of new factory hiring was concentrated in durable goods industries. The factory workweek was unchanged at 40.5 hours in April.

The unemployment rate fell to a three-year low of 6.0 per cent in April, as employment growth outpaced a substantial increase in the labor force. The reduction in unemployment was concentrated among adult men. Jobless rates for blue-collar occupations fell substantially in April,

AVERAGE MONTHLY CHANGES IN EMPLOYMENT  
(Thousands of jobs; based on seasonally adjusted data)

	Dec. 76 to June 77	June 77 to Dec. 77	Dec. 77 to Mar. 78	Feb. 78 to Mar. 78	Mar. 78 to Apr. 78
<u>Nonfarm payroll employment</u> <u>1/</u>	298	212	369	491	619
(Strike adjusted)	305	239	357	485	464
Manufacturing	83	43	99	89	60
(Strike adjusted)	85	46	92	82	52
Durable	53	44	71	52	40
Nondurable	30	-1	28	37	20
Construction	47	10	32	97	173
Trade	57	58	78	99	59
Services and finance	70	87	93	116	95
State and local government	25	31	49	53	37
<u>Total employment</u> <u>2/</u>	367	327	219	263	535
Nonagricultural	352	328	223	195	570

1/ Survey of establishments.

2/ Survey of households.

SELECTED UNEMPLOYMENT RATES  
(Per cent; based on seasonally adjusted data)

	1977				1978		
	QI	QII	QIII	QIV	QI	Mar.	Apr.
Total, 16 years and older	7.4	7.1	6.9	6.6	6.2	6.2	6.0
Men, 20 years and older	5.7	5.2	5.0	4.8	4.6	4.5	4.2
Women, 20 years and older	7.1	7.0	7.0	6.8	5.9	5.8	5.8
Teenagers	18.6	18.1	17.6	16.7	16.9	17.3	16.9
Total, 25 years and older	5.2	5.0	4.9	4.7	4.0	4.0	3.9
Fulltime workers	6.9	6.6	6.5	6.2	5.7	5.6	5.4
White	6.7	6.3	6.1	5.8	5.4	5.3	5.2
Black and other	12.9	12.8	13.6	13.3	12.3	12.4	11.8

as the rate for construction industry workers declined to a four-year low.

Reflecting the growth in employment, industrial production is tentatively estimated to have increased around 1 per cent in April. Output of coal and steel mill products, which rebounded from strike-affected March levels, accounted for about one-third of the overall advance. Business equipment production evidently advanced in April for the third successive month. In addition, renewed strength in auto sales was reflected in a further pick-up in automotive assemblies, which rose by over 5 per cent to a 9.8 million unit annual rate--a pace somewhat greater than the average for 1977 as a whole. Industrial output has risen at a 5 per cent annual rate since last October. The April production increase suggests that capacity utilization in manufacturing rose by about 0.6 percentage point to 83.5 per cent--a marginally higher rate than the recent peak in July 1977.

Income and Consumer Sector Activity

The surge in employment gains has been accompanied by robust growth of total wages and salaries. In March, personal income rose at a 14 per cent annual rate and over the last two quarters grew at an 11-1/2 per cent annual rate; over the same period, the annual rate of rise in real terms was almost 5 per cent--well above trend rates of increase.

The strong growth of income has been accompanied by a brisk recovery of retail sales, which evidently continued in April. Total



PERSONAL INCOME  
(Per cent change at a compound annual rate;  
based on seasonally adjusted data)

	1977				1978	Jan. 78	Feb. 78
	QI	QII	QIII	QIV	QI	to Feb. 78 <sup>1/</sup>	to Mar. 78 <sup>1/</sup>
<u>Current dollars</u>							
Total personal income	13.1	11.4	8.9	14.5	8.7	5.6	14.3
Nonagricultural income	12.0	11.9	10.2	12.6	9.5	9.1	15.2
Wage and salary disbursements	12.7	13.0	7.5	12.7	11.5	10.1	18.0
Private	14.9	15.1	7.7	12.5	12.9	11.5	21.9
Manufacturing	17.9	17.5	6.3	12.4	16.0	19.5	26.3
Government	4.9	5.0	7.1	13.2	5.9	4.6	2.3
Nonwage income	14.5	8.5	10.8	16.8	6.4	-1.5	8.0
Transfer payments	11.6	-1.0	11.7	7.7	6.7	.6	10.0
Dividends	1.0	20.1	21.4	12.9	1.8	2.7	5.5
<u>Constant dollars<sup>2/</sup></u>							
Total personal income	4.4	2.4	3.5	9.5	.8	-2.1	4.0
Nonagricultural income	3.4	2.9	4.7	7.7	1.6	1.4	5.0
Wage and salary disbursements	4.1	3.9	2.3	7.8	3.4	2.4	7.7

<sup>1/</sup> Per cent change at annual rate, not compounded.

<sup>2/</sup> Deflated by CPI, seasonally adjusted. Beginning January 1978, deflated by CPI/U, seasonally adjusted.

automobile sales were at a 12.1 million unit annual rate in April-- up more than 180,000 units from the March pace. This was almost as strong in March 1977--the highest selling rate of the current expansion. Sales of domestic cars were at a 10.1 million unit rate in April with gains fairly evenly distributed by size class. While sales of imports continued at a high level in April, their market share declined slightly from the first quarter average.

AUTO SALES  
(Millions of units; seasonally adjusted)

	1977 QIV	Annual Rates			
		QI	1978		
			Feb.	Mar.	Apr.
Total	10.8	10.8	10.5	12.0	12.1
Imports	2.0	2.0	1.9	2.1	2.1
Domestic	8.8	8.8	8.5	9.9	10.1

Retail sales excluding autos and mainly nonconsumption items are tentatively estimated to have risen further in April, the third consecutive monthly gain following the sharp decline in January. Large gains were apparently registered among sellers of durable goods and nondurable outlets are estimated to have had slightly higher sales during April.

Survey data indicate mixed trends in consumer attitudes. The Michigan Survey Research Center index of sentiment fell sharply in March, while the Conference Board measure of confidence edged back up in April after a sharp decline in March. However, Michigan reported an increase in favorable appraisals of market conditions for automobiles, homes, and large appliances.

Business Investment

Incoming data suggest that capital spending should increase sharply in the current quarter, following weather-induced disruptions of commercial and industrial construction spending early in the year. The value of private nonresidential buildings put-in-place jumped 10 per cent in March after declining earlier, and shipments of nondefense capital goods have registered substantial advances in recent months.

Commitments data, which are indicative of future outlays for equipment spending and building construction, showed a sizable gain in the first quarter. Nondefense capital goods orders rose 3.4 per cent in real terms--about the same as the average quarterly gain realized in 1977 (Chart 1), while construction contracts were particularly strong as they more than recouped the sizable decline in the fourth quarter.

The McGraw-Hill capital spending survey--conducted in April--showed businesses planning a 17 per cent increase for 1978. An additional reading by the less comprehensive Merrill Lynch survey showed a comparable upward revision to spending plans. This is the second upward revision in spending plans shown by the McGraw-Hill survey since the initial reading for 1978 taken last October. However, in recent years this spring survey has overstated actual spending, and thus it is likely that the actual gain will fall short of these intentions. (See lower panel of the table on plant and equipment expenditures.)

CONTRACTS AND ORDERS FOR PLANT AND EQUIPMENT<sup>1/</sup>  
 (Per cent change from preceding comparable period, seasonally adjusted)

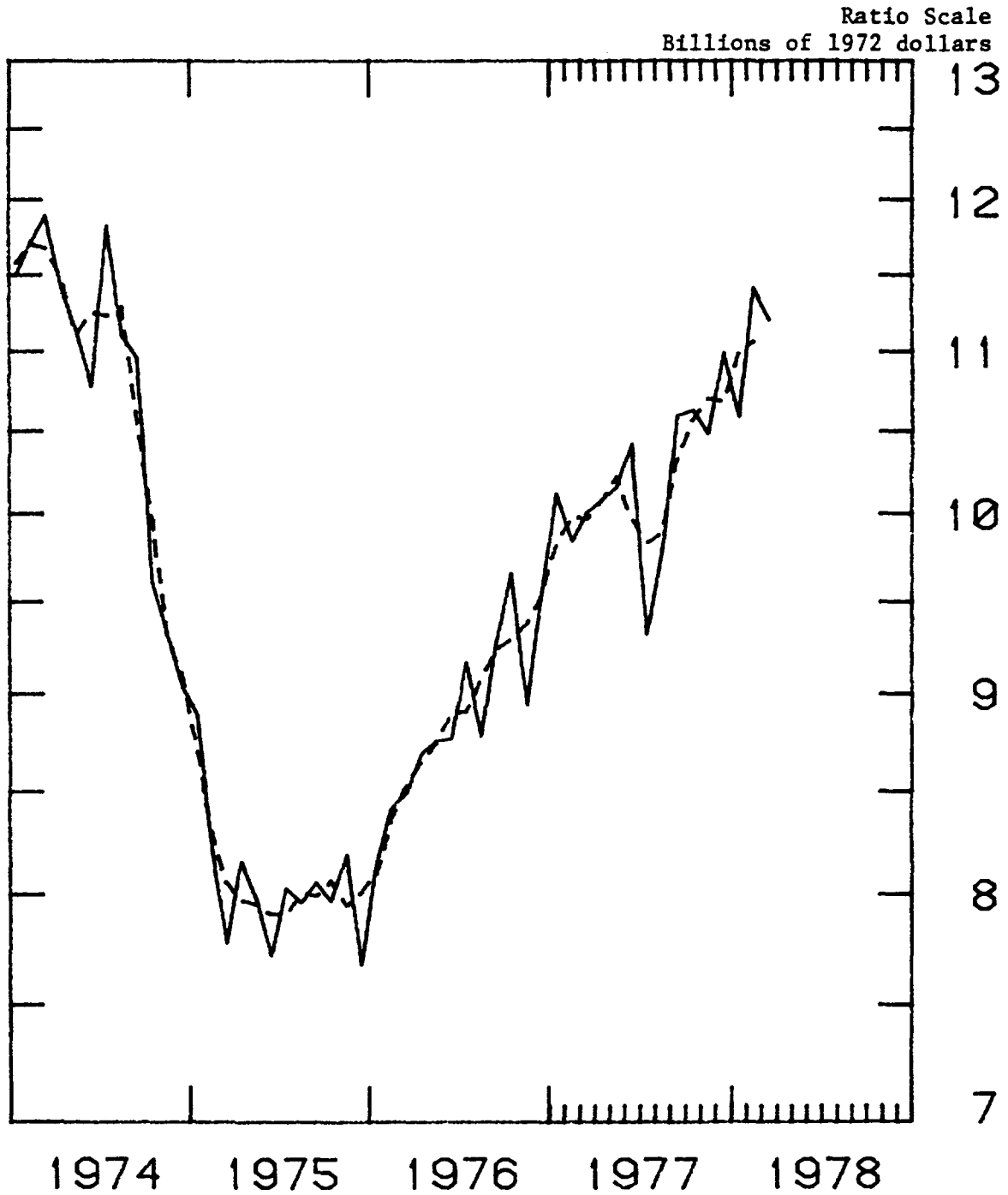
	1977		1978			Mar. 77
	QIII	QIV	QI	Feb.	Mar.	to Mar. 78
<u>Current dollars</u>						
Total	-0.3	4.1	11.6	11.5	-8.5	24.8
Nondefense capital goods orders	-1.1	10.3	5.5	8.3	-2.3	19.6
Construction contracts <sup>2/</sup>	3.2	-22.0	48.4	24.8	-31.4	61.1
<u>1972 dollars</u>						
Total	-2.3	2.1	9.2	10.9	-8.0	16.3
Nondefense capital goods orders	-3.2	8.2	3.4	7.8	-1.8	11.9
Construction contracts <sup>2/</sup>	1.8	-24.2	45.3	24.4	-31.6	48.2

<sup>1/</sup> The Commerce Department creates this series by adding new orders for non-defense capital goods to the seasonally adjusted sum of new contracts awarded for commercial and industrial buildings and for private nonbuilding projects (e.g., electrical utilities, pipelines, etc.).

<sup>2/</sup> FRB staff estimate. Derived by subtracting new orders for nondefense capital goods from the published total for contracts and orders.

Chart 1

### NEW ORDERS FOR NONDEFENSE CAPITAL GOODS



Note: Dotted line represents 3-month moving average.

PLANT AND EQUIPMENT EXPENDITURES  
(Per cent change from preceding year)

	Anticipated for 1978			
	Commerce <sup>1/</sup>	McGraw-Hill		
	Feb. Survey	Oct. Survey	Special <sup>2/</sup> Check-up	April Survey
All Business	10.9	11.1	14.1	17.3
Manufacturing	11.7	10.0	15.2	18.9
Durables	12.0	14.2	17.4	22.9
Nondurables	11.5	8.2	13.3	15.4
Nonmanufacturing	10.4	11.3	13.2	16.0

1/ Results are adjusted for systematic bias. Without this adjustment the February Commerce survey showed a 13.9 per cent increase.

2/ Conducted in late January and early February.

RECENT PLANT AND EQUIPMENT SURVEY PERFORMANCE  
(Per cent change from preceding year)

Year	McGraw-Hill April Survey	Commerce May Survey	Actual
1972	14.5	10.3	8.9
1973	19.3	13.2	12.8
1974	19.5	12.3	12.7
1975	5.5	1.6	.3
1976	12.9	7.3	6.8
1977	17.5	12.3	12.7

The book value of manufacturers' inventories rose at an annual rate of \$16.6 billion in March--about the same as in February and the first quarter as a whole. While this rate of accumulation represents a sharp snapback from the much-reduced fourth quarter pace, inventory policies apparently still remained quite conservative. The manufacturing inventory-sales ratio in March was significantly below the historically low levels of 1977.

Thus far this year most of the pick-up in manufacturing accumulation has been by producers of durable goods. In March inventory investment in this sector was at a \$12.6 billion annual rate --down a bit from February but almost double the average 1977 pace. Most of the increase in durable goods' stocks was reported in the machinery and transportation equipment sectors. Overall accumulation was held down in March by further run-offs in primary metals and in petroleum and coal products where the effects of the coal strike apparently were still being felt. Wholesale trade inventories rose at about \$17-1/2 billion annual rate in March, close to the upward-revised February pace.

#### Residential Construction

Total private housing starts rebounded 32 per cent in March to a 2.1 million unit annual rate, following two months in which starts were at depressed rates largely because of extreme weather conditions (Chart 2). For the first quarter, total starts were at a 1.73 million unit rate--down almost a fifth from the advanced fourth quarter average. While both single-family and multifamily starts sustained sharp declines,

**BUSINESS INVENTORIES**  
(Change at annual rates in seasonally  
adjusted book value; billions of dollars)

	1976	1977				1978		
	QIV	QI	QII	QIII	QIV	QI	Feb.1/Mar.2/	
Manufacturing and trade	14.8	33.6	30.1	27.2	13.1	n.a.	34.1	n.a.
Manufacturing	9.8	10.6	15.7	10.2	2.8	16.2	17.0	16.6
Durable	9.6	6.4	7.8	7.7	3.8	12.5	14.8	12.6
Nondurable	.3	4.2	7.9	2.4	-1.0	3.7	2.2	4.0
Trade, total	4.9	23.0	14.3	17.1	10.3	n.a.	17.1	n.a.
Wholesale	3.5	12.0	2.6	4.7	7.5	15.3	16.4	17.6
Retail	1.5	11.1	11.8	12.4	2.8	n.a.	.7	n.a.
Auto	1.3	2.2	2.4	1.3	1.8	n.a.	-2.1	n.a.

1/ Revised.  
2/ Preliminary.

**INVENTORY RATIOS**

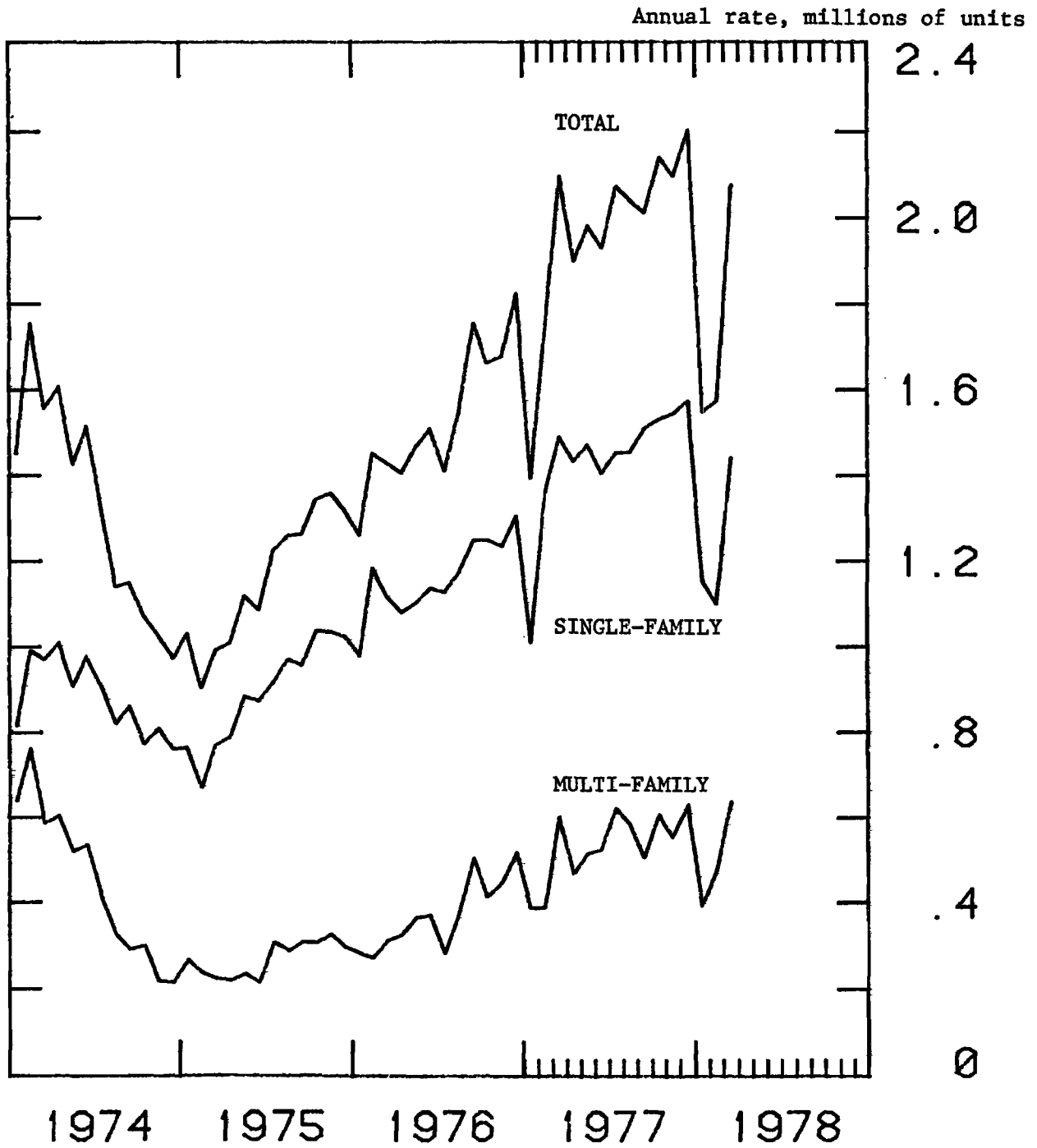
	1976	1977				1978		
	QIV	QI	QII	QIII	QIV	QI	Feb.1/Mar.2/	
<u>Inventory to sales:</u>								
Manufacturing and trade	1.50	1.47	1.47	1.49	1.44	n.a.	1.43	n.a.
Manufacturing	1.67	1.60	1.60	1.61	1.56	1.56	1.53	1.52
Durable	2.07	1.97	1.96	1.96	1.90	1.90	1.86	1.84
Nondurable	1.23	1.20	1.22	1.22	1.18	1.17	1.16	1.15
Trade, total	1.34	1.34	1.34	1.37	1.33	n.a.	1.33	n.a.
Wholesale	1.24	1.24	1.21	1.24	1.23	1.25	1.22	1.22
Retail	1.42	1.43	1.45	1.48	1.43	n.a.	1.44	n.a.

1/ Revised.  
2/ Preliminary.



Chart 2

### NEW PRIVATE HOUSING STARTS



the more modest drop in the multifamily sector is partially attributable to increased Federal involvement via the Section 8 rental subsidy program.

Sales of new and existing single-family homes have slackened noticeably early in 1978, and prices of such homes continued to rise rapidly. In the multifamily sector, rents increased at an annual rate of almost 7 per cent, and rental vacancy rates edged down to their lowest level in 20 years.

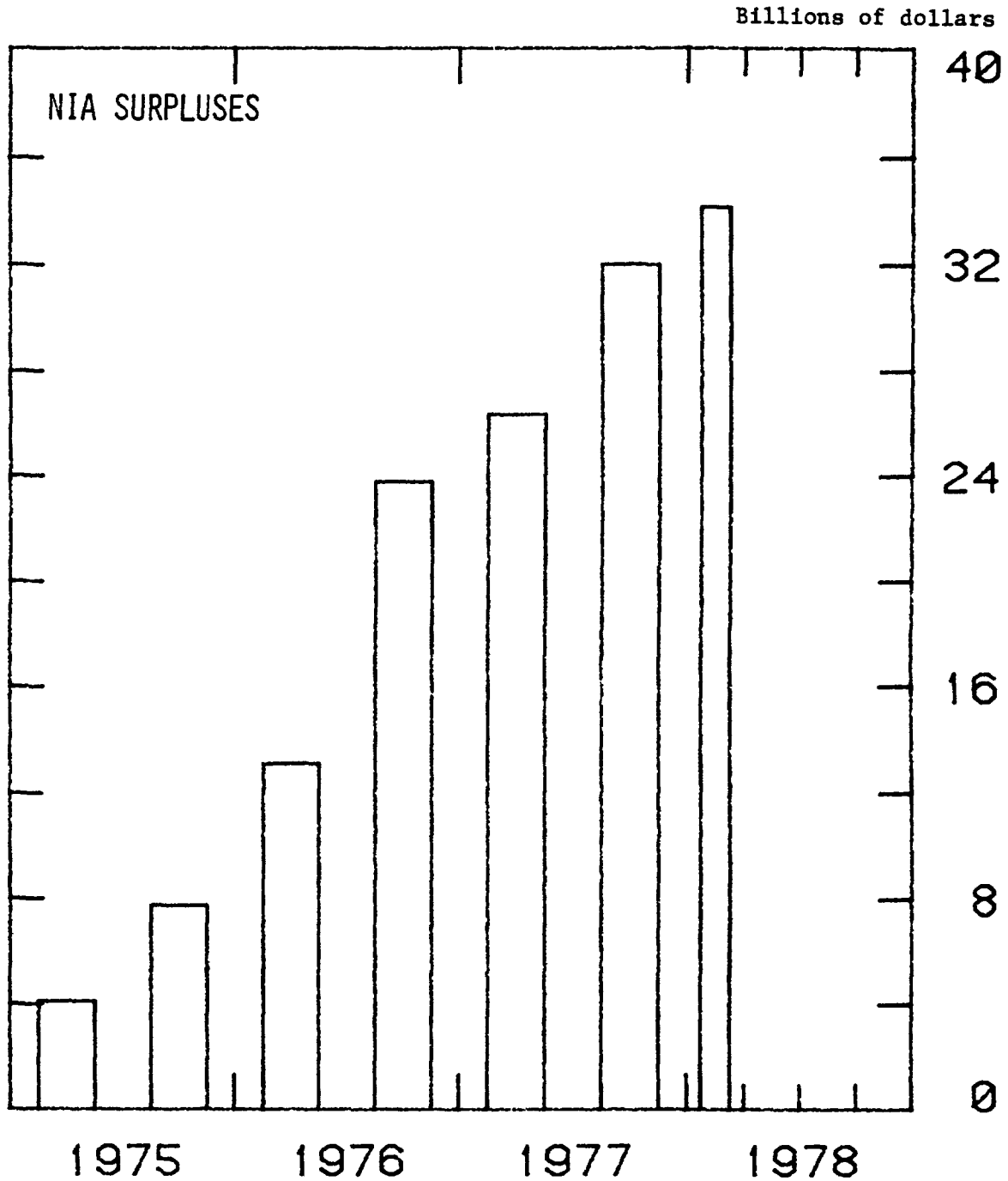
Government Sector Activity

In the State and local sector spending continues to evidence moderate growth. The value of construction put-in-place increased by nearly 5 per cent in March, but still remained below the level of the fourth quarter of 1977. Employment in this sector grew by 35,000 in April. This increase was somewhat lower than the average monthly gains during the first quarter, probably reflecting the fact that the Public Service Employment program reached its authorized level of over 700,000 late in February.

Fiscal conservatism in the State and local sector apparently has continued into early 1978. While growth in revenues was small in the first quarter, it was somewhat above the advance in total expenditures, and this sector registered another record surplus. The saving generated by this sector's surpluses (including both operating and social insurance funds) is now estimated to have totaled \$31 billion over the past four quarters--up 40 per cent from the total in the preceding four quarters. (Chart 3.)

Chart 3

### SAVING BY STATE AND LOCAL GOVERNMENTS



NOTE: Total NIA surplus reflects balances of both operational and social insurance funds. 1978:Q1 is staff estimate.

Federal outlays grew at a reduced rate early this year. While spending on a unified budget basis picked up sharply in March, preliminary Treasury data for April now suggest that Federal outlays may have fallen short of agency expectations. Unified receipts in April also were lower than expected with the shortfall occurring primarily in individual nonwithheld collections. The IRS indicates that the number of returns processed to date is about 5 per cent below last year. Since processing should be completed quite soon, the shortfall in receipts is expected to be made up this month.

#### Prices, Wages, and Costs

Price increases continue to be considerably larger this year than in late 1977. The fixed-weighted price index for gross domestic business product--a broadly based price measure--rose at a 6.6 per cent annual rate in the first quarter; this compares with a 5.2 per cent rate in the second half of 1977.

Sharp increases in food prices continue to be a primary factor in the resurgence of inflation. The March rise in consumer food prices reflected marked increases in a wide variety of meat items as well as a rapid rise in restaurant prices. Producer prices of consumer foods rose 1.9 per cent in April--continuing the exceptional rate of increase in the first quarter. In addition to another round of wholesale meat increases, prices for fruits and vegetables also turned up sharply in April.

RECENT CHANGES IN CONSUMER PRICES  
 (Per cent change at a compound annual rate; based  
 on seasonally adjusted data)<sup>1/</sup>

	Relative Importance Dec. 77 <sup>2/</sup>	1977				1978 <sup>2/</sup>	
		QI	QII	QIII	QIV	QI	March
All items	100.0	10.0	7.8	4.5	4.9	9.3	10.2
Food	17.7	15.3	11.5	1.9	4.2	16.4	16.1
Commodities (nonfood)	41.6	7.4	4.2	2.7	5.4	6.1	7.1
Services	40.7	9.8	9.4	7.6	4.9	9.1	10.0
Memoranda:							
All items less food and energy <sup>3/</sup>	73.7	8.5	6.9	5.1	5.3	8.0	7.9
Gas and electricity	3.4	12.5	11.9	12.0	-.9	12.2	16.2
Gasoline and fuel oil <sup>4/</sup>	5.2	12.5	9.9	.8	2.0	.2	-.6

<sup>1/</sup> Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.

<sup>2/</sup> Based on new index for all urban consumers.

<sup>3/</sup> Energy items excluded: gasoline and motor oil, fuel and coal, gas and electricity.

<sup>4/</sup> Includes motor oil, coal, and bottled gas.

While rising less rapidly than foods, consumer nonfood prices also continued to increase at a relatively rapid pace. Exclusive of foods, consumer retail prices rose by an annual rate of 8.4 per cent in March; large increases in apparel prices and in costs of home financing contributed to this rise. For the first quarter as a whole, this index rose at about an 8 per cent annual rate as compared to a 5.1 per cent rate in the second half of 1977.

Producer prices for finished non-food goods also rose substantially in April. Much of this increase was in prices of consumer finished goods, which were up 1.3 per cent in part as a result of higher automobile prices and a very large increase in jewelry prices. Prices of capital equipment (producers' finished goods) rose 0.6 per cent in April--about the same as the average since last October.

Wages also have increased at rapid rates thus far in 1978. The average hourly earnings index rose at a 9.4 per cent annual rate in April, close to the first quarter rate of 9.8 per cent. The rise so far in 1978, which was importantly affected by the minimum wage increase, was much higher than the average pace of 7.7 per cent during 1977. During the first three months of 1978, first-year wage rate adjustments negotiated in major collective bargaining settlements averaged 9.9 per cent. However, the increase was significantly affected by the substantial first-year increase provided by the bituminous coal agreement. When the coal settlement is excluded from the first quarter data, first-year adjustments were roughly comparable to the 7.8 per cent average increase in 1977.

RECENT CHANGES IN PRODUCER PRICES  
(Per cent change at a compound annual rate; based  
on seasonally adjusted data)1/

	Relative Importance Dec. 1977	1977				1978	
		QI	QII	QIII	QIV	QI	Apr.
Finished goods	41.2	10.0	6.4	2.9	7.2	9.4	15.2
Consumer foods	10.3	17.9	4.3	-2.3	7.4	21.0	22.6
Consumer nonfoods	18.7	9.0	7.8	4.0	4.7	5.1	16.2
Capital equipment <u>4/</u>	12.2	5.0	6.8	6.0	10.9	6.9	6.8
Intermediate nonfood materials <u>2/</u>	45.5	8.9	5.5	7.1	4.2	9.0	6.2
Crude nonfood materials <u>3/</u>	4.6	25.6	-8.1	-5.3	20.1	15.7	10.9
All Commodities	100.0	11.1	4.0	2.1	6.7	12.0	12.3
Farm and food products	21.0	19.3	-3.1	-14.8	14.5	28.8	25.0
Industrial commodities	79.0	8.8	6.4	6.7	5.2	7.8	8.8
Industrial commodities ex. fuels and power	67.7	6.7	4.5	7.0	5.5	8.1	10.0

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.

2/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.

3/ Excludes crude foodstuffs and feedstuffs.

4/ Formerly called producer goods.

HOURLY EARNINGS INDEX<sup>1/</sup>  
 (Per cent change from preceding comparable period  
 at a compound annual rate; based on seasonally  
 adjusted data)

	1977				1978		
	QI	QII	QIII	QIV	QI	Mar. <sup>2/</sup>	Apr. <sup>2/</sup>
Private nonfarm	8.1	6.7	7.7	8.3	9.8	8.3	9.4
Construction	5.7	4.5	4.0	5.6	7.3	9.1	2.1
Manufacturing	7.9	7.8	9.2	7.9	8.7	6.9	6.4
Trade	9.0	6.9	6.5	8.0	12.7	8.9	10.6
Transportation and public utilities	6.0	7.3	8.0	10.8	9.5	13.0	9.3
Services	10.3	5.7	8.4	8.9	11.3	6.7	13.0

<sup>1/</sup> Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.

<sup>2/</sup> Monthly change at an annual rate, not compounded.



Hourly compensation rose sharply during the first quarter, reflecting legislated increases in employer Social Security and unemployment insurance taxes in addition to the minimum wage increase. At the same time, productivity in the private nonfarm business sector fell more than 3 per cent at an annual rate, as total hours of paid employment increased further despite weather and strike-related declines in output. As a result, in the first quarter unit labor costs increased 17 per cent in the nonfarm business sector. In the second quarter, with output rebounding and with no additional government-mandated pressures on compensation, unit labor costs should return to a more moderate rate of increase.

MAJOR COLLECTIVE BARGAINING SETTLEMENTS  
(Per cent change)

	Average Adjustment			
	1975	1976	1977	1978 Q1
Wage-rate settlements (1,000 or more workers)				
First year adjustment	10.2	8.4	7.8	9.9
Average over life of contract <u>1/</u>	7.8	6.4	5.8	7.3
Wage and benefit settlements (5,000 or more workers)				
First year adjustment	11.4	8.5	9.6	14.6
Average over life of contract <u>1/</u>	8.1	6.6	6.2	8.5
Effective wage-rate adjustment (1,000 or more workers)	8.7	8.1	8.0	1.2
Current settlement	2.8	3.2	3.0	.4
Prior settlement	3.7	3.2	3.2	.6
Escalator provision	2.2	1.6	1.7	.2

1/ Excluding cost-of-living adjustments.

PRODUCTIVITY AND COSTS  
 (Per cent change from preceding period at a compound annual rate;  
 based on seasonally adjusted data)

	1977				1978	1977 QI to 1978 QI
	QI	QII	QIII	QIV	QI	
<u>Output per hour</u>						
Total private business	5.7	-1.0	5.3	2.3	-3.6	.7
Nonfarm business	4.7	.8	3.8	2.3	-3.3	.9
Manufacturing	.1	3.8	5.2	-.9	-3.3	1.1
Durable	-1.5	6.1	3.5	-1.7	-5.7	.5
Nondurable	2.5	.5	7.7	.3	.4	2.2
<u>Compensation per hour</u>						
Total private business	11.3	6.5	8.4	7.7	14.0	9.1
Nonfarm business	11.3	7.6	7.5	8.2	13.2	9.1
Manufacturing	12.8	8.1	6.9	8.0	14.9	9.4
Durable	13.2	9.6	5.7	8.3	14.0	9.4
Nondurable	11.8	5.3	7.9	7.3	16.2	9.1
<u>Unit labor costs</u>						
Total private business	5.3	7.5	2.9	5.3	18.3	8.4
Nonfarm business	6.3	6.8	3.5	5.8	17.0	8.2
Manufacturing	12.7	4.1	1.6	9.0	18.8	8.2
Durable	15.0	3.3	2.1	10.0	20.9	8.8
Nondurable	9.0	4.7	.2	7.0	15.7	6.8

III-T-1  
SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data		Net change from:		
	Period	Level	Month ago	Three months ago	Year ago
	\$ billions		Per cent at annual rates		
<b>Monetary and credit aggregates 1/</b>					
Total reserves	April	36.99	10.5	4.3	6.4
Nonborrowed reserves	April	36.43	3.0	3.4	5.0
Money supply					
M1	April	344.9	16.9	6.5	7.1
M2	April	827.5	10.7	6.8	8.2
M3	April	1409.0	9.7	7.2	9.9
Time and savings deposits (less CDs)	April	482.6	6.2	7.1	9.0
CDs <sup>2/</sup>	April	83.4	1.4	7.1	21.8
Thrift deposits (S&Ls + MSBs + Credit Unions)	April	581.5	8.3	7.7	12.4
Bank credit (end of month)	April	909.3	21.5	13.7	10.9

Indicator	Latest data		Net change from:			
	Period	Per cent or index	Month ago	Three months ago	Year ago	
<b>Market yields and stock prices</b>						
Federal funds	wk. endg.	5/3/78	7.27	.42	.48	2.12
Treasury bill (90 day)	"	5/3/78	6.38	-.01	-.04	1.73
Commercial paper (90-119 day)	"	5/3/78	6.91	.15	.15	2.08
New utility issue Aaa	"	5/5/78	--	--	--	--
Municipal bonds (Bond Buyer) 1 day		5/4/78	5.98	.22	.35	.22
FNMA auction yield (FHA/VA)		5/1/78	9.52	.08	.25	.82
Dividend price ratio (common stocks)	wk endg.	5/3/78	5.63	.05	.21	1.12
NYSE index (12/31/65=50) end of day	end of day	5/8/78	53.82	3.41	3.47	-.33

Indicator	Net Change or Gross Offerings				
	Period	Latest Data	Year ago	Year to Date	
				1978	1977
				\$ billions	

**Credit demands**

Business loans at commercial banks 1/	Apr.	3.5	2.4	11.9	7.6
Consumer instalment credit outstanding <sup>1/</sup>	Mar.	4.1	3.0	9.2	7.0
Mortgage debt outstanding (major holders) <sup>1/</sup>	Feb.	7.0	5.7	14.5	11.6
Corporate bonds (public offerings)	Apr.	2.0e	2.0	6.6e	8.5
Municipal long-term bonds (gross offerings)	Apr.	3.5e	3.4	13.8e	14.3
Federally sponsored agcy. (net borrowing)	Apr.	1.8	1.5	6.3	2.3
U.S. Treasury (net cash borrowing)	May	.4	-2.9	18.9	16.0

1/ Seasonally adjusted.

2/ \$ billions, not at annual rates.

e Estimated.

DOMESTIC FINANCIAL DEVELOPMENTS

The volume of funds raised by businesses and consumers in April apparently was not quite as large as in March. Short- and intermediate-term business borrowing changed little, but gross offerings of bonds and equities by nonfinancial corporations decreased somewhat. In the household sector, home mortgage borrowing in April apparently fell somewhat below the previous month's level, and consumer credit growth probably moderated from the advanced March pace. Funds raised by public sectors showed largely seasonal changes. After borrowing heavily throughout most of the first quarter, the Treasury reduced its outstanding debt substantially in April, reflecting a large buildup in its cash balance associated with tax receipts. At the same time, State and local borrowing picked up markedly, because of a bulge in short-term issues.

M-1 expanded sharply in April, and the broader monetary aggregates also grew at a rapid pace--despite continued relatively sluggish growth of consumer-type time and savings deposits at commercial banks and nonbank thrift institutions. Banks reduced their use of managed liabilities in April, while S&Ls continued to borrow heavily to help meet strong demands for mortgage credit.

The Federal funds rate has moved up to about 7-1/4 per cent since the April FOMC meeting, after remaining around 6-3/4 per cent for more than three months. With the increase in the funds rate and apparent revision of market expectations in response to incoming data

SELECTED FINANCIAL MARKET QUOTATIONS  
(per cent)

	1977			1978 <sup>2/</sup>			Change from:	
	High <sup>1/</sup>	Low <sup>1/</sup>	Dec. <sup>2/</sup> 30	Apr. FOMC 18	May 2	May 9	Dec. 30	Apr. FOMC
<u>Short-term rates</u>								
Federal funds <sup>1/</sup>	6.65	4.47	6.65	6.78	7.27	7.32 <sup>3/</sup>	+ .67	+ .54
Treasury bills								
3-month	6.27	4.41	6.13	6.15	6.46	6.45	+ .32	+ .30
6-month	6.51	4.55	6.44	6.58	6.93	6.98	+ .54	+ .40
1-year	6.62	4.67	6.53	6.83	7.16	7.23	+ .70	+ .40
Commercial paper								
1-month	6.58	4.53	6.60	6.63	6.75	6.81	+ .21	+ .18
3-month	6.66	4.63	6.68	6.79	6.94	6.96	+ .28	+ .17
Large negotiable CDs <sup>4/</sup>								
3-month	6.62	4.60	6.70	6.90	7.30	7.25	+ .55	+ .35
6-month	6.84	4.65	7.00	7.25	7.70	7.75	+ .75	+ .50
Bank prime rate	7.75	6.25	7.75	8.00	8.00	8.25	+ .50	+ .25
<u>Intermediate- and long-term rates</u>								
Corporate								
New AAA <sup>5/</sup>	8.36	7.90	--	8.88	8.92	--	--	--
Recently offered <sup>6/</sup>	8.48	7.95	8.48	8.84	8.91	8.90p	+ .42	+ .06
Municipal								
(Bond Buyer) <sup>7/</sup>	5.93	5.45	5.66	5.74	5.89	5.98	+ .32	+ .24
U.S. Treasury								
(constant maturity)								
3-year	7.39	5.74	7.34	7.73	7.97	8.06	+ .72	+ .33
7-year	7.66	6.48	7.66	7.99	8.15	8.24	+ .58	+ .25
20-year	7.96	7.20	7.98	8.27	8.38	8.44	+ .46	+ .17
	Low <sup>8/</sup>	High <sup>8/</sup>	Dec. 30	FOMC Apr.18	May 2	May 9	Dec. 30	Apr. FOMC
<u>Stock prices</u>								
Dow-Jones Industrial	807.74	985.74	831.17	803.27	840.18	822.07	-9.10	+18.80
N.Y.S.E. Composite	50.13	56.98	52.50	52.16	54.18	53.68	+1.18	+1.52
AMEX	110.37	126.86	127.89	134.66	137.70	140.18	+12.29	+5.52
Keefe Bank Stock <sup>6/</sup>	530	633	588	614	647	n.a.	n.a.	n.a.

<sup>1/</sup> Daily average for statement week, except where noted.

<sup>2/</sup> One-day quotes except as noted.

<sup>3/</sup> Average for first 6 days of statement week ending May 10.

<sup>4/</sup> Highest quoted new issues.

<sup>5/</sup> 1978 figures are averages for preceding week.

<sup>6/</sup> 1978 figures are one-day quotes for preceding Friday.

<sup>7/</sup> 1978 figures are one-day quotes for preceding Thursday.

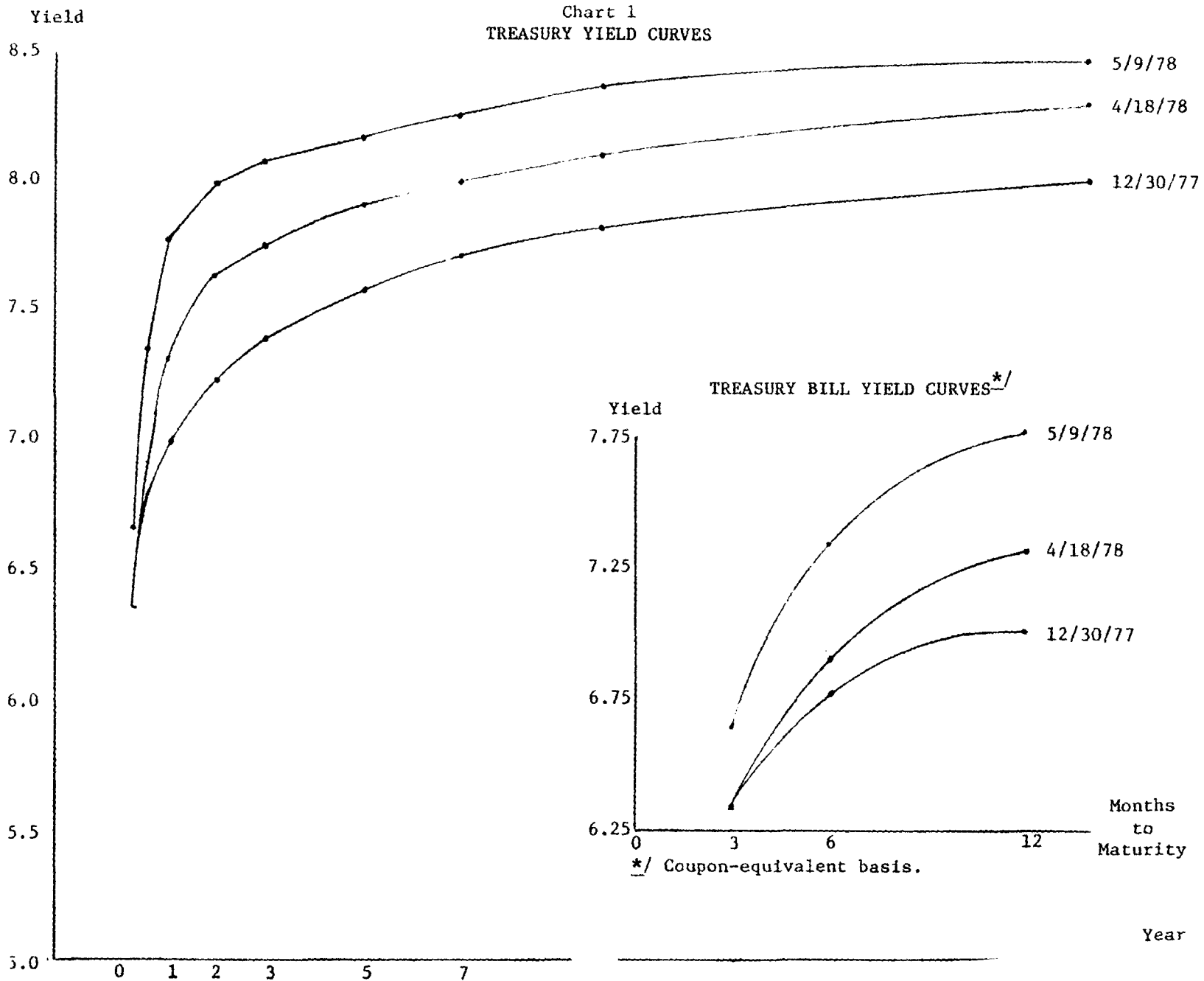
<sup>8/</sup> Calendar week averages.

indicating further rapid rises in prices of goods and services, a vigorous pickup in economic activity, and sharp acceleration in the growth of the monetary aggregates, other market interest rates have also risen noticeably during the intermeeting period. Nevertheless, the increases generally have been moderate, compared to the rise in the funds rate. Most short-term rates have moved up 20 to 40 basis points, while yields on longer term securities generally have advanced 5 to 35 basis points. In addition, the bank prime rate has been raised to 8-1/4 per cent from 8 per cent.

Prior to the April FOMC meeting, intermediate- and long-term rates apparently had already incorporated some expected tightening in System policy. Scarcity of Treasury bills available to domestic investors, prevalent for several months, also helped to restrain rate increases at the very short end of the maturity range. Due partly to the relative scarcity of short-term bills, the Treasury yield curve for issues maturing within one or two years has become steeper since the end of 1977; the yield curve for longer maturities has flattened somewhat (Chart 1).

#### Monetary Aggregates and Bank Credit

Growth in M-1 surged during April to a 17 per cent annual rate from a 3-1/2 per cent pace in March. Much of this strength evidently reflected larger transactions needs associated with the rebound in economic activity, although there were also some temporary tax-related factors. Nonwithheld individual Federal income tax liabilities were larger this year than in other recent years, and the processing of returns by the IRS has lagged behind the usual





schedule; as a result an exceptionally large volume of unprocessed tax payments still remained in individual's demand balances during the last half of April. In addition, disbursements of refunds of withheld taxes surpassed normal seasonal flows in April.

Bolstered by the strong M-1 expansion, M-2 grew by 11 per cent in April, double the March pace. While time and savings deposits (other than large CDs at weekly reporting banks) increased at a 6 per cent annual rate, similar to March, their composition changed significantly. Growth of the large time deposit component of M-2 fell sharply from the March pace. In contrast, there was an increase in the growth of individual's savings deposits and a more moderate runoff of other savings accounts. Small time deposits increased substantially, as in March.

The pickup in savings deposit growth at banks in April occurred despite further increases in market yields and continued investor interest in alternative short-term instruments--as evidenced by large noncompetitive tenders at weekly Treasury bill auctions and continued rapid growth of money market mutual funds. The strengthening of these deposit flows was likely related to end-of-quarter interest crediting and the relatively large tax refunds in April. 1/

M-3 expanded at a somewhat slower pace than the narrower aggregates in April, as deposit growth at S&Ls and mutual savings banks continued around the relatively weak pace of recent months.

---

1/ On a seasonally adjusted basis, savings deposits advanced in early April, but registered net declines later in the month. A similar pattern occurred in January following interest crediting, suggesting that a change in seasonal patterns may be developing.

MONETARY AGGREGATES  
(Seasonally adjusted)<sup>1/</sup>

	1 9 7 7		1 9 7 8		12 months	
	QIII	QIV	QI	Mar.	ending Apr. 78e	
<u>Net changes at annual rates, per cent</u>						
<u>Major monetary aggregates</u>						
1. M <sub>1</sub> (currency plus demand deposits)	8.1	7.2	5.0	3.5	16.9	7.1
2. M <sub>2</sub> (M <sub>1</sub> + time & savings deposits at CBs other than large CDs)	9.9	8.0	6.4	5.3	10.7	8.2
3. M <sub>3</sub> (M <sub>2</sub> + all deposits at thrift institutions)	11.9	10.6	7.4	6.2	9.7	9.9
<u>Bank time &amp; savings deposits</u>						
4. Total	10.3	13.0	13.1	11.4	8.3	12.2
5. Other than large negotiable CDs at weekly reporting banks	11.2	8.5	7.5	6.5	6.2	9.0
6. Savings deposits	7.3	5.4	2.2	0.5	3.3	4.4
7. Individuals <sup>2/</sup>	9.6	7.0	3.1	1.2	4.1	5.7
8. Other <sup>3/</sup>	-17.1	-17.8	-8.0	-16.2	-8.2	-11.0
9. Time deposits	14.6	11.4	12.0	12.2	8.8	13.1
10. Small time <sup>4/</sup>	8.3	1.0	2.7	11.0	11.6	6.2
11. Large time <sup>4/</sup>	28.1	32.4	29.9	14.3	3.8	27.9
<u>Deposits at nonbank thrift institutions<sup>5/</sup></u>						
12. Total	15.0	14.4	8.8	7.7	8.3	12.4
13. Savings and loans	16.2	15.4	9.0	8.0	8.2	13.2
14. Mutual savings banks	9.5	9.9	5.2	3.6	4.5	7.8
15. Credit unions	20.1	20.0	18.2	20.0	14.7	19.9
<u>Average monthly changes, \$ billions</u>						
MEMORANDA:						
16. Total US Govt deposits	0.2	0.2	-1.2	0.4	0.3	-0.2
17. Total large time deposits <sup>6/</sup>	1.7	6.2	4.5	3.7	1.7	3.5
18. Nondeposit sources of funds <sup>7/</sup>	1.4	1.4	1.9	1.1	-3.5	1.1

<sup>1/</sup> Quarterly growth rates are computed on a quarterly average basis.

<sup>2/</sup> Savings deposits held by individuals and nonprofit organizations.

<sup>3/</sup> Savings deposits of business, government and others, not seasonally adjusted.

<sup>4/</sup> Small time deposits are time deposits in denominations less than \$100,000.

Large time deposits are time deposits in denominations of \$100,000 and above excluding negotiable CDs at weekly reporting banks.

<sup>5/</sup> Growth rates computed from monthly levels based on averages of current and preceding end-of-month data.

<sup>6/</sup> All large time certificates, negotiable and nonnegotiable, at all CBs.

<sup>7/</sup> Nondeposit borrowings of commercial banks from nonbank sources include Federal funds purchased and security RPs plus other liabilities for borrowed money, including borrowings from the Federal Reserve, Euro-dollar borrowings and loans sold, less interbank loans.

e--estimated

Data through March indicate that passbook accounts have been the weakest component of deposits at S&Ls, while time accounts have held up relatively well.

At the beginning of April, market interest rates were above all deposit rate ceilings at nonbank thrifts, with the exception of those on accounts maturing in 6 years or more. By early May, however, yields on comparable maturity Treasury securities were about equal to the maximum effective yields payable on 6-year deposits, and market yields were more than 80 basis points above effective ceilings on all time accounts maturing in less than 4 years.

Growth of demand, small time, and savings deposits facilitated a 21-1/2 per cent increase in commercial bank loans and investments in April. Meanwhile, banks reduced their use of managed liabilities, even though member bank borrowing from the Federal Reserve spurted in the latter part of the month as the differential between the discount rate and short-term market rates widened. Large negotiable CDs accounted for a far smaller volume of funds raised than in any of the previous six months, and bank reliance on other large time deposits and nondeposit sources of funds also moderated. Thus, the recent sharp rise in the ratio of managed to total liabilities appears to have halted, at least temporarily, in April. In addition, very large acquisitions of short-term securities and security loans greatly enhanced liquid asset holdings, thereby reversing the recent deterioration in commercial bank liquidity ratios. These portfolio acquisitions may signify only a transient liquidity shift, however,

since they reflected in part unusual government financing<sup>1/</sup> as well as a bulge in credit associated with the surge in the stock market.

Primarily associated with the sharp increase in security loans, growth in total bank loans accelerated to a 21.6 per cent annual rate in April, substantially above the strong March pace. The real estate and business loan components expanded at rates close to those registered in March, and indications are that consumer loans also grew appreciably.

#### Business Credit

External financing requirements of nonfinancial corporations apparently remained large in April, following a substantial widening of the financing gap in the first quarter. With long-term interest rates at their highest levels since late 1975 and stock values still quite low--despite a strong rally late in the month--reliance on bond and equity financing by nonfinancial corporations remained around the reduced first quarter pace, while their borrowing in markets for short- and intermediate-term credit remained large. Borrowing by financial corporations in both bond and commercial paper markets continued large during the month.

Short- and intermediate-term business borrowing. In April, growth of bank loans (net of bankers' acceptances) to nonfinancial

---

<sup>1/</sup> For example, large banks, principally in New York City, acquired a large volume of New York State tax warrants and part of the \$6 billion in cash management notes issued by the Treasury early in the month to mature on April 27.

## COMMERCIAL BANK CREDIT

(Per cent changes at annual rates, based on seasonally adjusted data)<sup>1/</sup>

	1 9 7 7		1 9 7 8			12 mos ending April
	QIII	QIV	QI	March	April	
Total loans & investments <sup>2/</sup>	8.6	8.3	10.5	9.1	21.5	10.9
Investments	-2.9	-5.8	4.4	-5.6	21.2	1.9
Treasury securities	-19.4	-26.4	12.8	-12.3	23.6	-4.7
Other securities	8.4	7.4	-0.5	-1.5	19.6	6.3
Total loans <sup>2/</sup>	13.7	14.3	13.0	15.1	21.6	14.9
Business loans	10.2	16.0	16.4	21.7	19.7	15.0
Security loans	4.3	19.3	-51.0	-53.6	231.6	11.5
Real estate loans	16.6	15.0	14.7	17.5	15.9	16.8
Consumer loans	18.4	16.2	12.9	18.0	n.a.	n.a.

## MEMORANDA:

1. Commercial paper issued by nonfinancial firms<sup>3/</sup> 5.3 15.8 -2.5 108.3 38.2 12.5
2. Business loans at banks net of bank holdings of bankers acceptances 8.9 14.9 19.8 22.7 23.5 15.9
3. Sum of memo items 1 & 2 8.6 14.9 18.1 28.2 24.5 15.6
4. Memo item 3 plus business loans from finance companies 9.4 18.0 17.1 24.7 n.a. n.a.

<sup>1/</sup> Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.

<sup>2/</sup> Loans include outstanding accounts 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.

<sup>3/</sup> Measured from end of month.

n.a.--not available

business was above the rapid rates recorded during the previous two quarters and slightly exceeded even the exceptional March pace. Noteworthy expansion in business loans extended by the largest banks occurred in the fabricated metals, services, communications, and wholesale and retail trade industries. As in the first quarter, business lending expanded much more rapidly at small banks than at large ones, and large New York banks continued to experience sluggish growth.

Total commercial paper outstanding rose \$2.7 billion (seasonally adjusted) during April, the largest increase since June 1977. Nonbank financial paper contributed the major portion of the growth, primarily reflecting increased issuance of paper by all types of finance companies to finance short-term consumer- and business-related receivables. Nonfinancial commercial paper rose by \$500 million in April--less than in March, but nonetheless a relatively large increase. The sum of bank loans to businesses and nonfinancial commercial paper grew at a 24-1/2 per cent annual rate, somewhat below the rapid March pace.

Longer-term business credit. Gross public offerings of corporate bonds increased slightly to \$2.0 billion in April, while private placements are estimated to have remained around the reduced first quarter pace. Public bond offerings by nonfinancial corporations remained moderate, but financial concerns--primarily finance companies and S&Ls--continued to raise a large volume of funds through intermediate-term issues. Bond offerings by financial corporations have accounted for more than two-fifths of total publicly offered corporate bonds in the first four months of 1978, compared with one-fifth, on average, in previous five years.

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

	1977		1978				
	Year	QIV	QI	Mar. <sup>e/</sup>	Apr. <sup>e/</sup>	May <sup>f/</sup>	June <sup>f/</sup>
	<u>Gross offerings</u>						
Corporate securities--total	4,518	5,361	3,088	3,700	3,300	3,200	3,800
Publicly offered bonds	2,016	1,955	1,527	1,900	2,000	1,700	1,800
By quality <sup>1/</sup>							
Aaa and Aa	1,089	1,010	755	650	1,125	--	--
Less than Aa <sup>2/</sup>	927	945	772	1,250	875	--	--
By type of borrower							
Utility	692	660	472	675	425	--	--
Industrial <sup>3/</sup>	700	490	514	525	675	--	--
Financial	624	805	541	700	900	--	--
Privately placed bonds	1,501	2,000	933	1,000	800	800	1,200
Stocks	1,001	1,406	628	800	500	700	800
Foreign securities--total	621	482	728	1,130	554	--	--
Publicly offered <sup>4/</sup>	437	342	425	950	550	375	300
Privately placed	184	140	303	180	4	--	--
State and local govt. securities--total	5,771	4,812	4,988	5,904	8,300	6,000	5,300
Long-term	3,891	3,595	3,433	4,300	3,500	4,000	3,300
Short-term	1,880	1,217	1,555	1,604	4,800	2,000	2,000
	<u>Net offerings</u>						
U.S. Treasury	3,433	7,167	7,200	12,760	-11,445	4,600	-3,600
Sponsored Federal agencies	604	703	1,804	2,687	1,071	3,142	1,582

<sup>1/</sup> Bonds categorized according to Moody's bond ratings.

<sup>2/</sup> Includes issues not rated by Moody's.

<sup>3/</sup> Includes equipment trust certificates.

<sup>4/</sup> Classified by original offering date.

<sup>e/</sup> Estimated.

<sup>f/</sup> Forecast.

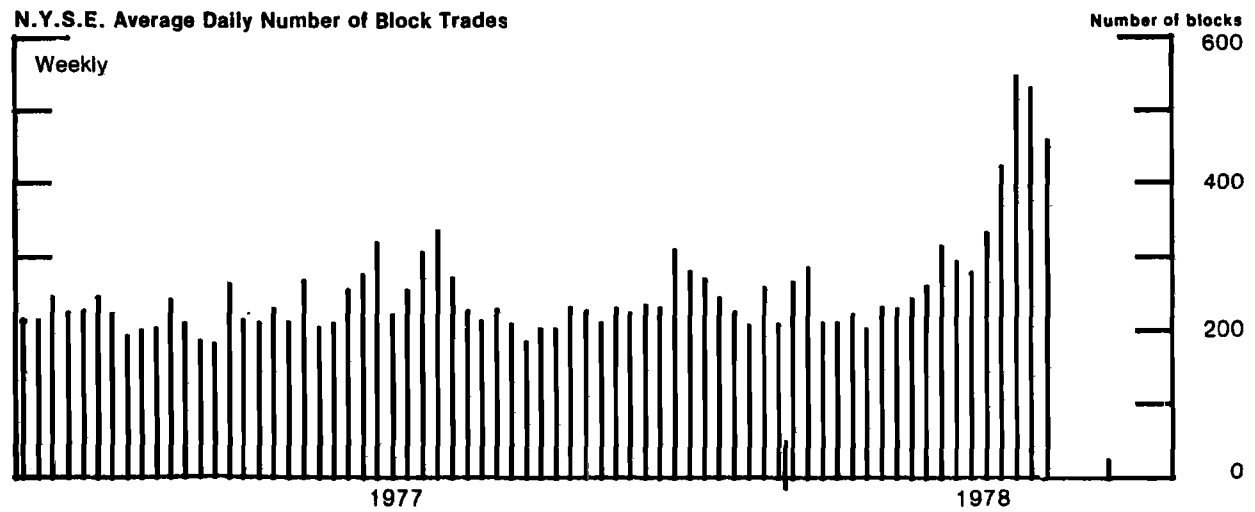
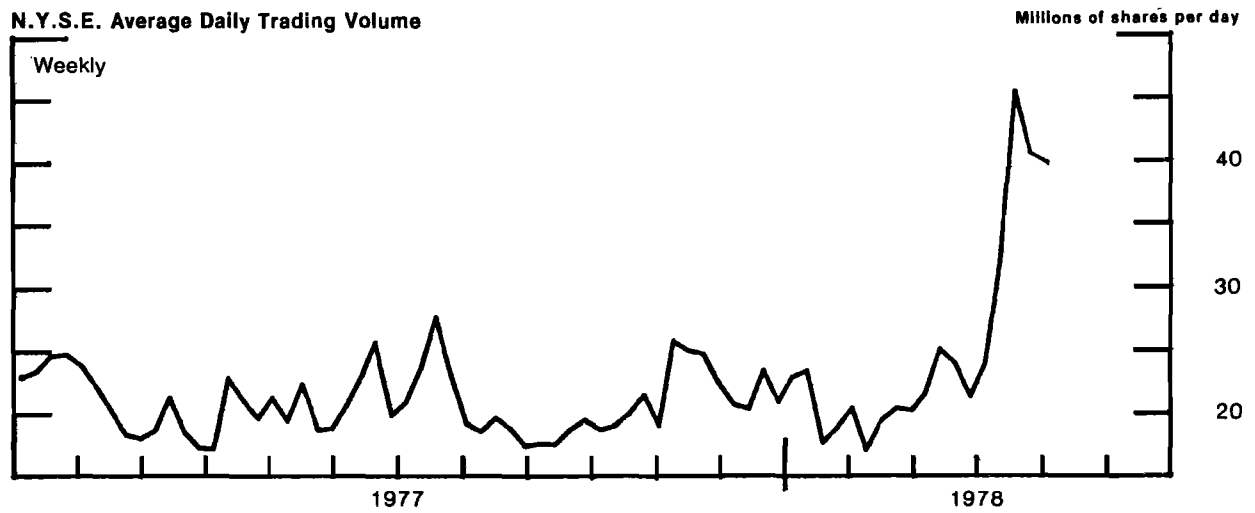
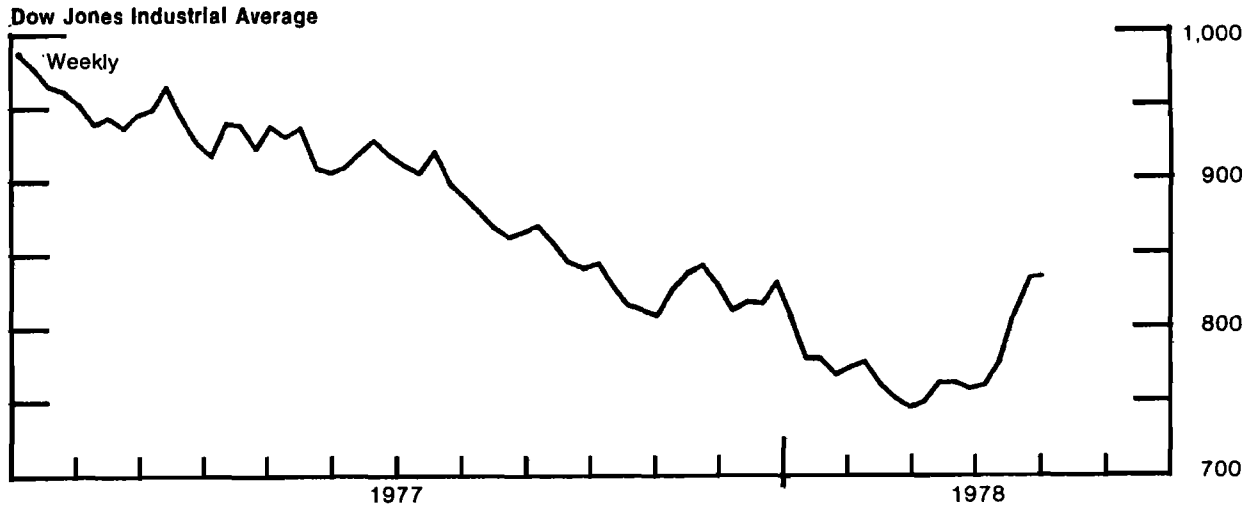
Corporate bond yields have continued to move higher since the last FOMC meeting, although the increases have been less than those recorded by money market interest rates. The Board's index of recently offered Aaa-rated utility bond yields was 8.90 per cent in early May, about 5 basis points above its level at the last FOMC meeting.

New issues of common and preferred stock by domestic corporations totaled \$500 million in April, somewhat below the first quarter rate and well below the 1977 pace. However, stock prices have risen sharply in April, contributing to a decline in the relative cost of equity financing as compared with bonds. The Dow Jones Industrial Average has climbed almost 11 per cent since the end of February (its 1978 low), with most of the gain occurring in the latter part of April. More broadly based indexes of N.Y.S.E.-listed industrial issues have increased by similar amounts, as have the stock prices of American Stock Exchange-listed securities and issues traded in the over-the-counter market. The recent strong rally in stock prices has been accompanied by unprecedented trading activity. N.Y.S.E. trading volume averaged more than 40 million shares per day in the last two weeks of April, and large block trades (10,000 or more shares) jumped to a record 833 on April 17, more than twice the previous high for a single day (Chart 2).

The recent rise in stock prices can be attributed in part to the resurgence in economic activity and the upward movement of the dollar in foreign exchange markets. Market professionals also indicate that many institutional investors had large liquid asset



Chart 2 STOCK PRICES AND TRADING VOLUME



Latest data shown: Week ending May 5, 1978

positions prior to the upsurge and may have committed some of these funds to equities. In addition, the closing of many of the short sale positions that had accumulated during the prolonged bearish period of 1977 and early 1978 probably provided early buying strength for the market upswing.

#### Government Securities Markets

The Treasury reduced its outstanding debt by \$1.9 billion in the latest mid-quarter refinancing operation, issuing \$2.5 billion of 10-year notes and \$1.5 billion of reopened 22-1/4 year bonds to refund \$5.9 billion of maturing issues. A net paydown is not unusual for the mid-May refunding, as April tax receipts produce a seasonal buildup in the Treasury's cash balance. Since the beginning of April, however, the Treasury has raised \$1.1 billion of new money through marketable coupon issues. The paydown in the mid-May refunding has been more than offset by \$2.5 billion raised with a 5-year note at the beginning of April and \$500 million through sales to foreign accounts in conjunction with the offering of 2-year notes.<sup>1/</sup>

The decision of the Treasury not to sell an anchor issue (normally a 3-year note) at the mid-May refunding reflects a continuing effort to lengthen the average maturity of its debt. Moreover, the Treasury rolled over maturing 3- and 6-month and 1-

---

<sup>1/</sup> With respect to nonmarketable issues, foreign official institutions redeemed \$200 million, savings bond and notes increased \$400 million, and State and local net purchases were \$700 million in April.

year issues at the weekly and monthly bill auctions in April and made net paydowns of \$6.0 billion in cash management bills (on a payments basis).

Borrowing by sponsored agencies totaled \$1.8 billion in April, slightly less than in March, and housing agencies accounted for about half of the total. FMA issued \$600 million in debentures in early April and close to \$100 million in discount notes during the month. The FHLBs raised only about \$150 million in discount notes in April, financing most of the large increase in advances to S&Ls through reductions of over \$1 billion in liquid asset holdings. This reflects the Home Loan Banks' tendency to restrict major borrowing to bond financing operations. The terms of their second quarter financing will be announced May 15.

Gross offerings of long-term State and local government bonds declined to \$3.5 billion in April, almost 20 per cent below the volume for March. Issues sold to refund or advance refund outstanding obligations totalled nearly \$1 billion, still quite large by historical standards. Short-term municipal borrowing was considerably above the previous month's total, due to New York State's record \$3.8 billion note sale in early April. Both the rating and reoffering scale for the issue show a significant improvement in the State's credit position since last year's spring borrowing.<sup>1/</sup>

---

<sup>1/</sup> Moody's upgraded its rating of the issue from MIG-2 to MIG-1, and yields on all maturities were less than 1 percentage point above prime Government-backed housing notes (a common standard for short-term municipal offerings)--as opposed to last year's differential of approximately 1.65 percentage points.

Yields on municipal bonds have increased 20 to 25 basis points since the last FOIC meeting; the Bond Buyer index climbed to 5.98 per cent in early May, its highest level since late 1976. These rate increases apparently were associated partly with forthcoming heavy supplies of bonds in the wake of a recent IRS ruling, effective May 10, which further restricts the ability of issuers to invest sinking fund payments in taxable securities. Despite the recent runup of municipal yields the ratio of tax-exempt to taxable yields remains quite low by historical standards.

#### Mortgage Markets

Net mortgage lending in April apparently declined somewhat from the March pace to a level roughly equivalent to the reduced first quarter average. At commercial banks, net mortgage acquisitions were \$2.4 billion in April, slightly below the March expansion. Issues of GMA-guaranteed mortgage-backed securities fell to \$0.8 billion, while FMA mortgage purchases increased further to \$0.9 billion; the sum of these two, representing the major marketing outlets for originators of FHA/VA mortgages, was about 20 per cent below the record volume posted in March. At savings and loan associations--the principal suppliers of conventional mortgage funds--mortgage commitments outstanding declined further in March (latest data available), as new commitment activity remained near the reduced February rate and takedowns of outstanding commitments picked up from the weather-depressed January-February levels.<sup>1/</sup> At the end

---

<sup>1/</sup> The ratio of outstanding mortgage commitments at insured S&Ls relative to prospective three-month cash flows--defined as deposit growth plus mortgage repayments--fell to 1.46 at the end of March, still relatively high by historical standards but down from a three-year high of 1.71 at year-end 1977.

of the first quarter, mortgage commitments outstanding at S&Ls and New York State mutual savings banks combined were about 6 per cent below the end-of-year peak of \$40 billion.

With the continued weakness in deposit growth during April, S&Ls again relied upon borrowed funds to help support mortgage lending. Outstanding FHLB advances (SA) increased by \$1.6 billion during April--the fifth consecutive monthly rise in excess of \$1 billion--and S&Ls raised \$290 million through three publicly offered mortgage-backed bond issues. The liquidity ratio (SA) at insured S&Ls--cash and liquid assets as a percentage of deposits plus short-term borrowing--slipped to 8.5 per cent at the end of March, its lowest level since year-end 1974 (Chart 3). To ease liquidity pressures, the Federal Loan Bank Board lowered the minimum liquidity ratio for S&Ls from 7.0 per cent to 6.5 per cent, effective May 1, reducing required liquid asset balances by an estimated \$1.8 billion.

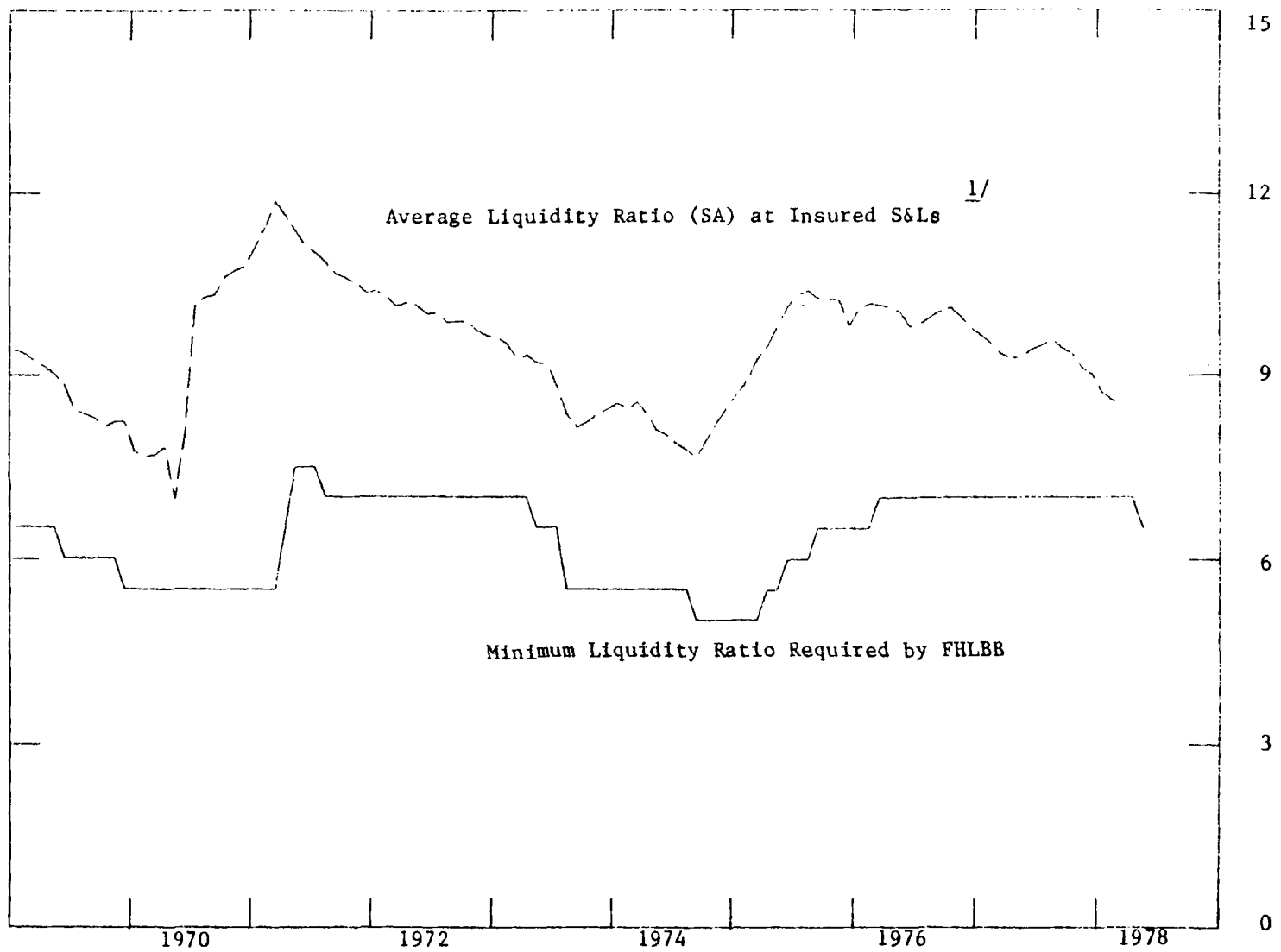
Average interest rates on new commitments for conventional home mortgages at S&Ls have increased 15 basis points since the last FOMC meeting to 9.48 per cent--about 50 basis points above levels prevailing in December--and field reports indicate that increasing numbers of thrift institutions have been tightening nonrate terms and lending standards. Given the rise in primary market rates in recent months, State usury ceilings are reportedly constraining originations of conventional home mortgages in some areas. Six States currently have interest rate ceilings below 10 per cent.

Yields in the secondary mortgage markets have also increased in recent weeks. GMA security yields moved up about 18 basis points,

Chart 3

Savings and Loan Liquidity

Per. Cent



III - 18

Cash and liquid assets as a per cent of deposits plus borrowings payable within one year.

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

	Average rate on new commitments for 80% loans (Per cent)	Basis point change from month or week earlier	Spread <sup>1/</sup> (basis points)	Per cent of S&Ls <sup>2/</sup> with funds in short supply
1976--High	9.00	--	+92	22
Low	8.65	--	+37	2
1977--Aug	8.93	0	+92	14
Sep	8.90	-3	+65	12
Oct	8.90	0	+62	11
Nov	8.93	+3	+70	18
Dec	9.00	+7	--	22
1978--Jan	9.05	+2	--	27
Feb	9.15	+10	+44	38
Mar	9.25	+10	+42	45
Apr 7	9.28	+3	+40	44
14	9.33	+5	+45	46
21	9.38	+5	+45	52
28	9.43	+5	+51	54
May 5	9.48	+5	--	57

<sup>1/</sup> Average mortgage rate minus average yield on new issues of Aaa utility bonds.

<sup>2/</sup> Per cent reporting supply of funds slightly or substantially below normal seasonal patterns.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

	FNMA auctions of forward purchase commitments						Yields on GNMA guaranteed mortgage backed securities for immediate <sup>2/</sup> delivery
	Conventional			Govt.-underwritten			
	Amount (\$ millions)		Yield to FNMA <sup>1/</sup>	Amount (\$ millions)		Yield to FNMA <sup>1/</sup>	
Offered	Accepted	Offered		Accepted			
1977--High	416	278	9.21	855	570	8.98	8.43
Low	123	83	8.81	50	35	8.45	7.56
1978--Apr 3	523	295	9.69	626	364	9.44	8.70
10							8.67
17	451	283	9.74	284	166	9.44	8.67
24							8.81
May 1	646	305	9.80	655	350	9.52	8.80
8							8.85

<sup>1/</sup> Average gross yield before deducting fee of 38 basis points for mortgage servicing. Data, based on 4-month FNMA purchase commitments, reflect the average accepted bid yield for home mortgages, assuming a prepayment period of 12 years for 30-year loan without special adjustment for FNMA commitment fees and related stock requirements. Mortgage amounts offered by bidders relate to total eligible bids received.

<sup>2/</sup> 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.

in line with increases on intermediate-term Treasury securities. In view of this adjustment, as well as increased market uncertainty about the future course of mortgage prices, the volume of offerings in FMMIA's May 1 auctions of commitments to purchase home mortgages increased substantially.<sup>1/</sup> Average yields on accepted bids rose 2 basis points as the average price for 8-3/4 per cent FHA/VA home loans fell to 94.7 per cent of par. Field reports indicate that deepening discounts required in the secondary markets are constraining originations of Government-underwritten home mortgages to some extent.

#### Consumer Credit

Growth of consumer instalment credit surged to a 22 per cent annual rate in March as sales of autos and other consumer goods recovered sharply from the weather-reduced rates of January and February. In April, however, credit growth probably moderated, as suggested by a slower advance in consumer loans at weekly reporting commercial banks. The exceptionally strong March gain--reflecting a large increase in credit extensions and little change in liquidations--boosted the first quarter annual growth rate to the upper end of the 15 to 17 per cent range that prevailed during most of last year.

---

<sup>1/</sup> FMMIA's outstanding commitments were over \$8 billion at the end of April, compared with \$3.5 billion last fall. The other Federal and related agencies operating in the secondary markets--GMA and FRLMC--had about \$6 billion in purchase commitments outstanding.



All holders recorded more rapid rates of increase in March, and commercial banks--which accounted for half of the total advance--showed particular strength.

With the first quarter expansion of instalment credit outpacing the increase in disposable personal income, the ratio of consumer outstanding credit to income surpassed its previous high. Repayments increased more slowly, however, and the repayments-to-income ratio edged down. This measure of consumer debt burden, at just under 15 per cent, remained about one percentage point below the peak levels in the early 1970's. If home mortgages are included as well, the ratio of scheduled household debt payments to income held near the record level reached in the final quarter of 1977.

CONSUMER INSTALMENT CREDIT<sup>1/</sup>

	1975	1976	1977	1977 QIV	1978		
					QI	Feb	Mar
<u>Total</u>							
Change in outstandings							
Billions of dollars	7.3	19.9	30.8	32.8	36.6	31.9	48.8
Per Cent	4.7	12.3	16.9	16.0	17.2	14.8	22.3
Bank share (per cent)	39.6	54.0	50.7	52.5	48.3	48.1	49.7
Extensions							
Billions of dollars	163.9	192.4	226.0	238.3	245.4	242.1	259.1
Bank share (per cent)	47.2	48.9	49.1	49.9	49.1	49.1	49.1
Liquidations							
Billions of dollars	156.6	172.4	195.2	205.5	212.4	210.2	210.3
Ratio to disposable income	14.4	14.6	14.9	15.1	14.9	14.9	15.1
<u>Automobile Credit</u>							
Change in outstandings							
Billions of dollars	3.2	10.2	13.3	13.8	15.2	13.2	18.3
Per cent	6.1	18.3	20.2	18.2	19.2	16.4	22.4
Extensions							
Billions of dollars	51.5	62.8	73.1	76.6	77.9	76.8	81.9
New car loans over 36 months as per cent of total new car loans at:							
Commercial banks <sup>2/</sup>	14.0	25.4	40.7	44.8	50.5	50.5	n.a.
Finance companies <sup>2/</sup>	23.5	33.9	47.7	52.7	55.4	55.4	n.a.

<sup>1/</sup> Quarterly and monthly dollar figures and related per cent changes are seasonally adjusted annual rates.

<sup>2/</sup> Data reported for the mid-month of each quarter.

n.a.--not available.

**U.S. International Transactions**  
(in millions of dollars, seasonally adjusted 1/)

IV - T - 1

	1976		1977				
	YEAR	YEAR	Q3	Q4	Q1	Feb.	March
1. Merchandise exports	114,694	120,472	30,973	29,425	30,378	10,166	10,626
2. Merchandise imports	124,014	151,968	38,243	39,323	41,778	14,648	14,082
3. Trade Balance	-9,320	-31,496	-7,270	-9,898	-11,200	-4,482	-3,456
4. <u>Bank-reported private capital flows</u>	-10,377	-4,756	946	-5,807	-6,275	547	-3,126
5. Claims on foreigners (increase -)	-21,368	-11,424	-1,709	-8,878	-5,929	894	-5,136
6. Long-term	-2,362	-746	-445	-13	-302	-86	-106
7. Short-term	-19,006	-10,678	-1,264	-8,865	-5,627	980	-5,030
8. (of which on commercial banks in offshore centers 2/)	(-12,961)	(-7,518)	(-841)	(-6,121)	(-3,829)	(1,349)	(-3,118)
9. Liabilities to foreigners (increase +)	10,991	6,668	2,655	3,071	-346	-347	2,010
10. Long-term	231	374	193	35	248	21	214
11. Short-term	10,760	6,294	2,462	3,036	-594	-368	1,796
12. to commercial banks abroad	8,030	5,159	3,804	2,080	-250	415	1,527
13. (of which to commercial banks in offshore centers 2/)	(4,115)	(4,604)	(3,206)	(1,544)	(-929)	(-498)	(1,029)
14. to other private foreigners	2,719	1,691	186	443	7	-80	12
15. to int'l and regional organizations	11	-556	-1,528	513	-351	-703	257
16. <u>Foreign private net purchases (+) of U.S. Treasury securities</u>	2,783	568	1,252	-313	881	757	101
17. <u>Other private securities transactions (net)</u>	-7,480	-2,428	-1,640	72	-453	44	-28
18. Foreign net purchases (+) of U.S. corp. securities (of which stocks)	1,250	2,934	516	803	459	107	355
U.S. net purchases (-) of foreign securities (new foreign issues of bonds and notes)	(-8,730)	(-5,362)	(-2,156)	(-731)	(-912)	(-63)	(-383)
1. (new foreign issues of bonds and notes)	(-9,954)	(-6,848)	(-2,276)	(-1,319)	(-1,107)	(-28)	(-414)
22. <u>Change in foreign official res. assets in the U.S.</u>	13,091	35,407	7,908	15,156	14,837	2,917	8,063
23. OPEC countries (increase +)	6,820	5,978	1,415	746	1,340	63	292
24. (of which U.S. corporate stocks)	(1,828)	(1,365)	(362)	(318)	(324)	(48)	(169)
25. Other countries (increase +)	6,271	29,429	6,493	14,410	13,497	2,854	7,771
26. <u>Change in U.S. reserve assets (increase -)</u>	-2,530	-231	151	*	246	148	238
27. <u>Other transactions and statistical discrepancy (net payments (-))</u>	13,833	2,936	-1,347	790	1,964	69	-1,792
28. Other current account items	7,893	11,032	3,236	1,849			
29. Military transactions, net	366	1,432	559	50			
30. Receipt of income on U.S. assets abroad	21,369	24,940	6,391	5,876			
31. Payment of income on foreign assets in U.S.	-11,561	-13,005	-3,225	-3,733			
32. Other services, net	2,743	2,460	845	740			
33. Remittances and pensions	-1,878	-2,008	-510	-480			
34. U.S. Gov't grants	-3,146	-2,787	-824	-604			
35. Other capital account items	-4,297	-5,368	860	-1,735			
36. U.S. Gov't capital, net claims (increase -)	725	-1,792	-848	-378			
37. U.S. direct investment abroad (increase -)	-4,596	-5,009	-1,058	-1,549			
38. Foreign direct investment in U.S. (increase +)	2,176	1,527	619	-197			
39. Nonbank-reported capital, net claims (increase -)	-2,602	-94	2,147	389			
40. Statistical discrepancy	10,237	-2,728	-5,443	676			
<b>MEMO:</b>							
41. Current account balance	-1,427	-20,464	-4,034	-8,049			
42. Official settlements balance	-10,561	-35,176	-8,059	-15,156			
43. G/S bal. excluding OPEC	-3,741	-29,198	-6,644	-14,410			

**NOTES:**

1/ Only trade and service, U.S. Govt. grants and U.S. Govt. capital are seasonally adjusted.

2/ Offshore center are United Kingdom, Bahamas, Panama, British West Indies and Bermuda.

3/ Less than \$500,000.

## INTERNATIONAL DEVELOPMENTS

---

Foreign exchange markets. The dollar moved sharply higher on exchange markets over the past month. In the four weeks since the last green book, the average exchange value of the dollar rose by 2-1/2 per cent, reversing nearly one third of the decline in dollar exchange rates which occurred last Fall and earlier this year. The dollar started to rise on exchange markets at mid-April, triggered by an upsurge in stock prices, rising U.S. interest rates and an announcement by the Treasury that it would sell 1.8 million ounces of gold over the next six months. Underlying this shift to a more favorable exchange market sentiment toward the dollar was probably a perception in the market of a shift in U.S. economic policy toward a greater emphasis on resisting inflation.

The Desk made net purchases of marks totaling \$461 million equivalent over the past four weeks.

. The marks acquired by the Desk over the past month were used to repay mark swap drawings by both the System and the Treasury. The System repaid a total of \$258 million equivalent of mark swap drawings over the past month, reducing the System's outstanding swap debt to the Bundesbank to \$1,585 million equivalent. The Treasury repaid \$162 million equivalent of marks to the Bundesbank, reducing its outstanding swap obligations in marks to \$838 million equivalent. The System also repaid \$42 million equivalent of Swiss franc swap drawings made earlier this year, using francs purchased directly from the Swiss National Bank. This reduced the System's outstanding indebtedness arising from this year's Swiss franc swap drawings to \$27 million equivalent. Continued weekly repayments during the period reduced the System's pre-1971 Swiss franc swap debt to \$367 million equivalent.

The currency which declined most against the dollar over the past month was the Swiss franc, which fell by 5 per cent. The mark and other snake currencies depreciated by about 4 per cent against the dollar, while the Japanese yen and British pound declined by 3 per cent. Since the pound came under strong selling pressure in early March, it has depreciated by over 6 per cent, despite

a sharp increase in British interest rates, including increases in the Bank of England's Minimum Lending Rate from 6-1/2 per cent to 8-3/4 per cent.

The Canadian dollar was the only exception to the general decline of foreign currencies against the dollar over the past four weeks. After reaching a 40 year low in mid-April, the Canadian dollar has moved up by over 2 per cent against the U.S. dollar, due mainly to announcements of additional large-scale foreign borrowing by the Canadian government, and an increase in Canadian relative to U.S. interest rates.

The gold price dropped sharply in reaction to the Treasury's announcement of future gold sales, then recovered partially to trade around \$172, well below its March peak of \$190.

Borrowing in international capital markets. Gross new borrowing in international capital markets was at a record level in the first quarter of 1978, an annual rate about one-third higher than the 1977 total of \$67 billion. The step-up resulted from a sharp increase in medium-term Euro-credits, mostly reflecting stronger demand for new funds by borrowers in a wide range of countries although there was some refinancing of existing loans. Loan spreads fell further, and the average maturity of credits lengthened considerably for the second consecutive quarter. Aggregate new Euro-bond issues decreased because of severe contraction in the U.S. dollar sector, but LDCs again increased their Euro-bond flotations. The volume of foreign bond issues was maintained thanks to another large increase in issues in the Japanese market.

Medium-term Euro-credits completed in the first quarter of 1978 were \$14-1/2 billion, not much less than in the entire second half of 1977. All major categories of borrowers showed large increases in their rate of borrowing. Among developed countries, Hydro-Quebec stepped up its recourse to the Euro-market with a \$1.25 billion, 8-1/2 year loan at a spread of 3/4 per cent over LIBOR, close to the spread level for highest-quality borrowers. Much higher rates of borrowing, relative to 1977, were recorded by France, Spain, Denmark, and the United States; borrowings by U.S. corporations included credits of \$250 million to Philip Morris and \$200 million to Marathon Oil. Credits completed by oil-exporting countries included \$1.2 billion for Venezuela for 10 years (bringing new Venezuelan credits to \$4 billion

Borrowing in International Capital Markets  
(in billions of dollars)

	<u>1975</u>	<u>1976</u>		<u>1977</u>		<u>1978</u>
	<u>Year</u>	<u>Year</u>	<u>2nd H</u>	<u>Year</u>	<u>2nd H</u>	<u>Q-1</u>
I. Medium-term Euro-credits: total <sup>1/</sup>	20.6	28.8	16.2	32.3	16.7	14.5
Developed countries	6.6	10.8	6.9	12.5	5.4	5.2
Canada	.1	.9	.9	.5	.2	1.3
Denmark	.3	.8	.4	.9	.7	.5
France	.5	.7	.2	1.7	.2	1.0
Spain	1.0	2.0	1.8	1.7	1.0	.7
United States	.5	.4	.1	.4	.1	.5
Other	4.2	6.0	3.5	7.3	3.2	1.3
Oil-Exporting Countries	3.1	3.5	1.8	5.4	2.5	3.5
Algeria	.5	.7	.2	.4	.3	.4
Indonesia	1.6	.5	.2	.1	.1	.6
Iran	.2	.9	.2	1.7	.9	.2
Nigeria	--	--	--	--	--	1.0
Venezuela	.2	1.1	1.1	1.7	.4	1.2
Other	.6	.3	.1	1.5	.8	.1
Other developing countries	7.8	11.4	6.5	13.3	8.0	4.
Argentina	*/	.9	.9	.8	.4	.1
Brazil	2.1	3.3	2.2	2.3	1.5	1.1
Mexico	2.2	2.1	1.3	2.6	2.0	.9
Philippines	.2	.9	.2	.7	.5	.3
Other	3.3	4.2	1.9	6.9	3.6	1.8
Communist countries	2.7	2.5	1.0	2.8	1.7	1.5
Int'l. org's. and others	.4	.9	.1	.3	.2	*/
II. Euro-bonds: total	10.5	15.4	6.6	19.4	8.9	3.9
By borrower: LDCs	.3	1.1	.6	2.5	1.3	1.0
all other	10.2	14.3	6.0	16.9	7.6	2.9
By currency: U.S. dollar	4.9	10.0	4.6	12.3	5.4	1.6
German mark	3.1	2.8	1.3	5.1	2.7	1.8
Other	2.5	2.6	.7	2.0	.8	.4
III. Foreign Bonds: total	12.3	18.9	8.8	15.6	8.6	4.1
By borrower: Canada	3.4	6.1	2.7	3.3	1.7	1.3
Other	8.9	12.8	6.1	12.3	6.9	2.8
By market: U.S. <sup>2/</sup>	6.9	10.6	4.9	7.6	3.9	1.4
Switzerland	3.5	5.4	2.5	4.7	2.6	1.4
Japan	.3	.3	.1	1.4	1.3	.9
Other	1.6	2.6	1.3	1.9	.8	.4
IV. Total Borrowing	43.4	63.1	31.6	67.3	34.2	22.0

<sup>1/</sup> Completed credits of over one-year maturity.

<sup>2/</sup> Figures may differ from statistics of U.S. international transactions, which are on a drawdowns basis.

\*/ Less than \$50 million.

Source: World Bank.



since mid-1976), \$1.0 billion for Nigeria (its first Euro-credit) for seven years and \$500 million for the central bank of Indonesia for seven years; the Indonesian credit, at a 1-3/8 per cent spread, was to refinance outstanding borrowings carrying a 1-7/8 per cent spread. Among non-oil LDCs, Brazil and Mexico borrowed heavily in the first quarter. Credits to Communist countries included \$400 million for the Soviet Foreign Trade Bank for seven years, the first Soviet Euro-credit since August 1976.

The weighted average maturity of new medium-term credits, which for some time had been between 6 and 7 years, moved up to about 7-1/2 years in the fourth quarter of 1977 and to over 8 years in the first quarter of 1978 based on credits announced in the quarter. Average loan spreads dropped somewhat further in the first quarter to the lowest levels since 1974, as prime borrowers obtained spreads of 1/2-3/4 per cent.

First-quarter Euro-bond issues of \$3.9 billion were below their 1977 rate. Because the declining exchange rate of the U.S. dollar reduced investor demand for dollar issues, new issues of dollar bonds fell to one-half their 1977 average volume and accounted for only 40 per cent of total Euro-bond offerings. German mark issues were buoyant and exceeded 45 per cent of total issues, the first time in the market's history the mark share has exceeded the dollar share. In contrast with the slump in total Euro-bond offerings, new issues by LDCs (principally non-oil) rose sharply further to a \$4 billion annual rate.

Foreign bond issues amounting to \$4.1 billion in the first quarter were at approximately their 1977 rate. Canadian issues totalled \$1.3 billion, somewhat larger than their 1977 rate, and included a \$750 million three-tranche issue (for 5, 7-1/2, and 20 years) in the United States by the Canadian Government in March, its first external bond issue since 1968. In late April the Canadian Government announced additional new international borrowing arrangements that include DM 1.5 billion of 4-6 year notes to be sold in the Euro-bond or German markets and a \$3 billion standby facility with U.S. banks (that is additional to an existing \$2.5 billion standby with Canadian banks). Foreign issues in the Japanese market increased further to \$900 million in the first quarter, well above their rate in the second half of 1977. Prior to mid-1977 foreign issues in Japan had run at only \$300 million annually because long-term borrowing costs in Japan were relatively high then and restrictions on foreign issues were less liberal than now.

U.S. International Transactions. During the first quarter of 1978 the U.S. trade deficit rose to \$45 billion at an annual rate, up from a revised rate of \$40 billion during the fourth quarter of 1977. Net private capital outflows (adjusted for reporting bias) reached \$7.6 billion in the first quarter, more than twice their fourth-quarter level, while official foreign assets in the United States (excluding OPEC holdings) increased by \$13.5 billion, slightly less than during the fourth quarter.

U.S. International Transactions Summary  
(in billions of dollars, (-) = outflow)

	1 9 7 7			1 9 7 8		
	Year	Q-4	Q-1	Jan.	Feb.	Mar.
1. Trade balance <u>1/</u>	-31.5	-9.9	-11.2	-3.3	-4.5	-3.5
2. (annual rate)		(-39.6)	(-44.8)	(-39.1)	(-53.8)	(-41.5)
3. Private capital trans. adj. <u>2/</u>	-6.6	-3.5	-7.6	-4.1	1.3	-4.9
4. Private capital as rept. net	-6.6	-6.0	-5.8	-4.1	1.3	-3.1
5. Reporting bias <u>3/</u>	--	2.5	-1.8	--	--	-1.8
6. OPEC net investments in U.S.	6.0	0.7	1.3	1.0	0.1	0.3
7. Other foreign official assets	29.4	14.4	13.5	2.8	2.9	7.8
8. U.S. reserve assets	-0.2	*	0.2	-0.1	0.1	0.2
All other <u>4/</u>	2.9	-1.7	3.8	3.7	0.1	0.1
9. Not seasonally adjusted	2.9	-2.4	3.7	4.7	-0.7	-0.2
10. Seasonal component <u>5/</u>	--	.7	.1	-1.0	0.8	0.3
<b>Memorandum:</b>						
11. GNP net exports of goods and services	-10.6	-5.4	-5.2 <sup>e</sup>	n.a	n.a	n.a
12. Current account balance	-20.5	-8.0	-8.7 <sup>e</sup>	n.a	n.a	n.a

1/ Seasonally adjusted.

2/ Includes bank-reported capital, foreign purchases of U.S. Treasury securities, and other private securities transactions.

3/ Adjustment for reporting bias in bank-reported data associated with weekend transactions. See page IV 10-11 in the June 1976 green book.

4/ Includes service transactions, unilateral transfers, U.S. government capital, direct investment, nonbank capital transactions, and statistical discrepancy.

5/ Equal but opposite in sign to the seasonal component of the trade balance.

\*/ Less than \$50 million.

e/ Estimated.

The trade deficit declined in March to a rate slightly above the rates recorded for January and the fourth quarter of 1977, but a record February imbalance raised the first-quarter deficit to an annual rate of nearly \$45 billion.

Exports during the first quarter increased 4 per cent in value from a fourth-quarter rate that was somewhat depressed by the dock strike. Most of the export growth reflected higher shipments of agricultural commodities, which rose by 11 per cent in volume and 4 per cent in average price quarter to quarter, due largely to increased shipments of wheat and corn. Non-agricultural exports increased about one per cent in value but declined about one per cent in volume quarter to quarter. Declines in both values

U.S. Merchandise Trade, International Accounts Basis  
(billions of dollars, seasonally adjusted annual rate)

	1977 <sup>r</sup>		1978			
	Year	4Q	1Q	Jan.	Feb.	Mar.
<u>EXPORTS</u>	<u>120.5</u>	<u>117.7</u>	<u>122.3</u>	<u>117.4</u>	<u>122.0</u>	<u>127.5</u>
Agricult.	24.4	22.6	26.0	23.9	25.4	28.6
Nonagric.	96.1	95.1	96.4	93.5	96.6	99.0
<u>IMPORTS</u>	<u>152.0</u>	<u>157.3</u>	<u>167.1</u>	<u>156.6</u>	<u>175.8</u>	<u>169.0</u>
Petroleum	45.0	42.2	39.9	40.3	42.4	36.9
Nonpetrol.	107.0	115.1	127.3	116.3	133.4	132.1
<u>BALANCE</u>	<u>-31.5</u>	<u>-39.6</u>	<u>-44.8</u>	<u>-39.1</u>	<u>-53.8</u>	<u>-41.5</u>

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

and volumes were recorded for exports of civilian aircraft (from a high fourth-quarter rate) and coal (because of the strike), while increases in values and volumes were recorded for machinery, industrial materials other than coal, and automotive products (particular trucks).

Nonpetroleum imports during the first quarter were more than 10 per cent higher than their fourth-quarter value, as their volume grew 4 per cent and their average price rose 6 per cent. About half of the increase in value reflected additional purchases of industrial materials, but substantial increases were also recorded for foods, automotive products, other consumer goods and capital goods. First-quarter steel imports maintained their high fourth-quarter volume, as importers rushed to buy before the end-of-April deadline for complying with the Treasury's trigger-price levels. Imports of non-Canadian automotive products in the first quarter increased about 10 per cent in value from a high fourth-quarter level, as U.S. sales of foreign cars remained strong. The first-quarter rise in food imports resulted primarily from a higher volume of coffee purchases.

Petroleum imports declined by \$2.3 billion quarter to quarter, dropping from 8.6 to 8.2 million barrels per day, and from \$13.41 to \$13.31 per barrel. The decline in import volume followed primarily from the drawing down of private stocks that were accumulated during 1977 in anticipation of both a December OPEC price rise and various changes in U.S. crude-oil pricing regulations. The fall in unit values reflects both discounting and higher imports of lower-priced residual oil.

Foreign official assets in the United States (excluding OPEC holdings) increased by \$7.8 billion in March. This brought the total net inflow in the first quarter to \$13.5 billion, nearly as much as the inflow in the fourth quarter of 1977. An increase in Japanese holdings accounted for more than two-thirds of the March increase.

In April, foreign official assets in the United States declined by more than \$3 billion, reflecting declines in official holdings by the United Kingdom, Germany and Japan. The fall in U.K. holdings reflects the use of dollars both in repayment of a credit-tranche drawing from the IMF and in official intervention to support the pound. The decline in Germany's holdings reflects capital controls under which large-scale mark borrowings in Germany by nonresidents are converted into dollars with the Bundesbank. The reduction in Japanese dollar holdings resulted both from advances to Japanese commercial banks under the Japanese government's import financing facility and from time-deposit placements by the Japanese government with the Tokyo branches of major U.S. banks.

Bank-reported private capital transactions, adjusted for reporting bias, resulted in a net outflow of \$4.9 billion in March and more than \$8 billion in the first quarter. The surge in borrowing from U.S. banks in March likely reflects the positioning of Japanese banks and firms both for an anticipated appreciation of the yen and to window-dress their end-of-fiscal-year financial statements. Japanese balance-of-payments data for

March show a \$2.6 billion net inflow of private capital transactions, compared with a \$900 million net outflow in February; a major component of this swing was a shift in short-term transactions of Japanese commercial banks from a February net outflow of \$1.1 billion to a March net inflow of \$1.9 billion.

Foreign private net purchases of U.S. corporate stocks increased to about \$325 million in March following foreign purchases in January-February that amounted to only \$13 million. Securities dealers have indicated that there was a further increase in net foreign purchases of U.S. stocks in April. A number of securities dealers have suggested that foreign institutional participation in the April stock-market rally was largely in response to prompting from U.S. brokers.

U.S. Bank-reported, Private Capital Flows <sup>1/</sup>  
(billions of dollars: increase in assets,-)

	1976	1977	1977	1977	1978	1978
			Q1-03	Q4	March	Q1
Change in net foreign positions of U.S. banking offices	-10.3	-4.7	-1.6	-3.3	-4.9	-8.1
Net change through interbank transactions (including own foreign affiliates)	-8.2	-3.0	-.4	-2.7	-4.7	-7.7
Loans to non-bank foreigners	-3.2	-.5	*	-.5	-.2	-.3
Acceptances and collections <sup>2/</sup>	-1.3	-2.7	-1.7	-1.1	-.5	-.1
Liabilities to private nonbank foreigners	2.8	1.5	.5	1.0	.4	-.1

<sup>1/</sup> Adjusted for reporting bias.

<sup>2/</sup> Includes minor foreign currency claims.

<sup>\*/</sup> Less than \$50 million.

Details may not add to totals because of rounding.

U.S. net purchases of foreign securities increased to \$383 million in March. Of these, U.S. purchases of yen-denominated bonds were over \$300 million, almost one-quarter of the record \$1.35 billion of Japanese bonds purchased by non-Japanese residents in March. During the first quarter as a whole, yen-denominated bonds accounted for slightly less than half of the foreign bonds purchased by U.S. residents.

OPEC banking and security holdings in the United States increased by \$300 million in March; this brought the first quarter inflow to \$1.3 billion. Preliminary data indicate that OPEC holdings showed little change in April.



Foreign Economic Developments. The signs of economic activity abroad continue to be mixed, although on balance the outlook appears to be weaker than last month. Economic activity in Germany, in particular, appears to have weakened; industrial production has declined for two consecutive months for a total fall of nearly 6 per cent between January and March. Much of this decline, however, may be due to temporary factors. Although industrial production in Japan rose in March by 1.6 per cent, much of this strength appears to be derived from government spending, while private domestic demand has shown little indication yet of reviving.

In Canada industrial production in February recovered from its January decline and moderate growth is expected in 1978. In the other major foreign countries -- France, Italy and the United Kingdom -- economic activity has accelerated in the first few months of 1978 with industrial production showing significant gains in all three countries. The outlook in France and the United Kingdom is for continued moderate gains through the rest of 1978, while the Italian outlook is more uncertain because of the authorities' objective of cutting the public sector deficit.

There have been conflicting developments concerning the inflationary outlook. Wage settlements in Japan are averaging about 6 per cent, below last year's 9 per cent. Moderate wage settlements have also been concluded in Germany during the current round of negotiations. On the other hand, inflation in France has reaccelerated somewhat and further inflationary pressures, stemming from public-service price increases and increases in the minimum wage, are expected.

Major current-account imbalances persist. Thus, Japan recorded a very large first quarter current surplus of \$5.5 billion, and the German trade and current-account surpluses continue. The United Kingdom's external position has become disturbing as the current account swung into deficit in the first quarter, after recording a surplus in late 1977; the current account had been expected to remain in surplus over the next few years. In Canada, however, the trade surplus widened markedly in the first quarter, and in Sweden the kroner devaluation of last August is helping to eliminate the trade deficit.

Notes on Individual Countries. In Japan relatively little progress has been made recently on the two key issues of slow growth in domestic demand and the large external surplus. Although the 1.6 per cent rise in industrial production in March is a positive sign, private consumption and investment are still lagging; growth in domestic demand continues to come primarily from government expenditure. On the other hand, future demand may be strengthened because the process of inventory decumulation that took place during 1977 appears to be coming to an end. With the annual spring wage offensive now past its peak, it appears that Japanese workers are accepting wage increases averaging about 6 per cent. The current-account surplus in the first quarter was very large (\$5.5 billion, s.a.) as exports increased rapidly in anticipation of official controls or administrative guidance and further appreciation of the yen.

Real GNP and Industrial Production in Major Industrial Countries  
(percentage change from previous period, seasonally adjusted)

		1975	1976	1977	1977			1978	1978		
					Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.
Canada:	GNP	1.1	4.9	2.6	0.0	1.3	0.3	n.a.	*	*	*
	IP	-4.8	5.0	3.3	0.3	0.0	0.3	n.a.	-1.1	0.9	n.a.
France:	GDP	0.1	5.2	2.2	-0.7	0.3	1.4	n.a.	*	*	*
	IP	-9.2	10.1	1.7	-2.1	-1.3	-0.3	n.a.	2.4	0.3	n.a.
Germany:	GNP	-2.5	5.6	2.4	0.0	-0.1	1.4	n.a.	*	*	*
	IP	-5.5	7.8	3.0	-1.1	0.3	1.1	-1.1	0.3	-4.2	-1.7
Italy:	GDP	-3.5	5.7	1.7	-2.5	-0.5	-0.1	n.a.	*	*	*
	IP	-9.1	12.9	0.3	-7.2	-3.7	-0.4	n.a.	5.4	2.2	n.a.
Japan:	GNP	2.5	6.2	5.1	1.7	0.4	1.0	n.a.	*	*	*
	IP	-11.1	13.7	4.5	0.9	-1.0	2.1	2.9	0.9	0.1	1.6
United Kingdom:	GNP	-2.1	2.3	0.3	0.6	0.2	-0.1	n.a.	*	*	*
	IP	-4.7	0.5	0.2	-1.2	0.7	-0.7	n.a.	0.5	0.3	n.a.
United States:	GNP	-1.3	6.0	4.9	1.5	1.3	0.9	-0.1	*	*	*
	IP	-8.9	10.1	5.6	2.5	1.1	0.6	0.2	-0.8	0.3	1.4

\*GNP data are not published on monthly basis.

Consumer and Wholesale Prices in Major Industrial Countries  
(percentage change, from previous period or as indicated)

		1975	1976	1977	1977			1978	Latest 3 Months from:		
					Q2	Q3	Q4	Q1	Previous 3 Months (at Ann. Rate)	Year Ago	Latest Month
Canada:	CPI	10.8	7.5	8.0	2.4	2.2	2.2	1.8	7.4	8.8	Mar.
	WPI	6.5	4.3	9.1	3.1	0.9	1.0	n.a.	9.7	9.0	Feb.
France:	CPI	11.7	9.6	9.5	3.1	2.4	1.9	1.6	6.2	9.2	Mar.
	WPI	-5.7	7.4	5.6	1.1	-0.9	0.0	1.2	4.8	1.4	Mar.
Germany:	CPI	5.9	4.6	3.9	1.4	0.2	0.2	1.3	5.4	3.0	Apr.
	WPI	3.4	5.8	1.8	1.2	-1.8	-0.9	0.1	0.5	-0.5	Mar.
Italy:	CPI	16.9	16.8	18.4	3.8	2.5	3.3	2.6	10.5	12.9	Mar.
	WPI	8.5	22.9	17.4	2.4	1.5	2.0	2.1	8.5	8.2	Mar.
Japan:	CPI	12.1	9.7	8.3	2.5	0.3	0.8	0.9	7.7	4.6	Apr.
	WPI	3.0	5.5	2.0	0.1	-0.5	-0.7	-0.6	-2.3	-1.9	Mar.
United Kingdom:	CPI	24.2	16.6	15.3	4.5	1.6	1.5	1.7	6.8	9.5	Mar.
	WPI	24.1	16.4	19.2	4.5	3.3	1.6	2.5	9.7	11.6	Apr.
United States:	CPI	9.1	5.7	6.5	2.1	1.5	1.1	1.7	6.8	6.6	Mar.
	WPI	9.2	4.6	6.1	2.5	0.2	1.1	2.4	11.5	6.2	Apr.

Trade and Current-Account Balances of Major Industrial Countries<sup>a/</sup>  
(billions of U.S. dollars; seasonally adjusted)

	1975	1976	1977	1977				1978	Jan. '78	Feb. '78	Mar. '78
				Q1	Q2	Q3	Q4	Q1			
Canada: Trade	-0.6	1.2	2.7	0.8	0.3	0.6	1.0	1.2	0.2	0.2	0.7
Current Account	-4.7	-4.2	-4.0	-0.9	-1.4	-1.1	-0.6	n.a.	*	*	*
France: Trade	1.5	-4.2	-2.4	-1.1	-0.6	-0.5	-0.2	-0.2	-0.5	0.0	0.3
Current Account	0.0	-6.0	-3.1	-1.3	-0.6	-0.8	-0.3	n.a.	*	*	*
Germany: Trade	15.3	13.5	16.4	3.7	4.2	3.7	4.8	4.3	1.2	1.4	1.8
Current Account	3.9	3.4	3.6	0.6	1.4	-0.5	1.9	n.a.	*	*	*
Italy: Trade	-3.4	-6.7	-2.5	-1.4	-0.8	0.1	-0.4	n.a.	0.0	-0.1	n.a.
Current Account <sup>b/</sup>	-0.6	-2.9	n.a.	-0.9	0.2	2.4	n.a.	n.a.	*	*	*
Japan: Trade	5.0	9.9	17.5	4.2	4.4	4.2	4.6	7.3	2.2	2.5	2.7
Current Account	-0.7	3.7	11.0	2.3	2.8	2.7	3.1	5.5	1.5	1.9	2.0
United Kingdom: Trade	-7.1	-6.3	-2.9	-1.7	-1.2	-0.1	0.1	-1.0	-0.6	0.2	-0.5
Current Account	-3.7	-2.0	0.0	-0.9	-0.6	0.8	0.6	-0.4	-0.5	0.3	-0.3
United States: Trade	9.0	-9.3	-31.5	-7.5	-6.8	-7.3	-9.9	-11.2	-3.3	-4.5	-3.5
Current Account	11.5	-1.4	-20.5	-4.6	-3.8	-4.0	-8.0	n.a.	*	*	*

<sup>a/</sup> The current account includes goods, services, and private and official transfers.

<sup>b/</sup> Not seasonally adjusted.

\* Comparable monthly current-account data are not published.

The government has recently announced the implementation of a program to reduce the current-account surplus. The package includes measures to increase imports by facilitating import financing and further increasing emergency imports, to expand development assistance, and to ensure that the reduced cost of imported commodities is passed on to retail prices. The Japanese authorities have also indicated that they will seek to keep the yen value of exports (and therefore volume) in 1978 at or below the 1977 level.

In Germany, industrial production fell sharply in February and March, while new orders (domestic and foreign) fell in both January and February. Domestic orders continued to decline in March, although a large foreign order caused total orders to rise slightly. Much of the decline in domestic activity is attributed by German authorities to severe weather in February and strike activity in March. On April 24, Germany's five major economic institutes jointly forecast that 1978 real GNP growth would amount to only 2-1/2 per cent. The German Finance Minister has indicated that additional fiscal policy measures will be seriously considered early this summer if signs of weak domestic economic activity persist.

The economic situation in the United Kingdom has deteriorated somewhat since the beginning of the year. Sterling has been under downward pressure. The current account, after recording a surplus toward the end of 1977, showed a deficit of some \$420 million (s.a.) in the first quarter of 1978. Economic activity has shown some signs of a pickup: Industrial production in the three months to February was

4.5 per cent (s.a.a.r.) higher than in the previous three-month period, and consumer spending has been strong. A moderate upturn in output is still expected in 1978. Consumer price inflation is expected to remain in single digits throughout 1978, although sterling's recent weakness has started to feed through into some wholesale prices. After a period of falling real wages, nominal wages are now rising faster than consumer prices. Monetary growth has been relatively rapid in recent months, and in response, the government has moved to increase interest rates -- the Bank of England's Minimum Lending Rate has increased by 2-1/4 percentage points in two steps since April 12, and is now 8-3/4 per cent. In a recent move, Parliament has voted to cut taxes by an amount greater than recommended in the April budget.

The first post-election business surveys in France confirm that final demand strengthened appreciably during the first quarter and expectations of rising activity in coming months have strengthened, as reflected in rising orders and falling inventories. The rate of increase in consumer prices, which slowed in the fourth quarter of 1977, accelerated in February and again in March and inflationary pressures remain strong. Substantial price increases in public services will take effect in coming months in response to government decisions to reduce subsidies to public service industries; also the minimum wage was raised by four per cent on May 1, with further increases scheduled for July and October. Future price developments depend crucially on the ability of the government to restrict wage increases in upcoming

wage negotiations in the public sector and to induce compliance with wage guidelines in the rest of the economy.

Some signs of a recovery in Italy continue to appear, largely in the form of improved business expectations and a strong recovery in industrial production. The sources of strength appear to be an expansion of production to rebuild depleted inventories and, greater final demand stemming from exports and household consumption. Household consumption probably is being stimulated by substantially larger transfers this year (mainly for pensions), and should also benefit from this month's termination of a freeze on inflation-linked wage increases for higher income workers. However, other sources of final demand are weak, and if the government successfully cuts the public sector deficit, household income and consumption will probably be weaker.

Industrial production in Canada recovered in February from its January drop and activity in 1978 is expected to continue its moderate growth. Several measures have been taken by the Bank of Canada, including an increase in the discount rate, to resist downward pressure on the exchange rate. Due to the rise in interest rates, which began in early March, the growth rate of  $M_1$  has fallen below the lower end of the target range and the growth of activity may be restrained as a result.

The Swedish trade balance appears to be responding to the August devaluation and the weakness of domestic demand; a \$200 million



trade surplus was recorded in the first quarter of 1978 in contrast to a \$500 million deficit in the same period last year. The Swedish authorities recently announced a new cost-reducing measure, the abolition of a 2 per cent payroll tax on employers, effective July 1. Also, the central bank lowered the discount rate from 7-1/2 to 7 per cent to redirect funds from the short to the long-term credit markets. The Norwegian government recently published its revised budget for 1978 with an austerity package designed to absorb N.kr.1 billion of purchasing power this year. The package includes an increase in the rate of employees' social security contributions effective July 1. Bank lending is to be reduced, the investment tax abolished, and electricity prices raised.