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CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

March 14, 1973

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

March 14, 1973

I -- T - 1

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	Feb.	3/9	87.6	8.9	2.5	2.4
Unemployment rate	Feb.	3/9	5.1	5.0[1/]	5.2[1/]	5.8[1/]
Insured unemployment rate	Jan.	2/26	3.8	3.3[1/]	3.3[1/]	3.4[1/]
Nonfarm employment, payroll (mil.)	Feb.	3/9	74.6	7.1	3.8	4.0
Manufacturing	Feb.	3/9	19.6	5.2	4.7	5.0
Nonmanufacturing	Feb.	3/9	55.0	7.8	3.5	3.6
Private nonfarm:						
Average weekly hours (hours)	Feb.	3/9	37.3	36.9[1/]	37.2[1/]	37.2[1/]
Hourly earnings ($)	Feb.	3/9	3.78	3.2	4.3	6.2
Output per manhour (1967=100)[r]	Q IV	2/27	114.1	3.6	--	5.1
Compensation per manhour (1967=100)[r]	Q IV	2/27	143.7	7.6	--	6.9
Unit labor cost (1967=100)[r]	Q IV	2/27	125.9	3.8	--	1.6
Manufacturing:						
Average weekly hours (hours)	Feb.	3/9	41.0	40.3[1/]	40.9[1/]	40.4[1/]
Unit labor cost (1967=100)	Jan.	2/27	120.0	1.0	1.0	1.4
Industrial production (1967=100)	Feb.	3/16	120.8	9.0	7.8	9.8
Consumer goods	Feb.	3/16	129.3	8.4	7.9	8.1
Business equipment	Feb.	3/16	114.4	13.8	15.6	14.5
Defense & space equipment	Feb.	3/16	80.6	24.3	6.6	6.1
Materials	Feb.	3/16	122.4	2.9	6.0	10.5
Consumer prices (1967=100)	Jan.	2/22	127.9	6.2	4.0	3.6
Food	Jan.	2/22	128.7	22.8	12.2	6.9
Commodities except food	Jan.	2/22	120.7	0.0	1.3	2.4
Services 2/	Jan.	2/22	135.7	2.7	3.3	3.2
Wholesale prices (1967=100)	Feb.	3/8	126.5	19.3	17.5	8.2
Industrial commodities	Feb.	3/8	121.1	11.6	5.8	4.1
Farm products & foods & feeds	Feb.	3/8	141.7	38.5	47.0	19.1
Personal income ($ bil.)[3/]	Jan.	2/20	985.4	3.1	8.6	9.6
				(Not at Annual Rates)		
Plant & equipment expen. ($ bil.)[4/]	1973	3/8	100.6	--	--	13.8
Plant & equipment expen. ($ bil.)[4/]	73-QI[3/]	3/8	96.7	5.2	--	11.5
Plant & equipment expen. ($ bil.)[4/]	73-QII[3/]	3/8	100.1	3.5	--	14.9
Mfrs. new orders dur. goods ($ bil.)	Jan.	3/5	39.8	6.0	8.3	22.3
Capital goods industries:	Jan.	3/5	12.5	6.1	9.9	16.2
Nondefense	Jan.	3/5	10.5	4.5	8.6	28.9
Defense	Jan.	3/5	2.0	15.9	18.0	-23.8
Inventories to sales ratio:						
Manufacturing and trade, total	Jan.	3/14	1.43	1.46[1/]	1.47[1/]	1.55[1/]
Manufacturing	Jan.	3/5	1.56	1.61[1/]	1.64[1/]	1.72[1/]
Trade	Jan.	3/14	1.29	1.30[1/]	1.31[1/]	1.38[1/]
Ratio: Mfrs.' durable goods inventories to unfilled orders	Jan.	3/5	.853	.864[1/]	876[1/]	939[1/]
Auto sales, total (mil. units)[3/]	Feb.	3/9	11.88	-2.9	1.0	17.6
Domestic models	Feb.	3/9	9.90	-3.7	-0.8	15.5
Foreign models	Feb.	3/9	1.98	1.1	11.2	29.6
Housing starts, private (thou.)[3/]	Jan.	2/21	246.8	5.3	0.9	1.2
Leading indicators (1967=100)	Jan.	2/27	155.1	1.2	4.0	15.2

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate. 4/ Commerce Survey, taken February 1973.

DOMESTIC NONFINANCIAL DEVELOPMENTS

The staff continues to project an increase in real GNP this quarter at an annual rate of 6-1/2 per cent, following an 8.0 per cent rise in the fourth quarter. We have raised our projection of nominal GNP, however, because prices have been rising even faster than we had previously expected. The private GNP fixed weight price index is now expected to rise at around a 5 per cent annual rate this quarter, up from the 4.3 per cent rate we anticipated 5 weeks ago.

Industrial production in February increased 0.8 per cent, following the 0.6 per cent rise now indicated for January (for release Friday p.m.). Consumer goods, business equipment, and defense equipment all contributed to the February rise. The labor market continues strong. Nonfarm payroll employment rose sharply in February, following a moderate January advance; for both months together, the increase was at an annual rate of almost 3.5 million persons. Moreover, the manufacturing workweek rebounded from its reduced January level.

Consumer demands have remained expansive. Retail sales in December and January have been revised up and, even though the advance estimate for February indicates a 1 per cent decline, February sales are almost 3 per cent above the fourth quarter monthly average. Unit auto sales in February, at an annual rate of 12 million (10 million domestic-type) remained close to the record January total.

Business demands also have continued strong. New orders for nondefense capital goods in January increased markedly further. The latest Commerce survey of plant and equipment spending plans indicates a rise of 14 per cent this year, compared to 13 per cent reported in the preceding survey. And the Conference Board survey of capital appropriations in manufacturing was up considerably further in the fourth quarter. Book value of business inventories rose sharply in January, mainly in trade, but the inventory-sales ratio declined further to an exceptionally low level.

The rise in wage rates has slowed thus far this year, with the hourly earnings index in February up 5.6 per cent from a year earlier. But prices of farm products and foods rose sharply in February for the third consecutive month. Moreover, seasonally adjusted prices for industrial commodities, which had changed little in January, rose 1 per cent, with price increases widespread. Altogether, the wholesale price index increased 1.6 per cent from January to February. In January consumer prices had risen 0.5 per cent as food prices spurted upward.

Outlook. Our projection of nominal GNP for 1973 has been raised in reflection of the faster rise in prices which now appears in prospect. The pattern of change in real GNP, however, is virtually the same as in the projection of five weeks ago. Revisions in most of the major components are rather small, and are generally offsetting in real terms. Growth is projected to be most rapid in the current quarter and to slow thereafter, to about a 4 per cent rate in the fourth quarter. The unemployment rate is still expected to decline to 4.7 per cent in the fourth quarter.

STAFF GNP PROJECTIONS

Date	Change in nominal GNP $ billion 2/7/73	Change in nominal GNP $ billion Current	Per cent increase, annual rate: Real GNP 2/7/73	Real GNP Current	Private GNP fixed weight price index 2/7/73	Private GNP fixed weight price index Current	Unemployment rate 2/7/73	Unemployment rate Current
1971 1/	74.0	74.0	2.7	2.7	4.5	4.5	5.9	5.9
1972 1/	101.7	101.5	6.5	6.4	3.2	3.3	5.6	5.6
1973	122.2	124.4	6.6	6.6	3.8	4.0	4.8	4.8
1972-I 1/	31.0	31.0	6.5	6.5	4.5	4.5	5.8	5.8
-II 1/	30.3	30.3	9.4	9.4	2.5	2.5	5.7	5.7
-III 1/	24.6	24.6	6.3	6.3	2.9	2.9	5.6	5.6
-IV 1/	31.8	28.6	8.5	8.0	3.3	3.1	5.3	5.3
1973-I	34.4	36.8	6.5	6.5	4.3	5.1	5.0	5.0
-II	31.3	31.3	6.0	6.2	4.2	4.0	4.9	4.9
-III	27.9	28.5	4.8	4.8	4.1	4.3	4.8	4.8
-IV	26.6	27.2	4.0	3.9	4.3	4.6	4.7	4.7

1/ Actual.

With respect to underlying assumptions, growth in the monetary aggregates is now projected to be consistent with expansion in M_1 at around a 5-6 per cent annual rate, and some further rise in short-term market rates is expected. The staff has retained the fiscal assumptions of the preceding projection.

The latest readjustments in exchange rates, still in process, have required us to make some tentative modifications in our projections of net exports. The dollar value of imports is expected to increase sharply in the second quarter, as the higher prices resulting from devaluation of the dollar are more fully reflected in the trade figures. Thereafter, exports are projected to rise more rapidly than imports, reflecting the improved U.S. competitive position. By the fourth quarter, net exports of goods and services are projected to be in balance; our preceding projection had indicated a deficit of about $2 billion.

As noted, we have raised our projections of price increases expected for 1973. The early 1973 bulge in prices reflects a sharp rise in foods as well as larger increases than we had anticipated in other prices in the early stages of Phase III. Prices are projected to rise less rapidly in the second quarter as the advance in food prices slows somewhat. In the second half of the year, food prices are expected to tend to level off as an enlarged volume of meat and other supplies is marketed. However, the recent less favorable experience with nonfood prices and a tentative evaluation of the effects of devaluation on domestic prices suggest a somewhat more rapid rise for the second half than we had projected formerly.

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

	1972	1973	1972		1973			
					Projected			
		Proj.	III	IV	I	II	III	IV
Gross National Product	1151.8	1276.2	1164.0	1194.9	1231.7	1263.0	1291.5	1318.7
Final purchases	1145.9	1261.8	1156.0	1184.6	1221.0	1249.0	1276 0	1301.2
Private	891.3	986.7	900.4	925.3	954.8	976.7	998.1	1017.2
Excluding net exports	895.5	989.2	903.8	928.8	957.8	981.2	1000.6	1017.2
Personal consumption expenditures	721.0	795.0	728.6	745.7	767.1	788.5	804.8	819.6
Durable goods	116.1	130.5	118.6	120.8	125.8	130.5	132.5	133.0
Nondurable goods	299.5	332.2	302.0	310.4	319.8	329.3	336.3	343.4
Services	305.4	332.4	308.0	314.5	321.5	328.7	336.0	343.2
Gross private domestic investment	180.4	208.8	183.2	193.4	201.4	206.7	211.3	215.1
Residential construction	54.0	54.8	54.4	57.0	58.2	55.2	53.8	52.1
Business fixed investment	120.5	139.5	120.7	126.1	132.5	137.5	142.0	146.0
Change in business inventories	5.9	14.4	8.0	10.3	10.7	14.0	15.5	17.0
Nonfarm	5.6	14.4	7.9	10.1	10.7	14.0	15.5	17.0
Net exports of goods and services	-4.2	-2.5	-3.4	-3.5	-3.0	-4.5	-2.5	0.0
Exports	73.7	91.3	74.4	79.6	85.0	89.5	93.5	97.0
Imports	77.9	93.8	77.8	83.1	88.0	94.0	96.0	97.0
Gov't. purchases of goods and services	254.6	275.1	255.6	259.3	266.2	272.3	277.9	284.0
Federal	105.8	107.8	105.4	104.0	106.0	107.1	108.2	109.8
Defense	75.9	74.6	75.1	73.2	74.5	74.5	74.6	74.9
Other	29.9	33.2	30.2	30.8	31.5	32.6	33.6	34.9
State & local	148.8	167.3	150.2	155.2	160.2	165.2	169.7	174.2
Gross national product in constant (1958) dollars	789.5	841.4	796.1	811.6	824.8	837.6	847.6	855.8
GNP implicit deflator (1958 = 100)	145.9	151.7	146.2	147.2	149.3	150.8	152.4	154.1
Personal income	935.9	1028.9	939.9	974.6	996.6	1019.3	1039.5	1060.2
Wage and salary disbursements	627.0	692.6	630.8	648.8	668.1	685.7	700.7	715 7
Disposable income	795.1	880.7	798.8	828.2	857.4	876.9	886.4	902.0
Personal saving	54.8	65.2	50.8	62.8	70.3	68.0	60.9	61.4
Saving rate (per cent)	6.9	7.4	6.4	7.6	8.2	7.8	6.9	6.8
Corporate profits before tax	94.5 1/	111.5	95.7	102.5 1/	106.5	110.0	113.0	116.5
Corp. cash flow, net of div. (domestic)	91.8 1/	104.6	93.1	97.5 1/	100.5	103.3	105.9	108.5
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	228.2	256.5	229.8	239.0	243.7	249.4	262.8	269.9
Expenditures	246.8	267.9	241.6	262.7	268.6	265.1	267.1	270.8
Surplus or deficit (-)	-18.5	-11.4	-11.8	-23.7	-24.9	-15 7	- 4.3	- 0.9
High employment surplus or deficit (-)	- 0.4	- 4 7	4.4	-11.6	-13.6	- 6.8	0.0	1.6
State and local government surplus or deficit (-), N I.A. basis	12.6	10.8	9.4	19.6	17.2	9.8	8.6	7.6
Total labor force (millions)	89.0	90.6	89.3	89.6	89.9	90.4	90.8	91.2
Armed forces "	2.4	2.4	2.4	2.4	2.4	2.4	2.3	2.3
Civilian labor force "	86.5	88.2	86.9	87.2	87.5	88.0	88.5	88.9
Unemployment rate (per cent)	5.6	4.8	5.6	5.3	5.0	4.9	4.8	4.7
Nonfarm payroll employment (millions)	72.8	75.2	72.9	73.8	74.5	75.0	75.5	75.8
Manufacturing	18.9	19.7	18.9	19.3	19.5	19.7	19.8	19.8
Industrial production (1967 = 100)	114.4	124.0	115.0	118.4	120.8	123.4	125.3	126.6
Capacity utilization, manufacturing (per cent)	77.6	81 1	78.1	79.6	80.3	81.1	81.5	81.5
Housing starts, private (millions, A.R.)	2.36	2.10	2.37	2.40	2.28	2.15	2.05	1.90
Sales new autos (millions, A.R.)	10.94	11.63	11.54	11.68	12.00	12.00	11.50	11.00
Domestic models	9.32	9.99	9.90	9.90	10.10	10.35	10.00	9.50
Foreign models	1.62	1.64	1.64	1.78	1.90	1.65	1.50	1.50

NOTE: Projection of related items such as employment and industrial production index are based on projection of deflated GNP Federal budget high employment surplus or deficit (N.I.A. basis) are staff estimates and projections by the method suggested by Okun and Teeters.

1/ F.R. estimate.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1972	1973 Proj.	1972 III	1972 IV	1973 Projection I	1973 Projection II	1973 Projection III	1973 Projection IV
	---	---	---	Billions of Dollars	---	---	---	---
Gross National Product	101.4	124.4	24.6	30.9	36.8	31.3	28.5	27.2
Inventory change	2.3	8.5	3.0	2.3	0.4	3.3	1.5	2.0
Final purchases	99.2	115.9	21.6	28.6	36.4	28.0	27.0	25.2
Private	77.4	95.4	20.1	24.9	29.5	21.9	21.4	19.1
Excluding net exports	82.3	93.7	18.3	25.0	29.0	23.4	19.4	16.6
Net exports	-4.8	1.7	1.8	-0.1	0.5	-1.5	2.0	2.5
Government	21.8	20.5	1.5	3.7	6.9	6.1	5.6	6.1
GNP in constant (1958) dollars	47.8	51.9	12.2	15.5	13.2	12.8	10.0	8.2
Final purchases	45.8	45.5	9.8	13.8	12.5	11.1	8.6	6.6
Private	40.6	42.2	11.1	13.7	11.2	9.4	7.4	5.3
	---	---	---	Per Cent Per Year	---	---	---	---
Gross National Product	9.7	10.8	8.9	11.0	12.3	10.2	9.0	8.4
Final purchases	9.5	10.1	7.6	9.9	12.3	9.2	8.6	7.9
Private	9.0	10.7	9.1	11.1	12.8	9.2	8.8	7.7
Personal consumption expenditures	8.4	10.3	8.5	9.4	11.5	11.2	8.3	7.4
Durable goods	12.2	12.4	16.5	7.4	16.6	14.9	6.1	1.5
Nondurable goods	7.7	10.9	6.5	11.1	12.1	11.9	8.5	8.4
Services	7.8	8.8	7.4	8.4	8.9	9.0	8.9	8.6
Gross private domestic investment	18.7	15.7	14.0	22.3	16.5	10.5	8.9	8.1
Residential construction	26.8	1.5	12.1	19.1	8.4	-20.6	-10.1	-12.6
Business fixed investment	13.9	15.8	5.0	17.9	20.3	15.1	13.1	11.3
Gov't. purchases of goods & services	9.4	8.1	2.4	5.8	10.6	9.2	8.2	8.8
Federal	8.2	1.9	-10.0	-5.3	7.7	4.2	4.1	5.9
Defense	6.3	-1.7	-17.8	-10.1	7.1	0.0	0.5	1.6
Other	13.7	11.0	8.1	7.9	9.1	14.0	12.3	15.5
State & local	10.2	12.4	11.5	13.3	12.9	12.5	10.9	10.6
GNP in constant (1958) dollars	6.4	6.6	6.3	8.0	6.5	6.2	4.8	3.9
Final purchases	6.2	5.8	5.0	7.0	6.2	5.4	4.2	3.2
Private	6.7	6.6	7.0	8.5	6.8	5.6	4.3	3.1
GNP implicit deflator	3.0	4.0	2.4	2.8	5.7 1/	3.9	4.2	4.5
Private GNP fixed weight index 2/	3.3	4.0	2.9	3.1	5.1	4.0	4.3	4.6
Personal income	8.6	9.9	7.5	14.8	9.0	9.1	7.9	8.0
Wage and salary disbursements	9.4	10.5	6.4	11.4	11.9	10.5	8.8	8.6
Disposable income	6.8	10.8	8.2	14.7	14.1	9.1	4.3	7.0
Corporate profits before tax	13.4 3/	18.0	17.9	28.4 3/	15.6	13.1	10.9	12.4
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.6	12.1	8.7	16.0	7.9	9.4	21.5	10.8
Expenditures	11.8	8.5	8.0	34.9	9.0	-5.2	3.0	5.5
Nonfarm payroll employment	3.0	3.3	2.2	4.9	3.8	2.7	2.7	1.6
Manufacturing	2.2	4.0	0.0	8.5	4.1	4.1	2.0	0.0
Industrial production	7.1	8.4	6.7	11.8	8.1	8.6	6.2	4.3
Housing starts, private	12.9	-11.0	15.1	5.1	-19.2	-22.8	-18.6	-29.3
Sales new autos	6.8	6.3	41.9	4.7	11.1	0.0	-16.6	-17.4
Domestic models	7.4	7.1	44.4	0.0	8.1	9.9	-13.5	-20.0
Foreign models	3.0	1.2	27.7	33.7	27.9	-52.6	-36.4	0.0

1/ Excluding Federal pay increase, 5.0 per cent annual rate.

2/ Using expenditures in 1967 as weights.

3/ Based on F.R. estimate.

Industrial production. Industrial production increased 0.8 per cent further in February following a rise of 0.6 per cent in January. At 120.8 per cent in February (1967=100), the index was almost 10 per cent above a year earlier. Output gains last month were mainly in consumer goods and business equipment. (For release Friday, p.m.)

Auto assemblies rose 4 per cent to an annual rate of 10.1 million units, and March production schedules indicate little change from the February level. Output of furniture and most other home goods rose further and production of household appliances continued at record levels. Output of nondurable consumer goods increased further. Gains in production of business equipment were widespread. Output of defense equipment also advanced and was 10 per cent above the low reached in January 1972. Production of industrial materials rose only marginally as an increase of 0.5 per cent in nondurable goods materials was partially offset by a decline in steel production from already exceptionally high rates. Capacity limitation in some materials producing industries has slowed the annual rate of growth in output in the materials group to about 2.5 per cent since December 1972, following a rise of 6 per cent from December 1971 to December 1972. (Confidential until release Friday, March 16.)

Retail sales. Retail sales declined 1 per cent in February, following strong gains in December and January. Excluding the automotive group and nonconsumer items, however, sales in February were unchanged from the record January level. On the GAF grouping, higher sales of general merchandise and apparel stores more than offset a slight decline in furniture and appliance sales. Total February sales were up about 13-1/2 per cent from a year earlier. In real terms, the year-over-year increase amounted to about 9 per cent.

RETAIL SALES

Percentage change from previous period

	1972				1973	
	II Q	III Q	IV Q	Dec.	Jan.	Feb.
Total sales	3.3	2.6	3.7	1.8	2.9	-1.0
Durable	4.2	3.9	5.4	3.5	4.3	-2.9
Auto	6.4	4.6	6.0	6.1	3.1	-4.0
Furniture & appliance	- .5	2.0	3.2	-2.1	7.7	- .5
Nondurable	2.9	1.9	2.8	.9	2.2	.0
Food	3.6	1.7	1.7	- .8	5.0	-1.2
General merchandise	2.7	2.6	2.0	.1	2.4	.9
Total, less auto and nonconsumption items	2.9	1.9	2.9	.6	2.6	.0
GAF	2.4	1.9	2.8	- .2	3.5	.7
Total in constant prices*	2.7	1.6	2.8	1.7	2.3	n.a.

* Deflated by all commodities CPI, seasonally adjusted.

<u>Unit sales of consumer durables</u>. Sales of new domestic-type autos in February were at a 9.9 million unit rate, a record for any February and only a little below record January sales. Auto stocks continued low, amounting to only a 48 day supply at the end of February, 15 per cent less than a year earlier.

February sales of foreign cars were at an annual rate of 2.1 million units, up 11 per cent from January. Total new car sales in February were at a 12.0 million unit rate with imports accounting for an 18 per cent share, compared to 16 per cent both a month and a year earlier.

Factory unit sales of major home appliances declined an estimated 8 per cent from the advanced January level, based on data through the first 3 weeks of February. Of the nine items in the index, only washers, driers, and refrigerators showed increases.

DURABLE GOODS UNIT SALES

	QIV 1972	Jan. 1973	Feb. 1973	Per cent change from: Month ago	Year ago
	Seasonally adjusted annual rates				
Auto sales, total	11.7	12.2	12.0	-2	18
Domestic	9.9	10.3	9.9	-4	16
Foreign	1.8	1.9	2.1	11	30
	Seasonally adjusted, 1967=100				
Appliances					
Factory sales	141	151r	139e	-8	0

e Estimated on the basis of data through February 24.

<u>Construction and real estate</u>. Seasonally adjusted value of new construction put in place, which was revised upward significantly in December and January, increased further to a new record annual rate of almost $136 billion in February. Within the private sector, both residential and nonresidential outlays reached new highs. Contributing to the further expansion this winter was a surge in expenditures for industrial plant construction; these had been particularly low for more than a year. Outlays for public construction--revised upward appreciably for recent months--dipped somewhat in February.

The Census Bureau's construction cost index, which had increased further in January, apparently changed little in February to continue at a level 6 per cent above a year earlier. This compared with a 5 per cent year-to-year rise during 1972 and with increases of 7 per cent in both 1971 and 1970.

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

	1972		1973		Per cent change in February from:	
	QIV(r)	Dec.(r)	Jan.(r)	Feb. 1/	Jan. 1973	Feb. 1972
Total - current dollars	129.4	132.3	134.9	135.7	+ 1	+11
Private	97.3	98.3	102.1	103.6	+ 1	+14
Residential	56.9	57.4	57.8	59.0	+ 2	+14
Nonresidential	40.4	40.9	44.3	44.6	+ 1	+14
Public	32.0	34.1	32.7	32.1	- 2	+ 4
State and local	27.6	29.7	27.7	27.7	--	+ 4
Federal	4.4	4.4	5.1	4.4	-13	+ 1
Total - 1967 dollars	91.9	93.6	94.6	95.1	+ 1	+ 6

1/ Data for February 1973 are <u>confidential</u> Census Bureau extrapolations. In no case should public reference be made to them.

Seasonally adjusted private housing starts--revised downward slightly for December--advanced in January to a near-record annual rate of 2.47 million units. As in December, the high over-all rate may have reflected in part the stimulus resulting from rumors of the freeze on new commitments under the subsidized housing programs; the freeze did not become completely effective until the 9th of the month. Unusually favorable weather conditions for this time of year were also an important factor, particularly in the North Central States, where the month-to-month increase in starts was especially marked.

The decline in building permits in January and other considerations point to the probability that starts fell in February. Even so, given the strength of January starts, the average for the first quarter as a whole may be only moderately below the high 2.40 million unit pace in the preceding quarter.

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

	1972			1973	Per cent change in January from:	
	QIV(r)	Nov.(r)	Dec.(r)	Jan.(p)	month ago	year ago
Permits	2.24	2.14	2.38	2.18	- 8	- 1
Starts	2.40	2.39	2.34	2.47	+ 5	+ 1
1-family	1.28	1.32	1.20	1.42	+19	+ 2
2-or more-family	1.12	1.07	1.15	1.05	- 9	--
Completions	2.01	1.91	2.16	n.a.	+13 1/	+17 1/
MEMO:						
Mobile home shipments	.58	.65	.56	.68 2/	+21	+22

p - Preliminary. r - Revised
n.a. Not available.
1/ Per cent changes shown based on December 1972.
2/ Confidential until March 16.

Seasonally adjusted sales of single-family homes by merchant builders were at a record rate in the fourth quarter of 1972. However, the quarterly average partly reflected an extraordinary October surge, as shown in the table. Moreover, it was associated with a steady up-trend in units available for sale to a new high of more than 400,000 units, or 6.7 months' supply even at the advanced December rate of sales. While prices of homes sold rose appreciably in December partly in response to upgraded demands, prices of unsold units also continued upward--and in a period when completions of single and multifamily units combined were moving above the 2 million unit annual rate for the first time in the history of the series. Prices of used homes sold in January were at a median price of $27,570--8 per cent above a year earlier.

NEW SINGLE FAMILY HOMES SOLD AND FOR SALE

	Homes sold 1/	Homes for sale 2/	Median price of Homes sold	Median price of Homes for sale
	(Thousands of units)		(Thousands of dollars)	
1971				
QIV	682	284	25.5	25.9
1972				
QIII (r)	717	386	27.9	27.1
QIV (p)	759	404	29.0	28.3
October (r)	839	394	28.8	27.6
November (r)	715	401	28.8	27.8
December (p)	724	404	29.5	28.3

1/ SAAR.
2/ SA, end of period.

p - Preliminary r - Revised

Capital spending plans. The most recent Commerce Department plant and equipment survey (taken in late January and February) indicates that businessmen now plan to increase spending by 13.8 per cent in 1973, as compared to the 12.9 per cent anticipated increase reported in the December survey. Actual spending in 1972 was 8.9 per cent higher than in 1971, according to the new survey.

For 1973, manufacturers now plan an 18 per cent increase, substantially above the 1972 increase, with plans of durable goods producers increasing more rapidly than those of nondurable goods. Outside of manufacturing, businessmen anticipate a gain of about 11-1/2 per cent--about the same as in 1972, with all sectors except railroads and airlines participating in the rise.

EXPENDITURES FOR NEW PLANT AND
EQUIPMENT BY U.S. BUSINESS
(Per cent change from prior year)

			1973		
			McGraw-Hill	Commerce	
	1971	1972	(Nov. 1972)	(Jan. 1973)	(Mar. 1973)
			---------------	Anticipated	----------
All Business	1.9	8.9	10.6	12.9	13.8
Manufacturing	-6.1	4.5	13.8	13.6	18.1
Durable goods	-10.4	10.5	15.3	16.7	19.6
Nondurable	-1.9	-.8	12.3	10.6	16.5
Nonmanufacturing	7.2	11.5	8.9	12.5	11.4
Transportation	-18.4	16.0	-6.7	1.6	-2.5
Electric utilities	20.8	12.6	13.0	17.0	16.5
Communication	6.6	10.4	9.0	17.6 1/	12.7
Commercial and other	8.8	11.2	10.0	9.8 1/	10.4

1/ Confidential, not published separately.

Actual spending in the fourth quarter of 1972 was $0.4 billion below the level anticipated in the November survey. Current plans now indicate annual rate increases of 21 per cent in the first quarter and 14 per cent in the second--an upward revision from the previous survey which indicated gains of 19 per cent and 5 per cent in the respective quarters. A first look at the second half of 1973 shows spending growth tapering off as nondurable manufacturing spending virtually levels off and gains in all other major categories moderate.

Newly approved capital appropriations of large manufacturing firms rose 12.3 per cent in the fourth quarter according to the Conference Board survey. Excluding the volatile petroleum industry, the increase in the fourth quarter was 6.6 per cent. Experience indicates that the bulk of new appropriations are spent within the following 2 to 3 quarters. Thus, these data tend to support the indications of continued increases in spending anticipated during much or all of 1973.

Manufacturers orders and shipments. New orders for durable goods rose 6.0 per cent (p) in January, following a 0.2 per cent decline in December. Excluding defense, January durable goods orders were up 5.5 per cent. New orders for nondefense capital goods rose 4.5 per cent further in January. Total durable goods orders have been rising sharply since late 1970 and in January were 22 per cent above a year earlier.

Durable goods shipments rose 6.0 per cent in January, with particularly large gains in autos and aircraft. A sharp rise in unfilled orders suggests appreciable strength in future shipments. The rise in backlogs of nondefense capital goods industries is particularly significant.

MANUFACTURERS NEW ORDERS FOR DURABLE GOODS
Per cent changes

	1972		1973
	Q III from Q II	Q IV from Q III	Jan. from Dec. (p)
Durable goods, total	3.0	4.6	6.0
Excluding defense	4.4	4.8	5.5
Primary metals	9.3	2.1	1.8
Motor vehicles & parts	10.6	4.0	20.0
Household durables	.6	5.6	1.8
Capital goods industries	-1.2	5.2	6.1
Nondefense	2.9	6.1	4.5
Defense	-18.2	.2	15.9
Construction & other durables	1.2	5.4	2.1

<u>Inventories</u>. Book value of manufacturing and trade inventories rose at a $19.5 billion annual rate in January (p), the highest rate since June 1966. Wholesale prices were rising rapidly, however, suggesting that much of the book value increase represented higher prices. High rates of book value growth occurred at wholesale and retail trade--mainly in the nondurables sectors--but there was a reduced rate of increase at manufacturing establishments. As in the fourth quarter, manufacturers' finished goods stocks declined in January.

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

	1972		1972	1973
	Q III	Q IV Rev.	Dec. Rev.	Jan. Prel.
Manufacturing and Trade	13.3	14.9	13.9	19.5
Manufacturing, Total	7.7	6.4	8.1	2.6
Durable	5.6	5.2	6.0	2.7
Nondurable	2.1	1.2	2.1	-.1
Trade, Total	5.5	8.5	5.8	17.0
Wholesale	4.1	4.3	5.3	8.7
Retail	1.5	4.2	-.5	8.3
Durable	-.2	3.3	2.5	.4
Automotive	-.6	1.5	.9	.1
Nonautomotive	.4	1.8	1.6	.2
Nondurable	1.7	.8	-2.0	8.0

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

Sales increased even more rapidly than stocks and the inventory-sales ratio declined from 1.46 to 1.43, the lowest since early 1966. The ratio of durable goods manufacturers' inventories to unfilled orders declined further, but is still high relative to earlier periods of expansion.

INVENTORY RATIOS

	1971 Dec.	1972 Jan.	1972 Dec. Rev.	1973 Jan. Prel.
Inventories to sales:				
Manufacturing and trade	1.58	1.55	1.46	1.43
Manufacturing, total	1.76	1.72	1.61	1.56
Durable	2.13	2.07	1.93	1.82
Nondurable	1.33	1.31	1.23	1.23
Trade, total	1.40	1.38	1.30	1.29
Wholesale	1.26	1.19	1.18	1.18
Retail	1.50	1.50	1.39	1.37
Durable	2.10	2.07	1.79	1.72
Automotive	1.77	1.76	1.36	1.32
Nonautomotive	2.56	2.49	2.46	2.32
Nondurable	1.21	1.22	1.17	1.17
Inventories to unfilled orders:				
Durable goods, manufacturing	.942	.939	.864	.853

Cyclical indicators. The Census composite index of leading indicators rose 1.2 per cent in January (p), following a December increase of 1.0 per cent, revised down from 2.2 per cent. The coincident and lagging composites also rose in January. Compared with a year earlier, the leading index was up 15 per cent, the coincident 13 per cent, and the lagging 11 per cent.

Leading series increasing in January were initial unemployment claims (inverted), new orders for durable goods, contracts and orders for plant and equipment, common stock prices, industrial materials prices and the ratio of price to unit labor cost. Series declining were the manufacturing workweek and housing permits. Since the index was compiled, increases have also been reported in the change in consumer instalment debt and the change in book value of manufacturing and trade inventories.

In February, common stock prices declined while industrial materials prices and the manufacturing workweek rose.

CHANGES IN COMPOSITE CYCLICAL INDICATORS
(Per cent change from previous month)

	Oct.	Nov.	Dec.	Jan. (p)
12 Leading (trend adjusted)	1.2	1.8	1.0	1.2
12 Leading, prior to trend adjustment	.8	1.4	.7	.8
5 Coincident	1.9	1.7	.8	.7
5 Coincident, deflated	2.1	1.5	.6	.3
6 Lagging	1.4	1.8	1.4	1.2

<u>Labor market</u>. Demand for labor continued strong in February as employment advanced markedly. The civilian labor force also increased sharply, and the unemployment rate edged up 0.1 percentage point to 5.1 per cent.

Employment expansion has been quite rapid since last July, following a more moderate rate of advance in the early months of 1972. Preliminary estimates for February indicate that payroll employment increased by a substantial 440,000. (The January level, however, was revised downward by 65,000). Much of the recent strength has been in manufacturing where employment expansion had lagged during 1971 and the first half of 1972. Outside of manufacturing, employment gains continued to accelerate in trade and services, but there has been some moderation in the growth of State and local government employment.

CHANGES IN NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted, in thousands)

	Feb. 1971- Feb. 1972*	Feb. 1972- Feb. 1973*	Feb. 1972 July 1972	July 1972 Feb. 1973
	Annual Rate			
Total	1450	2822	2201	3317
Government	422	377	322	403
Federal	10	-37	-115	19
State & local	412	414	437	384
Private	1028	2445	1879	2914
Goods producing	163	1010	552	1361
Manufacturing	6	934	598	1181
Service producing	865	1435	1327	1553
Trade	438	592	566	633
Services	346	551	550	564

*Changes from year earlier based on not seasonally adjusted data.

Average weekly hours of factory production workers rebounded by 0.7 hours in February following a sharp decline in the preceding month. At 41 hours in February, the factory workweek was more than half an hour longer than a year earlier, and was back to the high levels reached in the autumn of 1968.

Unemployment and labor force. The unemployment rate in February at 5.1 per cent seasonally adjusted, was about the same as in the previous three months and well below a year ago. Joblessness among adult women declined in February while teenage unemployment returned to the high rate prevailing in the last months of 1972. The adult male rate was about unchanged over the month, as were the rates for other major groups. Reflecting the recent stability in total unemployment, State insured unemployment has remained at about 1-1/2 million workers during the past two months.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1972		1973	
	Feb.	July	Jan.	Feb.
Total	5.8	5.6	5.0	5.1
Men 20 years and over	4.1	3.9	3.3	3.4
Women 20 years and over	5.1	5.7	5.3	4.9
Teenagers	18.5	15.5	14.3	15.8
Household heads	3.3	3.3	2.9	3.0
White workers	5.2	5.0	4.6	4.6
Negro workers	10.6	10.0	8.9	9.0
White-collar	3.4	3.4	3.2	3.0
Blue-collar	7.0	6.5	5.6	5.7

A sharp rise in the civilian labor force in February more than offset the January decline. The February increase was concentrated among women and teenagers, many of whom moved directly into part-time jobs. Compared to a year earlier, the civilian labor force was up 1.9 million, considerably more than the "normal" growth of around 1-1/2 million.

Productivity. Fourth quarter estimates of productivity growth have been revised down by over one half percentage point (annual rate), due to downward revisions in the estimates of real gross national product and manufacturing production. Compensation per manhour estimates changed little, but unit labor costs were revised up considerably because of the reduced growth of productivity. Preliminary data for January and February suggest some pick-up in the rate of manufacturing productivity growth from the fourth quarter.

PRODUCTIVITY AND COSTS, FOURTH QUARTER 1972
(Per cent change from previous quarter;
annual rate, seasonally adjusted)

	Output Per Manhour		Compensation Per Manhour		Unit Labor Costs	
	Prel.	Rev.	Prel.	Rev.	Prel.	Rev.
Private	5.3	4.7	7.8	7.9	2.3	3.0
Private nonfarm	4.3	3.6	7.4	7.6	3.0	3.8
Manufacturing	2.4	1.8	6.7	6.6	4.1	4.6

Earnings. The pace of wage increase has moderated in the past 2 months. The over-all index has risen at an annual rate of less than 5 per cent since November after rising at a 7 per cent rate between August and November. The latest data suggest that much of the acceleration of wage increases last fall may have been temporary, probably due to a surge of wage adjustments coming about a year after the freeze. Nevertheless, wage increases have been more rapid--at about a 6 per cent rate--over the past 6 months than in the preceding half year, with the speed-up particularly noticeable in services and construction. Compared to a year earlier, the private nonfarm hourly earnings index in February was up by 5.6 per cent--about in line with stabilization program goals--compared with a 6.4 per cent increase during the preceding year.

HOURLY EARNINGS INDEX*
(Per cent change at annual rate based on seasonally adjusted data)

	Feb. 1971-Feb. 1972	Feb. 1972-Feb. 1973	Feb. 1972-Aug. 1972	Aug. 1972-Feb. 1973
Total	6.4	5.6	5.2	5.9
Manufacturing	6.2	5.2	4.8	5.4
Mining	7.9	5.9	5.6	6.1
Construction	7.5	5.9	4.2	7.5
Transportation	9.1	9.6	10.3	8.4
Trade	5.4	5.0	4.8	5.0
Finance	4.8	5.6	5.4	5.8
Services	6.2	4.2	2.8	5.5

*Average hourly earnings adjusted for inter-industry shifts and, in manufacturing only, for overtime hours.

Consumer prices. Consumer prices rose at a seasonally adjusted annual rate of 6-1/2 per cent in January as food costs surged upward at a 25 per cent rate. Other commodity prices, however, were unchanged after seasonal adjustment, and the annual rate of rise in service costs was under 3 per cent. The "all items" index for January--which was not yet appreciably influenced by Phase III developments--was 3.7 per cent above January 1972.

CONSUMER PRICES

(Percentage changes, seasonally adjusted annual rates)

	Relative Impor-tance Dec. 1971	Pre-stab. period	Phase II	1972		1973
		Dec. 1970 to Aug. 1971	Nov. 1971 to Jan. 1973	Dec. 1971 to June 1972	June to Dec.	Dec. 1972 to Jan. 1973
All items	100.0	3.8	3.7	2.9	3.9	6.5
Food	22.2	5.0	6.3	3.5	6.1	25.4
Commodities less food	40.4	2.9	2.3	2.6	2.5	.0
Services 1/	37.4	4.5	3.5	3.7	3.5	2.7
Addendum:						
All items less mortgage costs 2/	96.3	4.6	3.7	3.0	3.9	4.9
Services less home finance 1/ 2/ 3/	31.0	6.7	3.3	3.5	3.1	2.8
Commodities less food, used cars, home purchases 3/	32.2	2.5	2.1	2.2	2.0	1.0

1/ Not seasonally adjusted.
2/ 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 increase in January in the food-at-home component of the index was the largest, seasonally adjusted, since this series was first published in 1952. The rise reflected the combined effects of soaring meat prices and sharp advances for poultry, eggs and fresh fruits and vegetables. By the first week of February, when food is priced for the CPI, retail meat prices had climbed further, according to USDA's chainstore sample. Moreover, continued advances in commodity markets to record-level prices for beef, pork, cattle and hogs indicate another rise at retail for March. However, the declines registered in the WPI in February for eggs and fresh vegetables may provide a partial offset to meat price advances.

Among other commodity prices, declines in apparel and used car prices offset the sharp increase for new cars that had been approved by the Price Commission in December. Although the advance for services was moderate, rents rose at a 5 per cent rate for the second successive month and gas and electricity rates by more than any month since December 1971.

Wholesale prices. Wholesale prices rose 1.6 per cent between January and February, or at a seasonally adjusted annual rate of 21 per cent, as prices of farm and food products increased sharply for the third consecutive month and prices of industrial commodities rose at 1.0 per cent, the largest monthly increase in 22 years.

WHOLESALE PRICES
(Percentage changes at seasonally adjusted annual rates)

	Pre-stab. period	Phase II	1972		Phase III
	Dec. 1970 to Aug. 1971	Nov. 1971 to Jan. 1973	Dec. 1971 to June 1972	June to Dec.	Jan. 1973 to Feb. 1973
All commodities	5.2	7.0	4.9	8.1	21.1
Farm products 1/	6.5	16.4	5.9	23.6	46.0
Industrial commodities	4.7	3.5	4.5	2.6	12.3
Crude materials 2/	3.3	10.4	9.2	12.6	23.9
Intermediate materials 3/	6.5	3.9	5.2	3.0	12.6
Finished goods 4/	2.7	2.4	3.2	1.2	11.2
Producer	3.7	2.3	4.1	.2	7.2
Consumer	2.2	2.5	2.7	1.8	13.3
Consumer finished foods	6.8	12.7	3.2	12.9	20.9

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

Prices of farm and food products increased 3.2 per cent, or at a seasonally adjusted rate of 46 per cent, which, except for last December, was the highest since early 1951. Markedly higher prices posted for livestock and meats, manufactured animal feeds, soybeans, and fats and oils more than offset declines for fresh fruits and vegetables, grains, and eggs. Increases for meats and processed poultry were largely responsible for the increase in prices of consumer finished foods.

The index of industrial commodities increased more sharply last month than at any time since early 1951. Both finished goods and industrial materials indexes registered high rates of rise, reflecting widespread and large price increases. The change in consumer finished goods excluding foods was mainly the result of higher prices for non-durables, including heating fuel, gasoline, cigarettes, footwear, and apparel. Producer finished goods rose primarily because of the advance in prices of machinery. Processed materials, supplies, and components accelerated their upward price trend as lumber and plywood, nonferrous metals, textile products, and electric power moved higher. Crude materials also increased as a result of higher prices for scrap metal, bituminous coal, and crude natural rubber.

Since the February pricing date of the WPI, prices of raw industrials (BLS) have increased further, and higher prices have been reported for lumber and plywood. Among industrial finished goods, the prices of some imported cars have been increased and higher chemical prices have been announced for some products. Tin mill products were increased in price in mid-February and copper--as well as copper products--tin, lead, and zinc are at higher levels. The petroleum industry was placed under mandatory Phase III controls, but price increases for heating fuels that were announced following the initiation of Phase III were not rolled back by the Cost of Living Council.

Among agriculturally-based commodities, prices of steers, hogs, and broilers have moved up since mid-February, and soy-beans, coffee, eggs, and wool are all at higher levels. Most recently, corn and wheat prices have declined and butter dropped following the announcement of a cut in the support price.

<u>Agriculture</u>. Prices received by farmers increased 3.5 per cent during the month ended February 15. Higher prices for soybeans, cattle, hogs, and calves were partly offset by lower prices for wheat and eggs. In early March, wheat and egg prices had reversed their decline and soybean and livestock prices had increased further.

Devaluation of the dollar was a factor tending to increase wheat and soybean prices, as were India's larger-than-expected wheat purchases. With February cattle and hog slaughter slightly below 1972 and 1971 levels, rising meat prices are attributable to limited supplies as well as higher consumer demand.

With about one-fourth of the farmers expected to enter the 1973 feed-grain program now signed up, it appears that acreage taken out of production under the program may be 20 to 30 per cent larger than hoped for by USDA. This could result in soybean and corn plantings 2 to 3 per cent short of the 128 million acres targeted by the Agricultural Stabilization and Conservation Service in designing the feed-grain program.

The average value per acre of farm real estate (including improvements) increased 10 per cent during 1972, the largest increase since 1951. The accompanying table shows changes in real estate values by region and year. Factors causing the rise were high commodity prices, attractive credit terms, and strong non-farm demand for land.

CHANGES IN VALUE OF FARM REAL ESTATE PER ACRE 1/
(Percentage change)

	During Year Ended November 1			From March to November each Year		
	1970	1971	1972	1970	1971	1972
Northeast	9	9	9	4	6	6
North Central	2	4	12	1	2	7
Southeast	8	7	15	4	3	9
South Central	4	7	9	2	5	6
Mountain	4	4	9	1	4	5
Pacific	2	6	4	-2	5	3
48 States	3	5	10	1	3	6

1/ Includes improvements.

DOMESTIC FINANCIAL SITUATION

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator		Latest data Period	Latest data Level	Net change from Month ago	Net change from Three months ago	Net change from Year ago
Monetary and credit aggregates				SAAR (per cent)		
Total reserves		February	31.6p	-22.5	8.0	10.1
Reserves available (RPD's)		February	29.3p	-5.1	7.9	9.6
Money supply						
M1		February	256.7p	6.1	6.3	7.4
M2		February	530.5p	5.9	8.2	9.6
M3		February	834.1p	8.4	10.1	11.8
Time and savings deposits (Less CDs)		February	273.7p	5.3	9.9	11.8
CDs (dollar change in billions)		February	48.8p	4.5	7.6	15.1
Savings flows (S&Ls + MSBs)		February	303.7p	13.2	13.6	15.9
Bank credit (end of month)		February	575.7p	21.9	17.2	15.3
Market yields and stock prices			Percentage or index points			
Federal funds	wk. endg.	3/7/73	7.02	.81	.41	3.84
Treasury bill (90 day)	"	3/7/73	5.83	.15	.67	2.46
Commercial paper (90-119 day)	"	3/7/73	6.4	.27	1.12	2.52
New utility issue Aaa	"	3/2/73	--	--	--	--
Municipal bonds (Bond Buyer)	1 day	3/1/73	5.22	.06	.26	-.07
FNMA auction yield (FHA/VA)	wk. endg.	3/5/73	7.75	.04	.07	.19
Dividends/price ratio (Common stocks)	"	2/28/73	2.86	.12	.15	--
NYSE index (12/31/65=50)	end of day	3/5/73	60.00	-3.05	-3.85	.99

Credit demands		Net change or gross offerings: Current month 1972	Current month 1971	Year to date 1972	Year to date 1971
Mortgage debt outst. (major holders)	December	5.7	3.8	57.2	41.9
Corporate bonds (public offerings)	December	1.0e	1.2	1.9	24.8
Municipal long-term bonds (gross offerings)	December	1.8	2.1	23.6	25.0
		1973	1972	1973	1972
Federally sponsored Agcy. (net borrowing)	March	0.4e	0.3	1.3e	0.4
U.S. Treasury (net cash borrowing)	March	3.4	3.8	9.0	3.9
Business loans at commercial banks	February	5.3	0.9	9.2	1.9
Consumer instalment credit outstanding	January	1.9	1.1	1.9	1.1
Total of above credits		19.5	13.2	104.1	99.0

e - Estimated.

DOMESTIC FINANCIAL SITUATION

With money market conditions tightening and banks aggressively issuing CD's and liquidating bills and other securities, most short-term interest rates have risen from 50 to 75 basis points since the last Committee meeting. In New York City, CD rates in early March reached Regulation Q ceilings on maturities of 90 to 179 days, and most recently shorter CD's--which have no rate ceiling--were being offered at 7 per cent. A relatively wide gap still remains between the 90-day bill rate and other short-term rates, largely in reflection of large foreign purchases of bills in February.

Long-term bond rates have risen only 5 to 20 basis points since the last meeting, reflecting a further drop in bond offerings. Since mid-February there have been no issues of long-term nonconvertible corporate bonds in the first three quality ratings, and the forward calendar has failed to show the expected growth for March-April. Corporations, with high liquidity and cash flow, have instead stepped-up their demand for bank credit.

The extraordinary strength in bank loans to business has reflected a substantial general increase in short-term credit demand as well as a sizable shift from commercial paper borrowing to bank loans, given the relationship between bank lending rates and short-term market rates. A special Federal Reserve Bank survey suggests that most large banks look upon the recent burst in loan demand as a cyclical phenomenon that has been strengthened by shifts from the commercial paper market. Only a few banks noted special foreign-related business loan borrowing, but total loan increases have been buoyed by a significant rise in credits to foreign commercial banks.

Along with the step-up in loan demand at commercial banks, there has been a deceleration of consumer-type interest-bearing deposit inflows, as market rates of interest increased. Banks have as a result sold a large volume of CD's and liquidated Treasury and other securities. Although thrift institutions also have faced a slowing of deposit inflows, interest rates on home mortgages have edged up only slightly despite an unusually large volume of loan commitments outstanding.

Outlook. The decision of common market nations to float their currencies for the time being reduces the probability of any large near-term dollar outflow. Whether or when reflows large enough to change official reserve positions may develop is difficult to predict. In the absence of reflows, the over $8 billion of special issues sold to foreign official accounts in February and early March would suggest that the Treasury may not have to finance in public markets between now and early May.

Nevertheless, short-term market interest rates may continue under upward pressure into the spring. Asset sales (partly for budgetary window-dressing reasons) and regular financings by sponsored and budgetary agencies are now scheduled at $5.5 to $6.0 billion between now and mid-year; this volume could rise if housing credit agencies are called on to supplement funds in the mortgage market as interest rates rise. In addition, banks can be expected to reduce holdings of liquid assets and to continue their aggressive sales of CD's to finance loan expansion, particularly if other deposit inflows slow further in an environment of higher market yields. Regulation Q ceilings will force an increasing share of such sales into the 30- to 89-day market range, bringing particular upward rate pressures on shorter-term markets.

With liquidity at banks being reduced by loan demands and the cost of bank funds rising, a tightening of lending policies can be expected. Survey results suggest that a tightening of non-price terms and conditions has already begun at the large banks. There are also preliminary indications that the growth in unused commitments has been somewhat slower recently at some banks. As loan policies become more restrictive and in light of the recent narrowing of spreads between short- and long-term interest rates, a step-up in long-term bond financing can be expected. Offerings could accelerate sharply if borrowers become quite concerned about future fund availability.

While the higher level of market rates has already slowed deposit inflows at the thrift institutions, these institutions have sizable liquid asset holdings and a large unused capacity to borrow from Home Loan Banks. As these institutions utilize available sources of liquidity to finance large outstanding commitments, some upward adjustment in mortgage rates is likely to ensue, the willingness to make new commitments will drop, and there will be increased builder and other demands for commitments from FNMA, GNMA, and the FHLMC.

Monetary aggregates. In February, the money supply aggregates--M_1 and M_2--both increased at annual rates of around 6 per cent. In the case of M_1, growth was about in line with the average rate for the previous three months, but growth in M_2 has slowed appreciably since late last year.

The slower growth of M_2 thus far in 1973 reflects a substantial reduction in the rate of inflow of consumer-type time and savings deposits associated with the sharp rise in market interest rates. At large banks in February, passbook savings accounts declined (before seasonal adjustment) for the third consecutive month, and consumer-type time deposits also rose much less than in February of other recent years.

NET CHANGE IN TIME AND SAVINGS DEPOSITS
WEEKLY REPORTING BANKS
(Millions of dollars, not seasonally adjusted)
Jan. 31 - Feb. 28[1/]

	1970	1971	1972	1973
Total time and savings deposits	+603	+3,422	+1,752	+5,313
Consumer type time and savings	- 90	+2,551	+1,437	+ 487
Savings	-191	+1,567	+ 701	- 85
IPC time (excluding CD's)	+101	+ 985	+ 736	+ 572
CD's	+393	+ 820	+ 409	+4,727
All other time deposits	+300	+ 71	- 94	+ 99
Memorandum:				
Included in CD's and all other time deposits:				
State and local	+144	+ 526	+ 153	+1,061
Foreign	+679	- 394	+ 270	+ 251

1/ Dates are for 1973; corresponding dates used for previous years.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1992				1973	
	QI	QII	QIII	QIV	Jan.	Feb.
	Per cent at annual rates					
M_1 (Currency plus private demand deposits)	9.2	6.1	8.2	8.6	- .5	6.1
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	12.7	8.5	10.3	10.2	6.4	5.9
M_3 (M_2 plus savings deposits at mutual savings banks and S&L's)	14.9	10.7	12.3	11.5	9.5	8.4
Adjusted bank credit proxy	11.0	11.5	9.8	12.1	8.3	16.1
Time and savings deposits at commercial banks						
a. Total	15.4	14.8	14.0	14.4	15.7	21.6
b. Other than large CD's	16.1	10.8	12.3	11.6	12.9	5.3
	Billions of dollars 1/					
Memorandum:						
a. U. S. Government demand deposits	- .4	.5	-1.1	1.4	.5	.2
b. Negotiable CD's	.8	3.7	2.4	3.3	1.2	4.5
c. Nondeposit sources of funds	- .3	--	.4	.3	.1	--

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

With inflows of consumer-t pe time and savings deposits moderating and credit demands accelerating, banks have been bidding aggressively for funds through sales of large negotiable CD's. As a result, outstanding CD's increased by $4.5 billion in February (seasonally adjusted), the largest increase since July 1970, and further rapid growth in CD sales continued at New York City banks in early March. About $1 billion of the February increase apparently was attributable to net CD sales to State and local governments, presumably reflecting in part the investment of funds received from the December and January revenue sharing payments. Foreign accounts in February also acquired about $250 million of CD's.

February sales of CD's were accompanied by increases of 50-65 basis points in CD offering rates. As a result, by early March, rates offered by the New York City banks had moved up to the 6-3/4 per cent Regulation Q ceiling on CD issues with maturities between 90 and 179 days. Since current interest rates on CD's with maturities just under 90 days are in some cases close to 7 per cent, it seems likely that banks will now be forced to rely more heavily on the shorter maturity CD's that have no regulatory ceiling. This would not represent any marked change from recent months, however, since CD sales with maturities over 90 days have averaged only about one-third of total CD sales in this period.

The accelerated pace of CD sales in February was reflected in a very rapid rate of growth in the bank credit proxy. Nondeposit sources of funds did not rise, however, in part because rates on Euro-dollars continued above comparable domestic rates.

The discount rate was raised to 5-1/2 per cent on February 26, and, following a statement by the Committee on Interest and Dividends removing its earlier objection, banks raised their prime rates from 6 to 6-1/4 per cent.

Bank Credit. Total bank credit continued to rise rapidly in February reflecting extraordinarily strong loan demands, particularly in the business loan sector. While the large CD growth helped to finance much of this demand, banks also liquidated a substantial volume of securities, chiefly Treasury issues. A large proportion of this reduction was concentrated in short-term issues, and at the large weekly reporting banks Treasury bills and short-term notes declined by almost $3 billion during the month. As a result, liquidity ratios (the ratio of liquid assets to liabilities) at both New York and other large banks declined for the second consecutive month.

A sizable part of the increased credit demand at banks represented a shift of business financing from the commercial paper market, stimulated by the relatively low prime rate. Some indication of the magnitude of this substitution can be seen in the table comparing changes in business loans and commercial paper. In February, dealer-placed commercial paper declined $2 billion (after seasonal adjustment) while bank loans increased by $5.3 billion, resulting in a combined increase for the two categories of over $3 billion, or at an annual rate of 27 per cent. Thus, factors other than the refunding of commercial paper also appear to have contributed to the rapid increase in business borrowing from banks.

COMMERCIAL BANK CREDIT ADJUSTED FOR
LOANS SOLD TO AFFILIATES 1/

(Seasonally adjusted changes at annual percentage rates)

	1972		1973	
	QIII	QIV	Jan. 3/	Feb.
Total loans and investments 2/	13.6(13.0)4/	14.4(15.0)4/	18.6	21.9
U.S. Treasury securities	-7.6	--	--	-34.8
Other securities	9.8	8.1	9.3	1.0
Total loans 2/	18.8(17.9)4/	18.7(19.5)4/	24.4	36.9
Business loans 2/	12.4	15.2	35.8	47.2
Real estate loans	17.5	17.6	16.0	15.8
Consumer loans	18.0	19.0	18.8	18.4

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/ Total loans, excluding interbank loans, were revised downward by $700 million in January because of an upward revision in the estimated level of interbank loans which are subtracted from reported gross loans.
4/ Adjusted to exclude an $800 million matched sale-purchase transaction by the Federal Reserve on the last Wednesday of September.

NET CHANGE IN BUSINESS LOANS AT ALL COMMERCIAL BANKS
AND DEALER-PLACED COMMERCIAL PAPER

(Seasonally adjusted)

	1972				1973	
	QI	QII	QIII	QIV	Jan.	Feb. 1/
	Billions of dollars 3/					
Business loans 2/	+1.0	+ .8	+1.3	+1.6	+3.9	+5.3
Commercial paper	--	+ .3	- .4	+ .2	- .2	-2.0
Total 2/	+1.0	+1.1	+ .9	+1.8	+3.7	+3.3
	Annual rates, in per cent					
Business loans 2/	10.6	8.0	12.4	15.2	35.8	47.2
Business loans plus commercial paper 2/	9.9	10.0	8.0	15.4	31.0	27.0

1/ Commercial paper estimated for February.
2/ Adjusted for outstanding amounts of business loans sold to affiliates.
3/ Month-to-month and last-month-in quarter to last-month-in quarter changes in averages, not annualized.

In order to provide information on what other factors were primarily responsible for rising business credit demands, a special Federal Reserve Bank survey was taken of business loan developments in January and February at 10 large banks in each district. In all districts most respondents attributed a sizable proportion of the increased demand to cyclical factors, with the second most important factor being the relative attractiveness of the cost of bank credit compared to commercial paper rates. However, except for New York banks, only a few of the respondents contacted suggested that as much as 50 per cent of loan demand represented a shift from commercial paper markets, with 5 to 25 per cent being a more frequent estimate.[1/]

In general, the survey also indicated that--except for San Francisco and a few banks in Cleveland and New York--very little of the business borrowing was associated with transactions in foreign financial markets, with most banks estimating that the proportion was below 5 per cent. Even in New York only 3 out of 10 banks questioned included foreign developments as a significant factor influencing business loan demand.

On the other hand, there was a significant increase in bank loans to foreign commercial banks (not included in business loans), which rose by $1.3 billion during February and another $300 million at New York City banks in early March. In August of 1971, during a previous period of dollar outflows, such loans had increased $1 billion. The foreign commercial bank borrowers, drawing on lines with U.S. banks, have no doubt been positioning themselves to take advantage of changing exchange rates, and the staff expects such loans to be repaid soon after exchange markets stabilize.

Preliminary analysis of the lending practices and loan commitment surveys, taken in January, suggests that there has been a significant tightening of the non-price terms and conditions of bank lending and reduced willingness to make loans, compared with three months previous. In addition, unused commitments to lend appear to have grown more slowly in the three months ending in January at some banks.

1/ Board staff analysis of the underlying data had suggested that as much as half of the aggregate rise in business loans in February may have been associated with a decline in commercial paper financing.

A more detailed analysis of these surveys will be presented in the supplement to the Greenbook.

In addition to the rise in business loans and loans to foreign commercial banks, growth in real estate and consumer loans remained near the high levels of recent months. There was also a seasonally adjusted increase in loans to nonbank financial institutions, both to finance companies and others. As indicated below, finance companies in February increased their borrowing in the commercial paper market as well, reflecting their need to finance increased lending to consumers and business.

Commercial paper outstanding. Total commercial paper outstanding declined $1.0 billion in February, on a seasonally adjusted basis, following a small rise in the preceding month. While both bank-related paper and nonbank-related directly placed paper increased over the month, nonbank-related dealer placed paper dropped $2.0 billion. Beginning about mid-January, changed relationships between market interest rates and the bank prime rate have induced some firms, mainly industrial and utility companies, to shift from the selling of commercial paper to the use of bank lines of credit. Despite the rise in the prime rate to 6-1/4 per cent in late February, further increases in the cost of dealer placed paper have reportedly induced firms to continue this shift in early March.

The rise in bank-related paper in February amounted to $400 million, substantially more than the $55 million average monthly increase recorded over the past year. Nonbank-related paper issued directly also rose much faster than last year, with the lower cost of directly-placed paper compared with dealer placed paper in part limiting any shifting to bank financing. While all types of nonbank-related direct issuers contributed to the increase in outstandings, the finance company subsidiaries of automotive and electrical equipment manufacturers accounted for the largest share of this growth, using the proceeds to finance in part their expanding portfolios of consumer and business receivables.

COMMERCIAL PAPER OUTSTANDING
(Seasonally adjusted, in billions of dollars[1/])

	Estimated amount outstanding Feb. 28, 1973	Estimated change from: Previous month	Feb. 29, 1972
Total commercial paper outstanding	35.3	-1.0	.8
Bank-related	3.1	.4	1.0
Nonbank-related	32.2	-1.4	-.1
Dealer placed	10.0	-2.0	-2.3
Directly placed	22.2	.6	2.2

1/ Seasonally adjusted figures are not available for bank-related paper. The unadjusted figures for bank-related paper are combined with seasonally adjusted nonbank-related figures to obtain the total for commercial paper outstanding.

NOTE: Components may not add to total due to rounding.

Consumer credit. Total consumer credit outstanding rose at a seasonally adjusted annual rate of $24.7 billion in January, somewhat below the peak December volume. Almost all of the increase was in the instalment credit component, which advanced at a record annual rate of $23.4 billion, more than 13 per cent above the previous high in November. Auto credit, which posted its third consecutive record monthly rise, accounted for nearly half of the overall increase in instalment debt. Another large increase in total consumer credit probably occurred during February in view of the continued high rate of automobile sales, substantial apparent sales gains posted by the major credit-granting retail chains, and unusually favorable weather in most areas of the country.

Despite advances in most market interest rates during recent months, consumer borrowing costs at commercial banks have risen very little. Bank rates on direct new car loans in January--approximately 10.0 per cent--were about unchanged from the fourth quarter and remained well under year-earlier levels. In February, rates on auto loans edged up 4 basis points, but other consumer loan rates, while up from January, remained within the range of fluctuation of other recent months.

In order to hold down monthly auto loan payments in the face of the increasing size of new car contracts, there have been reports that lenders are extending more maturities beyond the customary 36-month term. However, the percentage of extended contracts at finance companies has increased only slightly in recent months--from 1.2 per cent in October to 1.4 per cent in January. Moreover, the weighted average term has remained unchanged over this period at 34.9 months. While aggregate data of a similar nature are not available for commercial banks, an informal survey indicates that only a few banks are making extended-maturity loans at the present time.

Delinquency rates on automobile loans at finance companies and commercial banks showed a tendency to increase in the second half of 1972. On the other hand, delinquency rates for all types of loans at credit unions have tended lower in recent months, and personal bankruptcies decreased nearly 8 per cent last year following a similar decline in 1971. Part of the decline in bankruptcies is attributable to an institutional change--enactment of Federal limitations on garnishment practices--as well as improved consumer economic positions. To the extent that financially troubled borrowers are now under less pressure to file for personal bankruptcy, this legislative change may also be contributing to higher delinquency rates on loans at banks and finance companies.

<u>Nonbank thrift institutions</u>. Growth of deposits at nonbank savings institutions, like that of consumer-type accounts at banks, slowed considerably during February, most likely due to the increased attractiveness of yields on alternative investments. At mutual savings banks, the slowdown was most apparent for institutions in New York City, but it was evident in other areas as well. Moreover, according to FHLBB sample data, the slowing of savings inflows to S&L's also was a general one, although to some extent the reduction may be overstated because of seasonal adjustment problems.

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

	Mutual savings banks	Savings and loan associations	Both
1972 - QI	13.6	22.5	19.7
QII	10.7	15.9	14.3
QIII	11.7	18.2	16.2
QIV e/	10.3	14.2	13.0
December	10.5	12.6	12.0
1973 - January p/	10.9	21.3	18.4
February e/	5.0	9.0	8.0

p/ Preliminary.
e/ Estimated on the basis of sample data.

During the month of February, S&L's increased their borrowings at the Home Loan Banks by approximately $100 million. While the amount is not large, this borrowing appears to be contraseasonal in view of the substantial repayments in February of other recent years. The fragmentary data available for outstanding commitments at the end of February suggest little change from the high level in January. Given reduced deposit flows, however, the ratio of commitments to cash flows in February probably edged up further. If deposit flows continue at a reduced rate, prospective cash flow appears insufficient to support the recent rate of new commitment activity while meeting scheduled take-downs on outstandings. Thus, increased borrowing at the Home Loan Banks, as well as a tightening of S&L lending policies, would be in prospect for the near term.

<u>Short-term markets.</u> Conditions in the money market continued to firm in the past 4 weeks with the Federal funds rate rising to about 7 per cent, roughly 40 basis points above its level at the time of the last FOMC meeting. The further advance in the funds rate provided additional impetus to the general uptrend in short-term rates which has been particularly pronounced since early December.

As noted earlier, commercial banks recently have been exceptionally aggressive in bidding for short-term money in the CD market, and their activity contributed to the general upward pressure on CD rates, carrying the rate on issues with 90 to 179 days up 50 basis points to the Regulation Q ceiling of 6.75 per cent. Moreover, some banks recently have posted offering rates of 7 per cent on their CD's with maturities of 60 to 89 days, about 90 basis points higher than the rates offered at the time of the last meeting. With corporate borrowing shifting from the commercial paper market to banks, because of the attractiveness of the relatively low prime rate, rates on dealer placed commercial paper have been subject to much less direct market pressure. Nonetheless, the rate on new issues with 90 to 119 day maturity moved in general sympathy with other short-term rate to advance about 50 basis points to 6.63 per cent over the inter-meeting period.

The Treasury bill market has continued to be influenced by the foreign exchange crisis in recent weeks. Using dollars accumulated in the latest attempt to support the dollar against speculative attack, foreign central banks, in the early days of March, acquired a substantial volume of bills and coupon issues in the market as well as a large block of special issues directly from the Treasury. Despite this direct addition to market demands and the sharp reduction in the potential supply of new issues to be brought to market in the near term, Treasury bill rates rose about 70 to 90 basis points in the 6-month to 1-year maturity area and about 60 basis points in shorter maturity areas. These marked increases reflected the strong further pull of the Federal funds rate and were accentuated near the end of the period by dealer expectations that foreign official buying would soon end and might be partially reversed. Even after these recent advances, the spread between the funds rate and bill rates remains quite large. Since early December, the Federal funds rate has risen about 200 basis points, while Treasury bill rates have increased about 110 to 125 basis points.

Treasury coupon issues and financing outlook. Market yields on intermediate term Treasury coupon issues have also moved significantly higher (about 25 to 40 basis points) in recent weeks, apparently responding mainly to the general rise in short-term rates. Yields on long-term Treasury issues (with 10 years or more to maturity) on the other hand, have shown only moderate increases. Foreign central bank investment activity has, of course, helped to temper the size of the advance in these yields. In addition, as this demand persisted, dealers took the opportunity to move into substantial net short positions in coupon issues due in more than one year, so the coupon market is presently in a very strong technical position.

Altogether foreign official accounts acquired about $175 million of additional coupon issues in the market during early March following their February purchases of such issues which cumulated over the month to about $800 million. In addition,these institutions obtained about $450 million of bills in the market and approximately $3.4 billion of special issues from the Treasury in early March, thereby supplementing their February investments in bills of $1.0 billion and special issues of $5 billion. Assuming no significant reversal of dollar flows over the near-term, it seems likely that the recent investment by foreign central banks in special issues of the Treasury will eliminate the Treasury's need to enter the market until the May refunding.

However, the Treasury may still decide to issue $2 billion of a 2-year note in late March or early April in order to fulfill its earlier commitment to continue their cycle through mid-year. Moreover, Federal agency borrowing over the next few months is expected to be fairly heavy. For sponsored and budgetary agencies combined, borrowing through mid-year may amount to as much as $6 billion. Finally, the market supply of Treasury bills probably will be expanded in late March and early April, as the System makes open market sales to offset the reserve effects of a decline in the Treasury's cash balance, which may amount to as much as $3 billion.

SELECTED SHORT-TERM INTEREST RATES
(per cent)

	1973				Change
	Feb. 16	Feb. 26	Mar. 5	Mar. 13	Feb. 16 - Mar. 13
Treasury bills					
3-month	5.40	5.76	5.79	6.00	+.60
6-month	5.60	6.02	6.20	6.47	+.87
1-year	5.75	6.18	6.29	6.47	+.72
Federal agency					
1-year	6.42	6.54	6.67	6.97	+.55
Commercial paper					
90-119 days	6.13	6.25	6.38	6.63	+.50
Large negotiable CD's					
60-89 days	6.13	6.13	6.25	7.00-7.10	+.87-+.97
90-119 days	6.25	6.25	6.38	6.75	+.50
Bank prime rate-most prevalent	6.00	6.00	6.25	6.25	+.25
	Statement Week Ended				
	Feb. 21	Feb. 28	Mar. 7	Mar. 13 1/	Change--week ending Feb. 21 to week ending Mar. 13
Federal funds 1/ (daily average)	6.79	6.75	7.02	7.19	+.40

1/ Average for first 6 days of the week.

Other long-term securities markets. Yields on long-term securities moved higher between mid-February and early March, reflecting rising rates in short-term markets and increased apprehension concerning prospective interest rate and price developments. The rise in corporate bond yields, judging from the behavior of yields on recently offered issues, amounted to less than 20 basis points over this period, while long-term municipal yields rose a little more. Upward yield pressures in the corporate market have been limited, however, by the very low current and prospective volume of new public issues and by sizable demands for bonds from pension funds and newly formed mutual funds that invest principally in bonds. In the municipal market, continuing substantial demands by fire and casualty companies for longer-term bonds have limited the rise in the widely watched indices, but significantly reduced bank participation has put upward rate pressure on the short- and intermediate-term maturity areas.

The volume of corporate public bond offerings in March is projected at $1.1 billion, a substantial increase from the preceding month, but well below the monthly average in 1972. Underwriters continue to report an unusually light prospective volume of industrial bond issues, and the calendar for April at present contains a minimal volume of utilities. Moreover, the March-April period generally represents a seasonal pick-up in offerings, and the projected volumes indicate an unseasonally low level of corporate public bond flotations.

SELECTED LONG-TERM INTEREST RATES
(Per cent)

	New Aaa utility bonds 1/	Recently offered Aaa utility bonds 2/	Long-term State & Local bonds 3/	U. S. Gov't. (10-year constant maturity)
1971				
Low	7.02 (2/5)	7.14 (12/31)	4.97 (10/21)	5.38 (3/23)
High	8.26 (7/30)	8.19 (1/2)	6.23 (6/24)	6.95 (7/28)
1972				
Low	6.99 (11/24)	7.12 (12/1)	4.96 (12/7)	5.85 (1/14)
High	7.60 (4/21)	7.46 (4/21)	5.54 (4/13)	6.63 (9/25)
1973				
Low	7.29 (1/12)	7.26 (1/1)	5.00 (1/19)	6.42 (1/5)
High	7.46 (2/9)	7.56 (3/9)	5.27 (3/9)	6.66 (2/9)
Feb. 2	7.38	7.41	5.16	6.57
9	7.46	7.43	5.16	6.64
16	7.34	7.39	5.06	6.62
23	--*	7.37	5.13	6.65
March 2	--*	7.45	5.22	6.65
9	--*	7.56p	5.27	6.66p

p/ Preliminary.
1/ FRB Series.
2/ New FRB Series.
3/ Bond Buyer.
* No observations available for new issues of A quality rating or higher.

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

	1972	1972 QIV	1973 Feb. e/	1973 Mar. f/	1973 Apr. f/
Corporate Securities					
Total	3,398	3,521	2,175	3,700	2,300
Public bonds	1,528	1,386	625	1,100	1,000
Privately placed	780	1,049	700	900	600
Stock	1,087	1,086	850	1,700	700
State & local government securities	1,970	1,952	1,400	1,600	1,600

e/ Estimated.
f/ Forecast.

To some extent, the reduction in demands for funds in the corporate public bond market is associated with increased reliance on internally generated funds and shorter-term credit. In addition, some firms with access to the public bond market have entered the private placement market in view of the attractive arrangements available from insurance companies. These companies reportedly have been intensifying their search for privately placed bonds given their increasing flow of investible funds. Furthermore, issues of stock have continued at historically high levels, despite the general decline in stock prices since mid-January. Public utilities especially continue to rely heavily on stock issues compared with public bonds; even aside from the $500 million AT&T issue in the March total, there are about $900 million of other equity issues by utilities.

Stock prices rose at first in response to the news of the devaluation of the U.S. dollar in mid-February. However, within a few days equity prices began a decline which lasted through early March, as the stock market reflected uncertainties about international exchange rate adjustments as well as concern about domestic price and credit developments. Since the beginning of March there has been a small rise in prices on balance, and trading volume on the major exchanges has been moderate.

State and local government bond flotations in both March and April are projected to total about $1.6 billion per month, or roughly one-fifth below the average monthly pace in 1972. The volume of general obligations has declined, perhaps reflecting the strengthened fiscal position of governmental units. But the total volume has not declined as much due to a growing amount of revenue bond issues, for pollution control and other purposes.

<u>Mortgage market</u>. Field reports and other sources suggest that rates on home mortgages have come under some upward pressure in both the secondary and the primary markets during recent weeks. Yields on FNMA's commitments to purchase Government underwritten home mortgages continued to edge higher (by 2 basis points) in the latest bi-weekly auction of March 5. At 7.75 per cent, the average auction yield was 22 basis points above the recent low reached early last year, and 1 basis point above the 1972 high registered in October.

Given the growing uncertainty about future savings flows and interest rate developments, some saving and loan associations and other types of mortgage investors have apparently been concentrating their secondary market purchases on loans available for immediate--rather than deferred--delivery. A few other investors are said to have withdrawn temporarily from the secondary market, especially (in the case of diversified institutions) in view of the narrow yield spreads between home mortgages and new issues of high-grade corporate bonds. As a result, offerings of conventional as well as Government-underwritten home mortgages to FNMA and the Federal Home Loan Mortgage Corporation have been rising somewhat.

In the primary market during February, average interest rates on conventional mortgages edged up by 5 basis points on both new- and existing-home loans, following a 4-month period of stability. At 7.75 per cent on new-home loans and 7.80 per cent on existing-home loans, the rates were the highest in more than a year but were still somewhat below August 1971 levels.

AVERAGE RATES AND YIELDS ON NEW-HOME MORTGAGES

		Primary market: Conventional loans		Secondary market: FHA-insured loans		
		Level (percent)	Spread (basis points)	Level (percent)	Spread (basis points)	Discounts (points)
1971 -	Low	7.55	-36	7.32	-27	2.5e
	High	7.95	52	7.97	31	7.8
1972 -	Low	7.55	15	7.45	5	3.7
	High	7.70	61	7.57	48	4.7
	Sept.	7.70	30	7.56	16	4.6
	Oct.	7.70	32	7.57	19	4.7
	Nov.	7.70	61	7.57	48	4.7
	Dec.	7.70	55	7.56	41	4.6
1973 -	Jan.	7.70	32	7.55	17	4.5
	Feb.	7.75	35	7.56	16	4.6

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 percent 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 Aaa utility bonds.

e/ Estimated.

Federal finance. Federal receipts and expenditures in January and February have come in about as previously expected. Therefore, the staff is maintaining its fiscal 1973 forecast of $228.0 billion on receipts and continues to accept the Administration's fiscal 1973 forecast of $249.8 billion on outlays. The forecasted deficit thus remains at $21.8 billion on a unified budget basis. On a NIA basis the corresponding figures are $236.3 billion for fiscal 1973 receipts and $259.5 billion for fiscal 1973 expenditures, with a resultant deficit of $23.2 billion.

The long anticipated bulge in tax refunds seems to be materializing. Early returns requesting refunds show a significantly higher refund per return than last year. In total, however, refund payments thus far are lower than expected, partly because of processing delays within the Internal Revenue Service. Therefore, the peak period for refunds, which normally begins in early March, may be delayed this year until April.

The Treasury cash balance was $11.8 billion at the end of February, $4.8 billion higher than projected in the last Greenbook. This was entirely due to $5.0 billion in purchases of nonmarketable securities by foreign central banks during the month. Through the first seven days of March continued inflows of dollars to foreign central banks prompted their purchase of an additional $3.4 billion of these special issues. Because of these unexpected financings, we are now projecting a rather high end of March cash balance of $11.0 billion.

In order to limit the increase in Treasury tax and loan accounts resulting from foreign central bank purchases of special Treasury certificates, the Treasury's balance at the Federal Reserve has recently been allowed to rise to around $4 billion. Net cash drains on the total Treasury balance between now and mid-April are expected to be approximately $7.5 billion. However, the mid-April seasonal increase in tax receipts should raise the balance to approximately $10.0 billion by April 30. No Treasury borrowing is anticipated until late May or early June.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Feb.	March	April	May
Total net borrowing	4.1	3.4	-2.1	1.4
Weekly and monthly bills	.1	--	.2	.1
Tax bills	--	--	-2.0	--
Coupon issues	1.0	--	--	--
As yet unspecified new borrowing	--	--	--	2.0
Special issues to foreigners	4.9	3.4	--	--
Agency transactions, debt repayment, etc.	-1.9	--	-.3	-.7
Plus: Other net financial sources a/	-.7	1.6	.5	.6
Plus: Budget surplus or deficit (-)	-3.0	-5.8	0.8	-4.5
Equals: Change in cash balance	0.4 b/	-0.8	-0.8	-2.5
Memoranda: Level of cash balance, end of period	11.8 b/	11.0	10.2	7.7
Derivation of budget surplus or deficit:				
Budget receipts	17.2	14.7	24.5	17.2
Budget outlays	20.2	20.5	23.7	21.7
Maturing coupon issues held by public	4.7	--	--	4.4
Sales of financial assets	0.1	0.9	0.8	0.9
Budget agency borrowing	--	--	0.2	--
Net borrowing by government-sponsored agencies	0.5	0.4	1.1	0.9

a/ Checks issued less checks paid and other accrual items.
b/ Actual

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

	Fiscal 1973 e/		FY 1974e/	Calendar Years		F.R. Staff Estimates Calendar Quarters				
	Jan. Budget	F.R. Board	Jan. Budget	1972 Actual	1973 F.R.B. e/	1972 IV*	1973 I	II	III	IV
Federal Budget						Unadjusted data				
Surplus/deficit	-24.8	-21.8	-12.7	-17.4	-17.1	-10.5	-11.3	2.0	-0.2	-7.6
Receipts	225.0	228.0	256.0	221.5	243.4	50.5	53.0	68.9	64.0	57.5
Outlays	249.8	249.8	268.7	239.0	260.5	60.9	64.3	66.9	64.2	65.1
Means of financing:										
Net borrowing from the public	25.0	23.2	16.5	15.2	12.9	12.3	9.0	-3.2	--	7.1
Decrease in cash operating balance	3.0	0.4	n.a.	0.2	4.1	-1.3	0.1	1.3	1.7	1.0
Other 1/	-3.2	-1.8	n.a.	2.0	0.1	-0.5	2.2	-0.1	-1.5	-0.5
Cash operating balance, end of period	7.1	9.7	n.a.	11.1	7.0	11.1	11.0	9.7	8.0	7.0
Memo 2/: Sales of financial assets 3/	5.5	5.5	4.0	3.1	n.e.	1.1	1.1	2.6	n.e.	n.e.
Budget agency borrowing 4/	1.4	1.0	2.5	0.7	n.e.	0.3	0.0	0.2	n.e.	n.e.
Sponsored agency borrowing 5/	n.a.	5.0	n.a.	3.1	7.7	0.8	1.2	2.3	n.e.	n.e.
National Income Sector						Seasonally adjusted, annual rates				
Surplus/deficit	-26.6	-23.2	-12.5	-18.0	-11.4	-23.7	-24.9	-15.7	-4.3	-.9
Receipts	233.3	236.3 6/	263.0	228.8	256.5	239.0	243.7	249.4	262.8	269.9
Expenditures	259.9	259.5	275.5	246.8	267.9	262.7	268.6	265.1	267.1	270.8
High Employment surplus/deficit (NIA basis) 7/	n.a.	-6.9	n.a.	-0.4	-4.7	-11.6	-13.6	-6.8	0.0	1.6

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

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

2/ The sum of sponsored and budget agency debt issues and financial asset sales does not necessarily reflect the volume of debt absorbed by the public, since both the sponsored and budget agencies acquire a portion of these issues.

3/ Includes net sales of loans held by the Commodity Credit Corporation, Farmers Home Adm., Government National Mortgage Assn., Federal Housing Adm., and Veterans Adm. Receipts from these sales are netted against Federal Budget Outlays shown above.

4/ Includes, for example, debt issued by the U.S. Postal Service, Export-Import Bank, and Tennessee Valley Authority, which is included in the Net Treasury Borrowing from the Public shown above.

5/ 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.

6/ Quarterly average exceeds fiscal year total by $4.2 billion due to spreading of wage base and refund effect over calendar year.

7/ Estimated by F.R. Board Staff.

INTERNATIONAL DEVELOPMENTS

STRICTLY CONFIDENTIAL (FR) 3/14/73

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

	1972p/ Year	1972p/ 1H	1972p/ 3Q	1972p/ 4Q	1973p Jan.*
Goods and services, net 1/	-4,147	-2,703	-860	-584	
Trade balance 2/	-6,816	-3,608	-1,525	-1,683	-360
Exports 2/	48,840	23,220	12,380	13,240	4,941
Imports 2/	55,656	-26,828	-13,905	-14,923	-5,301
Service balance	2,669	905	665	1,099	
Remittances and pensions	-1,556	-772	-368	-416	
Govt. grants & capital, net	-3,575	-1,574	-860	-1,141	
U.S. private capital (- = outflow)	-8,332	-3,302	-2,344	-2,686	
Direct investment abroad	-3,330	-1,366	-1,116	-848	
Foreign securities	-620	-747	211	-84	-127
Bank-reported claims -- liquid	-733	-221	-469	-43	70
" " " other	-2,780	-650	-705	-1,425	529
Nonbank-reported claims -- liquid	-406	-255	-144	-7	
" " " other	-463	-63	-121	-279	
Foreign capital (excl. reserve trans.)	10,493	4,322	1,425	4,746	
Direct investment in U.S.	346	-10	252	104	
U.S. corporate stocks	2,463	860	380	1,223	474
New U.S. direct investment issues	1,974	1,062	372	540	
Other U.S. securities (excl. U.S. Govt.)	65	101	-141	105	
Liquid liabilities to:	4,816	1,743	440	2,633	-132
Commercial banks abroad	3,905	1,456	316	2,133	-36
Of which liab. to branches 3/	(134)	(196)	(34)	(-96)	(-135)
Other private foreign	809	334	155	320	-60
Intl. & regional institutions	102	-47	-31	180	-36
Other nonliquid liabilities	829	566	122	141	
Liab. to foreign official reserve agancies	10,265	3,847	4,728	1,690	-716
U.S. monetary reserves (increase, -)	742	554	122	66	97
Gold stock	547	544	3	--	--
Special drawing rights 4/	7	7	--	--	--
IMF gold tranche	153	184	-15	-16	-4
Convertible currencies	35	-181	134	82	101
Errors and omissions	-3,895	-372	-1,843	-1,680	
BALANCES (deficit -) 4/					
Official settlements, S.A.		-4,401	-4,850	-1,756	
" " , N.S.A.	-11,007	-3,957	-5,585	-1,465	619
Net liquidity, S.A.		-5,668	-4,677	-4,339	
" " , N.S.A.	-14,684	-6,122	-5,313	-3,249	
Liquidity, S.A. 5/		-6,144	-5,290	-4,389	
" , N.S.A.	-15,823	-6,738	-5,850	-3,235	751

* 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/ Not seasonally adjusted.
4/ Excludes allocation of $710 million of SDRs on 1/1/72.
5/ 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. Amid conditions of turmoil in the exchange markets, the past few weeks have seen a further substantial depreciation of the dollar and a widespread recourse to floating for major currencies.

A massive flight from the dollar in early February, the first part of which was described in the February 7 Greenbook, culminated in the official closing of European and Japanese exchange markets and immediately thereafter the devaluation of the dollar by 10 per cent while most major continental European currencies kept their par values (in terms of SDRs or gold) unchanged. The yen and the lira were allowed to float, and the Swiss franc, pound sterling, and the Canadian dollar continued to float. European exchange markets reopened on February 14.

Less than 10 days later, the dollar was again subject to massive sales by private holders and European and Japanese markets were again "closed." On March 11 it was announced that the remaining EC currencies which had maintained "fixed" rates would join in a common float against the dollar, and on the following day the German mark was again revalued, by 3 per cent. In recent days the yen has been trading at about 20 per cent above its Smithsonian central rate.

Exchange markets are to reopen on March 19, when the currencies of all of the other G-10 countries plus Switzerland, countries which combined account for nearly two-thirds of U.S. trade, will be floating against the dollar.

Dominating the decisions governments have taken during the past several weeks, and influencing the further discussions still taking place this week, have been these facts: (1) the basic disequilibrium in the U.S. balance of payments is still large, (2) countries like Germany and Switzerland receiving speculative inflows want to end the flooding of liquidity into their economies that such inflows bring, (3) the European countries fear that floating -- in order to make things difficult for speculators -- might produce such further appreciations of their currencies as to work excessive hardships on their export industries.

There is a general consensus in finance ministries and central banks that the exchange rate structure as it now stands should move international payments toward equilibrium more surely and more quickly than the Smithsonian rates could. It is also generally recognized that there may be adverse effects initially as prices of U.S. imports move up in terms of the U.S. dollar.

Staff projections of U.S. exports and imports of goods and services take into account this adverse immediate effect on the value of imports, and also the effect of the devaluation in accentuating the recent and prospective increases in U.S. export prices, with immediate favorable effects in raising the dollar value of exports. The projections also assume that after the cumulated exchange rate changes of the past 22 months, the lags in reaction time will now be shorter than was expected after the Smithsonian realignment. The reduction in real quantities of imports will follow the rise in dollar import prices with less lag, because foreign producers are now less able to cut their domestic-currency prices than they were last year, and because potential U.S. producers of import substitutes are now placed in a better competitive position. Similarly, the reactions of foreign buyers of U.S. exports to the lower foreign-currency prices of our goods, and the reactions of U.S. producers to the increased profitability of exporting, will be speeded up.

The excess of imports of goods and services over exports is projected as increasing from \$3 billion (annual rate) in the first quarter of this year to \$4-1/2 billion in the second quarter, and then declining to zero by the fourth quarter.

The projected degree of effectiveness of the exchange rate changes in promoting improvement in the current account balance depends heavily on the assumption that U.S. price and cost inflation will remain fairly moderate, despite the additional upward thrust on all dollar prices of goods entering international trade or competing with imports.

Foreign exchange markets. Large-scale intervention purchases of dollars by foreign central banks began on February 1 and amounted to \$8.2 billion by February 9, with most of the reserve gains accruing to Germany. After the close of business on February 9, Germany announced that its market would be officially closed on Monday, February 12. Other European countries and Japan quickly followed suit. The President had decided on February 6 to take the lead in trying to find a resolution of the crisis and following intensive weekend discussions among Mr. Volcker and various European and Japanese officials, Secretary Shultz announced on the evening of February 12 that the dollar would be devalued by 10 per cent. European exchange markets reopened on February 14 with 11.1 per cent increases in central rates against the dollar for the mark, guilder, French franc, and Belgian franc. The lira was allowed to float. The Japanese market reopened the following day with the yen floating.

After about a week of calm, during which the Bundesbank sold off nearly a billion dollars while the Japanese yen floated to around 16 to 17 per cent over its Smithsonian central rate, a new speculative rush into Swiss francs and gold developed into a general pressure on dollar exchange rates. The dollar, near its ceiling in Europe on Wednesday, February 21, dropped to its floor by Friday the 23rd. Fueled by statements from various European officials that the next speculative attack on their currencies would be met by a joint EC float, and from U.S. officials that the devaluation alone would not be sufficient to produce the desired U.S. trade surplus, the market bet heavily on an upward float of EC currencies. On March 1, European central banks had to buy \$3.6 billion, with \$2.7 billion accounted for by the German Federal Bank alone. After the close of business on March 1, Germany announced that its market would not reopen the following day.

Other European countries (except France) and Japan followed suit. The French market was open for only 1-1/2 hours on Friday, March 2, during which time the Bank of France purchased $400 million.

Exchange markets have remained officially closed since then, while EC finance ministers, G-10 finance ministers and central bank governors, and G-10 deputies held a series of meetings in Paris and Brussels. On Sunday evening, March 11, it was announced that Germany, France, Belgium, the Netherlands, and Denmark would float jointly against the dollar while maintaining an unchanged width of permissible spreads among their own currencies. On March 12 Germany announced a 3 per cent revaluation of the mark, and on March 13 Austria announced a 2-1/4 revaluation of the schilling and said that the schilling would be pegged to the mark. Another G-10 meeting is scheduled for Friday, March 16.

During this period of official "closed" markets -- meaning that central banks did not deal in the markets -- the actual volume of trading was minimal. The great uncertainties over the governments' future course of action were reflected in wide bid-ask spreads; large variations in rates were produced by relatively small transactions. The dollar traded generally at about 3-5 per cent below its February 14 floors against EC currencies. Following news of the joint float, the German revaluation and reports alleging a U.S. intention to intervene in the market to produce "orderly conditions," the dollar firmed fairly sharply on Tuesday (March 13) against European currencies, while the yen advanced to around 20 per cent above its Smithsonian central rate.

<u>Euro-dollar market</u>. The speculative pressure on the dollar in foreign exchange markets over the past month caused sharp increases in Euro-dollar interest rates as transactors attempted to increase their dollar-denominated liabilities relative to dollar-denominated assets. For the month of February, the average overnight Euro-dollar rate exceeded the average Federal funds rate by nearly 2-3/4 percentage points, reversing the pattern of recent months when U.S. banks had found reserve-free overnight Euro-dollar borrowing slightly less expensive than borrowing in the Federal funds market. Rates on 1-month and 3-month Euro-dollar deposits also increased, moving more than a percentage point further above comparable maturity CD rates, despite increases in the latter.

Pressures on the liquidity position of banks in the Euro-dollar market were undoubtedly among the chief causes of a $3.7 billion outflow of funds from the United States through inter-bank transactions in the 5 weeks through February 28. Weekly reporting banks' loans to foreign commercial banks increased by $1.4 billion. Liabilities to commercial banks abroad were reduced by $2.3 billion, including a $1.0 decline in liabilities of U.S. banks to their foreign branches and a $1.2 billion decline in foreign liabilities reported by New York agencies and branches of foreign banks.

In the first week of March, despite the massive speculative attack of March 1, the overnight Euro-dollar rate eased while 1-month and 3-month deposit rates rose further. The net outflow of funds through inter-bank transactions appears to have been relatively small in that week. Loans to foreign commercial banks were up by $0.5 billion, but liabilities of U.S. banks to their foreign branches rose by $0.7 billion, as banks acted to preserve their reserve-free bases. Other liabilities to commercial banks abroad, including those reported by the foreign agencies and branches here, continued to decline, decreasing by $0.35 billion.

In recent days all Euro-dollar rates have tended to ease, with the overnight Euro-dollar rate dropping back to within less than a percentage point of the Federal funds rate.

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) Differ-ential (1)-(2)(*)		(4) 1-month Euro-$ Deposit 1/	(5) 30-59 day CD rate (Adj.) 3/	(6) Differ-ential (4)-(5)(*)	
1972 - Sept.	4.54	4.86	-0.33	(0.79)	5.15	4.96	0.19	(1.48)
Oct.	4.77	5.05	-0.28	(0.91)	5.10	5.10	0.00	(1.28)
Nov.	4.74	5.05	-0.31	(0.88)	5.08	5.01	0.07	(1.34)
Dec.	4.75	5.33	-0.58	(0.61)	6.05	5.25	0.80	(2.31)
1973 - Jan.	5.72	5.94	-0.22	(1.21)	5.97	5.79	0.18	(1.67)
Feb.	9.03	6.58	2.45	(4.71)	7.70	6.35	1.35	(3.28)
1973 - Feb. 7	5.97	6.19	-0.22	(1.27)	6.78	6.32	0.46	(2.16)
14	10.01	6.61	3.40	(5.90)	7.47	6.32	1.15	(3.02)
21	9.54	6.83	2.71	(4.98)	7.85	6.32	1.53	(3.49)
28	11.30	6.75	4.55	(7.38)	8.64	6.45	2.19	(4.35)
Mar. 7	7.29	7.00	0.29	(2.11)	9.63	6.72	2.91	(5.32)
14p	8.18	7.13	1.05	(3.10)	9.17	6.72	1.45	(4.74)

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 rates.

3/ Offer rates median (as of Wednesday) on large denomination 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 per cent marginal reserve requirement (relevant to banks with borrowings in excess of their reserve-free bases). p/ Preliminary.

Prospective longer-run effects of dollar devaluation. The recent exchange rate changes described above, together with the Smithsonian changes of 1971, are summarized in the table on the next page. The recent changes have resulted in an effective devaluation of the U.S. dollar against all foreign currencies of roughly 8 per cent. The cumulative effective devaluation since 1970 comes to about 17 per cent. This is a large devaluation, and it cannot help but have large effects, even though the size of those effects cannot be calculated with any degree of certainty. The devaluation has been particularly large against Japan and the industrial countries of Continental Europe.

There is considerable uncertainty about the net effect of the latest devaluation on the U.S. trade and payments position during 1973. Our staff expects the effect to be about neutral, with adverse initial effects during the first half year roughly offset by favorable effects later in the year. Other analysts have reached somewhat more pessimistic conclusions.

But there is general agreement that the latest devaluation, together with the lagged effects of earlier exchange rate changes, offers scope for a very considerable improvement in the U.S. trade and payments position during 1974 and 1975, provided that domestic inflationary pressures can be contained, and provided that foreign surplus countries are willing to accept a decline in their trade and payments surpluses.

CHANGES IN FOREIGN EXCHANGE RATES AGAINST THE U.S. DOLLAR, 1971 -- March 13, 1973

Country	Percentage share in 1971 in: World Trade excl. U.S.1/	U.S. trade	Changes in central rates: Smithsonian changes, 1971	Changes since 1971	Total
Canada	6.4	25.7	+7.4 2/	+0.3 3/	+7.7
Japan	7.9	12.6	+16.9	+22.0 4/	+42.6
Germany	13.3	7.2	+13.6	+14.4	+30.0
United Kingdom	8.4	5.4	+8.6	-5.2 4/	+3.0
France	7.6	2.7	+8.6	+11.1	+20.7
Italy	5.6	3.0	+7.5	+2.9 4/	+10.6
Netherlands	5.3	2.6	+11.6	+11.1	+24.0
Belgium-Lux.	4.6	2.1	+11.6	+11.1	+24.0
Denmark	1.5	0.6	+7.5	+11.1	+19.4
Sweden	2.6	1.0	+7.5	+5.5	+13.4
Switzerland	2.4	1.2	+13.9 5/	+17.9 4/	+34.3
Australia	1.9	2.0	+8.6	+16.5 6/	+26.5
Spain	1.4	1.2	+8.6	+11.1	+20.7
Austria	1.3	0.3	+11.6 5/	+13.7	+26.9
Norway	1.2	0.4	+7.5	+11.1	+19.4
South Africa	1.2	1.0	-4.8	+11.1	+5.8

1/ World total excludes Council for Mutual Economic Assistance countries, Mainland China, North Korea, North Viet-Nam, and Cuba. Source: IMF.
2/ Market rate, May 1970 to January 1972.
3/ Market rate, January 1972 to March 13, 1973.
4/ Smithsonian central rate to market rate of March 13, 1973.
5/ Including revaluation of May 1971.
6/ Including revaluation of December 1972.

Business cycle conditions here and abroad also seem likely to contribute to an improvement in U.S. trade in late 1973 and 1974, after having been markedly adverse during 1972 and early 1973. As a result, it is now expected that while the U.S. merchandise trade balance, which was in deficit by $6.8 billion in 1972, may decline only moderately to around $5 billion for the year 1973, it will be improving sharply by the end of the year. During the course of 1974, the trade balance should move into surplus, and the surplus could well reach substantial proportions in 1975.

It is too early to predict whether the trade surplus achievable in 1975 will be sufficient for full equilibrium in the U.S. balance of payments in that year, since much will depend on policies and other developments here and abroad. But the achievement of a very large favorable swing in the U.S. trade accounts which can confidently be expected will at least provide solid evidence that balance of payments adjustment on a large scale is possible after all.

<u>U.S. foreign trade</u>. Both exports and imports rose very sharply in January. The trade deficit was estimated to be at an annual rate of $4-1/4 billion (balance of payments basis), substantially lower than the downward revised deficit of $5-1/2 billion in December. (Originally a deficit rate of $7 billion had been reported for December.) Revisions in the trade data for 1971 and 1972 stem from the usual practice of the Census Bureau to update and adjust its seasonal adjustment factors and to make other statistical revisions at the beginning of each year.

U.S. MERCHANDISE TRADE
Balance-of-payments basis
(in billions of dollars, at seasonally adjusted annual rates)

	Revised Series			Old Series		
	Exports	Imports	Balance	Exports	Imports	Balance
1971 - I	43.5	42.9	0.6	44.1	42.9	1.2
II	43.2	46.8	-3.6	42.8	46.9	-4.0
III	46.1	47.7	-1.5	45.9	47.8	-1.9
IV	38.3	44.5	-6.1	38.3	44.2	-6.0
(Year)	(42.8)	(45.5)	(-2.7)	(42.8)	(45.5)	(-2.7)
1972 - I	46.6	54.0	-7.3	47.2	53.9	-6.7
II	46.2	53.4	-7.1	45.8	53.5	-7.7
III	49.5	55.6	-6.1	49.2	55.6	-6.3
IV	53.0	59.7	-6.7	52.7	59.4	-6.7
(Year)	(48.8)	(55.7)	(-6.8)	(48.7)	(55.6)	(-6.9)
1972 - Nov.	53.1	61.4	-8.3	53.0	60.1	-7.0
Dec.	54.3	59.9	-5.5	53.2	60.4	-7.2
1973 - Jan.	59.3	63.6	-4.3			

There is some uncertainty about the exact amount of the reduction in the trade deficit in January. Statistical difficulties, resulting from the introduction in January of new statistical classifications used in reporting imports, led to the exclusion of a sizable amount of imports from the reported value of imports in January. Most of the imports excluded will be entered in the import figures for February and possibly March. The amount involved can not be determined until the compilation of the February data, but a rough guess would indicate that a half or more of the January trade improvement may have resulted from this statistical aberration. The discussion below of the January trade data makes no allowance for these omitted imports.

The reduction in the reported trade deficit from December to January stemmed from an extraordinarily sharp rise in exports -- 9 percent -- while the rise in imports, also large, was relatively less at 6 percent.

Despite continued strong increases in export prices (unit-values) of foodstuffs and other agricultural products, price increases accounted for only a small portion of the overall increase in the value of exports from December to January. About one-half of the export increase resulted from a steep rise in shipments of agricultural commodities, particularly corn and soybeans. The total value of agricultural exports in January was over $14-1/2 billion at an annual rate, compared to a rate of $11 billion in the fourth quarter. Large shipments to the Soviet Union accounted for only a small portion of the January rise; the bulk of the increase in agricultural exports went to Japan and Western Europe.

Although the value of agricultural exports will remain strong, being buoyed by a continuing large rise in dollar prices, partially induced by the recent devaluation, it is unlikely that the January rate can be sustained. We are projecting the value of agricultural exports for the full year 1973 at about $12 billion.

Exports of nonagricultural products also increased in January although at a slower pace than for agricultural products. Deliveries of machinery continued the strong advance which began in mid-1972. Foreign orders for U.S. machinery were at a high level in January but the backlog of orders failed to rise as shipments kept pace with new orders. Exports of nonagricultural industrial materials held at the relatively high level of recent months. There were further rises in exports of coal, paper products, chemicals and other nonmetal products. Steel shipments also rose further but exports of other metals fell. With rising domestic output of cars and business equipment, it is quite possible that domestic producers of metals and other industrial materials may find it more difficult to accept and meet orders for these products from foreign customers, and this may limit the rise of such exports.

Exports of consumer goods (other than autos) continue to show surprising strength, rising further in January over the relatively high level of shipments of the last half of 1972. Shipments of automobile parts to Canada picked up from the relatively low December value as Canadian car production, largely for export to the United States advanced.

Preliminary information suggests that the Smithsonian Agreement may have produced a halt in the downward drift of the U.S. share in world trade of manufactured goods in 1972. If this has in fact occurred, it would be the first year since 1968 that the U.S. share has not declined.

Imports in January, although overshadowed by the strong rise in exports, were nevertheless very strong. About one-third of the 6 percent increase in value over December reflected higher average prices. The import expansion in January was broadly based,with all major categories recording large increases. Imports of industrial materials continued the advance that prevailed throughout 1972, despite a decline in arrivals of steel and little change in petroleum imports. The value of imports of lumber (boosted by higher prices), paper, copper and other metals (aside from steel) all rose. In addition, however, the value of imports of foodstuffs (coffee and sugar) which had been virtually stable since the middle of 1972, also rose in January.

In January, imports of capital goods and consumer items (other than cars) continued the new advance that had begun in the closing months of 1972 reflecting the growing strength of domestic comsumption and investment. Entries of foreign cars were also up sharply in January; imports had been generally flat throughout 1972. This rise in car imports was probably in response to increased sales in the United States, which were about 1.9 million units at an annual rate in each month from November through January. In November and December this level of sales involved drawing down inventories of imported cars.

Following the U.S. devaluation on February 12 and the floating of the yen, sales of foreign cars rose even more strongly as buyers accelerated purchases in anticipation of a rise in foreign car prices. Foreign cars claimed about 16 percent of total domestic car sales in January and February; in 1972 their share had fallen to under 15 percent from a peak of 15-1/2 percent in 1971.

U.S. balance of payments. The over-all balance on the official settlements basis swung from a surplus of about $1/2 billion in January to an estimated $7-1/2 billion in February (not annual rates), and an additional $4-1/4 billion deficit was posted in the first week of March.

The large movement of speculative funds in February and early March obscures the basic balance of payments position. Such data as are available for January indicate that the over-all surplus was the net result of substantial private capital inflows exceeding the continuing, though reduced, deficit on current account and Government capital transactions.

Foreign purchases of U.S. securities were still extremely strong in January; stock purchases are estimated to have been $475 million in January, almost equal to last November's peak figure. Further large foreign purchases of U.S. stocks occurred immediately after the dollar devaluation in February, but buying soon fell off. Foreign purchases of U.S. bonds, particularly offshore issues, were also at a high level in January and probably also declined in February.

Bank claims on foreigners were reduced in January by about the normal seasonal amount, and increased sharply in February and early March according to weekly banking statistics. As noted above in connection with Eurodollar market developments, the outflow of loans to foreign commercial banks was particularly large.

Preliminary data for the fourth quarter indicate that the basic balance (current account plus private long-term capital flows) was showing considerable improvement: it was at an annual rate of about $5-1/2 billion, down sharply from the $9 billion rate of the third quarter.

U.S. BALANCE OF PAYMENTS SUMMARY: 1971-1972*
(billions of dollars, seasonally adjusted annual rates)

	1971	1972			
	Year	Year p	1H	3Q	4Q p
Current account 1/	- .8	-5.7	-7.0	-4.9	-4.0
Trade balance	(-2.7)	(-6.8)	(-7.2)	(-6.1)	(-6.7)
Income on direct investments abroad	(9.5)	(10.4)	(9.4)	(10.3)	(12.3)
All other	(-7.6	(-9.3)	(-9.2)	(-9.1)	(-9.6)
U.S. Govt. grants & credits	-4.4	-3.6	-3.1	-3.4	-4.6
Long-term private capital	-4.1	+ .3	- .7	- .7	+3.2
Balance on current account & long-term capital (basic balance)	-9.2	-9.0	-10.8	-9.1	-5.3
Short-term capital	-10.1	+2.0	+2.7	-2.7	+5.5
Errors & omissions	-11.1	-3.9	- .7	-7.4	-6.7
Official settlements balance (excl. SDR allocations)	-30.5	-10.8	-8.8	-19.2	-6.6

1/ Goods, services, remittances and pensions.
p/ Preliminary data, subject to revision before purlication.
* Strictly Confidential until published by the Department of Commerce.

Improvement occurred in both the current and capital accounts. While the trade deficit increased in the fourth quarter, this was more than offset by an unexpected jump in net income receipts from investments abroad. A similar increase in these receipts occurred in the fourth quarter of 1971 but proved to be a temporary bulge, and the same may be true of the late 1972 rise.

Private long-term capital showed a sizable inflow in the fourth quarter in contrast to an outflow in the third quarter. Outflows for direct investment abroad by U.S. companies were relatively low. Foreign purchases of U.S. securities -- both stocks and bonds -- were at a record high.

Recorded flows of private short-term capital showed a substantial net inflow in the fourth quarter. Some short-term outflows were probably reflected in the residual errors and omission item.

The German, U.K. and Canadian Budgets. Three major countries have introduced budgets within the last four weeks. The British and Canadian budgets are intended to promote continued rapid real growth. The German budget moves fiscal policy in the direction of greater restrictiveness; the objective is to moderate severe inflation in Germany, a task which has been complicated by the heavy speculative inflows of recent weeks.

The U.K. budget for the fiscal year beginning April 1 included no significant tax changes and is intended to be consistent with continued real growth in GNP of about 5 per cent, annual rate, through the first half of 1974. The government's fiscal plans for 1973-74 are thought to represent a compromise between two conflicting policy prescriptions. One implied a more restrictive budget in order to combat inflation and foster improvement in the current account of the balance of payments. It urged cuts in government expenditures and measures to slow growth in consumer spending. The other called for fiscal measures to increase growth of real disposable income -- principally by reduced indirect taxes -- on the grounds that such actions would be more likely to win labor's acceptance of the government's wage-price policies. The balance of payments, this view contends, need not inhibit stimulative domestic policies so long as sterling is allowed to float.

The budget is expected to result in a public sector borrowing requirement of about £4.4 billion, or close to 8 per cent of projected GNP for this period. (The public sector includes the central government, local authorities, and the nationalized industries.) This compares with the estimated borrowing requirement for fiscal 1973-73 of £2.85 billion.

The increase in the borrowing requirement reflects planned increases in public sector expenditures on goods and services, but also stepped up grants to industry and changes in the timing of receipts from indirect taxes arising from the introduction of the Valued Added Tax (VAT) on April 1. The VAT rate will be 10 per cent, the government having rejected recommendations to impose a lower rate to ease upward pressure on retail prices. However, VAT will not be imposed on food and children's clothing, both previously subject to the purchase tax.

Concern over the expansionary impact on the money supply of the anticipated huge deficit prompted the government to introduce several innovations to encourage non-bank corporations and individuals to invest in public sector debt in various forms. The intent is to minimize financing of the debt by the banking system.

At present, the British economy is still experiencing a vigorous recovery. Growth in real GNP from the second half of 1971 to the first half of 1973 is expected to be about 4-1/2 per cent, with the rate in the fourth quarter of 1972 having been close to the targeted 5 per cent. The revival in growth has been marked by a sharp reduction in unemployment (even though employment in industry actually declined). The jobless rate in February was 2.9 per cent, down from 3.8 per cent a year earlier. Inflation, of course, has been a major problem. Even after institution of the wage-price freeze in November, prices of uncontrolled items -- notably food and imported materials -- have continued to rise sharply. Lack of labor support for the government's prices and incomes policy, suggests, moreover, that inflation will intensify.

In disclosing its budget for calendar 1973 last month, the German government announced two key deflationary steps: a DM 4 billion "stability loan" and a non-refundable 10 per cent surcharge, effective July 1, on income tax paid by corporations, single persons with an income over DM 100,000 and married couples whose income exceeds DM 200,000. The surcharge is expected to yield DM 1.2 billion in 1973 and DM 2.4 billion on a full-year basis. The proceeds from both the loan and the surcharge will be frozen at the Bundesbank. The DM 5.2 billion to be thus immobilized this year equals about 0.6 per cent of projected German GNP in 1973.

The stability loan will be floated in several installments, with the terms to be determined by market conditions at the time the funds are raised. DM 1 billion is to be borrowed this month. The stability loan is largely intended to help offset the very substantial increase in the money supply produced by the speculative rush into marks since February 1.

In purchasing $7,651 million since that date, the Bundesbank has paid out about DM 23.5 billion. The money supply has not increased by this amount; nor -- because of the 90 to 100 per cent requirements on non-resident bank deposits, a cut in commercial bank rediscount quotas in February, an increase in their reserve requirements on resident deposits in March, and various measure adopted in early February to prevent investment by non-residents in German assets -- can all of this sum be used to stimulate economic activity in Germany. Nevertheless, enough of it is available for spending and investment in Germany so that already intense inflationary pressures have been magnified.

Prices continue to rise rapidly in Germany -- consumer prices increased by 6.6 per cent from January 1972 to January 1973 --

at a time when the economy is again growing at a fast pace. Seasonally adjusted real GNP increased at an annual rate of over 10 per cent from the third to the fourth quarter, and expansion this year may continue at a rate of 5 to 6 per cent. The unemployment rate, meanwhile, is already very low -- about 1 per cent -- and the seasonally adjusted ratio of vacancies to unemployed in January exceeded three.

Rapid rises in productivity in the next several months should somewhat mitigate inflation by holding down rises in unit labor costs. Wage settlements this year have generally been providing for relatively moderate increases of 8.5 per cent a year. However, because of more overtime and greater wage drift, actual hourly wage costs have been rising much more swiftly.

Except for the stability loan and income tax surcharge, the budget announced in February does not deviate significantly from preliminary spending and revenue plans made public in September. Government expenditures are expected to total about DM 120 billion this year, an increase of almost 10 per cent over actual 1972 outlays. This is slightly less than the probable rate of increase in nominal GNP from 1972 to 1973.

Revenue (excluding the income tax surcharge) in 1973 should rise to about DM 116 billion, requiring the government to borrow about DM 4 billion (in addition to the DM 4 billion to be raised through the stability loans), approximately the same amount it had to borrow last year. The principal tax change in the budget was an increase in the tax on gasoline, effective July 1.

The Canadian budget for fiscal 1973-74 -- which begins April 1 -- announced on February 19 is aimed primarily at stimulating rapid economic growth in order to reduce unemployment. Predictions of the increase in real GNP in 1973 compared to 1972 fall in a range of 6 to 7 per cent. Despite a relatively sizable 5.5 per cent increase in real GNP last year, the unemployment rate has declined negligibly and remains unacceptably high. The jobless rate in January was 6.2 per cent.

An increase of 8.8 per cent in government expenditures on a national accounts basis is planned for the next fiscal year. It is anticipated that government revenues, because of rapidly rising income, will also increase substantially -- by about 11.5 per cent. A deficit of C$ 640 million is forecast compared to a deficit of almost C$ 1.1 billion in 1972-73.

The 1973-74 budget includes several tax reductions. Personal income taxes were cut effective January 1, officially by 5 per cent but actually by only 2 per cent, since a temporary 3 per cent reduction was already in effect. The Federal sales tax on food products and some articles of clothing is to be abolished and some excise taxes are to be removed. Some additions to 1971 tax reforms which will benefit small businesses and family farms were introduced. As part of the new budget, Finance Minister Turner has also urged enactment of last May's proposals for tax reductions and liberalized depreciation rules for manufacturing enterprises in Canada.

Other measures in the new budget which will also have some stimulative effects include an increase in the basic rate of old age security pensions and increased federal payments to poor provinces.

The removal of the several sales and excise taxes reflects the government's intent to use the budget to slow inflation as well as encourage growth. In another anti-inflationary move, the government proposed temporary tariff reductions averaging about 5 percentage points on about C$ 1.3 billion of imported consumer goods.

Consumer prices in Canada increased by about 4.8 per cent from 1971 to 1972. Wholesale prices of manufactured goods rose much more rapidly, however -- by 7.3 per cent.

The budget also announced a long-term tax reform designed to prevent decreases in real after-tax income resulting from the interaction of inflation with a progressive income tax system. Starting next year, the personal income tax system will be indexed to price increases. The brackets to which given percentage rates apply will be raised each year, as will principal exemptions, according to an inflation factor based on the consumer price index.

Although Parliament has given a vote of confidence to the government's overall budget policy, each proposed measure must now be acted upon individually. Of the individual items, the coorporate tax cut and the depreciation allowance are in difficulty because of opposition by the New Democratic Party, on whose votes the Liberal government must rely.