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CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

May 17, 1972

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

May 16, 1972

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

	Latest Data-1972			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At annual rates)		
Unemployment rate (%)	Apr.	5/5	5.9	[5.9] 1/	[5.9] 1/	[6.0] 1/
Nonfarm employment, payroll (mil.)	Apr.	5/5	72.2	3.0	3.3	2.2
Manufacturing	Apr.	5/5	18.9	5.0	5.3	1.2
Nonmanufacturing	Apr.	5/5	53.3	2.3	2.6	2.6
Private nonfarm:						
Average weekly hours (hours)	Apr.	5/5	37.3	[37.1] 1/	[37.0] 1/	[37.0] 1/
Hourly earnings ($)	Apr.	5/5	3.60	6.7	6.8	6.2
Output per manhour (1967=100)	QI	5/3	109.3	3.7	--	3.3
Compensation per manhour (1967=100)	QI	5/3	136.8	9.3	--	6.6
Unit labor cost (1967=100)	QI	5/3	125.1	5.4	--	3.1
Manufacturing:						
Average weekly hours (hours)	Apr.	5/5	40.8	[40.4] 1/	[40.0] 1/	[39.8] 1/
Unit labor cost (1967=100)	Mar.	4/28	119.7	0.0	6.1	3.1
Industrial production (1967=100)	Apr.	5/1	110.9	12.0	6.9	4.4
Consumer goods	Apr.	5/16	119.4	11.2	2.8	4.2
Business equipment	Apr.	5/16	100.4	15.7	9.9	5.6
Defense & space equipment	Apr.	5/16	76.0	11.2	7.7	-0.7
Materials	Apr.	5/16	113.1	16.1	11.3	5.2
Wholesale prices (1967=100)	Apr.	5/5	117.5	3.1	3.8	3.7
Industrial commodities	Apr.	5/5	117.1	5.1	4.5	3.5
Farm products & foods and feeds	Apr.	5/5	119.0	-1.0	3.1	4.4
Consumer prices (1967=100)	Mar.	4/21	124.1	0.2	3.4	3.5
Food	Mar.	4/21	122.6	2.1	7.0	4.6
Commodities except food	Mar.	4/21	118.3	2.8	1.6	2.3
Services 2/	Mar.	4/21	132.0	1.8	3.7	4.3
Personal income ($ bil.) 3/	Apr.	5/16	909.7	5.4	7.6	7.9
				(Not at annual rates)		
Retail sales, total ($ bil.)	Apr.	5/10	35.9	-1.5	2.8	6.8
GAF	Apr.	5/10	9.5	-1.8	1.5	8.2
Auto sales, total (mil. units) 3/	Apr.	5/8	10.48	0.7	5.5	8.2
Domestic models	Apr.	5/4	9.02	2.9	4.8	9.5
Foreign models	Apr.	5/8	1.46	-11.0	10.6	0.7
Plant & equipment expen. ($ bil.) 4/	1972	4/28	89.77	--	--	14.4
Mfrs. new orders dur. goods ($ bil.)	Mar.	5/2	35.1	1.6	9.1	11.4
Capital equipment	Mar.	5/2	8.8	-1.8	2.9	10.7
Defense products	Mar.	5/2	1.8	-6.7	-12.0	11.9
Housing starts, private (thous.) 3/	Apr.	5/16	2,115	-10.3	-15.0	8.4
Leading indicators (1967=100)	Mar.	4/26	136.1	0.9	2.6	11.0

1/ Actual data.
2/ Not seasonally adjusted.
3/ At annual rate
4/ Planned--McGraw-Hill (their February 1972 survey indicated an increase of 11.4 per cent).

THE ECONOMIC PICTURE IN DETAIL

Domestic Nonfinancial Scene

Summary. Real GNP appears to be increasing at an annual rate of about 7 per cent in the current quarter. This compares to a rise of 5.6 per cent (revised) in the first quarter and is also larger than had been projected in the preceding Greenbook. The GNP deflator is expected to rise much more slowly than in the first quarter, when it was boosted by Federal pay raises and the effects of the post-freeze bulge.

Strong demands for goods have been reflected in large industrial output gains. The Board's index increased 1 per cent further in April, with advances widespread among consumer goods, business equipment, and materials. In the four months December to April, the index rose at an annual rate of 9 per cent, with business equipment up at a rate of about 12 per cent. New orders for capital equipment in the first quarter were up appreciably from the fourth quarter. The book value of manufacturing and trade inventories increased at a quite modest pace in March and the overall stock sales ratio declined further to a relatively low level.

Retail sales dropped back moderately in April, according to the advance report, following an upsurge in March; for both months combined, however, the rise was sizable. Auto sales continue strong, with sales of domestic-type autos at a 9.0 million unit rate in April and close to that in early May. Housing starts declined 10 per cent in April to an annual rate of 2.1 million units, but this drop reflected in part a smaller number of working days; building permits remained strong.

Demands for labor continue expansive, even though the unemployment rate in April remained at 5.9 per cent. Nonfarm payroll employment again rose substantially, with increases widespread by industry. In manufacturing, the workweek also rose sharply further to the highest level in three years. Average hourly earnings in the nonfarm private economy rose at a fairly rapid rate in April, but the 5.7 per cent annual rate of increase from January to April was smaller than before the freeze.

Wholesale prices rose further in April, as industrial commodities continued to advance at about a 4 per cent annual rate. Prices of farm products and foods changed little on average following a sizable decline in March.

Outlook. The staff is now projecting a more vigorous expansion over the remainder of this year than in the previous projection. Real GNP is expected to increase at an annual rate approaching 8 per cent in the second half, compared to a little more than 7 per cent in the preceding projection. Monetary aggregates are assumed to grow at rates consistent with a 7 per cent expansion in M_1, which is likely to entail rising short-term interest rates in the second half of the year.

The more rapid expansion now expected in real output has led the staff to raise its projection of employment, and to lower the unemployment rate further to 5.2 per cent in the fourth quarter. The projected increase in the GNP implicit price deflator is larger than anticipated earlier.

STAFF GNP PROJECTIONS

	Change in Nominal GNP $ billion		Per cent increase, annual rate: Real GNP		Per cent increase, annual rate: Private GNP fixed weight price index		Unemployment Rate	
	4/12/72	Current	4/12/72	Current	4/12/72	Current	4/12/72	Current
Actual								
1971-IV	19.5	19.5	5.8	5.8	1.8	1.8	5.9	5.9
1972-I	30.0	30.7	5.6	5.6	4.3	4.4	5.8	5.8
Projected								
1972-II	27.0	30.2	6.2	6.9	3.5	4.0	5.7	5.7
1972-III	30.0	32.3	7.4	7.9	3.2	3.4	5.5	5.5
1972-IV	29.0	32.7	6.9	7.8	3.0	3.4	5.4	5.2

The more rapid growth now anticipated for the second quarter reflects in part an expected step-up in inventory accumulation from the minimal first quarter rate. Business fixed investment continues strong. Consumer spending is still expected to show a large advance, at an annual rate of 9 per cent, in response to an exceptionally strong rise in disposable income. Net exports are expected to show improvement, following the very poor first quarter performance.

Upward revisions of GNP growth for the second half of the year in part reflect changed assumptions on defense spending and social security benefits. Defense outlays are expected to rise in a lagged response to the recent escalation in Vietnam, and it now appears most likely that Congress will enact a larger social security increase than previously projected. The staff is now assuming an increase of around 12-1/2 per cent effective July 1. We have also incorporated the income effects of the recently enacted House minimum wage bill--described in another section--which are relatively small. In addition, business spending on fixed capital has been raised--to an increase of 14 per cent for the year--in part because of the significant upward revision in spending plans indicated by the recent McGraw-Hill survey. The recent sustained rise in output of business equipment lends further support to this projection. A somewhat larger rise in inventory accumulation is also projected for the second half, while other major sectors of demand have been modified relatively little.

The staff now expects less slowing than earlier in the rate of price increase, with the GNP price deflator projected to rise at an annual rate of about 3-1/2 per cent in the fourth quarter rather than 3.0 per cent. This expectation reflects mainly our judgment that the rise in employee compensation is unlikely to moderate to the extent previously projected; our present estimates allow for an overall increase in the 6-1/2 - 7 per cent range.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarterly figures at annual rates.)

	1971	1972 Proj.	1971		1972			
						Projected		
			III	IV	I	II	III	IV
Gross National Product	1046.8	1150.6	1053.4	1072.9	1103.6	1133.8	1166.1	1198.8
Final purchases	1044.5	1144.6	1054.6	1070.4	1103.0	1130.6	1157.9	1186.8
Private	811.5	885.7	820.8	829.6	853.4	875.5	896.0	917.8
Excluding net exports	811.5	889.3	820.8	834.2	859.6	879.5	898.8	919.4
Personal consumption expenditures	662.1	715.7	668.8	677.2	691.8	707.2	722.9	741.0
Durable goods	100.5	112.4	102.8	103.6	107.6	110.6	113.6	117.6
Nondurable goods	278.6	298.3	280.2	283.3	288.0	294.6	301.4	309.2
Services	282.9	305.1	285.8	290.3	296.2	302.0	307.9	314.2
Gross private domestic investment	151.6	179.6	150.8	159.4	168.3	175.5	184.1	190.4
Residential construction	40.6	49.7	42.7	44.4	49.0	50.3	50.4	48.9
Business fixed investment	108.7	123.9	109.3	112.6	118.7	122.0	125.5	129.5
Change in business inventories	2.2	6.0	-1.2	2.4	0.6	3.2	8.2	12.0
Nonfarm	1.7	5.8	-2.0	2.0	0.1	3.0	8.2	12.0
Net exports of goods and services 1/	0.0	-3.7	0.0	-4.6	-6.2	-4.0	-2.8	-1.6
Exports	65.3	70.5	68.2	60.4	69.2	69.1	70.6	73.2
Imports	65.3	74.2	68.2	65.0	75.4	73.1	73.4	74.8
Gov't. purchases of goods and services	233.0	258.9	233.8	240.8	249.6	255.1	261.9	269.0
Federal	97.6	107.4	97.6	100.3	104.9	106.3	108.5	110.0
Defense	71.4	77.7	70.2	71.4	75.8	76.8	78.3	79.8
Other	26.2	29.7	27.4	28.9	29.0	29.5	30.2	30.2
State & local	135.5	151.5	136.2	140.5	144.8	148.8	153.4	159.0
Gross national product in constant (1958) dollars	739.4	782.9	740.7	751.3	761.6	774.7	790.1	805.4
GNP implicit deflator (1958 = 100)	141.6	146.9	142.2	142.8	144.9	146.3	147.6	148.8
Personal income	857.0	931.6	864.6	876.7	900.1	919.0	943.1	964.0
Wage and salary disbursements	574.2	631.5	577.3	587.0	609.0	623.8	638.6	654.4
Disposable income	741.3	794.8	748.5	755.0	764.3	782.6	807.2	825.0
Personal saving	60.5	59.8	61.0	59.0	53.5	56.2	64.9	64.4
Saving rate (per cent)	8.2	7.5	8.2	7.8	7.0	7.2	8.0	7.8
Corporate profits before tax	85.5	102.0	85.8	86.2	91.6	97.5	105.0	114.0
Corp. cash flow, net of div. (domestic)	81.0	98.1	82.4	85.6	90.0	94.9	100.8	106.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	198.8	227.1	197.8	203.1	222.1	225.2	227.3	233.9
Expenditures	221.9	248.4	224.6	228.7	235.4	244.0	255.1	258.9
Surplus or deficit (-)	-23.1	-21.2	-26.7	-25.6	-13.3	-18.8	-27.8	-25.0
High employment surplus or deficit (-)	2.9	1.0	1.3	6.6	10.4	3.5	-4.9	-5.1
Total labor force (millions)	86.9	88.6	87.0	87.7	88.4	88.9	87.3	89.8
Armed forces "	2.8	2.4	2.8	2.7	2.5	2.4	2.4	2.4
Civilian labor force "	84.1	86.7	84.2	85.0	85.9	86.5	86.9	87.4
Unemployment rate (per cent)	5.9	5.6	6.0	5.9	5.8	5.7	5.5	5.2
Nonfarm payroll employment (millions)	70.7	72.7	70.6	71.0	71.8	72.4	73.0	73.7
Manufacturing	18.6	19.0	18.5	18.6	18.7	18.9	19.1	19.4
Industrial production (1967 = 100)	106.3	112.9	105.9	107.0	109.1	111.3	114.2	117.1
Capacity utilization, manufacturing (per cent)	74.6	76.7	74.1	74.1	75.1	76.0	77.3	78.6
Housing starts, private (millions, A.R.)	2.05	2.28	2.11	2.24	2.51	2.30	2.20	2.10
Sales new autos (millions, A.R.)	10.13	10.54	10.29	10.47	10.15	10.50	10.50	11.00
Domestic models	8.68	9.05	8.76	9.20	8.69	9.00	9.00	9.50
Foreign models	1.46	1.49	1.53	1.25	1.46	1.50	1.50	1.50

1/ The projected GNP exports and imports of goods and services, and their net, are based on quarter-to-quarter changes projected in balance of payments exports and imports, shown below. These are consistent with revised '71-IV figures not yet incorporated in the GNP accounts.

Net exports of goods and services	0.7	-1.0	0.2	-2.1	-3.6	-1.4	-0.2	1.0
Exports	65.9	72.8	68.3	62.7	71.5	71.4	72.9	75.5
Imports	65.2	73.8	68.1	64.8	75.1	72.8	73.1	74.5

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1971	1972 Proj.	1971 III	1971 IV	1972 I	1972 Projected II	1972 Projected III	1972 Projected IV
	-----	-----	-----	Billions Of Dollars	-----	-----	-----	-----
Gross National Product	72.7	103.8	13.4	19.5	30.7	30.2	32.3	32.7
Inventory change	-0.6	3.8	-5.8	3.6	-1.8	2.6	5.0	3.8
Final purchases	73.2	100.0	19.2	15.8	32.6	27.6	27.3	28.9
Private	59.6	74.1	15.0	8.8	23.8	22.1	20.5	21.8
Excluding net exports	63.2	77.8	15.1	13.4	25.4	19.9	19.3	20.6
Net exports	-3.6	-3.7	-0.1	-4.6	-1.6	2.2	1.2	1.2
Government	13.6	25.9	4.2	7.0	8.8	5.5	6.8	7.1
GNP in constant (1958) dollars	19.4	43.5	4.9	10.6	10.3	13.1	15.4	15.3
Final purchases	19.6	40.9	9.5	7.7	12.4	10.9	11.3	12.3
Private	19.8	33.5	6.9	4.1	10.9	9.7	9.2	10.2
	-----	-----	-----	In Per Cent Per Year	-----	-----	-----	-----
Gross National Product	7.5	9.9	5.2 1/	7.6 1/	12.0 1/	10.9	11.4	11.2
Final purchases	7.5	9.6	7.4	6.0	12.2	10.0	9.7	10.0
Private	7.9	9.1	7.4	4.3	11.5	10.4	9.4	9.7
Personal consumption expenditures	7.5	8.1	7.0	5.0	8.6	8.9	8.9	10.0
Durable goods	13.4	11.8	14.9	3.1	15.4	11.2	10.8	14.1
Nondurable goods	5.3	7.1	3.5	4.4	6.6	9.2	9.2	10.4
Services	7.8	7.8	7.6	6.3	8.1	7.8	7.8	8.2
Gross private domestic investment	12.0	18.5	-5.5	22.8	22.3	17.1	19.6	13.7
Residential construction	33.6	22.4	27.0	15.9	41.4	10.6	0.8	-11.9
Business fixed investment	6.5	14.0	3.7	12.1	21.7	11.1	11.5	12.7
Gov't. purchases of goods & services	6.2	11.1	7.3	12.0	14.6	8.8	10.7	10.8
Federal	0.4	10.0	6.7	11.1	18.3	5.3	8.3	5.5
Defense	-5.3	8.8	-6.7	6.8	24.6	5.3	7.8	7.7
Other	19.6	13.4	45.5	21.9	1.4	6.9	9.5	0.0
State & local	10.9	11.8	7.8	12.6	12.2	11.0	12.4	14.6
GNP in constant (1958) dollars	2.7	5.9	2.7 1/	5.8 1/	5.6 1/	6.9	7.9	7.8
Final purchases	2.7	5.5	5.2	4.2	6.6	5.7	5.8	6.3
Private	3.4	5.6	4.6	2.7	7.2	6.3	5.9	6.4
GNP implicit deflator	4.7	3.8	2.5 1/	1.7 1/3/	6.0 1/	4.0	3.4	3.4
Private GNP fixed weight index 2/	5.3	3.6	3.6 1/	1.8 1/	4.4 1/	4.0	3.4	3.4
Personal income	6.6	8.7	5.2	5.6	10.7	8.4	10.5	8.9
Wage and salary disbursements	6.1	10.0	4.4	6.7	15.0	9.7	9.5	9.9
Disposable income	7.8	7.2	4.8	3.5	4.9	9.6	12.6	8.8
Corporate profits before tax	13.4	19.3	-5.1	1.9	25.1	25.8	30.8	34.3
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	3.8	14.2	0.2	10.7	37.4	5.6	3.7	11.6
Expenditures	8.2	11.9	5.8	7.3	11.7	14.6	18.2	6.0
Nonfarm payroll employment	0.1	2.8	-0.2	2.3	4.5	3.3	3.3	3.8
Manufacturing	-3.9	2.2	-2.4	2.2	2.2	4.3	4.2	6.3
Industrial production	-0.4	6.2	-3.4	4.2	7.9	8.1	10.4	10.2
Housing starts, private	43.4	11.2	36.5	22.7	48.2	-33.5	-17.4	-18.2
Sales new autos	21.3	4.0	19.0	6.2	-12.2	13.8	0.0	19.0
Domestic models	21.9	4.3	22.7	20.1	-22.2	14.3	0.0	22.2
Foreign models	18.7	2.1	-1.0	-73.2	67.2	11.0	0.0	0.0

1/ At compound rates.

2/ Using expenditures in 1967 as weights.

3/ Excluding the first $1.2 billion, annual rate, of the volunteer army pay increase, 1.2 per cent per year.

4/ Excluding the remaining $1.2 billion, annual rate, of the volunteer army pay increase and the general Federal employees pay increase, 4.3 per cent per year.

Industrial production. Industrial production rose 1.0 per cent further in April and at 110.9 per cent (1967=100) was 4.4 per cent above a year earlier but still 0.9 per cent below the 1969 high. Since last December, the total index has increased at an accelerated annual rate of 9.0 per cent. In April, gains were widespread among consumer goods, business and defense equipment, and materials. The January, February, and March indexes were revised up slightly.

Auto assemblies rose 9 per cent in April to an annual rate of 9.0 million units, and May output is scheduled at an 8.8 million unit rate. Output of carpeting, furniture, and some home goods rose further in April. Production of television sets changed little from the moderately advanced March level and output of household appliances also was steady in April, but down 10 per cent from the February peak. Output of most business equipment lines advanced further and the index for this group was 6.4 per cent above its May 1971 low. Since last December, production of business equipment has risen at an 11.7 per cent annual rate. Production of defense equipment also rose in April, but this index is subject to large revisions. Output of steel and most other durable goods materials increased, as did output of nondurable goods including the textile, paper and chemical group.

INDUSTRIAL PRODUCTION
(1967=100, seasonally adjusted)

	1972		Per cent changes		
	March	April	March 1972 to April 1972	April 1971 to April 1972	*Sept 1969 to April 1972
Total index	109.8	110.9	1.0	4.4	- .9
Consumer goods	118.3	119.4	.9	4.2	6.3
Autos	104.6	114.3	9.3	10.8	-2.0
Home goods	117.3	118.5	1.0	6.4	6.2
Apparel & staples	118.5	118.7	.2	2.8	6.6
Business equipment	99.1	100.4	1.3	5.6	-9.0
Defense equipment	75.3	76.0	.9	- .7	-25.6
Intermediate products	117.5	117.2	-.3	4.3	4.5
Construction products	117.5	116.9	-.5	3.1	4.5
Materials, total	111.6	113.1	1.3	5.2	-1.1
Durable	106.5	107.9	1.3	5.6	-6.1
Steel	98.0	102.5	4.6	-6.0	-12.4
Nondurable	118.0	118.9	.8	5.5	4.5

*Pre-recession peak for total index.

Retail sales. In April sales declined 1.5 per cent, according to the advance report, but some backing off following the 3.0 per cent rise in March was not surprising. Sales in March and April combined still averaged 1.6 per cent higher than in the first quarter. Much of the acceleration in the March-April period was centered in the automotive category, although sales of general merchandise were also quite strong.

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

	1971		1972			
	II- III Q	III- IV Q	IV- I Q	Feb.	March	April
Total sales	2.6	1.8	1.1	1.3	3.0	-1.5
Durable	5.5	3.1	.2	-.2	5.1	-2.8
Auto	7.5	1.8	-3.4	1.7	5.0	-1.8
Furniture and appliance	-.5	5.5	9.0	-.7	2.8	-4.3
Nondurable	1.3	1.2	1.6	2.0	2.0	- .9
Food	.3	-.1	1.8	3.8	1.0	-1.3
General merchandise	3.3	1.4	2.6	1.5	2.8	-1.3
Total, less auto and nonconsumption items	1.3	1.5	2.0	1.7	2.2	-1.1
GAAF	1.8	2.2	3.1	.9	2.5	-1.8
Real*	1.9	1.5	.2	.7	2.7	n.a.

*Deflated by all commodities CPI, seasonally adjusted.

<u>Consumer durables</u>. April sales of new domestic-type autos were at a 9.0 million unit annual rate, up slightly from a month earlier. Sales continued strong in the first 10 days of May at an 8.8 million unit rate, about the average of the first four months of this year. Dealer inventories at the end of April were equivalent to a 55 day supply, about the same as in earlier months this year.

April sales of imported cars were at a 1.5 million unit rate, down somewhat from March but about the same rate that prevailed during most of 1971. The import share of total sales came to 14 per cent in April, compared with 17 per cent in April last year.

According to preliminary estimates, retailers' unit purchases of major home appliances rose 10 per cent from March to April and were 14 per cent above last year. Dealers' purchases of electric ranges, dishwashers, driers, air conditioners, and refrigerators were especially strong. Unit purchases of both color and monochrome TVs were also up substantially.

UNIT PURCHASES OF HOME GOODS BY RETAILERS
(Seasonally adjusted 1967=100)

	1971	1972			Percent change	
	April	Feb	Mar	April	Month ago	Year ago
TVs 1/	114	114	121	141	16	23
Radios	112	81	83	105	25	-6
Home appliances 2/	125	139	129	143	10	14

1/ Includes foreign-made units sold under U.S. brand names. Foreign-made sold under foreign brands not included.
2/ Weighted average of indexes for air-conditioners, dishwashers, dryers, freezers, electric ranges, gas ranges, refrigerators, washing machines, and vacuum cleaners. Weights are 1967 retail sales values.

<u>Census consumer buying indicators</u>. The April Census survey indicated some improvement in expected expenditures for durable goods and homes, but like the latest Michigan and Conference Board surveys contains some elements which suggest continued restraint in consumer spending.

Purchase plans for houses rose sharply from the previous quarter and were well above a year earlier. The number of major appliances likely to be bought was up from January and was also higher than a year earlier. Moreover, the dollar value of expected purchases of appliances, furniture and home improvements was up sharply from both the previous survey and 12 months ago.

On the less optimistic side, the index of expected unit purchases for new cars was still below a year earlier although it recovered from a low January level, and purchase plans for new autos for households with above median incomes were down both from the previous survey and a year earlier. Also disappointing was the failure of income expectations to improve despite some gains in the percentage of families reporting favorable changes in current income compared with a year earlier.

HOUSEHOLD PURCHASE AND INCOME EXPECTATIONS
(Census survey)

	1971			1972	
	April	July	Oct.	Jan.	April
INDEXES OF EXPECTED UNIT PURCHASES (Jan. 1967-April 1967=100)					
All households:					
New cars	104.7	94.8	103.4	98.8	103.5
Houses	101.7	97.7	95.5	98.9	110.4
Households with above-median incomes:					
New cars	102.4	93.2	105.6	99.6	99.2
Houses	96.5	95.7	96.2	93.4	106.4
ACTUAL AND EXPECTED CHANGES IN HOUSEHOLD INCOME					
Current income compared to income a year ago--per cent reporting:					
Higher current income	35.1	37.6	34.9	35.2	35.7
Lower current income	14.5	12.5	13.7	12.7	12.5
Difference	20.6	25.1	21.2	22.5	23.2
Expectations of substantial changes in household income--per cent reporting:					
Increase	19.9	17.0	15.7	15.9	16.1
Decrease	7.5	6.8	6.7	6.2	6.7
Difference	12.4	10.2	9.0	9.7	9.4

Cyclical indicators. The Census trend-adjusted composite index of leading indicators rose 2.4 per cent (p) in April, after a March increase of 1.6 per cent. April was the tenth consecutive month of increase for this composite, which is now 24 per cent above November 1970. The coincident composites were also up in April.

CHANGES IN COMPOSITE CYCLICAL INDICATORS
April 1972

	Per cent change from:	
	Previous month (p)	Three months earlier (p)
12 Leading (trend adjusted)	2.4	4.9
12 Leading, prior to trend adjustment	2.1	3.7
5 Coincident	.8	2.4
5 Coincident, deflated	.7	2.1
6 Lagging	n.a.	n.a.

(Confidential until release.)

Inventories. Book value of business inventories rose at a $3.1 billion (p) annual rate in March, following an upward-revised $4.7 (r) billion February rate. For the first quarter, the rate of book value increase was $4.7 billion, slightly above the fourth quarter rate. Since prices rose faster, however, the rate of inventory investment after valuation adjustment declined in the first quarter.

Durable materials stocks increased somewhat in the first quarter after two quarters of liquidation; users' stocks continued to decline but this was offset by accumulation at primary metals plants, in response to sharp improvement in ordering.

Stocks declined over the quarter at nondurable goods manufacturers. The decline was all in finished goods and was associated with continued increases in shipments, suggesting involuntary decreases.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
(Seasonally adjusted annual rate, billions of dollars)

	1971 Q IV	1972 Q I (p)	1972 Feb. (r)	1972 Mar. (p)
Manufacturing and trade	4.1	4.7	4.7	3.1
Manufacturing, total	1.1	2.3	1.9	1.0
Trade, total	2.9	2.4	2.8	2.0

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

Sales rose more rapidly than stocks in March, especially at retail, and the inventory-sales ratio for manufacturing and trade declined further to 1.48 from 1.50. Ratios for all major categories declined. The level and recent movements of the inventory-sales ratio are similar to other periods of economic expansion such as 1955, early 1959, and 1964-65. Durable goods stocks also declined relative to unfilled orders, but this ratio remained high compared with past periods of expanding business activity.

INVENTORY RATIOS

	1971		1972	
	February	March	February (r)	March (p)
Inventories to sales:				
Manufacturing & trade	1.57	1.56	1.50	1.48
Manufacturing, total	1.77	1.74	1.63	1.62
Trade, total	1.37	1.37	1.36	1.33
Inventories to unfilled orders:				
Durable manufacturing	.822	.823	.840	.835

Manufacturers' orders and shipments. New orders for durable goods rose 1.6 per cent (p) in March, regaining nearly all the ground lost in February. For the quarter as a whole, all major market groups showed substantial gains.

MANUFACTURERS' NEW ORDERS FOR DURABLE GOODS
(Per cent change)

	March from February (p)	1972-I from 1971-IV (p)
Durable goods, total	1.6	9.2
Primary metals	5.7	13.2
Motor vehicles & parts	-4.8	15.5
Household durables	10.8	5.8
Defense products	- .7	9.9
Capital equipment	-1.8	5.7
Construction and other durables	4.2	8.0

Shipments of durable goods rose for the third month, and unfilled orders for the fifth month. Over the quarter, all major groups had substantial increases in unfilled orders, except capital equipment where the backlog declined slightly further.

<u>Planned spending for new plant and equipment</u>. The spring McGraw-Hill survey found that business now anticipates a 14.4 per cent increase in 1972 expenditures for new capital spending. In February, the Commerce and McGraw-Hill surveys had indicated gains of 10-1/2 and 11-1/2 per cent, respectively, for 1972. McGraw-Hill now reports planned increases in manufacturing of 15 per cent and in nonmanufacturing of about 14 per cent.

The survey also indicated that manufacturers now expect sales to increase 9 per cent in 1972 as compared with less than 7 per cent in 1971. The combined effects of the investment tax credit and liberalized depreciation rules were reported by business to have added about $0.8 billion (or 1 per cent) to 1972 spending plans.

ANTICIPATED 1972 EXPENDITURES FOR NEW PLANT
AND EQUIPMENT BY U.S. BUSINESS
(Per cent change from 1971)

	McGraw-Hill (Oct. 1971)	Comm-SEC (Dec. 1971)	McGraw-Hill (Feb. 1972)	Comm. (Feb.1972)	McGraw-Hill (Apr 1972)
All business	6.9	9.1	11.4	10.5	14.4
Manufacturing	8.4	4.0	12.0	8.7	15.1
Durable goods	8.7	5.1	13.1	13.9	14.8
Nondurable goods	8.2	3.0	11.1	4.2	15.4
Nonmanufacturing	5.9	12.1	11.0	11.6	14.1
Transportation	13.3	18.3	23.6	16.0	31.6
Electric utilities	2.0	16.1	8.0	13.4	11.0
Communication	10.0	12.8 1/	10.0	14.2 1/	8.0
Commercial & other	4.0	7.3 1/	11.0	8.1 1/	13.0

1/ Confidential, not published separately.

<u>Construction and real estate</u>. Seasonally adjusted value of new construction put in place, which was revised upward by 1 per cent for March, edged up to a new record annual rate of $124.4 billion in April. Unlike other recent months, however, only outlays for private nonresidential construction apparently showed a significant rise during the month. Total outlays in April were 18 per cent above a year earlier--11 per cent in real terms. As in March, this would imply an increase in construction costs somewhat below the average year-to-year rise for 1971.

NEW CONSTRUCTION PUT IN PLACE
(Seasonally adjusted annual rates in billions of dollars)

	1971		1972		
	QI	QIV	QI	Mar.p/	Apr.1/
Total	102.0	115.7	121.7	123.8	124.4
Private	71.4	84.6	89.7	91.6	92.7
Residential	36.6	46.9	51.5	53.0	53.2
Nonresidential	34.8	37.6	38.2	38.6	39.5
Public	30.6	31.1	32.1	32.2	31.7
State and local	26.8	27.0	27.5	27.4	27.4
Federal	3.8	4.1	4.5	4.8	4.3

1/ Data for April 1972 are confidential Census Bureau extrapolations. In no case should public reference be made to them.

Private housing starts dropped 10 per cent in April to a seasonally adjusted annual rate of 2.1 million units. The decline, which may reflect in part the unusually small number of working days in April relative to earlier years, was widespread, both by type of property and among most geographic regions. Unlike starts, seasonally adjusted building permits rose 3 per cent in April.

PRIVATE HOUSING STARTS AND PERMITS
(Seasonally adjusted annual rates, in millions of units)

	1971		1972		
	QIII	QIV	QI(p)	Mar(p)	Apr(p)
Starts	2.11	2.24	2.51	2.36	2.12
1-family	1.18	1.25	1.35	1.30	1.17
2-or-more-family	.94	.99	1.16	1.06	.94
Permits	1.99	2.12	2.04	1.93	1.99
Completions	1.74	1.84	1.98	1.91	n.a.
MEMORANDUM:					
Mobile home shipments	.53	.51	.57	.60	n.a.

p/ Preliminary.
n.a. Not available.

While seasonally adjusted sales of new homes by merchant builders declined in March, the average for the first quarter exceeded a 700,000 unit annual rate for the first time on record. Stocks of homes for sale continued to rise in March, but represented about 5.7 months supply--not exceptionally high by earlier standards. Moreover, apparently reflecting a demand for higher quality, the median price of new homes sold in March rose further to $26,900, while the median price of homes for sale again edged lower. The median price of used homes sold in March also continued upward, to $25,110.

Nationally, the rental vacancy rate in the first quarter was little changed from a year earlier at 5.3 per cent of available units. Most important in this development has been the sustained high level of demand so far this year. Also, withdrawals from the housing stock have continued greater than usual. Completions, which lag starts, have continued to rise, but they have yet to ease the overall supply-demand situation within the rental market.

RESIDENTIAL VACANCY RATES

	Average for the first quarter of:				
	Old series 1/		New series 1/		
	1965	1970	1970	1971	1972
Rental units	7.7	5.0	5.4	5.3	5.3
Northeast	5.5	2.1	2.4	2.4	3.2
North Central	7.2	5.5	6.0	6.1	5.9
South	8.2	7.1	7.7	7.4	6.7
West	10.6	5.4	5.6	5.4	5.3
Home-owner units	1.5	1.0	1.0	1.0	1.0

1/ New series beginning 1970 reflects inclusion of all units available for sale or rent regardless of condition. Old series reflects exclusion of dilapidated units. QI 1970 regional detail--new series--is confidential.

Personal income. Personal income in April increased by $4 billion to $910 billion, annual rate. The increase was about the same as in March, and virtually all of it was concentrated in wages and salaries. Wage and salary increases in the past several months have included retroactive payments approved by the Pay Board. These added $1.3 billion in April, substantially less than in March. Excluding these retroactive payments from both months, personal income rose by $5.3 billion in April. The largest gain was in manufacturing where a sharp rise in the workweek and a sizable employment advance resulted in an increase of $1.7 billion. In the distributive industries, wages and salaries climbed by $1.2 billion after edging down in the previous month. Compared to a year ago personal income was up by 7.9 per cent and wage and salary disbursements by 8.7 per cent.

PERSONAL INCOME
(Billions of dollars; seasonally adjusted, annual rates)

	1972			Net change March 1972-April 1972
	February	March	April	
Total	901.8	905.6	909.7	4.1
Wage & salary disbursement	610.6	613.2	617.2	4.0
Government	132.5	132.3	132.8	.5
Private	478.1	480.9	484.4	3.5
Manufacturing	169.2	171.6	173.3	1.7
Distributive	149.4	148.6	149.8	1.2
Services	112.3	113.5	114.1	.6
Other	47.2	47.2	47.2	.0
Nonwage income	325.4	326.8	327.0	.2
Less: Personal contributions for social insurance	34.2	34.4	34.5	.1

Labor market. Nonfarm payroll employment continued to strengthen in April, increasing by 180,000. The largest gains were in manufacturing, centered in the metals and metal-using industries, and in trade. State and local government employment also increased moderately. Payroll employment has been climbing strongly since last August, rising by 1.6 million over this period. Manufacturing has risen by 400,000 from the low last August, but remains 1.4 million below the mid-1969 peak.

NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted, in thousands)

	Change to April 1972 from:		
	April 1971*	August 1971	March 1972
Total	1,525	1,643	182
Goods producing	150	408	43
Manufacturing	215	398	78
Mining	-20	-6	-8
Contract construction	-45	16	-27
Service producing	1,375	1,235	139
Transportation & p.u.	31	108	-4
Trade	445	383	93
Services and finance	500	363	19
Government	399	381	31
Federal	2	19	0
State and local	397	362	31

* Not seasonally adjusted.

Both total employment and the civilian labor force were unchanged in April following substantial increases in March. The overall unemployment rate, although remaining at 5.9 per cent, edged up for adult males while the volatile teenage rate moved down. The rate for white workers was unchanged in April, but the rate for Negro workers was down from 10.5 to 9.6 per cent, due to a decline in the Negro labor force.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1971		1972	
	April	August	March	April
Total	6.0	6.1	5.9	5.9
Men 20 years and over	4.4	4.5	4.1	4.3
Women 20 years and over	5.9	5.8	5.4	5.4
Teenagers	17.0	17.1	17.9	17.3
Married men	3.6	3.2	2.8	2.9
White workers	5.6	5.6	5.3	5.4
Negro workers	9.8	9.9	10.5	9.6

Average weekly hours of factory production workers rose sharply by 0.4 hours in April, to 40.8 hours. Increases were widespread, with the largest advances in metals, machinery and transportation equipment. Since January, the factory workweek has risen 0.8 hours to the highest level in three years. The average workweek for all production and nonsupervisory workers on private nonfarm payrolls rose by 0.2 hours in April to 37.3 hours, the highest since March 1970.

Earnings. Average hourly earnings of production workers on private nonfarm payrolls (adjusted for inter-industry shifts) increased at an annual rate of 6.3 per cent from last August--just prior to the freeze--to April, compared to a 6.7 per cent rate in the first eight months of 1971. During both intervals manufacturing wages increased at an annual rate of about 6 per cent, but the earnings rise in contract construction, trade, and finance has slowed somewhat since August. Increases in most sectors have moderated since January.

HOURLY EARNINGS FOR PRODUCTION
AND NONSUPERVISORY WORKERS*
(Per cent change, seasonally adjusted, annual rate)

	Jan. 1971-Aug. 1971	Aug. 1971-April 1972	Jan. 1972-April 1972	April 1971-April 1972
Private nonfarm	6.7	6.3	5.7	6.5
Manufacturing	6.1	6.0	5.1	6.2
Mining	8.0	7.3	4.2	8.0
Construction	9.0	6.3	5.3	7.4
Transportation	8.0	10.7	8.4	10.3
Trade	6.5	4.5	3.0	5.2
Finance	7.6	4.0	3.1	4.8
Services	4.4	7.1	7.1	6.1

* Adjusted for inter-industry shifts, and in manufacturing only, for overtime hours.

Productivity and labor costs. Output per manhour in private nonfarm activities increased in the first quarter at an annual rate of 3.7 per cent, reflecting continued strong gains in real output. The first quarter productivity rise was smaller than the (revised) 4.5 per cent rate of the fourth quarter of 1971, but well above the 20 year average of 2.6 per cent. Productivity in manufacturing increased at an annual rate of 2.9 per cent.

Reflecting the surge in earnings associated with the end of the wage freeze, compensation per manhour increased at an annual rate of 9.3 per cent in the private nonfarm sector from the preceding quarter. The first quarter increase also reflected higher employer contributions to social security. Since a year ago, nonfarm compensation per manhour has increased by 6.6 per cent. The large first quarter increase in average hourly compensation resulted in an accelerated 5.4 per cent rise in unit labor costs. In comparison with the first quarter a year earlier, however, the increase in unit labor costs was only 3.1 per cent.

PRODUCTIVITY AND UNIT LABOR COSTS, PRIVATE NONFARM
(Per cent change from preceding quarter, seasonally adjusted annual rate)

	1971				1972
	QI	QII	QIII	QIV	QI
Output per manhour	6.6	2.7	2.3	4.5 r/	3.7 p/
Compensation per manhour	8.6	6.6	5.4 r/	5.0 r/	9.3 p/
Unit labor costs	1.9	3.8	3.0	.5 r/	5.4 p/

r/ Revised.
p/ Preliminary.

Minimum wage. The House on May 11 passed a bill which provides for increases in the nonfarm minimum wage to $2.00 an hour spread over three years. The House measure raises the minimum for workers covered by the Fair Labor Standards Act before 1966 from the present $1.60 an hour to $1.80 sixty days after enactment and to $2.00 a year later. Workers covered by the 1966 amendments -- mainly in services and retail trade -- are scheduled for increases in the three steps -- to $1.70 in sixty days, $1.80 a year later, and $2.00 in 1974. Farm workers go from the present $1.30 an hour to $1.50 sixty days after passage, and to $1.70 a year later. The bill also provides a lower minimum wage of $1.60 an hour for workers under age 18 and for students under 21. The bill does not extend coverage or phase out any existing exemptions. It has been estimated by the Employment Standards Administration to add about $185 million, annual rate, to the wage bill, when it becomes effective.

The Senate Labor Committee is considering a bill which provides for a higher minimum wage and extends coverage to an additional 6 million workers, mainly employees of small retail trade establishments and domestic servants. This bill, which may reach the Senate floor by mid-June, increases the minimum wage to $2.20 an hour in two steps for those covered prior to 1966 ($2.00 first year, $2.20 a year later) and in three steps for those covered by the 1966 amendments ($1.70 first year, $2.00 second year, $2.20 third year).

Industrial relations. The Pay Board cut the East Coast dock workers' first year wage rate increase to 55 cents, or 12 per cent, from a negotiated settlement of 70 cents, or 15 per cent. A rise in excess of the guidelines was permitted because of anticipated increases in productivity and other cost savings to employers resulting from changes in work rules. The negotiated increases in wage and fringe benefits combined were reduced to 9.8 per cent for 28,000 North Atlantic dock workers, to 11.8 per cent for 11,000 West Gulf Coast longshoremen, and to 12.0 per cent for 10,200 workers at the New Orleans docks. Earlier this year the Pay Board scaled back the West Coast longshore first year wage and fringe benefit settlement to 14.9 per cent from 20.9 per cent. The West Coast workers have accepted this cut-back with the provision that when wage-price controls are eliminated, a new contract can be negotiated.

Wage increases in major nonfarm collective bargaining settlements in the first quarter of 1972 averaged 7.8 per cent over the life of the contract -- only slightly down from the 8 per cent gain posted in the pre-freeze period of 1971. New major contracts covered 362,000 workers, primarily in the railroad and aerospace industries where settlements averaged about 10 per cent and 6.8 per cent, respectively. The average increase in manufacturing was considerably below last year; in construction, however, wage increases of 13.0 per cent were higher than in 1971, but these agreements covered only 32,000 workers.

First year wage increases in new contracts slowed appreciably, reflecting an apparent movement away from front-end loading and toward spreading increases more evenly over the life of the contract. This tendency has been influenced by Pay Board policy to take initial action only on first year increases in new settlements and to defer review of subsequent increases until they are scheduled to become effective. Wage and benefit increases together in the first quarter totaled 8.1 per cent -- down from 8.7 in 1972.

WAGE INCREASES PROVIDED BY MAJOR CONTRACT SETTLEMENTS
(Mean wage adjustment, per cent)

		1971		1972
	1970	Jan-Sept	Year	Q I
Average over life of contract:				
Total	8.9	8.0	8.1	7.8
Manufacturing	6.0	7.1	7.2	5.5
Nonmanufacturing	11.5	9.0	9.0	9.9
Construction	14.9	11.7	11.8	13.0
First year:				
Total	11.9	11.8	11.7	8.4
Manufacturing	8.1	10.7	10.8	7.3
Nonmanufacturing	15.2	13.0	12.7	9.4
Construction	17.6	13.5	13.3	14.6

Wholesale prices. Wholesale prices rose at a seasonally adjusted annual rate of 3.4 per cent between March and April. Industrial commodities continued to rise at the post-freeze average rate of a little over 4 per cent. The increase in prices of nonfood finished goods continued substantial both for consumer and producer goods with prices rising at rates exceeding those prior to the freeze last year. Some of the significant increases since last November were:

	Per cent increases Nov. 1971 to April 1972
Lumber	9
Plywood	11
Hides and skins	53
Leather	22
Cotton products	7
Synthetic textile products	4

Farm and food products prices were off slightly in April following a sizable decline in March. In April, substantial reductions in prices of livestock, meat and eggs were almost offset by increases for several commodities, including fresh fruits and vegetables and grains. Livestock prices have moved up again in May, but are below earlier peaks.

WHOLESALE PRICES
(Percentage changes at seasonally adjusted annual rates)

	Pre-stabil	Phase I	Phase II	
	Dec. 1970 to Aug. 1971	Aug. 1971 to Nov. 1971	Nov. 1971 to Apr. 1972	Mar. 1972 to Apr. 1972
All Commodities	5.2	-0.2	5.1	3.4
Farm and food 1/	6.5	1.1	7.5	-1.0
Industrial commodities	4.7	-0.5	4.1	4.2
Crude materials 2/	3.3	2.3	7.5	-9.0
Intermediate materials 3/	6.5	-0.7	4.0	6.3
Finished goods 4/	2.7	-0.9	3.6	3.9
Producer	3.7	-2.0	4.8	5.2
Consumer	2.2	-0.4	3.3	3.2

1/ Farm products and processed foods and feeds.
2/ Excludes foods, plant and animal fibers, oilseeds, and leaf tobacco.
3/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.
4/ Excludes foods.

Changes in prices of domestic raw agricultural products and imports had little effect on the seasonally unadjusted WPI in April. Imports during the post-freeze period have not been a significant factor in price increases as reported in the WPI, especially in the industrial sector. But since the weight of imported commodities in the WPI is low compared to the ratio of the value of imports to domestic output, the actual effect of the devaluation may be larger than the index suggests. About 3 per cent of the weight of farm and food commodities priced in the WPI are imports; only about 1 per cent of the weight of industrials is represented by imports. Passenger cars, some metals, and jute woven goods comprise more than 65 per cent of the weight of the imported industrial commodities in the WPI.

Consumer prices. Consumer prices were almost unchanged in March, after seasonal adjustment. However, the seasonally adjusted indexes for food and for other commodities rose at annual rates of 2 and 3 per cent, respectively, while service costs advanced at close to a 2 per cent rate. BLS attributes the difference to rounding in the calculation of the seasonally adjusted indexes for "All items" and for its components. Price movements for uncontrolled items were offsetting and therefore had no net effect on the (unadjusted) change in the index. Since November, consumer prices have risen at an annual rate of 3.7 per cent.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	Pre-stabilization		Phase I	Phase II	
	Dec. 1970 to June 1971	June 1971 Aug. 1971	Aug. 1971 to Nov. 1971	Nov. 1971 to Mar. 1972	Feb. 1972 to Mar. 1972
All items	4.0	3.3	1.7	3.7	.2
Food	6.2	1.0	1.7	7.4	2.0
Commodities less food	3.0	2.6	.0	2.1	3.1
Services 1/	4.2	5.7	3.1	3.7	1.8
Addendum:					
All items less mortgage costs 2/	5.0	3.5	1.3	3.7	2.0
Services less home finance 1/ 2/	7.4	4.9	1.9	3.6	1.9
Commodities less food, used cars, home purchase 3/	3.0	2.1	.0	2.6	2.1

1/ Not seasonally adjusted.
2/ Confidential: Home financing costs excluded from services reflect property taxes and insurance rates as well as mortgage costs, which in turn move with mortgage interest rates and house prices.
3/ Confidential.

The March increase for food--priced during the first week of the month--includes some additional advance in beef prices, partly offset by a decline for pork. In April the index should begin to reflect the March and April reductions in meat prices at the wholesale level. The cost of restaurant meals and snacks in March registered the largest (seasonally adjusted) increase since last August.

The small size of the advance for services reflects the moderate nature of increases for rent and medical services, the temporary suspension of utility rate increases through mid-March, and a sharp drop in local transit fares in Atlanta.

From November 1971 to March 1972--the first four months of Phase II--food prices rose at nearly a 7-1/2 per cent rate, faster than in the first half of 1971 and close to the rates of late 1969 and early 1970. The rapid run-up in meat prices was the major factor in the rise in foods, with the March index for meats more than 10 per cent above 12 months earlier. The 2.6 per cent rate of rise over the same four months in other commodity prices, excluding houses and used cars, reflects in large part increases for new cars, apparel and tobacco products.

Service costs, excluding home financing, rose between November and March at a 3.6 per cent rate, in contrast to rates of 7 per cent and more during 1970 and the first half of 1971. Advances for rent, medical and most other services--except utilities and public transport--were substantially smaller than before the freeze. However, it is still too early to determine to what extent these lower rates were affected by lags, both in implementing price increases and recording them in the index.

DOMESTIC FINANCIAL SITUATION

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator	Latest data		Net change from		
	Period	Level	Month ago	Three months ago	Year ago
Monetary and credit aggregates			SAAR (per cent)		
Total reserves	April	$ 32.7	23.4	11.1	8.9
Reserves available (PNB)	April	30.2	6.9^e	7.6	7.6
Money supply					
M1	April	235.1	8.2	11.0	6.3
M2	April	483.2	7.7	11.3	9.4
M3	April	752.8	11.1	14.0	11.9
Time and savings deposits (Less CDs)	April	248.1	7.8	11.4	12.6
CDs (dollar change)	April	34.7	1.3	1.5	6.9
Savings flows (S&Ls + MSBs)	April	269.6	15.8	19.0	16.7
Bank credit (end of month)	April	508.5	3.6	11.4	11.7
Market yields and stock prices			Percentage or index points		
Federal funds	wk. endg. 5/10	4.20	.02	.95	-3.9
Treasury bill (90 day)	" 5/10	3.53	-.27	.32	-3.2
Commercial paper (90-119 day)	" 5/10	4.48	-.10	.60	-.20
New corporate bonds Aaa	" 5/10	7.28	.14	-.02	-.35
Municipal bonds (Bond Buyer)	1 day 5/12	5.39	-.15	.08	-.57
FNMA auction yield	wk. endg. 5/13	7.60	.06	-.01	.17
Dividends/price ratio (Common stocks)	" 5/13	2.92	.10	-.01	-.06
NYSE index (12/31/65=50)	end of day 5/12	59.13	-.17	.80	2.78

Credit demands		Net change or gross offerings			
		During Month		Year to date	
		1972	1971	1972	1971
Business loans at commercial banks (dollar change)	April	0.9	0.6	2.8	1.9
Consumer instalment credit outstanding	March	1.4	.5	3.0	.7
Mortgage debt outst. (major holders)	March	4.2^e	3.0	10.4^e	7.2
Coporate bonds (public offerings)	May	1.6^e	2.1	8.5^e	12.6
Municipal long-term bonds (gross offerings)	May	1.7^e	2.2	9.7^e	10.9
Federally sponsored Agcy. (net borrowing)	May	1.2^e	-.02	2.5^e	.36
U. S. Treasury (net cash borrowing)	May	$.0^e$	2.2	2.2^e	3.5

e Estimated

DOMESTIC FINANCIAL SITUATION

Since the last Committee meeting most long- and short-term market interest rates have declined 5 to 15 basis points, on balance, although some short-term interest rates, particularly bill rates, have risen very recently. In general, the downward movement in market interest rates in the last four weeks reflects current and prospective moderation in credit demands. Reaction to the President's May 8 speech was brief and mild in all debt markets.

The prospective supply of securities was diminished by indications of net repayment of Treasury debt in May, the high level of the Treasury's cash position, and announcements by Treasury officials that second half borrowing needs are likely to be smaller than previously expected. In addition, both corporate and tax-exempt bond offerings moderated in April and the forward calendar remains modest.

Business loans at commercial banks in April, on the other hand, again expanded substantially, with continuing indications that such credit demands are from regional, rather than large nation-wide firms. Bank inflows of funds from all sources except consumer interest-bearing deposits remained large. Growth in time deposits of the latter type slowed further at banks in April, apparently in association with income tax payments; in late April and early May inflows of these deposits strengthened.

Despite a similar slow-down of deposit inflows at the nonbank depositary institutions around mid-April, the higher offering rates on deposits at such institutions are probably a factor in their continued large inflows relative to commercial banks; earlier this year, several large banks had cut their offering rates. With savings inflows continuing relatively large, the savings and loan associations apparently increased their outstanding mortgage commitments again in April. Additional support was given to the mortgage market by substantial FNMA mortgage commitment purchases, reducing the inventory exposure of mortgage bankers. However, home mortgage interest rates edged up during April in both the primary and secondary markets.

Outlook. Barring a significant change in either international developments or monetary policy, market interest rates generally are likely to fluctuate within a narrow range over the balance of the quarter, although Treasury bill rates may be subject to some downward pressure as the Treasury repays debt in June.

Credit demands in securities markets appear to be moderating somewhat more than expected at the time of the last Greenbook. With its large cash balance, the Treasury is expected to be a net repayer of debt until July. In addition, corporate bond offerings are expected to remain near their recent more moderate levels, with underwriters reporting that large corporations have little immediate need for long-term funds. Tax-exempt offerings are expected to decline somewhat, reflecting improved liquidity of State and local governments and the completion of borrowing postponed in the 1969-1970 period of high interest rates. Offerings of equities, on the other hand, are expected to remain large.

In contrast to bond markets, a continued increase in business loan growth at commercial banks is likely as working capital needs expand in line with the improvement in economic activity. Banks' high liquidity and sustained deposit inflows should limit their need to make any basic portfolio adjustments over the near-term in order to finance the higher level of business loans. However, as the increase in business credit demands at banks continues, banks can be expected to accelerate their movement toward shorter-term security investment and a reduced rate of tax-exempt acquisitions, as well as to begin moderating their mortgage acquisitions.

<u>Monetary Aggregates</u>. Expansion in M_1 and M_2 slowed in April following very rapid growth in February and March, as both private demand deposits and time deposits other than large negotiable CDs advanced less rapidly. The latter deposits, in fact, showed the slowest rate of increase since late last summer, probably due to the combination of withdrawals associated with large Federal income tax payments and a lagged response to earlier rate declines at some banks and the rise in yields on competing market instruments over the two preceding months. Most of the April growth in time deposits other than CDs was concentrated in deposits of State and local governments in California, reflecting the investment of receipts from a new State withholding tax.

Growth in the adjusted credit proxy also slowed in April, but the 14 per cent annual rate of increase for the month exceeded that for the first quarter. The continued rapid expansion in the credit proxy reflected in part a further buildup of U.S. Government deposits, as Treasury receipts continued larger than anticipated and expenditures and tax refunds fell short of expectations. In addition, large negotiable CDs expanded by about $1.3 billion on a seasonally adjusted basis, the first significant growth since the end of last year.

Most of the CD growth through the middle of April was concentrated at large banks in New York City, and took place despite larger-than-usual CD maturities at these banks over the tax date. Funds were available without aggressive bidding from a variety of sources, including some proceeds from capital market issues. Later in the month, CD growth shifted to banks outside New York, perhaps

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1971		1972			
	QIII	QIV	QI	Feb.	March	Apr.p
	Annual percentage rates					
M_1 (Currency plus private demand deposits)	3.7	1.1	9.3	12.6	11.9	8.2
M_2 (M_1 plus commercial bank time and savings deposits other than large CDs)	4.4	8.0	13.3	14.3	11.6	7.7
M_3 (M_2 plus savings deposits at mutual savings banks and S&L's)	7.8	9.6	15.5	16.7	13.8	11.1
Adjusted bank credit proxy	7.6	9.7	11.3	5.9	17.7	13.9
Time and savings deposits at commercial banks						
a. Total	8.2	15.9	14.8	16.2	7.8	12.4
b. Other than large CDs	5.3	14.7	17.1	15.4	10.8	7.8
Memorandum:						
a. U.S. Government demand deposits	2.3	-.4	-.1	-2.6	2.4	1.3
b. Negotiable CDs	2.3	1.8	-.1	.6	-.4	1.3
c. Nondeposit sources of funds	-.4	--	-.3	-.3	.1	-.2

p - preliminary and partially estimated.
1/ Month-to-month and last-month-in-quarter to last-month-in-quarter changes in daily averages, not annualized.

reflecting reinvestment demand from holders of maturing tax-anticipation bills turned in for cash. Offering rates on short CDs tended to drift downward toward the end of April as competing money market rates eased, but investors apparently favored short maturities and the average maturity of new CDs issued declined for the third consecutive month to just over 2 1/2 months.

Bank Credit. Bank credit growth, as measured on a last-Wednesday-of-the-month basis, slowed markedly in April to a seasonally adjusted annual rate of about 3.5 per cent. This contrasts sharply with the continued rapid expansion in the daily average adjusted credit proxy noted earlier. These two series often diverge because, among other things, of fluctuations and random events that can affect the single-day measurement of the last Wednesday series. In April, the divergence reflects in part the fact that nonearning assets that are excluded from the direct measure of bank credit--particularly member bank reserves--showed an unusually large increase late in the month. In addition, the maturity date for the April tax-anticipation bills, with its downward influence on bank credit, fell unusually close to the last-Wednesday-of-the-month this year. For March and April combined, last-Wednesday-of-the-month bank credit grew at about an 11 per cent annual rate, much closer to the rate of growth in the proxy over the two-month period than for April alone.

Business loan expansion increased further in April and weekly reporting bank data show continued strength in early May. This provides further confirmation of the turnaround in business loan demand suggested by the faster rates of expansion in February and March.[1/]

1/ Downward call report benchmark revision of business loan data for late 1971, also have increased the business loan growth rate indicated for January

COMMERCIAL BANK CREDIT ADJUSTED FOR LOANS
SOLD TO AFFILIATES 1/
(Seasonally adjusted changes at annual percentage rates)

	1971 3/		1972 3/			
	QIII	QIV	QI	Feb.	March	April
Total loans & investments 2/	9.7	11.1	15.1	12.4	18.0	3.6
U.S. Treasury securities	-18.5	5.3	9.9	26.1	23.6	3.9
Other securities	12.0	20.1	16.1	12.5	17.9	-1.1
Total loans 2/	14.7	9.4	15.7	10.2	16.7	5.0
Business loans 2/	14.4	-3.4	9.6	9.1	9.1	12.0
Real estate loans	14.2	14.2	14.7	13.1	15.8	14.2
Consumer loans	13.3	13.6	11.7	13.1	10.8	10.7

1/ Last-Wednesday-of-month series.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
3/ Data revised beginning July 1971 to reflect adjustments to December 31, 1971 Call Report benchmarks.

Increased demand continued to be centered at banks outside New York City, however. Loans to public utilities accounted for the largest part of the strength in aggregate business loans, with some contribution from construction loans as well. Real estate and consumer loans continued to expand in April at about the same brisk pace evident in other recent months, while security loans and loans to nonbank financial institutions both declined after increasing for several consecutive months.

In the investments component of bank credit, holdings of U.S. Government issues increased only slightly while holdings of other securities showed a decline for the first time in many months. The decline in holdings of other securities reflected in significant part a runoff in holdings of short-term municipals at banks in California, primarily due to the redemption of short-term California and New York obligations. Banks in California reported that the supply of that state's short-term warrants available for replacement purposes was limited due to the accumulation of large cash balances stemming from the institution of a withholding tax by the State, as noted earlier. Despite reductions in holdings of short-term tax exempt securities, large commercial banks continued very liquid, with ratios of liquid assets to liabilities continuing at or near the highs for recent years.

Consumer credit. The increase in consumer instalment credit outstanding in March amounted to a record $16.4 billion, seasonally adjusted annual rate. In February the rise was at a $11.6 billion annual rate, and the previous peak--$15.2 billion--was reached last November.

The increase in outstandings reflected a substantial gain in extensions of new credit and only a moderate rise in repayments. Record levels of extensions were reported in all loan categories.

Nonbank financial institutions and mortgage markets. Deposit inflows to nonbank thrift institutions remained strong during April, although somewhat below the high first quarter rate.

Deposit flows to savings and loan associations tapered off in mid-April (when income tax payments would most likely have had an effect) and then picked up again toward the end of the month. Repayments of advances from the Home Loan Bank System also slowed during April relative

DEPOSIT GROWTH AT NONBANK THRIFT INSTITUTIONS
(Seasonally adjusted annual rates, in per cent)

	Mutual Savings Banks	Savings and Loan Associations	Both
1971 - QI	16.3	24.6	21.9
QII	15.0	18.4	17.3
QIII	9.6	15.7	13.7
QIV	10.6	13.8	12.8
1972 - QI p/	14.1	23.5	20.4
February	12.6	19.9	17.6
March p/	15.0	20.6	18.8
April e/	11.6	17.8	15.8

p/ Preliminary.
e/ Estimated from sample data.

to the large pay-down recorded in the first quarter. This slowing most likely reflects uncertainty about the future strength of deposit flows and the expected rise in takedowns of mortgage commitments. According to FHLBB estimates based on limited reporting, new mortgage commitments of S&L's continued substantial during April, and outstanding commitments increased further.

Backed by strong support from both S&L's and commercial banks, growth in outstanding residential mortgage debt--which had changed little in the fourth quarter of 1971--picked up during the first quarter to a seasonally adjusted annual rate of over $42 billion, according to preliminary estimates. This was a new high, sharply above the recent low of $14 billion two years earlier. Expansion of total mortgage credit outstanding--at a seasonally adjusted annual rate of about $56 billion--also attained a record level, partly reflecting accelerated growth of commercial mortgage debt.

Despite the extraordinary first-quarter net flow of funds into residential mortgages, yields on home mortgages began to edge higher toward the end of March in lagged response to rate increases in other financial markets. On FNMA's forward commitments to purchase FHA and VA home mortgages, yields in the bi-weekly auction rose slightly through April and early May, and then stabilized in the latest (May 15) auction. At that time, the average mortgage yield, at 7.63 per cent, was 9 basis points above the low in late March.

During April, the average contract interest rate on conventional new-home mortgages in the primary market rose by 5 basis points--the first increase since last August. Yields rose by the same amount on Government underwritten loans in the private secondary market. In both cases, however, such yields remained unattractive relative to returns available on new issues of high-grade corporate bonds--a factor that has continued to discourage investment in home mortgages by life insurance companies.

Long-term securities. Over the last 4 weeks, yields on long-term securities have edged down with yields on corporate and municipal bonds dropping about 15 basis points and those on long-term Government securities only 3 basis points. Dealer positions are relatively light, the forward supply of long-term securities appears to be moderating, and investment funds are reported to be ample. Recent developments in Southeast Asia have generated some uncertainty in the market in the past week; but, aside from an immediate sharp decline in the stock market, there seems to have been little adverse effect on long-term markets.

AVERAGE RATES AND YIELDS ON NEW-HOME MORTGAGES

	Primary market: Conventional loans		Secondary market: FHA-insured loans		
	Level (per cent)	Spread (basis points)	Level (per cent)	Spread (basis points)	Discount (points)
1971 - Low	7.55	-36	7.32	-36	2.5e
High	7.95	71	7.97	56e	7.8
Nov.	7.75	56	7.62	43	5.1
Dec.	7.70	61	7.59	50	4.8
1972 - Jan.	7.60	53	7.49	42	4.0
Feb.	7.60	44	7.46	30	3.8
March	7.55	33	7.45	23	3.7
April	7.60	29	7.50	19	4.1

NOTE: FHA series: interest rates on conventional first mortgages (excluding additional initial fees and charges) are rounded by FHA to the nearest 5 basis points. On FHA loans carrying the 7 per cent ceiling rate in effect since mid-February 1971, a change of 1.0 points in discount is associated with a change of 12 to 14 basis points in yield. Gross yield spread is average mortgage return, before deducting servicing costs, minus average yield on new issues of high-grade corporate bonds with 5-year call protection.

Stock prices and volume were both at high levels in the first half of April; but in the latter part of the month and in early May, the market backed off. For example, the NYSE index over the last three weeks registered a decline of 3.2 per cent from its April 12 high. Volume on the major exchanges is down almost to the late 1971 level, with NYSE daily volume averaging 14.8 million shares during late April and early May. Investors appear to be concerned over both the Vietnam situation and Price Commission actions which might adversely affect corporate profits.

SELECTED LONG-TERM INTEREST RATES
(Per cent)

	New Aaa Corporate bonds 1/	Long-term State and local bonds 2/	U.S. Gov't. (10-year constant maturity)
1971			
Low	6.76 (1/25)	4.97 (10/21)	5.42 (3/26)
High	8.23 (5/21)	6.23 (6/24)	6.89 (7/30)
1972			
Low	6.86 (1/14)	4.99 (1/14)	5.87 (1/14)
High	7.42 (4/4)	5.54 (4/4)	6.22 (4/21)
Week of:			
April 7	7.33	5.49	6.17
14	7.42	5.54	6.21
21	7.42	5.50	6.22
28	7.32	5.20	6.17
May 5	7.20	5.35	6.16
12	7.28	5.39	6.17p

1/ With call protection (includes some issues with 10-year protection).
2/ Bond Buyer (mixed qualities).
p/ Preliminary.

RECENT CHANGES IN STOCK PRICES

	Price as of May 15, 1972	Per cent change from Jan. 31 to April 12	Per cent change from April 12 to May 15
NYSE	59.47	6.4	-3.2
AMEX	27.60	5.2	-3.2
NASDAQ	130.34	12.0	-2.1
D-J INDUSTRIAL	942.20	7.2	-2.6

The volume of public bond offerings by utilities in April was substantially larger than the first-quarter average, but the volume of industrial issues was unseasonally low, reflecting in part the postponement of several planned offerings around mid-April, when yields backed up temporarily. The total volume for the month was only $1.6 billion. The staff estimates that May volume will be about the same, and that the June calendar might be slightly lower. Underwriters report that most of the large corporations which use the public bond markets seem to have comfortable liquidity positions and little immediate need for long-term funds, given improved cash flows.

Total corporate security volume for May and June, however, will probably be slightly higher than in April because of a rise in new stock issues, particularly by utilities, and the expected end-of-quarter bulge in takedowns of private placements.

CORPORATE AND MUNICIPAL LONG TERM SECURITY OFFERINGS
(Monthly or monthly averages in millions of dollars)

	1971	1972			
	Monthly average	March	April e/	May f/	June f/
Corporate securities-Total	3,758	3,550	3,050	3,250	3,330
Public bonds	2,065	1,650	1,600	1,600	1,500
Privately placed bonds	613	800	550	550	800
Stock	1,080	1,100	900	1,100	1,000
State and local government securities	2,080	2,195	2,041	1.700	1,800

e/ Estimate
f/ Forecast

Yields on municipal bonds have dropped about 15 basis points on balance since the last Committee meeting. This lower level probably reflects mainly a slackening in the tax-exempt calendar. May and June volume are estimated at $1.7 and $1.8 billion, respectively, down about 10 per cent from the monthly average for the past 18 months. Many State and local governments may now have regained their customary liquidity levels and have caught up on borrowings postponed during the 1969-1970 period of high interest rates. The results of the FRB-Census Survey of State and Local Bond Anticipations and Realizations, which will be available later in May, should provide more evidence about future borrowing needs.

Short-term security markets. Since the April 18 FOMC meeting, most short-term interest rates have declined moderately on balance. The Federal funds rate, however, moved higher shortly after the Committee meeting and has remained around a 4-1/4 per cent level since that time. Also, rates on short-term Treasury bills, after initially declining, have since risen markedly and the rate on 3-month bills now exceeds its April 18 level.

Seasonal investment demands such as those emanating from the usual run-off in April tax bills, may have been partly responsible for the decline in short-term rates over late April and early May, which took the 3-month bill rate to as low as 3.42 per cent. Market rates were also pushed down by the Treasury's April 26 announcement regarding the mid-May refinancing, since the cash redemption of $700 million of maturing debt on May 15 would provide the potential for a strong boost in demand for short-term securities at that time. In addition, the cash redemption announcement drew attention to the unexpected strength of the Treasury's current cash position, thus signaling the likelihood of lighter Treasury borrowing over the remainder of the current fiscal year than previously had been anticipated.

Sizeable bill sales by the System open market account and by Treasury and foreign accounts (the latter, partly to switch into coupon issues) were mainly responsible for the initial backup in short-term bill rates. A belief by some market participants that the 3-month bill rate had been temporarily out of line with the funds rate may also have contributed to its rise back into a 3.60-3.65 per cent range which prevailed during most of last week. During the early part of this week, the 3-month bill rate has moved even higher, most recently trading around 3.75 per cent. Some backup in other short-term rates has accompanied the advance in bill rates.

The volume of outstanding commercial paper of nonbank issues appears to have increased about $500 million in April, the first significant monthly rise this year. On a seasonally adjusted basis, the expansion was about evenly divided between the directly placed and dealer markets.

SELECTED SHORT-TERM INTEREST RATES
(Per cent)

	April 19	May 3	May 16	Basis point change April 19-May 16
Federal Funds 1/	4.04	4.25	4.29 2/	25
Treasury bills				--
3-month	3.64	3.60	3.76	12
6-month	4.21	4.05	4.20	-1
1-year	4.60	4.37	4.53	-7
Federal Agency				
1-year	5.22	4.79	4.86	-36
90-119 day				
Commercial Paper	4.63	4.50	4.50	-13
60-89 day CDs	4.50	4.25	4.38 3/	-12

1/ Weekly average.
2/ Five-day average.
3/ May 10.

Federal finance. The staff has again lowered its estimate of the fiscal year 1972 budget deficit, because tax receipts continue to exceed earlier projections. The deficit is now projected to be between $26.5 and $27 billion--$2.0 to $2.5 billion lower than the preceding Greenbook estimate and about $12.0 billion below the January budget figure.

Our estimate of tax receipts in fiscal 1972 has been raised by more than $2.0 billion since the last Greenbook, largely because of lower than expected refunds in April and because withheld personal taxes remain larger than earlier projected. So far, the Treasury's educational campaign, urging taxpayers to adjust their exemptions, has not had a noticeable effect on receipts. Thus the staff estimate of fiscal 1972 receipts is $7.0 billion above the January budget estimate and $5.0 to $6.0 billion of this now appears attributable to overwithholding.

Outlays in the current fiscal year are still expected to be about $5.0 billion below the budget estimate of $236.6 billion. Nearly half of the projected shortfall in outlays is attributable to the staff assumption that there will be no outlays for general revenue sharing this fiscal year. Most of the remaining shortfall is in a wide range of programs including agriculture, public assistance grants and unemployment benefits. In regard to defense, a small shortfall in spending still seems likely, on a unified Budget basis, even after allowing for some additional costs connected with current operations in Vietnam and a substantial acceleration in the processing of payments toward the end of the fiscal year.

The acceleration of air and naval activities in Vietnam, which has continued for more than a month, has raised the possibility of a significant speed-up in defense purchases--partly in the current fiscal year but mainly in fiscal 1973. According to recent press reports DOD spokesmen say that it is "very likely" they will ask Congress for supplemental spending authority of $.5 to $1.0 billion this fiscal year and an undetermined amount for fiscal 1973. Since the increased war activity was not anticipated in budget planning, the DOD may already have borrowed from other funds to finance some portion of the acceleration and a supplemental appropriation would restore funds to these other activities.*

* Recent legislation apparently permits the Secretary of Defense to transfer $750 million from lower to higher priorities largely at his discretion.

In the second half of this calendar year the projected deficit (unified budget basis) has been lowered by about $1-1/2 billion since the last Greenbook: estimates of both receipts and expenditures have been increased, but receipts have been adjusted up somewhat more. The higher receipts estimate for the half-year is again due largely to the higher level of withheld taxes. On net, the estimate of outlays has been raised $2.1 billion for the half year. The largest increase is $1.5 billion for social security, a change which appears to reflect Congressional sentiment. It assumes that the social security benefit increase will be 12.5 per cent rather than the 5 per cent raise proposed by the Administration. It also assumes higher defense spending (nearly $1.4 billion for the half year as a result of the increased activity in Vietnam.

The staff estimate of the high employment budget, on a NIA basis, indicates a $1.0 billion surplus for calendar 1972--$1.9 billion shift toward deficit from calendary 1971. However, during calendar 1972 the high employment budget shifts more sharply toward deficit from the $10.4 billion surplus in the first quarter to an essentially level $5.0 billion deficit over the second half of the year. About $3.0 billion of this shift is the result of the acceleration in estate and gift tax taxes, a one-time speed-up in payments that increases receipts in the fourth quarter of 1971 and the first quarter of 1972. In these projections, overwithholding is estimated to increase receipts by the following amounts (annual rates) in calendar 1972: $10 billion in the first and second quarters; $9 billion in the third quarter and $8 billion in the fourth quarter.

The Treasury's end-of-May cash balance is now expected to total about $8.8 billion. The staff projection assumes that the Treasury will raise no further new money in the current fiscal year. The $1.2 billion of bonds maturing in mid-June and the $3.0 billion of June tax bills would thus be retired. It is also assumed that the $100 million reduction in the latest weekly bill offering will be followed by similar cut backs in the five succeeding auctions. Given these assumptions the end-of-June balance is estimated to be $7.2 billion.

Our projections indicate that the Treasury will need to raise about $20 billion in the second half of the calendar year. A consdierable amount of net borrowing, perhaps $9 billion, is expected to be raised during July and August.

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

	Fiscal 1972 e/		FY 1973 e/	Calendar Years		Calendar Quarters				
							F.R.B. Staff Estimates			
							1972			
	Jan. Budget	F.R. Board	Jan. Budget	1971 Actual	1972 F.R.B.	IV*	I*	II	III	IV
Federal Budget										
(Quarterly data, unadjusted)										
Surplus/deficit	-38.8	-26.7	-25.5	-24.8	-28.1	-10.6	-10.5	2.2	-9.8	-10.0
Receipts	197.8	204.8	220.8	194.0	218.2	44.6	48.1	63.6	55.9	50.6
Outlays	236.6	231.5	246.3	218.8	246.3	55.2	58.6	61.4	65.7	60.6
Means of financing:										
Net borrowing from the public	39.5	20.9	27.5	24.8	20.0	12.5	3.9	-4.6	10.9	9.8
Decrease in cash operating balance	--	1.6	--	-3.2	3.8	-1.3	3.6	.5	-1.0	.7
Other 1/	-.7	4.2	-2.0	3.2	4.2	-.6	3.0	1.9	-.1	-.6
Cash operating balance, end of period	8.8	7.2	8.8	11.3	7.5	11.3	7.7	7.2	8.2	7.5
Memo: Net agency borrowing 2/	n.a.	5.0	n.e.	1.1	n.e.	1.4	.4	1.4	1.1	n.e.
National Income Sector										
(Seasonally adjusted annual rate)										
Surplus/deficit	-35.0	-21.1	-28.0	-23.1	-21.2	-25.7	-13.3	-18.8	-27.8	-25.0
Receipts	202.8	212.0	227.9	198.8	227.1	203.0	222.1	225.2	227.3	233.9
Expenditures	237.8	233.2	255.9	221.9	248.4	228.7	235.4	244.0	255.1	258.9
High employment surplus/deficit (NIA basis) 3/	n.a.	5.4	n.a.	2.9	1.0	6.6	10.4	3.5	-4.9	-5.1

* Actual   e--projected   n.e.--not estimated   n.a.--not available

1/ Includes such items as deposit fund accounts and clearing accounts.

2/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

3/ Estimated by F.R. Board Staff.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	April	May	June	July
Total net borrowing	-1.7	--	-2.9	5.0
Weekly and monthly bills	--	-.2	- .4	--
Tax bills	-4.0	--	-3.0	--
Coupon issues	1.8	--	--	--
As yet unspecified new borrowing	--	--	--	5.0
Other (debt repayments, etc.)	.5	.2	.5	--
Plus: Other net financial sources a/	.6	1.6 c/	-.3	-.4
Plus: Budget surplus or deficit (-)	5.1	-4.5	1.6	-6.9
Equals: Change in cash balance	4.0 b/	-2.9	-1.6	-2.3
Memoranda: Level of cash balance end of period	11.7 b/	8.8	7.2	4.9
Derivation of budget surplus or deficit:				
Budget receipts	23.6	15.6	24.4	14.5
Budget outlays	18.5	20.1	22.8	21.4
Maturing coupon issues held by public	--	2.4 d/	1.1	--
Net agency borrowing	.3	.4	.7	.3

a/ Checks issued less checks paid and other accrual items.
b/ Actual.
c/ Includes $0.8 billion of capital gains from gold revaluation.
d/ The Treasury auctioned $1.8 billion of notes and bonds in a partial refunding of the $2.4 billion maturing. The remaining $700 million was redeemed in cash.

INTERNATIONAL DEVELOPMENTS

III -- T - 1
U.S. Balance of Payments
In millions of dollars; seasonally adjusted

	1971	1972p/			
	Year	Jan.*	Feb.*	Mar.*	QI
Goods and services, net 1/	699				-900
Trade balance 2/	-2,879	-352	-628	-655	-1,635
Exports 2/	42,769	4,182	3,793	3,835	11,810
Imports 2/	-45,648	-4,534	-4,421	-4,490	-13,445
Service balance	3,578				735
Remittances and pensions	-1,459				
Govt. grants & capital, net	-3,860				
U.S. private capital (- = outflow)	-9,585				
Direct investment abroad	-4,526				
Foreign securities	-910	-272	-80	-8	-342
Bank-reported claims -- liquid	-580	6	-164	-201	-459
" " " other	-2,389	160	-317	-384	-716
Nonbank-reported claims -- liquid	-509	-105	-83	e/-134	e/-196
" " " other	-672				
Foreign capital (excl. reserve trans.)	-5,400				
Direct investment in U.S.	-192				
U.S. corporate stocks	836	269	153	257	712
New U.S. direct investment issues	1,137				448
Other U.S. securities (excl. U.S. Govt.)	278				48
Liquid liabilities to:	-6,705	388	175	-5	378
Commercial banks abroad	-6,902	216	202	58	296
Of which liab. to branches	(-4,942)	(-106)	(-423)	(331)	(-378)
Other private foreign	-478	20	41	-2	59
Intl. & regional institutions	675	152	-68	-61	23
Other nonliquid liabilities	-754				
Reserve liab. to foreign official institutions	27,419	865	803	1,028	3,065
U.S. monetary reserves (increase, -)	3,065	-2	549	60	607
Gold stock	866	--	544	-	544
Special drawing rights 3/	468	--	--	-	-
IMF gold tranche	1,350	-2	5	-4	-1
Convertible currencies	381	--	--	64	64
Errors and omissions	-10,878				
BALANCES (deficit -) 3/					
Official settlements, S.A.					-3,672
" " , N.S.A.	-30,484	-863	-1,352	-1,088	-3,301
Net liquidity, S.A.					e/-3,395
" " , N.S.A.	-22,690	-1,152	-1,280	-748	e/-3,178
Liquidity, S.A. 4/					-4,050
" , N.S.A.	-23,779	-1,251	-1,527	-1,083	-3,859

* Monthly, only exports and imports are seasonally adjusted.

1/ Equals "net exports" in the GNP, except for latest revisions.

2/ Balance of payments basis which differs a little from Census basis.

3/ Excludes allocations of SDRs as follows: $717 million on 1/1/71 and $710 million on 1/1/72.

4/ Measured by changes in U.S. monetary reserves, all liabilities to foreign official reserve agencies and liquid liabilities to commercial banks and other foreigners.

INTERNATIONAL DEVELOPMENTS

Summary and outlook

Since mid-March the U.S. balance of payments has been in slight surplus on the official settlements basis, in contrast to the heavy deficit of the first 2-1/2 months of 1972. Evidence relating to merchandise trade is available only through March, when the trade deficit was of near-record size, as it had been in February. While some improvement may have occurred in trade since then, it is likely that a major part of the over-all improvement has been in capital flows, recorded and unrecorded.

With the changes in money market interest rates here and abroad that occurred in March and April, overnight borrowing of Eurodollars by member banks from their branches has become very attractive so long as liabilities to branches do not exceed a bank's reserve-free base; the average borrowings outstanding in recent computation periods have no longer been declining. There has been a substantial net flow of funds from foreign banks to U.S. money markets via the branches and agencies of foreign banks in this country; this flow is not subject to U.S. reserve requirements at any point.

Projections of the U.S. balance of payments made recently by an interagency committee envisage somewhat less progress this year than had been hoped for earlier toward the current account target set at the time of the Smithsonian meeting. The revisions allow for a somewhat greater contrast between the strengthening of aggregate demand in the United States and the slow recovery expected abroad than had been estimated before. Net exports of goods and services, which were at an annual rate of minus $1 billion in the second half of 1971, are expected to be at an average rate of minus $2-1/2 billion in the current half year. It is thought that effects of the exchange rate changes on real volumes of imports and exports may begin to be felt in the present quarter. Beyond midyear, the staff projection for net exports of goods and services rises to near zero in the third quarter and to about plus $1 billion in the fourth. Substantial further improvement would be looked for in 1973-74.

So long as confidence in the viability of the Smithsonian realignment of exchange rates holds and interest rate relationships are as favorable for inflows as at present (or no more unfavorable, depending on the type of asset or liability involved), further net inflows of private capital are to be expected in the months ahead. Interest rates incentives could possibly become still stronger; however, rate levels in leading foreign countries may be about as low by now as they are likely to go in the current cycle. In the over-all balance of payments, with continuing negative balances on the accounts for Government capital and grants and for private remittances and pensions, and with net exports still small, the U.S. official settlements balance in the near term should remain near zero or slightly positive.

Foreign exchange markets. Supply and demand for major foreign currencies have been generally in balance over the past month or so, with dollar exchange rates moving by less than 1/2 percent, except for the Canadian dollar. Foreign central bank intervention has remained relatively small, again with the exception of Canada. The dollar weakened moderately in response to the new U.S. initiatives in Vietnam in early May, but by mid-month had, in most cases, recovered to levels prevailing a month ago. On May 17, in association with an upsurge of speculation in the gold market and a $3 dollar one-day increase in the gold price, the dollar again came under some selling pressure.

FOREIGN EXCHANGE RATES
Percent Above or Below (-) Central Rates
(weekly averages)

	Sterling	Mark	Swiss Franc	Guilder	Lira	French Franc	Belgian Franc	Yen
Dec. 29	-2.2	-1.5	-1.8	-0.7	-2.1	-2.1	-0.8	-2.2
Jan. 26	-0.7	0.3	-0.8	1.5	-1.2	-0.7	1.6	-1.1
Feb. 23	0.0	1.6	-0.3	2.3	-0.9	0.8	2.3	1.7
Mar. 15	1.1	2.0	0.3	2.1	0.4	1.8	2.1	2.1
Mar. 29	0.2	1.5	-0.5	1.5	-0.2	1.4	1.8	1.9
Apr. 12	0.2	1.6	-0.3	1.3	-0.1	1.6	1.9	1.8
Apr. 26	0.2	1.4	-0.6	0.9	-0.5	1.6	1.6	1.5
May 17	0.3	1.3	-0.6	1.0	-0.1	2.1	1.9	1.4

The Canadian dollar and the French franc have shown the greatest strength in recent weeks, apparently reflecting relatively tight money market conditions in Canada and France. In the case of the franc, a change in exchange controls to allow the conversion of some service receipts through the commercial franc market had the effect of strengthening that rate and weakening the financial franc rate. The Canadian dollar reached a peak of $1.0114 on May 11, some 9.3 percent above its old par value, and the Bank of Canada purchased around $75 million in late April and the first half of May to moderate the rise in the rate. The franc moved close to its dollar ceiling, and even closer to its intra-EEC ceiling in early May, but the Bank of France was not required to intervene.

The EEC narrow band arrangement went into effect on April 24, with the U.K. and Denmark joining on May 1. No intra-EEC intervention has yet been required, though, as indicated above, the French franc on several days was very near its upper limit (2-1/4 percent) with respect to the Italian lira.

In official transactions, the U.S. Treasury drew SDR 200 million equivalent in sterling on the IMF on April 27 as part of the United Kingdom's Fund repayment package. The Treasury added this amount to its sterling balances for the time being, thus avoiding a decline in U.S. reserve assets -- the drawing from the IMF reduced our reserve position in the Fund. On April 28, the United States officially notified the IMF of the change in the dollar par value.

The free market price of gold reached a new peak of $57.75 on May 17 in London, up some $8 from mid-April. Against a background of a rising trend in industrial and commercial demand, and some actual and prospective decline in South African supplies, there has reportedly been an increase in hoarding demand from the Far East as a result of the new developments in the Vietnam war and some speculation on a possible U.S.-Soviet agreement to raise the official price of gold to $55. Secretary Connally's resignation was interpreted by some market participants as increasing the possibility of such a further increase in the official gold price.

Euro-dollar market. The decline in Euro-dollar interest rates that began around the end of the first quarter continued without substantial interruption in April and the first half of May. One- and three-month Euro-dollar rates have averaged about 4-3/16 and 4-7/8 percent, respectively, in recent days, down about 1.2 and 0.8 percent from their average levels in the final week of March (when Euro-dollar rates in most maturities were at their highest levels this year). In domestic markets, CD rates of comparable maturity have declined by only about 1/4 percent since they reached their highs for this year in the first half of April. This relatively more rapid decline in Euro-dollar than in U.S. rates has virtually equalized the costs of one-month money as between reserve-free Euro-dollars and domestic CDs. The excess of the three-month Euro-dollar rate over the (adjusted) 60-89 day CD rate is now about 1/2 percent.

The overnight Euro-dollar rate, which has been below the Federal funds rate at most times since mid-March, has been at about 3-3/4 percent in recent weeks, or about 1/2 percent below the Federal funds rate. As the table shows, Euro-dollar rates are not yet low enough to make borrowing subject to the 20 percent marginal reserve requirement attractive.

SELECTED EURO-DOLLAR AND U.S. MONEY MARKET RATES

Average for month or week ending Wednesday	(1) Over-night Euro-$ 1/	(2) Federal Funds 2/	(3) Differential (1)-(2)	(*)	(4) 1-month Euro-$ Deposit 1/	(5) 30-59 day CD rate (Adj.) 3/	(6) Differential (4)-(5)	(*)
1972 - Jan.	4.58	3.50	1.08	(2.23)	5.02	3.81	1.21	(2.47)
Feb.	4.02	3.29	0.73	(1.74)	4.46	3.43	1.03	(2.15)
Mar.	3.87	3.83	0.04	(1.01)	5.05	3.80	1.25	(2.51)
Apr.	3.92	4.17	-0.25	(0.73)	4.72	4.44	0.28	(1.46)
1972 - Apr. 19	4.37	4.05	0.32	(1.41)	4.77	4.45	0.30	(1.49)
26	3.63	4.20	-0.57	(0.34)	4.50	4.35	0.15	(1.28)
May 3	3.77	4.25	-0.48	(0.46)	4.45	4.21	0.24	(1.35)
10	3.59	4.20	-0.61	(0.29)	4.30	4.21	0.09	(1.17)
17p	3.70	4.27	-0.57	(0.35)	4.18	4.21	-0.03	(1.02)

1/ All Euro-dollar rates are noon bid rates in the London market; overnight rate adjusted for technical factors to reflect the effective cost of funds to U.S. banks.
2/ Effective rate.
3/ Offer rates (median, as of Wednesday) on large denominated CD's by prime banks in New York City; CD rates adjusted for the cost of required reserves
*/ Differentials in parentheses are after adjustment of Euro-dollar rates for the 20 percent marginal reserve requirement (relevant to banks with borrowings in excess of their reserve-free bases).
p/ Preliminary.

Short-term interest rates in most of the major foreign national money markets have not declined (and in some cases have even risen moderately) in the past several weeks. In Germany, however, call money in the interbank market has declined from about 4-1/4 percent in early April to about 3 percent at present, although interest rates for three-month funds have changed little on balance, remaining at about 4-3/4 percent.

Possibly contributing to the decline in Euro-dollar rates in April was the Japanese Finance Ministry's decision to further increase its dollar deposits at Japanese banks. (Japanese banks reduced their net external liabilities by about $0.3 billion equivalent in April, apparently substituting dollar liabilities to the Japanese Finance Ministry for external dollar borrowings).

In the Euro-dollar reserve requirement computation period ended April 12, U.S. banks' Euro-dollar positions subject to Regulation M averaged $2.2 billion, about unchanged from the previous four-week computation period and only slightly below the amounts in the two periods before that. Partial data indicate that these positions remained little changed in the computation period ended May 10.

Balance of payments. Preliminary data for the first-quarter balance of payments published on May 16 show a deficit on official settlements of $3.7 billion (seasonally adjusted, before allocation of

SDRs).[1] Major features of the first quarter accounts were an increase in the trade deficit to $1.6 billion (an annual rate of $6.5 billion), a net outflow of $1.2 billion (S.A.)in bank-reported claims on foreigners, and an unusually large net capital inflow associated with transactions in securities amounting to over $850 million. There were also large reported flows of private liquid capital in both directions: liquid assets abroad reported by U.S. nonbanking concerns rose by $200 million, while U.S. liquid liabilities to commercial banks abroad rose by $300 million (both figures seasonally adjusted). Some of the increase in bank-reported claims on foreigners mentioned above was also in relatively liquid forms.

The net liquidity deficit for the first quarter was about $3.4 billion (S.A.) -- close to the official settlements deficit, as reported flows of U.S. and foreign private liquid funds were nearly equal. At this stage information is not available for long-term corporate capital flows and other major elements of the accounts. The size of the residual item representing all the unestimated flows remained high in the first quarter ($2.9 billion), though less than the comparable figure for 1971, when the quarterly average was $5.6 billion. Nevertheless, the size of the overall deficit indicates that in the first quarter, taken as a whole, there was still an outward movement of private capital.

1/ This measure now excludes as "above-the-line" receipts, and counts "below-the-line", substantial Japanese official purchases of marketable obligations of U.S. Government agencies.

At mid-March, however, a significant favorable shift in the flow of funds began, and this has continued through April and the early part of May. From mid-March through May 10 the official settlements balance registered a surplus of about $275 million. In quarterly rate terms this represented an improvement -- compared with the first quarter -- of about $4 billion. There are no indications of a shift in the trade account that would explain any large part of this. It appears that flows of private capital have become favorable on balance, including not only those classed as "liquid" but also others. With the help of these "nonliquid" capital inflows, the over-all deficit on the net liquidity basis has diminished greatly, though the balance on this basis apparently does continue in deficit.

The apparent change in flows of private capital no doubt reflects greater confidence in the viability of the Smithsonian realignment, based largely on the firmness of U.S. interest rates while European short-term rates have declined. Weekly data indicate that lending abroad by U.S. banks dropped in April and early May, and inflows may be occurring. There appears to have been a continued inflow to purchase U.S. equity securities, though probably at a lower rate than the first-quarter average of $240 million per month. Capital

1/ This figure is on the VFCR basis, i.e., excluding customers' funds and foreign assets of U.S. agencies and branches of foreign banks, but includes export credits and claims on Canada.

outflows for new issues of foreign bonds in the U.S. market in April were quite small, though sizable placements by Canadian borrowers are scheduled for late May and June.

Part of the improvement in the official settlements balance as compared with the first quarter resulted from a larger inflow of liquid funds via interbank transactions. In the first quarter liabilities to commercial banks abroad rose $475 million (after seasonal adjustment this becomes $300 million, as noted earlier). Foreign banks (mainly Canadian, Japanese and French) placed large amounts of funds with their agencies and branches in the United States, while liabilities of U.S. banks to their branches abroad fell about $200 million. Since mid-March foreign bank funds held with the agencies appear to have grown even faster, while U.S. bank liabilities to branches have about held their earlier level. The accelerated inflow of foreign bank funds is clearly associated with the decline in overnight Euro-dollar rates below the Federal funds rate after mid-March. Funds moving through this channel would not incur the 20 per cent reserve requirement that applies on direct borrowings by U.S. banks through their own branches abroad.

U.S. foreign trade. The U.S. trade deficit in March was again extremely large -- about equal to the very high deficit of February. For the first quarter the deficit was $6.5 billion at an annual rate, balance of payments basis, compared with an average deficit of slightly over $4 billion at an annual rate in the last half of 1971.

The levels of both exports and imports in the first quarter were boosted by shipments delayed by the dock strikes of last summer and fall. Rough adjustments for these effects reduce the increase in the first quarter value of imports (over the 1971 second-half rate) from 16 percent to 8 percent and that of exports from 12 percent to 4 percent. The ratio of imports, so adjusted, to U.S. GNP in the first quarter rose to 4.7 percent, compared with 4.5 percent in the last half of 1971.

Most of the rise in the strike-adjusted value of imports in the first quarter was in volume; import prices (unit-value index) averaged only about 2 percent higher than in the last half of 1971, although February and March unit values increased very sharply. How accurately this index reflects prices actually paid we do not know; U.S. customs officials are raising the declared value of imports to reflect the new higher foreign exchange rates unless there is evidence that the declared value is the actual transactions value.

The small rise in the value of strike-adjusted exports in the first quarter was about evenly divided between prices and quantity. While exports currently are rising very slowly, foreign orders for U.S. machinery in March rose strongly, representing an acceleration of the gradual rise that has been in progress since mid-1971.

Recent U.S. Government actions on petroleum and steel should considerably affect imports of these commodities this year. The announced increase in crude oil import quotas of 230,000 barrels per day, most of which is expected to come from the Mideast, will add about $200 million to imports this year, at current prices. However, this increase should be offset by an estimated $200 million drop in steel imports as a result of the recently negotiated "voluntary" agreements with the United Kingdom, the EEC countries and Japan. In addition, it is expected that the "voluntary" textile agreements with Japan, Hong Kong, Taiwan, and Korea on man-made fiber and wool textiles, reached earlier this year, could reduce imports by about $400 million below what they otherwise would be in 1972. The combined effect of these three actions could, therefore, slice about $400 million from the$52 billion level of imports projected for this year.

Trade balances of major industrial countries. In the past year imports and exports of industrial countries have been affected by both cyclical forces and widespread exchange rate changes. Trade flows were also influenced by deep and prolonged uncertainty over exchange rates in the period May-December 1971, but there is no way of knowing how much these uncertainties may have distorted trade balances in that period or subsequent months.

Since the floating of the German mark a year ago, the currencies of Japan, Germany, the Netherlands, Belgium and Switzerland have appreciated relative to other currencies on the average. The U.S. dollar and the Canadian dollar have depreciated, while the pound sterling, French franc, Italian lira and Swedish krona have changed very little. Comparing quarterly averages of daily exchange rates with May 1, 1971 parities (or the mid-August market rate in the case of the Canadian dollar), the weighted average percentage appreciation or depreciation of each of the above-mentioned currencies vis-à-vis the others was as follows (the weights being based on each country's share of the foreign trade of the group as a whole):

	1971		1972
	III (8/16 to 8/30 only)	IV	I
Japanese yen	+1.6	+5.6	+9.5
German mark	+6.2	+6.7	+7.1
Dutch guilder	+2.6	+4.3	+5.2
Belgian franc (Official market)	+0.8	+3.5	+5.3
Swiss franc	+6.6	+5.8	+4.8
Pound sterling	-0.5	-0.5	0.0
French franc (Official market)	-2.4	-3.8	+0.7
Swedish krona	-1.4	-0.8	-0.2
Italian lira	-1.1	-2.1	-1.5
Canadian dollar	-3.3	-4.3	-6.8
U.S. dollar	-3.8	-5.6	-9.4

It is still too soon to expect the anticipated beneficial effects of exchange rate changes on trade balances to be visible, partly because resource shifts necessary to accomplish the potential change in trade flows take time to materialize and partly because cyclical forces have tended to obscure exchange rate effects. Moreover, the immediate shift in the terms of trade which accompanies an exchange rate change tends to have a temporary perverse effect on trade values.

Thus, the very large trade surpluses of Germany and Japan have not yet begun to contract. (See Table.) In real terms, Japanese exports have declined since the second quarter of 1971, but German exports have not. In both Germany and Japan, weakened domestic demand has

Trade Balances of Selected Industrial Countries
(in billions of dollars; seasonally-adjusted annual rates;
exports f.o.b. less imports c.i.f.)

	1970	1971					1972
	Year	Year	I	II	III	IV	I[1]
Japan	0.4	4.3	2.8	4.6	5.3	4.4	5.2
Germany	4.4	4.7	3.6	4.5	6.4	4.4	5.1
Netherlands	-1.6	-1.3	-1.2	-1.2	-1.2	-1.3	0.2
Belgium-Lux.	0.2	-0.4	-0.5	-0.4	0.1	-0.5	-0.2
Switzerland	-1.3	-1.5	-1.5	-1.5	-1.4	-1.6	-1.4
United Kingdom	-2.4	-1.6	-3.3	-1.7	-0.8	-1.3	-3.3
France	-1.2	-0.7	-0.4	-0.6	-1.3	-0.7	-1.2
Sweden	-0.2	0.4	0.7	0.3	0.3	0.2	1.0[2]
Italy	-1.8	-0.9	-1.7	-1.0	-0.1	-0.6	-0.1
Canada[3]	2.8	2.2	2.7	2.2	2.2	1.6	0.6

1/ Partly estimated for most countries.
2/ January-February.
3/ Imports f.o.b.

been reflected in a levelling off in the real volume of imports. In the other countries whose currencies have appreciated, the trade balance of the Netherlands increased sharply in the first quarter because of a fall in imports, and the Belgian and Swiss balances have not shown signs of declining. Even though the exchange rate changes over the past year have led to an average depreciation of the Canadian dollar, the trade balance has decreased because of the cyclical revival in Canada and the earlier effective appreciation of the Canadian dollar beginning in June 1970.

In Britain, France, and Italy, trade balances show contrasting movements. Britain's trade balance has worsened in reflection of stronger domestic demand, rapidly rising prices, and the coal strike in the first quarter. The French balance has tended to decrease since mid-1971, but Italy's balance has risen, mainly because of the low level of domestic activity.

The outlook for adjustments of trade imbalances is brightened by the prospect that cyclical upturns in Japan and Germany before the end of the year will reinforce the effects of currency appreciations and reduce those countries' surpluses. In Germany, most forecasters expect the decline in investment spending to end during 1972, following which import volume should move up and tighter domestic supply conditions could begin to hold down further export gains. Also, the exchange rate effects on the volume of exports seem likely to be more pronounced in the future, because the rise in DM export prices since the beginning of the year indicates that attempts to absorb part of the currency appreciation in profit margins are now coming to an end. In the more immediate future, further decreases in the Canadian and British trade balances are expected.

The Japanese trade surplus in the first quarter was about the same in yen terms as in the second quarter of 1971 but the dollar equivalent rose from \$4.6 to \$5.2 billion at an annual rate. The yen value of exports fell 5 per cent from 1971-II to 1972-I but because of the change in the yen-dollar exchange rate the dollar value rose 11 per cent. Japanese wholesale prices have declined somewhat since last summer, and export prices in yen in 1972-I were down 2-1/2 per cent from the 1971-II level, as a result of which the rise in export prices in dollar terms was held to about 13 per cent. As shown by the accompanying figures, the volume of exports in the first quarter of this year implied by the (seasonally adjusted) yen value and price indexes was about 2-1/2 per cent below 1971-II.

Foreign Trade Indexes for Japan
(1971-II = 100)

	1971				1972
	Q-I	Q-II	Q-III	Q-IV	Q-I
Exports					
Yen value (seas. adj.)	94.0	100	99.5	94.7	95.2
Yen prices	99.3	100	100.3	98.9	97.5
Volume (seas. adj.) 1/	94.7	100	99.2	95.7	97.6
Imports					
Yen value (seas. adj.)	101.9	100	96.9	96.8	94.7
Yen prices	99.2	100	99.5	94.8	93.1
Volume (seas. adj.)	102.7	100	97.4	102.1	101.7

1/ Seasonally-adjusted yen value index deflated by price index.

Japanese imports have remained very depressed in reflection of the state of internal demand, the implied volume in the first quarter being fractionally below a year earlier. Import prices in terms of yen have fallen about 6 per cent.

Germany's trade surplus in the first quarter was somewhat swollen because strikes in Germany in the fourth quarter of 1971 shifted some exports from that quarter into the next. Combining the fourth and first quarters the trade surplus ran at an annual rate of DM 15.4 billion ($4.75 billion), compared to DM 16.0 billion ($4.6 billion) in the second quarter of 1971.

Cyclical developments have played a dominant role in keeping the surplus high. Expressed in DM terms the value of imports has been essentially flat for four quarters. Volume has risen about 7 per cent,

Foreign Trade Indexes for Germany
(1971-II = 100)

	1971				1972
	I	II	III	IV	Jan.-Feb.
Exports					
DM value (seas. adj.)	99.9	100.0	103.0	96.4	106.5
DM price index	99.1	100.0	100.2	99.8	101.0
Volume (seas. adj.)1/	100.8	100.0	102.8	96.6	105.4
Imports					
DM value (seas. adj.)	99.0	100.0	99.1	98.3	102.4
DM price index	99.6	100.0	96.7	95.2	95.9
Volume (seas. adj.)1/	99.4	100.0	102.5	103.3	106.8

1/ Seasonally-adjusted DM values deflated by price index.

but import prices in DM were declining until last November and in January-February were 4 per cent below the second quarter of 1971. On the export side, export prices in DM rose in January and February; but they had earlier declined from July to December, and in January-February were only 1 per cent higher than in 1971-II. Export volume in January-February was 5.4 per cent greater than in 1971-II, a much smaller rise than recorded in preceding German economic downswings; it is likely that Germany's export performance has deteriorated compared to other countries during the past year.

The widening trade deficit in the United Kingdom has partly reflected a poor export performance since mid-1971.

Foreign Trade Indexes for the United Kingdom
(1971-II = 100)

	1971				1972
	I	II	III	IV	Jan.-Feb.
Exports					
Sterling value (seas. adj.)	87.2	100.0	102.3	102.7	100.4
Sterling unit value 1/	98.3	100.0	102.3	103.9	106.2
Volume (seas. adj.)	88.7	100.0	100.0	98.8	94.5
Imports					
Sterling value (seas. adj.)	96.3	100.0	99.4	102.8	105.4
Sterling unit value 1/	96.9	100.0	100.6	101.5	101.9
Volume (seas. adj.)	99.4	100.0	98.8	101.3	103.4

1/ Derived by dividing value index by volume index..

Export unit values rose 6.2 per cent in this period, and, given the weakening in export performance, just mentioned, this trend is a cause for concern. The volume of imports has risen rather vigorously in recent months, in reflection of the quickened pace of aggregate domestic demand. They were somewhat swollen in March by abnormally large coal imports; for the first quarter the sterling value of imports (price and volume data are not yet available) exceeded the 1971-II level by 7.2 per cent.

Canada's trade surplus has been contracting rapidly in recent quarters, falling to a $560 million annual rate in the first quarter of 1972 compared with a calendar 1970 record surplus of $2.8 billion. The exchange rate changes in the other industrial countries in 1971 should, on balance, serve to swell the trade surplus; until now, however, Canadian trade has been dominated by the more rapid expansion of economic activity in Canada than in the United States and, to a more marked degree, than in Europe and Japan, as well as by the earlier appreciation of the Canadian dollar. Export growth has been fairly rapid but has been well surpassed by an expansion of imports (U.S. dollar values) at annual rates of 22 per cent in the 12-month period, and 27 per cent in the 6-month period, ending with 1972-I.

In France the trade balance has shown erratic quarterly changes but has tended to decline since the first half of 1971. Imports have been expanding quite rapidly, the franc value (seasonally adjusted) in the first quarter being up 12.4 per cent over 1971-II compared with an 11.1 per cent rise for exports. The differential in these rates reflects *inter alia* a more rapid expansion of domestic demand and economic activity in France than in France's main trading partners, expecially Germany, Italy, and Belgium. Italy's trade balance has been tending to rise since the latter part of 1970, in the virtual absence of any growth in real output in Italy. From 1971-II to 1972-I the seasonally adjusted lira value of exports rose 13 per cent compared with 6-1/2 per cent for imports. In coming months the balance seems likely to rise further since any expansion of domestic economic activity will probably be quite modest.