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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

March 13, 1974

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	Feb.	3/8/74	90.6	.2	2.9	3.2
Unemployment rate	Feb.	3/8/74	5.2	5.2 1/	4.7 1/	5.1 1/
Insured unemployment rate	Jan.	3/13/74	3.0	2.9 1/	2.8 1/	2.7 1/
Nonfarm employment, payroll (mil.)	Feb.	3/8/74	76.7	2.7	.1	2.7
Manufacturing	Feb.	3/8/74	19.9	-9.1	4.7	1.4
Nonmanufacturing	Feb.	3/8/74	56.8	6.9	1.8	3.1
Private nonfarm:						
Average weekly hours (hours)	Feb.	3/8/74	36.9	36.7 1/	37.1 1/	37.2 1/
Hourly earnings ($)	Feb.	3/8/74	4.03	3.0	4.0	6.6
Manufacturing:						
Average weekly hours (hours)	Feb.	3/8/74	4.05	4.02 1/	4.06 1/	4.10 1/
Unit labor cost (1967=100)	Jan.	2/28/74	124.4	-9.6	-2.9	4.4
Industrial production (1967=100)	Feb.	3/15/74	124.8	-7.6	-8.5	1.1
Consumer goods	Feb.	3/15/74	128.0	-8.4	-16.5	-1.7
Business equipment	Feb.	3/15/74	125.9	-2.9	-5.9	6.5
Defense & space equipment	Feb.	3/15/74	81.4	4.4	2.5	1.0
Materials	Feb.	3/15/74	129.0	-10.1	-7.6	1.9
Consumer prices (1967=100)	Jan.	2/22/74	139.9	12.6	9.6	9.4
Food	Jan.	2/22/74	154.0	19.0	13.1	19.5
Commodities except food	Jan.	2/22/74	128.3	15.2	10.9	6.1
Services 2/	Jan.	2/22/74	144.8	8.3	7.3	6.7
Wholesale prices (1967=100)	Jan.	2/15/74	150.3	37.7	29.0	20.8
Industrial commodities	Jan.	2/15/74	140.4	27.2	33.0	17.1
Farm products & foods & feeds	Jan.	2/15/74	177.6	61.1	19.9	29.7
Personal income ($ billion) 3/	Jan.	2/19/74	1084.9	-4.5	6.1	9.7
				(Not at Annual rates)		
Mfrs. new orders dur. goods ($ bil.)	Jan.	3/5/74	43.5	4.8	-1.1	11.0
Capital goods industries:	Jan.	3/5/74	14.4	11.4	6.6	19.5
Nondefense	Jan.	3/5/74	12.0	3.7	3.4	16.7
Defense	Jan.	3/5/74	2.4	77.9	26.2	35.7
Inventories to sales ratio:						
Manufacturing and trade, total	Jan.	3/13/74	1.43	1.46 1/	1.43 1/	1.45 1/
Manufacturing	Jan.	3/5/74	1.54	1.60 1/	1.56 1/	1.58 1/
Trade	Jan.	3/13/74	1.31	1.32 1/	1.29 1/	1.31 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	Jan.	3/5/74	.713	.716 1/	.718 1/	.846 1/
Retail sales, total ($bil.)	Feb.	3/11/74	42.6	- .7	- .9	3.3
GAF	Feb.	3/11/74	11.4	.5	1.6	6.1
Auto sales, total (mil. units) 3/	Feb.	3/8/74	9.0	-4.4	-14.1	-24.6
Domestic models	Feb.	3/5/74	7.4	-3.6	-15.2	-25.4
Foreign models	Feb.	3/8/74	1.6	-8.0	-8.4	-20.8
Plant & equipment expen. ($bil.) 4/						
All industries	1974	3/7/74	112.72	--	--	13.0
Manufacturing	1974	3/7/74	45.37	--	--	19.3
All industries	2nd H'74	3/7/74	116.43	--	--	13.4
Manufacturing	2nd H'74	3/7/74	46.87	--	--	25.2
Housing starts, private (thous.) 3/	Jan.	2/19/74	1,486	6.1	-11.2	-39.9
Leading indicators (1967=100)	Jan.	2/28/74	167.4	2.0	.6	7.4

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate. 4/ Planned--Commerce February survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Recent economic news has been mixed. Adjustments to the oil shortage are still acting as a drag on overall economic activity, but the rate of decline may be moderating, as auto sales and assemblies have tended to stabilize. Prices have continued to rise rapidly. There have been more frequent reports that the oil embargo may be lifted; as of this writing, however, no action has been taken.

Industrial production is estimated to have declined 0.6 per cent in February, following somewhat larger reductions in December and January. Auto assemblies declined a little in February following sharp earlier reductions, but production in the auto supplying industries was off considerably. Output of nondurable consumer goods fell for the third consecutive month. Production of business equipment appears to have been maintained close to the downward revised January level. Recent sluggishness in the business equipment sector appears to be partly the result of supply and capacity limitations.

Developments in the labor market in February were somewhat more encouraging than in the preceding few months. The unemployment rate remained unchanged at 5.2 per cent. Total payroll employment rose appreciably, following an upward revision of the January estimate, but there was a further large decline in manufacturing, heavily concentrated in durable goods industries.

Consumer demand continued weak in February. Unit auto sales declined a little further from an already low January level, reflecting a drop in sales of both imported cars and small domestic-type models. Retail sales other than for autos rose in nominal terms in February, but were down in real terms and apparently were below the average of the fourth quarter of 1973.

On the other hand, business demands for fixed capital still appear relatively strong. A rise in new orders for nondefense capital goods in January made up for a December decline; the January level was 2-1/2 per cent above the fourth quarter. Order backlogs and unspent capital appropriations in manufacturing were very large at year-end. The latest Commerce survey, taken in February, now indicates a rise of 13 per cent in plant and equipment expenditures this year, compared with 12 per cent in the previous survey. The upward revision occurred mainly among suppliers of energy.

The rise in wage rates appears to have been quite moderate in January and February, following large increases earlier. The adjusted average hourly index for the private nonfarm economy in February was 6-3/4 per cent higher than a year earlier.

Wholesale prices rose sharply further in February, but average increases for both farm products and foods and for industrial commodities were not as large as in January. Industrial commodity prices rose 1.3 per cent, compared with an average of 2.7 per cent over the preceding three months. Increases were large and widespread, but the rise in petroleum prices was less precipitous. In January, the consumer price index rose 1 per cent, with foods and fuels accounting for a substantial portion of the total increase.

Outlook. Staff assumptions are virtually unchanged from last month. (1) The projection assumes continuation of the oil embargo. (2) Growth in M_1 is assumed to average about 5-3/4 per cent over the year. Short-term interest rates, given the M_1 assumption and the slower growth in nominal GNP, would be expected to decline somewhat in the next few months from recently higher levels, and then to rise in the second half of the year. (3) Our fiscal assumptions are close to those of the budget, although with a somewhat different timing pattern for expenditures in calendar 1974. We have not incorporated the "emergency windfall profits tax" for petroleum and products. (4) The projection assumes that wage and price controls--except for health services and petroleum--will be ended by April 30, when the legislation expires.

Real GNP is now projected to be a little weaker in the first half of the year than in last month's projection, and to be a little stronger in the second half. For 1974 as a whole, however, the figures are virtually the same as a month ago. The unemployment rate is projected to show the same pattern as before, rising to a little over 6 per cent in the fourth quarter.

The staff is now projecting a decline in real GNP at an annual rate of close to 3-1/2 per cent in the first quarter. Consumer spending appears even weaker than it did four weeks ago, and the saving rate is projected to remain near the relatively high fourth quarter level. Real purchases of both durable and nondurable goods are likely to be down for the quarter. Residential construction activity is off sharply further. Available inventory data are quite limited, but we expect about the same rate of inventory investment as in the fourth quarter, even though dealer stocks of autos may not add to the total, in contrast to the large rise in the fourth quarter.

The main change in the projection for the second half of the year is a somewhat larger rise in business fixed investment. The new pattern is consistent with the latest Commerce survey, which indicates somewhat more expansion in the second half of 1974. We still expect a rise in real consumer purchases in the second half, with auto sales increasing because of the greater availability of small cars, also, housing starts and residential construction activity are still projected to increase moderately. Business inventory investment, however, is projected to decline further in view of the generally moderate nature of final demands.

Price increases in the first half are projected to be slightly larger than earlier expected, averaging a 7-3/4 per cent annual rate for the private fixed weight deflator. The sharper increases in prospect for food prices account for the upward revision. In the second half of the year, the private fixed weight deflator is still projected to increase at an annual rate of 5-3/4 per cent.

STAFF GNP PROJECTIONS

	Changes in nominal GNP ($ billions)		Per cent change annual rate: Real GNP		Per cent change annual rate: Gross private product fixed weighted price index		Unemployment rate (Per cent)	
	2/13/74	3/13/74	2/13/74	3/13/74	2/13/74	3/13/74	2/13/74	3/13/74
1971 1/	78.3	78.3	3.2	3.2	4.6	4.6	5.9	5.9
1972 1/	99.7	99.7	6.1	6.1	3.2	3.2	5.6	5.6
1973	133.0 2/	133.9 1/	5.9 2/	5.9 1/	5.9 2/	6.1 1/	4.9	4.9
1974	97.2	99.5	.3	.2	7.3	7.6	5.8	5.8
1973: I	43.3	43.3	8.7	8.7	7.0	7.0	5.0	5.0
II	29.5	29.5	2.4	2.4	7.9	7.9	4.9	4.9
III	32.5	32.5	3.4	3.4	7.0	7.0	4.7	4.7
IV	29.5 2/	33.0 1/	1.3 2/	1.6 1/	7.6 2/	8.6 1/	4.7	4.7
1974: I	16.0	15.5	-3.0	-3.4	8.0	8.3	5.4	5.3
II	20.5	19.0	- .7	-1.5	7.0	7.3	5.8	5.8
III	24.0	26.0	1.3	1.9	5.8	5.8	6.0	6.0
IV	32.0	33.5	3.0	3.5	5.7	5.7	6.2	6.2
Change: 72-IV to 73-IV	134.8 2/	138.3 1/	3.9 2/	4.0 1/	7.5 2/	7.8 1/	-.6	- .6
73-IV to 74-IV	92.5	94.0	.1	.1	6.6	6.8	1.5	1.5

1/ Actual.
2/ Commerce preliminary estimates.

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.)

	1973	1974 Proj.	1973		1974 Projection			
			III	IV	I	II	III	IV
Gross National Product	1289.1	1388.6	1304.5	1337.5	1353.0	1372.0	1398.0	1431.5
Final purchases	1281.1	1377.9	1299.8	1319.4 1/	1336.0	1361.0	1390.0	1424.5
Private	1004.0	1069.6	1020.8	1033.8 1/	1040.6	1056.6	1078.0	1103.0
Excluding net exports	998.2	1066.9	1013.2	1021.0	1033.9	1052.0	1077.0	1104.7
Personal consumption expenditures	804.0	868.5	816.0	825.2	840.1	858.2	877.5	898.2
Durable goods	130.8	125.9	132.8	125.6	124.0	124.0	126.0	129.5
Nondurable goods	335.9	372.0	341.6	349.6	357.8	367.7	376.7	385.6
Services	337.3	370.7	341.6	350.0	358.3	366.5	374.8	383.1
Gross private domestic investment	202.1	209.2	202.0	213.9	210.8	204.8	207.5	213.5
Residential construction	58.0	48.3	59.2	54.0	48.6	45.6	47.8	51.3
Business fixed investment	136.2	150.1	138.0	141.8	145.2	148.2	151.7	155.2
Change in business inventories	8.0	10.8	4.7	18.0	17.0	11.0	8.0	7.0
Nonfarm	7.3	10.6	3.2	17.3	17.5	11.5	7.5	6.0
Net exports of goods and services 2/	5.8	2.7	7.6	12.8 1/	6.7	4.6	1.0	-1.7
Exports	102.0	125.0	104.5	116.4 1/	120.0	124.7	126.3	128.9
Imports	96.2	122.3	97.0	103.6	113.3	120.1	125.3	130.6
Gov't. purchases of goods and services	277.1	308.3	279.0	285.6 1/	295.4	304.4	312.0	321.5
Federal	106.6	115.6	106.8	106.8 1/	110.9	114.4	116.5	120.5
Defense	73.9	78.2	74.2	73.0 1/	75.4	77.4	78.5	81.5
Other	32.7	37.4	32.7	33.8	35.5	37.0	38.0	39.0
State & local	170.5	192.8	172.2	178.8	184.5	190.0	195.5	201.0
Gross national product in constant (1958) dollars	837.4	838.7	841.3	844.6	837.3	834.2	838.1	845.3
GNP implicit deflator (1958 = 100)	153.9	165.5	155.1	158.4	161.6	164.5	166.8	169.3
Personal income	1035.4	1131.6	1047.1	1078.9	1095.3	1118.9	1143.6	1168.4
Wage and salary disbursements	691.5	746.8	699.3	717.2	726.7	737.0	752.2	771.2
Disposable income	882.5	961.6	891.1	917.8	931.4	951.4	971.8	991.8
Personal saving	54.8	66.4	51.1	67.1	65.7	66.9	67.2	65.7
Saving rate (per cent)	6.2	6.9	5.7	7.3	7.1	7.0	6.9	6.6
Corporate profits before tax	126.6	122.6	129.0	129.0e	124.0	121.5	120.5	124.5
Corp. cash flow, net of div. (domestic)	109.0	110.5	110.6	110.6e	109.4	109.5	109.9	113.2
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	265.2	289.4	269.5	276.0e	282.3	286.0 3/	290.8	298.3
Expenditures	264.0	299.7	265.6	269.6	281.1	303.6 3/	303.6	310.4
Surplus or deficit (-)	1.2	-10.3	4.0	6.4e	1.2	-17.6 3/	-12.8	-12.1
High employment surplus or deficit (-)	-1.3	.1	-2.1	1.1	3.2	-8.9	1.2	4.8
State and local government surplus or deficit (-), (N.I.A. basis)	10.5	1.2	10.4	6.3e	5.3	1.8	- .1	-2.2
Total labor force (millions)	91.0	93.4	91.3	92.2	92.9	93.2	93.5	93.8
Armed forces "	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Civilian labor force "	88.7	91.1	89.0	89.9	90.6	90.9	91.2	91.5
Unemployment rate (per cent)	4.9	5.8	4.7	4.7	5.3	5.8	6.0	6.2
Nonfarm payroll employment (millions)	75.6	76.6	75.7	76.6	76.6	76.4	76.5	76.7
Manufacturing	19.8	19.7	19.8	20.1	19.9	19.7	19.6	19.6
Industrial production (1967 = 100)	125.6	125.1	126.7	127.0	125.2	124.2	124.9	126.1
Capacity utilization, mfg. (per cent)	83.0	79.6	83.3	82.8	80.7	79.3	79.1	79.2
Major materials (per cent)	94.9	90.3	96.0	95.3	91.7	90.2	89.7	89.7
Housing starts, private (millions, A.R.)	2.04	1.59	2.01	1.58	1.46	1.50	1.65	1.75
Sales new autos (millions, A.R.)	11.44	9.35	11.74	10.09	9.15	9.00	9.25	10.00
Domestic models	9.67	7.63	10.11	8.44	7.50	7.25	7.50	8.25
Foreign models	1.77	1.72	1.63	1.65	1.65	1.75	1.75	1.75

1/ Includes effects of shipments of military equipment and supplies to Israel; these are now estimated at $2.5 billion annual rate and considered as a sale, with $2.4 billion coming from U.S. military stocks and thus reducing defense purchases by that amount.

2/	1973	1974 Proj.	1973 III	1973 IV	1974 I	1974 II	1974 III	1974 IV
Net exports of g. & s. (bal. of paymts.)	6.4	3.7	8.6	13.8	7.8	5.7	2.0	- .7
Exports	102.4	125.3	104.9	116.7	120.3	125.0	126.6	129.2
Imports	96.0	121.6	96.2	102.9	112.6	119.4	124.6	129.9

3/ Includes a one-time payment of a grant to India of $2.2 billion ($8.8 billion annual rate) worth of rupees as part of an overall rupee debt settlement.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1973	1974 Proj.	1973		1974 Projection			
			III	IV	I	II	III	IV
	Billions of Dollars							
Gross National Product	133.9	99.5	32.5	33.0	15.5	19.0	26.0	33.5
Inventory change	2.0	2.8	.2	13.3	-1.0	-6.0	-3.0	-1.0
Final purchases	132.0	96.8	32.3	19.6	16.6	25.0	29.0	34.5
Private	109.9	65.6	28.6	13.0	6.8	16.0	21.4	25.0
Net exports	10.4	-3.1	4.8	5.2	-6.1	-2.1	-3.6	-2.7
Excluding net exports	99.5	68.7	23.8	7.8	12.9	18.1	25.0	27.7
Personal consumption expenditures	77.5	64.5	20.4	9.2	14.9	18.1	19.3	20.7
Durable goods	13.4	-4.9	.0	-7.2	-1.6	.0	2.0	3.5
Nondurable goods	36.0	36.1	11.3	8.0	8.2	9.9	9.0	8.9
Services	28.1	33.4	9.0	8.4	8.3	8.2	8.3	8.3
Residential fixed investment	4.0	-9.7	- .4	-5.2	-5.4	-3.0	2.2	3.5
Business fixed investment	18.0	13.9	3.9	3.8	3.4	3.0	3.5	3.5
Government	22.1	31.2	3.7	6.6	9.8	9.0	7.6	9.5
Federal	2.2	9.0	- .5	.0	4.1	3.5	2.1	4.0
State and local	20.0	22.3	4.2	6.6	5.7	5.5	5.5	5.5
GNP in constant (1958) dollars	46.7	1.3	7.0	3.3	-7.3	-3.1	3.9	7.2
Final purchases	45.7	- .5	7.3	-6.2	-6.6	1.3	5.5	8.2
Private	44.0	-4.2	7.5	-5.3	-8.5	- .7	4.4	6.8
	Per Cent Per Year 1/							
Gross National Product	11.6	7.7	10.6	10.5	4.7	5.7	7.8	9.9
Final purchases	11.5	7.6	10.6	6.2	5.1	7.7	8.8	10.3
Private	12.3	6.5	12.0	5.2	2.7	6.3	8.3	9.6
Personal consumption expenditures	10.7	8.0	10.7	4.6	7.4	8.9	9.3	9.8
Durable goods	11.4	-3.7	.0	-20.0	-5.0	.0	6.6	11.6
Nondurable goods	12.0	10.0	14.4	9.7	9.7	11.5	10.2	9.8
Services	9.1	9.9	11.3	10.2	9.8	9.5	9.4	9.2
Gross private domestic investment	13.3	3.3	7.9	25.7	-5.7	-10.9	5.4	12.1
Residential structures	7.4	-16.7	-2.7	-30.8	-34.4	-22.5	20.7	32.7
Business fixed investment	15.2	10.2	12.2	11.5	9.9	8.5	9.8	9.6
Gov't. purchases of goods & services	8.7	11.3	5.5	9.8	14.4	12.8	10.4	12.7
Federal	2.1	8.4	-1.9	.0	16.3	13.2	7.5	14.5
Defense	- .7	5.8	.0	-6.3	13.8	11.0	5.8	16.2
Other	8.6	14.4	-4.7	14.1	21.7	18.0	11.3	10.9
State and local	13.3	13.1	10.4	16.2	13.4	12.5	12.1	11.7
GNP in constant (1958) dollars	5.9	.2	3.4	1.6	-3.4	-1.5	1.9	3.5
Final purchases	5.8	- .1	3.6	-2.9	-3.2	.6	2.7	4.0
Private	6.8	- .6	4.4	-3.0	-4.8	- .4	2.6	4.1
GNP implicit deflator	5.4	7.5	7.0	8.8 2/	8.4 2/	7.3	5.8	6.2 2/
Private GNP fixed weighted index 3/	6.1	7.6	7.6	8.6	8.3	7.3	5.8	5.7
Personal income	10.2	9.3	11.5	12.7	6.2	8.9	9.1	9.0
Wage and salary disbursements	10.1	8.0	10.2	10.6	5.4	5.8	8.5	10.5
Disposable income	10.7	9.0	10.2	12.5	6.1	8.9	8.9	8.5
Corporate profits before tax	29.2	-3.2	.3	.0	-14.6	-7.8	-3.3	14.0
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	16.0	9.1	11.3	10.0	9.4	5.3	6.9	10.7
Expenditures	7.9	13.5	5.3	6.2	18.2	36.1	.0	9.3
Nonfarm payroll employment	3.9	1.3	2.2	4.4	.2	-1.0	.5	1.0
Manufacturing	4.7	- .5	1.2	4.5	-3.3	-4.0	-2.0	.0
Industrial production	9.0	- .4	6.0	1.1	-5.7	-3.1	2.3	3.9
Housing starts, private	-13.4	-7.8	-30.2	-61.4	-27.6	11.4	46.4	26.5
Sales new autos	4.6	-18.3	.2	-45.4	-32.3	-6.4	11.6	36.6
Domestic models	3.7	-21.1	10.1	-51.5	-37.6	-12.7	14.5	46.4
Foreign models	9.8	-2.8	-41.7	5.8	.2	26.5	.0	.0

1/ Percentage rates are annual rates compounded quarterly.
2/ Excluding Federal pay increases rates of change are: 1973-IV 8.2 per cent; 1974-I 8.3 per cent; 1974-IV 5.7 per cent.
3/ Using expenditures in 1967 as weights.

Industrial production. Industrial production is estimated to have declined 0.6 per cent further in February, following a drop of 0.7 per cent (revised) in January and 0.8 per cent in December. The total index, at 124.8 per cent, was down 2.1 per cent from the November high but was 1.1 per cent above February, a year ago.

Auto assemblies declined 4 per cent further in February and were at a seasonally adjusted annual rate of 6.6 million units. Output of other durable consumer goods was maintained at advanced levels but production of nondurable consumer goods declined further. Output of business equipment remained at the reduced January level which reflected strikes at power equipment manufacturers. Production of steel and non-ferrous metals was at capacity rates in February but output of consumer durable materials (mainly in auto supplying industries) declined 3.5 per cent further. Output of the textile, paper, and chemical group and of some other nondurable goods materials was also down.

INDUSTRIAL PRODUCTION

(1967=100, seasonally adjusted)

	1973		1974		Per cent change	
	Feb.	Dec.	Jan.	Feb.	Month ago	Year ago
Total index	123.4	126.5	125.6	124.8	-.6	1.1
Market groupings:						
Final products	119.3	122.1	120.8	120.1	-.6	.7
Consumer goods	130.2	130.7	128.9	128.0	-.7	-1.7
Business equip.	118.2	127.3	126.2	125.9	-.2	6.5
Materials	126.7	130.9	130.1	129.0	-.8	1.8
Industry groupings:						
Manufacturing	122.7	126.7	125.5	124.7	-.6	1.6
Durables	118.7	123.5	122.0	120.6	-1.1	1.6
Nondurables	128.4	131.1	130.7	130.4	-.2	1.6
Mining & utilities	128.0	126.4	125.1	124.4	-.6	-2.8

<u>Retail sales</u>. Total sales in February were 0.7 per cent lower than in January and only 3.3 per cent above a year earlier. Sales of the automotive group declined 5.7 per cent from January and purchases at gasoline stations were down 4.1 per cent. Excluding autos and non-consumer items, sales increased slightly in February.

Sales in February were 0.3 per cent below the fourth quarter average, largely as a result of a continued downtrend in outlays for durable goods. Purchases of nondurable goods were up 2.5 per cent from the final quarter of 1973, with sales of food and general merchandise both increasing more than 4 per cent.

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

	1973		1974	1973	1974	
	Q III	Q IV	Feb./Q IV	Dec.	Jan.p	Feb.
Total sales	2.9	.4	- .3	-2.0	1.9	- .7
Durable	1.9	-3.4	-6.0	-5.8	1.7	-3.3
Auto	3.0	-6.6	-12.1	-9.6	1.0	-5.7
Furniture and appliance	1.0	-1.0	1.5	-3.5	4.0	- .7
Nondurable	3.4	2.3	2.5	- .1	1.9	.5
Food	4.7	1.9	4.2	1.4	-.5	4.0
General merchandise	2.0	1.2	4.5	-2.9	3.8	1.7
Gas stations	.4	3.3	-5.7	-2.2	.8	-4.1
Total, less auto and nonconsumption items	3.1	2.1	2.5	- .4	2.1	.4
GAF	2.1	.7	3.0	-2.1	3.2	.5
Real*	.3	-1.8	n.a.	-2.7	.5	n.a.

*Deflated by all commodities CPI, seasonally adjusted.

<u>Unit sales of consumer durables</u>. February sales of new domestic-type autos were at a 7.4 million unit rate, down 4 per cent from January and off 27 per cent from February last year. Small cars sold at a 2.7 million unit seasonally adjusted annual rate, down 12 per cent from January; while large car sales, at a 4.7 million unit rate, were the same as in January. Small cars accounted for 36 per cent of domestic-type unit sales, down from 39 per cent in January but still above the 27 per cent of February a year earlier.

Stocks of all domestic-type new autos were equivalent to a 68 day supply in February, the same as in January and down slightly from the December high. The imbalance between stocks of large and small cars lessened somewhat; nevertheless, large car stocks are still more than double those of small cars in terms of days supply.

Foreign auto sales in February were at a 1.6 million unit rate, down 8 per cent from January and down 21 per cent from February last year when the dollar devaluation encouraged purchases of imports already landed. The market share of imports (seasonally adjusted) was 18 per cent, approximately the same as in January but higher than the 17 per cent in February last year.

Factory sales of major home appliances, TVs, and radios in the first two weeks of February were up sharply from January due to strong improvements in the sales of TVs and radios. Sales to dealers of major appliances were about the same as in January.

SALES OF SELECTED CONSUMER DURABLES
Seasonally adjusted

	1974	1973-1974			Per cent change from	
	Feb.	Dec.	Jan.	Feb.	Month ago	Year ago
Auto sales	12.1	9.7r	9.4r	9.0	- 6	-26
Foreign	2.0	1.7	1.7r	1.6p	- 8	-21
Domestic	10.1	8.0r	7.7	7.4	- 4	-27
Small	2.7	3.1	3.0	2.7	-10	0
Large	7.4	4.9	4.7	4.7	0	-36
Home goods factory unit sales	154	160	136	150	11	- 2
TVs 1/	158	163	128	160e	25	1
Radios 1/	158	126	52	112e	115	-29
Major appliances	150	159	146	147	1	- 2

1/ Includes domestic and foreign label imports.
e/ Estimated on the basis of data through February 16.

Manufacturers orders and shipments. New orders for durable goods rose 4.8 per cent in January (p), but this followed a drop of 6.2 per cent in December. The January increase was widespread but was especially evident in the defense capital goods industries. Excluding defense, new orders rose by 2.3 per cent. Primary metals orders continued to decline. Orders for motor vehicles and parts, after declining in November and December, increased 4.9 per cent in January. Nondefense capital goods orders rose 3.7 per cent following a 3.4 per cent decline in December.

Shipments of durable goods rebounded sharply with a 4.3 per cent increase in January following a 4.0 per cent drop in December;

both the December drop and the January rise were across the board. Unfilled orders increased 1.4 per cent in January--a bit faster than in December but still much slower than earlier in 1973.

The recent pattern of new and unfilled orders for non-defense capital goods is broadly consistent with the new plant and equipment spending plans just released by the Commerce Department. The pickup in new orders since the sluggish third quarter of 1973 and the continued strong increases in unfilled orders would suggest sizable gains in investment through at least the first half of 1974; the current level of backlogs would support shipments at the current pace until late in the fourth quarter.

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

	1973			1974
	QIII from QII 1/	QIV from QIII 1/	Dec. from Nov.	Jan. from Dec. (p)
Durable goods, total	.7	1.8	- 6.2	4.8
Excluding defense	1.8	1.2	- 4.6	2.3
Primary metals	-2.8	.3	- 2.0	-8.7
Motor vehicles and parts	6.7	-7.2	-16.9	4.9
Household durables	.5	4.2	-10.2	6.7
Nondefense capital goods	2.3	4.2	- 3.4	3.7
Defense capital goods	-22.7	16.7	-37.7	77.9
Construction and other durables	1.7	2.8	.4	4.6

1/ Changes between quarters are based on quarterly average levels.

<u>Inventories</u>. The book value of manufacturers' and wholesale trade inventories rose at a $27 billion annual rate in January (p), down from the $37 billion December rate. The slowing in manufacturing inventory growth was widespread, with some net liquidation in steel mill inventories. Work-in-process inventories declined at a $0.6 billion annual rate in January after rising at an $8.6 billion rate in December, while finished goods stocks rose at little more than half the December rate. However, inventories of materials and supplies increased almost as much in January as in December. Wholesale trade inventories rose faster in January than in December with much of the increase in farm products and foods--areas of substantial price increases in January.

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

	1973				1974
	QIII	QIV(p)	Nov.	Dec.(p)	Jan.(p)
Manufacturing and trade	20.4	33.4	38.5	37.1	n.a.
Manufacturing, total	12.4	19.0	14.5	29.2	14.7
Durable	9.8	12.8	8.3	21.6	9.7
Nondurable	2.6	6.3	6.2	7.7	5.0
Trade, total	8.1	14.4	24.0	7.9	n.a.
Wholesale	4.5	6.6	10.6	7.9	12.2
Retail	3.6	7.8	13.4	- .1	n.a.
Auto	1.5	4.5	6.5	1.5	n.a.

The total manufacturing inventory-shipments ratio declined from 1.60 in December to 1.54 in January--the same level as last November which was the lowest in 1973. The wholesale trade inventory-sales ratio was unchanged at 1.09 in January. The ratio of inventories to unfilled orders at durable goods producers edged down from .716 in December to .713 in January.

INVENTORY RATIOS

	1972 Dec.	1973 Jan.	1973 Dec. (p)	1974 Jan. (p)
Inventories to sales:				
Manufacturing and trade	1.45	1.43	1.44	n.a.
Manufacturing, total	1.61	1.58	1.60	1.54
Durable	1.92	1.87	1.98	1.91
Nondurable	1.23	1.23	1.18	1.13
Trade, total	1.30	1.29	1.29	n.a.
Wholesale	1.18	1.17	1.09	1.09
Retail	1.39	1.36	1.45	n.a.
Inventories to unfilled orders:				
Durable manufacturing	.856	.846	.716 r/	.713

Cyclical indicators. The Census composite index of leading indicators rose 2.0 per cent in January (p), following a downward-revised 2.7 per cent decline in December. The Census leading index, prior to trend adjustment, was up 1.6 per cent in January and the Boston FRB deflated index (also with no trend adjustment) was up 0.4 per cent. The coincident and deflated coincident indexes both declined for the second straight month.

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

	1973					1974
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan. (p)
12 Leading, trend adjusted	1.0	-1.4	1.0	1.4	-2.7	2.0
5 Coincident	.6	.8	1.5	1.1	- .2	-1.4
5 Coincident, deflated	- .7	.9	1.1	.5	-1.1	-2.0
6 Lagging	2.2	1.7	1.6	1.5	1.7	.4
	---Leading indexes prior to trend adjustment---					
Census undeflated	.6	-1.7	.6	1.0	-3.1	1.6
Boston FRB deflated	- .9	- .8	.7	.4	-4.7	.4

Of the eight leading series available for January, those increasing were industrial materials prices, the ratio of price to unit labor cost, new orders for durable goods, common stock prices and building permits. The average workweek in manufacturing, contracts and orders for plant and equipment and initial claims for unemployment insurance (inverted) all declined in January.

Series available so far for February are common stock prices which declined and the average workweek which rose.

Construction and real estate. Value of new construction put in place continued downward in February, mainly reflecting a further decline in private residential outlays, which were 20 per cent below the peak reached a year earlier. Private non-residential and public construction expenditures remained relatively close to their earlier highs.

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

	1973			1974	Per cent change February from	
	QI	QIII	QIV(r)	Feb. 1/	Jan. 1974	Feb. 1973
Total - current dollars	136.5	136.9	136.2	131.6	-1	- 3
Private	103.3	105.0	102.2	97.6	-1	- 6
Residential	60.5	59.4	54.6	49.4	-2	-20
Nonresidential	42.8	45.5	47.6	48.3	--	+13
Public	33.2	31.9	34.1	34.0	-1	+ 5
State and local	28.0	27.2	29.3	29.3	--	+ 7
Federal	5.2	4.7	4.7	4.7	-7	- 3
Total - 1967 dollars	94.0	88.9	86.7	82.7	-1	-12

1/ Data for February 1974 are confidential Census Bureau extrapolations. In no case should public reference be made to them.

On a constant dollar basis, the over-all value of construction put in place was down 12 per cent from the January 1973 peak. Altogether, the Census composite index of construction costs has continued upward in recent months at a level about one-tenth above a year earlier. This rise compares with a 9 per cent increase during 1973 and 7 per cent in other recent years.

Merchant builder sales of new single-family homes rose 6 per cent in January, but remained well below a year earlier and the October 1972 peak. The number of unsold new homes edged higher and, at the current sales rate, continued close to December's record 12 months' supply. The median price of units sold declined 4 per cent, but was still above the rising median price of houses available for sale.

SALES, STOCKS AND PRICES OF NEW SINGLE FAMILY HOMES

	Homes sold 1/	Homes for sale 2/	Months' supply	Median price of: Homes sold	Median price of: Homes for sale
	(Thousands of units)			(Thousands of dollars)	
1973					
QI(r)	726	426	7.0	30.3	29.4
QII(r)	680	436	7.7	32.6	31.2
QIII(r)	566	435	9.2	33.5	32.1
QIV(r)	484	446	11.1	33.9	32.9
October(r)	505	451	10.7	33.3	32.3
November(r)	513	448	10.4	33.9	32.6
December(r)	435	446	12.3	35.9	32.9
1974					
January(p)	461	452	11.7	34.3	33.4

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

While median prices of new and existing homes sold continued high in January, a large part of the earlier increase apparently reflected a shift in the mix of sales. After allowances for quality differences, for example, the price index of new homes sold by merchant builders rose little further from the third to fourth quarter of last year. Even so, the price index was 10 per cent above a year earlier, the same as the average increase for 1973 as a whole. Meanwhile, demand for new rental apartments remained very strong. A near record 75 per cent of the new units that became available during the third quarter had been rented by year-end, though this may have reflected to some extent some slowing in completions.

Anticipated plant and equipment spending. The Commerce Department's recent survey of plant and equipment spending--taken in late January and early February--shows that businesses are planning a 13.0 per cent increase for 1974, as compared to the 12.0 per cent gain indicated in the prior survey taken in December. Manufacturers anticipate larger outlays than planned earlier, with nondurable goods industries, sparked by food and beverages and petroleum, showing larger upward revisions than durable producers. Outside of manufacturing, plans on average remain unchanged. For all industries, anticipations for the first two quarters of 1974 have been revised downward, and plans for the second half of the year show larger increases than plans for the first half. Actual fourth quarter outlays (at annual rates) were $1.2 billion less than plans indicated in November; as a result, plant and equipment expenditures registered a 12.8 per cent increase for 1973, slightly less than previously expected.

The results of the Commerce survey differ from those reported in rechecks of surveys by McGraw-Hill, Rinfret-Boston-Associates and Lionel D. Edie and Co. These resurveys, taken at about the same time as the Commerce survey, show anticipated gains of around 19 per cent for 1974, up significantly from those reported in the fall. The private surveys also indicate large upward revisions in the plans of energy supplying industries--a pattern that is not so pronounced in the Commerce survey. It should be noted that the McGraw-Hill, Rinfret, and Edie samples are dominated by large firms, whereas the Commerce survey is more comprehensive; this explains a good deal of the discrepancy between the Commerce and private surveys.

EXPENDITURES FOR PLANT AND EQUIPMENT BY
U.S. BUSINESSES IN 1974
(Figures are per cent changes from prior year)

		Lionel D. Edie		Rinfret-Boston		McGraw-Hill		Commerce	
Survey Date	1973	Oct. 1973 1/	Feb. 1974 1/	Sept. 1973	Feb. 1974 1/	Oct. 1973	Feb. 1974	Dec. 1973	Feb. 1974
All industry	12.8	12	19	15.3	19.3	13.6	18.5	12.0	13.0
Manufacturing	21.2	19	33	23.6	33.3	24	31	16.8	19.3
Durables	23.1	21	37	23.3	32.3	26	30	16.6	17.6
Nondurables	19.4	17	28	23.9	34.4	22	32	17.1	21.1
Nonmanufacturing 2/	8.1	7	11	10.3	10.7	7	11	9.1	9.1
Railroads	9.2	20	25	9.6	15.2	10	21	17.2	21.3
Air & other transp.	3.8	-9	n.a.	-7.9	10.0	-11	-11	-5.7	-8.6
Electric utilities	9.9	14	15	15.5	16.3	14	18	15.7	17.0
Gas utilities	9.5	10	29	11.3	17.3	5	31	18.3 1/	29.7 1/
Communications	8.1	5	7	13.8	7.1	5	7	10.8 1/	10.1 1/
Commercial	6.6	4	10	8.0	8.5	4	6	3.2 1/	1.4 1/

1/ Confidential results.
2/ Contains industries not shown separately.

Newly approved capital appropriations of large manufacturing companies, as reported by the Conference Board, edged upward in the fourth quarter of 1973. The dollar value of appropriations remained at a high level and backlogs of unspent appropriations continued to climb; backlogs could support the current level of capital spending in manufacturing for close to five quarters.

Labor market. The unemployment rate remained at 5.2 per cent in February as both total employment and the labor force were unchanged. Jobless rates for most major labor force groups showed little change over the month. Since October, however, the number of unemployed workers has increased by 650,000 and the over-all unemployment rate has climbed over a half a percentage point, with increases in joblessness wide-spread. Particularly hard hit have been semi-skilled blue collar workers and sales workers in industries affected by energy shortages. In addition, the number of full time workers reduced to part-time status because of adverse economic factors has increased by half a million since October.

SELECTED UNEMPLOYMENT RATES
(Per cent, seasonally adjusted)

	Feb. 1973	Oct. 1973	Jan. 1974	Feb. 1974
Total	5.1	4.6	5.2	5.2
Males 20 years and over	3.4	3.0	3.4	3.5
Males 25-54 years	2.8	2.2	2.7	2.7
Females 20 years and over	5.0	4.4	5.2	5.1
Teenagers	15.6	14.0	15.6	15.3
Household heads	3.0	2.7	3.0	3.0
State insured	2.8	2.7	3.0	3.2
White workers	4.6	4.1	4.7	4.7
Negro and other races	9.0	8.4	9.4	9.2
White collar	3.0	2.6	3.2	3.2
Blue collar	5.7	5.1	6.0	6.1

Manufacturing employment declined again in February although a rise in trade and service jobs and a rebound in construction pushed total nonfarm payroll employment up by 175,000, following declines in the preceding two months. The February increase and a large upward revision in the January figure returned the payroll job total to the level reached in November 1973, but the number of manufacturing jobs was down by 235,000. Job losses in manufacturing have been largest in the transportation equipment industry reflecting, in large part, reduced consumer demand for autos stemming from the gas shortage. In addition, employment in trade is down since November (much of it in gas stations and auto dealerships), and the pace of service employment growth has slowed somewhat.

CHANGES IN PAYROLL EMPLOYMENT
(In thousands; seasonally adjusted)

	Feb. 1972- Feb. 1973	Feb. 1973- Aug. 1973	Aug. 1973- Nov. 1973	Nov. 1973- Feb. 1974
	------------Average monthly change----------			
Total nonfarm	247	172	311	5
Private	215	155	244	-31
Manufacturing	81	46	78	-78
Durable goods	66	45	56	-73
Transportation equipment	11	2	-1	-60
Service-producing	126	92	151	36
Trade	55	40	56	-12
Service	48	37	72	30
Government	33	17	67	37

Preliminary data based on employer reports indicate that from November to February between 125,000 and 200,000 jobs were lost as a direct result of employer inability to obtain sufficient supplies of fuel and petroleum-based products to maintain previous levels of operation. Principally affected were gasoline service stations and airlines. Another estimate of the employment impact of energy shortages comes from the unemployment insurance program, where about a quarter million of the over 2 million workers filing continuing claims for benefits report that their joblessness is either directly or indirectly energy related.

Earnings. The average hourly earnings index for private nonfarm production workers rose moderately in January and February and generally has been growing at a reduced rate since the fall; slowdowns from the pace earlier in the year have been evident in all industries. Over the year the hourly earnings index has increased 6-3/4 per cent, with similar rates of increase in all major industries.

Minimum wage. A comparison of the minimum wage legislation currently before Congress is shown below. The Senate recently passed S. 2747 (the Williams-Javits bill) and the House bill (Dent)--H.R. 12435--has been reported to the full Labor Committee which is expected to act soon. The major differences between the Senate and House bills are: (1) the wage package--the Williams-Javits bill has a lower minimum but a faster schedule of increase than its House counterpart. (2) coverage--the Senate proposal would extend coverage to all domestics who qualify for social security (earn $50 a quarter) while the House bill limits coverage to those who work at least 8 hours a week. Both bills are expected to cost about $1.5 billion this year if they are enacted.

COMPARISON OF MINIMUM WAGE BILLS

Employees covered	Present law	House bill H.R. 12435 1/		Senate S. 2747 2/	
Pre-1966	$1.60	$2.00	1974	$2.00	1974
		2.10	1/1/75	2.20	1975
		2.30	1/1/76		
Post-1966	1.60	1.90	1974	1.80	1974
		2.00	1/1/75	2.00	1975
		2.20	1/1/76	2.20	1976
		2.30	1/1/77		
Agricultural	1.30	1.60	1974	1.60	1974
		1.80	1/1/75	1.80	1975
		2.00	1/1/76	2.00	1976
		2.20	1/1/77	2.20	1977
		2.30	1/1/78		

1/ Effective date is first day of second full month after enactment of legislation.
2/ Effective date is first day of first full month after enactment, and anniversary date thereafter.

Wholesale prices. Wholesale prices rose 1.2 per cent, seasonally adjusted (not at an annual rate), from January to February. Increases for industrial commodities were large and widespread, and prices of farm products and foods also rose further.

WHOLESALE PRICES
(Per cent changes at seasonally adjusted compound annual rate)

		1973 1/				
			Freeze		Phase IV	
	Feb. 1973 to Feb. 1974	Dec. 1972 to June 1973	June to July	July to Aug.	Aug. 1974 to Feb.1974	Jan.1974 to Feb.1974
		(6 mo.)	(1 mo.)	(1 mo.)	(6 mo.)	(1 mo.)
All commodities	20.3	22.3	-15.5	106.4	13.5	15.4
Farm products	26.8	47.5	-43.0	735.2	- 6.1	8.4
Industrial commodities	17.5	12.5	.7	4.8	24.6	16.8
Crude materials	42.7	23.3	15.1	15.8	65.8	132.9
Intermediate materials	16.0	13.3	- .9	8.7	20.2	20.6
Finished goods	77.4	10.0	- 1.0	3.6	26.3	7.9
Producer	6.7	5.7	1.0	7.0	7.5	9.8
Consumer nonfoods	22.1	12.2	- 2.0	2.0	36.1	7.0
Nondurable	32.2	17.0	- 2.9	1.0	56.0	6.4
Durable	5.4	5.0	2.1	5.3	4.8	6.2
Consumer finished foods	24.5	28.3	- 9.5	243.7	9.9	35.9

Note: Farm products include farm products and processed foods and feeds.
1/ The freeze extended from June 13 to August 13, with controls relaxed for most controlled foods on July 18. Beef ceilings were removed on September 10, and stage B of food regulations took effect. Phase IV began on August 13. The WPI pricing date for August was the 14th.

The index of prices of industrial commodities increased 1.3 per cent, seasonally adjusted, with higher prices for fuels and power, metals and metal products, textile products and apparel, chemicals, and building materials accounting for most of the rise. After adjustment for seasonal influences, the lumber and wood products group declined.

Although increases in prices of industrial commodities have been widespread in recent months, the fuels and power group has been especially important in the large overall rise that has occurred since last September, as may be seen in the table below.

WHOLESALE PRICES OF
INDUSTRIAL COMMODITIES
(Not seasonally adjusted)

Commodities	Percentage increases September 1973 to February 1974	Contributions to Increase
Industrial commodities	11.2	100.0
Fuels and related		
Products and power	53.1	52.5
Petroleum products, refined	89.7	44.3
Gasoline	96.4	26.7
Metals and metal products	10.1	16.7
Textile products and apparel	6.6	5.7
Machinery and equipment	3.6	5.1
Nonmetallic mineral products	9.4	3.5

The increase in prices of fuels was of major importance in the rise in wholesale prices from January to February, but the rise was smaller than in recent months and the overall advance in industrial prices also slowed despite large increases for metals and some other products.

A significant decline has occurred in spot prices of foodstuffs since the end of February, but it is too soon to conclude that it will continue. Livestock prices have been falling recently, but the decline appears to be a temporary result of higher slaughter rates due to relatively large numbers of heavy-weight cattle on feed and the end of the truckers' strike. Livestock prices are expected to rise again during the next few months as slaughter rates fall, and meat prices--which have declined somewhat--are then likely to rise.

The March drop in grain prices follows an earlier climb to very high levels. The decline may continue, but demand, nevertheless, remains high in relation to likely increases in supply this year and any deterioration in crop prospects could lead to higher prices.

Since the last week in February lower prices have also been reported for some industrial commodities--fibers, silver, and hides, for example--but prices of some other commodities, notably scrap metals, have risen. The net effect of these changes has been little movement in overall industrial materials prices in comparison with the drop that agricultural prices have shown.

Consumer prices. Consumer prices rose at an annual rate of 12.6 per cent, seasonally adjusted, in January as food prices resumed a steep advance and fuel prices climbed further. The index was 9.4 per cent above January 1973. Excluding the food and energy components, the 12-month increase would have been about 5 per cent, and the annual rate of rise from December, about 5-1/2 per cent.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)[1/]

	Relative importance Dec. 1973	Dec. 1972 to Dec. 1973	Dec. 1972 to June 1973	June 1973 to Sept. 1973	Sept. 1973 to Dec. 1973	Dec. 1973 to Jan. 1974
All items	100.0	8.8	8.0	10.3	9.0	12.6
Food	24.8	20.1	21.5	28.8	9.2	19.0
Commodities less food	38.6	5.0	4.7	2.6	7.9	15.2
Services 2/	36.5	6.2	4.0	7.4	9.4	8.3
Addendum:						
All items less food and energy components 3/ 4/	68.8	4.7	3.8	5.6	5.5	5.4
Services less home finance 2/ 3/ 5/	29.9	5.1	4.3	4.8	7.2	8.6
Commodities less food, used cars, home purchase 3/	30.9	5.8	5.3	2.3	10.5	18.1

1/ Not compounded for one-month changes.
2/ Not seasonally adjusted.
3/ Confidential--not for publication.
4/ Excludes food, gasoline and motor oil, fuel oil and coal, and gas and electricity.
5/ 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.

Meat, particularly poultry, and egg prices were up sharply after receding from last August's peak levels. Most other food groups also posted substantial advances, especially processed fruits and vegetables, but the increases were not as large as in previous months for prices of dairy products and cereal and bakery products, which have soared since last July.

In February, according to preliminary, confidential estimates from the Department of Agriculture, beef prices at retail were up sharply and the retail cost of the USDA market basket rose considerably more than in January.

The "spread" between the retail cost and the farm value of the market basket continues at the high levels reached last quarter, about 15 per cent above those in the first quarter of 1973. Since this spread--which includes all nonfarm costs as well as profit margins of processors and distributors--accounted for 56 per cent of the retail cost in QI 1973, its rise contributed more than 8 percentage points to the estimated increase at retail of over 20 per cent between QI 1973 and QI 1974. High spreads on meat products, particularly beef, appear to have been maintained, and those for fruits and vegetables and cereal and bakery products also contributed disproportionately to the total.

FARM-RETAIL SPREADS
(Indexes, 1967=100)

			1973				1974	
	1971	1972	QI	QII	QIII	QIV	Jan.	Feb. 1/
Market basket	116	119	121	126	127	139	138	141
Beef	123	140	141	145	145	183	156	183
Pork	117	109	106	118	110	136	142	148

1/ Preliminary, confidential.

The index for nonfood commodities was boosted further by sharp increases for petroleum products, prices of which have risen since last September by about one-fourth (not annual rate). Prices of other commodities, including household durables and housekeeping supplies, increased more than in recent months, offset in part by a decline for used cars.

ENERGY PRICES AND THE CPI,[1/] 1973
(Percentage changes, seasonally adjusted annual rates)[2/]

	Relative importance Dec. 1973	Dec. 1972 to Dec. 1973	Sept. 1973 to Dec. 1973	Dec. 1973 to Jan. 1974
Gasoline and motor oil, fuel oil and coal	4.0	23.4	75.0	88.2
Gas and electricity	2.4	6.9	11.8	30.3
All items less energy components	93.6	8.3	6.9	9.5

1/ Confidential--not for publication.
2/ Not compounded for one-month changes.

A sharp jump in gas and electricity rates contributed to the over 8 per cent rate of rise in service costs, while prices of medical and other services also rose substantially.

Agriculture. Prices received by farmers increased 1-1/2 per cent during the month ending February 15, to a level 36 per cent above a year ago. Higher prices for vegetables and grains were partly offset by lower livestock prices. In early March livestock prices had dropped another 10 per cent and grains had also declined, but not so steeply.

Red meat production in February was only slightly below January despite a week during the trucker's strike when cattle and hog marketings fell almost 20 per cent below the average for the month. Slow movement of livestock during the strike and the relatively large number of heavy-weight cattle on feed contributed to the large marketings, and were a factor in the weak prices.

The decline in cattle prices relative to feed prices since mid-January further worsens the situation in feeding operations, which have been unprofitable since August. The number of cattle on feed rose 2 per cent during January, to a level 4 per cent below a year ago.

Prices of the traditionally low-priced foods--potatoes, dry beans, and rice--increased 31, 20 and 8 per cent, respectively, from mid-January to mid-February. Prices of these items are now, respectively, 204, 368 and 209 per cent of their levels a year ago.

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	35.1	-24.6	7.1	8.0
Reserves available (RPD's)		February	32.8	--	5.4	8.7
Money supply						
M1		February	272.5	12.9	5.5	5.7
M2		February	580.0	13.2	9.4	9.0
M3		February	906.7	11.2	8.9	8.4
Time and savings deposits (Less CDs)		February	307.5	13.4	13.0	12.1
CDs (dollar change in billions)		February	66.6	1.1	4.6	17.5
Savings flows (S&Ls + MSBs)		February	326.7	7.4	8.1	7.3
Bank credit (end of month)		February	646.0	15.0	10.9	11.7
Market yields and stock prices			Percentage or index points			
Federal funds	wk. endg.	3/6/74	8.98	-.15	-1.19	1.96
Treasury bill (90 day)	"	3/6/74	7.60	.44	.24	1.77
Commercial paper (90-119 day)	"	3/6/74	8.15	-.10	-1.18	1.75
New utility issue Aaa	"	3/8/74	8.37	.24	.31	--
Municipal bonds (Bond Buyer)	1 day	3/7/74	5.27	.11	.12	--
FNMA auction yield	FHA/VA	3/11/74	8.43	-.29	-.38	+.70
Dividends/price ratio (Common stocks)	wk. endg.	2/27/74	3.70	.10	.15	-.16
NYSE index (12/31/65=50)	end of day	3/11/74	52.93	4.36	1.73	-8.09

Credit demands	Period	Net change or gross offerings: Current month 1973	Current month 1972	Year to date 1973	Year to date 1972
Mortgage debt outst. (major holders)	November	3.6	5.3	54.3	50.9
Corporate bonds (public offerings)	December	1.6	1.0	13.6	18.4
Municipal long-term bonds (gross offerings)	December	2.1	1.8	24.0	23.6
		1974	1973	1974	1973
Consumer instalment credit outstanding	January	.9	1.9	.9	1.9
Business loans at commercial banks	February	8.0	11.5	16.3	19.5
Federally sponsored Agcy. (net borrowing)	March	.6	.7	-.1	2.0
U.S. Treasury (net cash borrowing)	March	1.9 e	3.0	.9 e	8.4
Total of above credits		18.7	25.2	109.9	124.7

e - Estimated.

DOMESTIC FINANCIAL SITUATION

In January and again in February, capital market borrowing by businesses remained near the rapid rate of the final months of 1973, while short-term borrowing from both banks and the commercial paper market also continued large. The strength of businesses credit demands is apparently indicative of a slowing in internal corporate cash flows and a continued high rate of inventory accumulation. In addition, the higher prices of goods and services require a larger volume of credit to finance any given pace of real activity.

Although banks and other financial institutions also are borrowing more and State and local bond offerings continue high, other sectors have not been large demanders of funds. Mortgage and consumer credit flows have continued at a reduced level, and the Treasury and Federal agencies have borrowed little.

Commercial bank net inflows of consumer-type time deposits remained high in February. Meanwhile, large weekly reporting banks permitted negotiable CD's to run off in the course of the month in light of other deposit inflows. Inflows of deposits to the savings and loan associations in February continued near the improved pace which began in the fourth quarter, while inflows at savings banks increased from their low January rate. S&Ls continued to increase their liquidity, which still remains below that of early 1973, and have begun to repay FHLB advances. In late February, for the first time in a year, all twelve FHLBank districts reported funds for home mortgages in adequate supply relative to demand. Mortgage rates have continued to edge downward, and there are scattered reports that some S&L deposit rates are being reduced and advertising for deposits curtailed.

Since the February Committee meeting, short-term market rates generally have increased by 1/4 to over 3/4 of a percentage point as market expectations of a further easing in monetary policy were disappointed in light of the stability of the funds rate, Chairman Burns' congressional testimony stressing the need to combat inflation, and the sharp increase in the aggregates in February. The bill rate came under particular pressure from dealer financing costs, System sales of bills, and a tax bill offering for new cash in late February. The prime rate, however, was generally reduced 1/4 of a point from the 9 per cent level in lagged reaction to declines in the commercial paper rate.

Dealers reduced their inventories of coupon issues acquired in the February refunding through sales at declining prices. As a result,Treasury note and bond yields have risen 15-35 basis points since the last meeting. Corporate and municipal underwriters increased their re-offering yields from 10 to 30 basis points in the last three weeks as issues were moving slowly at the yields prevailing in mid-February and the prospective new issue volume remained high.

There has yet been no statistical evidence of any significant capital flows into or out of U.S. financial markets associated with the removal of capital controls or large Arab oil payments, although there have been market reports of U.S. investor funds moving into the Euro-dollar market. Recent announcements of near-term foreign borrowing in U.S. capital markets have totaled only about $150 million, while loans to foreign businesses by large U.S. banks in February continued to decline.

Outlook. Interest rates have been in process of adjusting upward to a revised market evaluation of the current stance of monetary policy. Interest rates over the longer-run will depend not only on the course of monetary policy but also on pressure of credit demands.

If economic activity remains on the weak side, as projected, corporate working capital needs will be reduced and, consequently, short-term credit demands of corporations on banks and the commercial paper market will decline. Consumer credit demands are also likely to continue to be constrained by reduced automobile sales and the generally sluggish pace of retail sales.

With consumer type time and savings deposits inflows likely to remain relatively large, banks can be expected to channel more of their funds into securities, and to continue less aggressive in the CD market. Short-term markets in the U.S. might also benefit from investment of oil revenues, depending, of course, on international rate relationships. With reduced business borrowing in the commercial paper market, as well as the projected modest need for funds by the Treasury and the Federal agencies, market factors may be placing some downward pressures on short-term rates.

Capital market financing, on the other hand, is likely to remain large as corporations fund their short-term obligations and finance the expected high level of capital outlays during a period of reduced internal funds generation. In the mortgage market, fund availability appears adequate relative to demand, but demand by builders and buyers of housing is being restrained by economic uncertainty. Such uncertainty could moderate the rate of growth of new commitments, although seasonal factors will be increasing demand in the period ahead. The level of other market rates suggests that mortgage lenders will be likely to attempt to increase mortgage credit flows more by easing non-price terms and conditions than by further reduction in interest rates.

Monetary aggregates. M_1 in February is estimated to have increased at almost a 13 per cent annual rate, following a decline in January. The growth of M_1 in December through February suggests that the January decline may have been a random event; the average 5.5 per cent growth rate for these three months appears to be more reflective of underlying M_1 expansion than individual monthly movements.

The December and January patterns of M_1 change were accentuated by movements in foreign bank and foreign official deposits. The February increase in M_1, on the other hand, was broadly based geographically and by size of bank, and apparently was associated with a sharp decline in U.S. Government deposits--the largest in the history of the series. A reduction as large as this in Treasury deposits could be expected to have a significant temporary impact on private demand deposits. This would be particularly true when the reduction is associated with large personal income tax refunds as in February, since individuals are likely to adjust their balances less rapidly than corporations.

Reflecting entirely the surge in M_1, growth in M_2 and M_3 accelerated in February. Time deposits other than CD's at large banks continued to expand relatively rapidly, while deposit inflows at S&L's and mutual savings banks stayed well below the pace at commercial banks. However, data from a special monthly member bank survey suggest that this recent more rapid growth in the "other time" component of M_2 relative to deposit growth at thrift institutions may have been

MONETARY AGGREGATES[1/]
(Seasonally adjusted changes)

	1973 Year	1973 - 74 Dec.	Jan.	Feb.	2 months ending Feb. 1974	3 months ending Feb. 1974
			Per cent at annual rates			
M_1 (Currency plus private demand deposits)	5.7	7.1	-3.6	12.9	4.7	5.5
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	8.6	8.5	6.3	13.2	9.8	9.4
M_3 (M_2 plus time and savings deposits at mutual savings banks and S&L's)	8.6	8.5	6.9	11.2	9.1	8.9
Adjusted bank credit proxy	10.6	5.6	12.5	1.1	6.8	6.4
Time and savings deposits at commercial banks						
a. Total	15.9	10.7	21.5	14.6	18.2	15.8
b. Other than large CD's	11.3	10.1	15.2	13.4	14.4	13.0
				Billions of dollars[2/]		
Memoranda:						
a. U.S. Government demand deposits	- .1	- .9	1.3	- 3.2	-1.0	- .9
b. Negotiable CD's	1.6	.8	2.7	1.1	1.9	1.5
c. Nondeposit sources of funds	.3	.3	.1	.2	.2	.2

1/ Figures are based on the most recent revisions published January 31.
2/ Change in average levels month-to-month or average monthly change for the year, measured from last month in year to last month in year, not annualized.

accounted for primarily by balances other than consumer accounts. The survey showed that in January, close to two-thirds of the growth in the "other time" component of M_2 at member banks (not seasonally adjusted) was in deposits with denominations of $100,000 or more other than large-bank negotiable CDs,[1/] with four-year certificates accounting for most of the remainder.[2/] February data from the special survey are not yet available, but it is possible that the continued strength of "other time deposits" in February, relative to the thrift institutions, could have reflected further expansion in these large denomination deposits.

Although on a monthly average basis outstanding CD's at large commercial banks also increased substantially in February, they declined $1.1 billion from the last Wednesday of January to the last Wednesday of February. This run-off appears to have been mainly in response to continued rapid inflows of other time and savings deposits, but may also relate to expectations of further easing in monetary policy and near-term availability of funds at lower rates.

1/ These deposits would include non-negotiable time deposits in denominations of $100,000 or more issued by weekly reporting banks and negotiable and non-negotiable time deposits in these large denominations issued by non-weekly reporting banks.

2/ The January survey results will be discussed in more detail in the Supplement.

Although there was a sharp increase in private demand deposits and in time and savings deposits other than CD's, as well as a modest increase in nondeposit sources of funds, the sharp decline in Treasury deposits over the month lowered growth in the member bank adjusted credit proxy to the lowest rate since 1970.

Bank credit. Despite the slow growth of the daily average adjusted member bank credit proxy, the all commercial bank last-Wednesday-of-the-month series shows that bank credit grew in February almost as rapidly as in January. Bank holdings of Treasury issues declined considerably less than seasonally, with banks increasing appreciably their holdings of coupon issues, apparently through participation in the February refunding. Total loans increased only moderately less than in January, but the composition of loan growth was considerably different.

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

	1973			1973	1974	
	QII	QIII	QIV	Dec.	Jan.	Feb.
Total loans and investments 2/	12.7	11.4	4.4	1.5	15.8	15.0
U.S. Treasury securities	7.9	-34.4	-22.0	-28.6	15.8	40.1
Other securities	9.2	12.3	12.6	11.4	16.9	10.2
Total loans 2/	14.5	17.8	5.5	2.4	15.5	13.5
Business loans 2/	18.4	17.3	5.1	5.3	16.6	9.7
Real estate loans	20.2	17.0	14.2	13.5	14.4 r/	7.1
Consumer loans	14.1	14.7	10.1	4.5	11.9 r/	7.3

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
r - Revised.

Business loan growth in February moderated from the January pace, but still remained unusually large given the high cost of bank credit relative to the cost of borrowing in the commercial paper market. The prime rate, although it dropped 75 basis points in February, was substantially higher than the 30-59 day commercial paper rate through most of the month, but the spread narrowed considerably in early March. Nonfinancial businesses also continued to borrow large amounts in the commercial paper market in February, and their total short-term borrowing was well above the average for the second half of 1973.[1/] Such credit demands may reflect substantial outlays for inventory accumulation and other investment, including adjustments necessitated by the fuel shortage, in a period of reduced corporate cash flows.

Loans to nonbank financial institutions expanded quite moderately in February. Moreover, these institutions obtained no additional funds in the commercial paper market. Their reduced short-term credit needs apparently were associated with the continued weakness in sales of automobiles and other consumer durables, as well as some repayment of short-term debt from the proceeds of capital market financing.

1/ The February 15, 1974, Lending Practices Survey indicates that nearly half of the respondents expect loan demand to weaken in the next three months. An appendix in the Supplement will discuss the survey results.

RATE SPREADS AND CHANGES IN BUSINESS LOANS AND COMMERCIAL PAPER *
(Amounts in billions of dollars, seasonally adjusted monthly changes)

	Prime rate less 30-59 day commercial paper rate (per cent)	Business loans at all commercial banks 2/	Dealer placed commercial paper	Total	Annual rate of change in total 3/ (per cent)
		Average monthly changes 1/			
1973-QI	--	4.1	-1.1	3.0	25.5
QII	--	2.2	.3	2.5	18.1
QIII	--	2.2	.2	2.4	16.9
QIV	--	.7	1.1	1.8	12.8
April	-.29	2.4	-.1	2.3	18.1
May	-.05	2.8	.1	2.9	22.5
June	-.41	1.4	.3	1.7	13.0
July	-.90	3.6	-.1	3.5	26.4
August	-.93	2.5	-.5	2.0	14.8
September	-.40	.4	.8	1.2	8.8
Oct.	+.52	--	2.4	2.4	17.4
Nov.	+.38	1.3	1.0	2.3	16.4
Dec.	-.04	.7	-.1	.6	4.2
1974-Jan.	+.42	2.2	1.6	3.8	26.7
Feb.	+.85	1.3	e 1.7	e 3.0	e 20.6
Weekly Pattern:					
1974-Jan. 2	-.03				
9	+.22				
16	+.42				
23	+.40				
30	+.60				
Feb. 6	+.87				
13	+1.01				
20	+.90				
27	+.60				
March 6	+.22				

1/ Changes are based on last-Wednesday-of-month data.
2/ Adjusted for outstanding amounts of loans sold to affiliates.
3/ Measured from end-of-month to end-of-month.
e/ Partially estimated.
* Seasonal adjustment factors for dealer placed commercial paper have been revised.

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

	Change in outstanding during:			Outstanding
	Dec. 1973	Jan. 1974	Feb. 1974 e	Feb. 28, 1974
Total commercial paper outstanding	-.2	3.4	1.6	46.8
Bank-related	-.1	.6	--	5.5
Nonbank-related	-.1	2.8	1.6	41.3
Dealer	-.1	1.6	1.7	15.5
Direct (mainly finance companies)	*	1.1	-.1	25.8

1/ Seasonally adjusted figures are unavailable for bank-related paper. The unadjusted data for bank-related paper are combined with seasonally adjusted nonbank-related data to obtain the total for commercial paper outstanding.
e/ Estimated.
* Less than ± $50 million.

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

The rate of growth in real estate loans at commercial banks in February dropped to about half the January rate, a sharp departure from the gradual deceleration in recent months. A Reserve Bank survey of weekly reporting banks, however, suggests that this drop was not accompanied by a large reduction in the flow of bank credit for real estate financing. Instead, it was largely attributable to mortgage loan sales--including sales to S&L's that have been experiencing difficulty in finding mortages to absorb their increased deposit inflows--and loan reclassifications at a small number of banks in the Northeast and South.[1/][2/]

Security loans rose sharply in February--$1.5 billion, seasonally adjusted. About one-half of this increase appears to have been associated with the rise in inventories of U.S. Government security dealers growing out of the February refunding. However, the reason for the surge in other security loans is not clear since corporate and municipal bond dealer positions were unchanged or lower in February.

1/ The survey indicated that one large New York City bank had sold almost $100 million in mortgage loans, for example, and accounted for all the weakness in real estate loans in the District. The Atlanta District's weakness can likewise be attributed to a single bank which re-classified $60 million of outstanding real estate loans to other categories.

2/ The reduction in growth for loans other than business loans is overstated to an indeterminate degree by loan sales in February. Sales of loans other than business loans are not reported by type, and hence no adjustment can be made in these other categories. The volume of sales of loans other than business loans was unusually large in February--$500 million.

<u>Nonbank financial intermediaries</u>. Following a $2.2 billion net savings inflow in January, S&L's received an estimated additional $1.6 billion in February. On a seasonally adjusted basis, these inflows translate into annual growth rates of 9.8 per cent and 8.5 per cent, respectively.

Flows into mutual savings banks picked up during February, resulting in an estimated seasonally adjusted annualized growth rate of 5.5 per cent--considerably above the weak January pace.

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

	Mutual savings banks	Saving and loan associations	Both
1973 - QI	8.1	16.0	13.6
QII	6.8	10.4	9.2
QIII	-.4	3.1	2.0
QIV p/	5.8	8.9	8.0
December	7.8	8.9	8.6
1974 - January p/	2.2	9.8	7.5
February e/	5.5	8.5	7.5

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

The 4-year certificate account continues to attract the major portion of savings inflows at S&L's. According to confidential FHLBB estimates, these accounts comprised nearly 10 per cent of total savings at large S&L's at the end of January. Although most of the inflow in recent months has been into 4-year accounts, there are indications that some institutions are beginning to bid less actively for these funds. There have been reports of noticeably less advertising by many institutions (including several New York MSB's) and in some cases, S&L's have lowered the offering rate on 4-year accounts to 7.00 per cent from 7.50 per cent.

During February, S&L's repaid $285 million in FHLB advances--the first decline in outstanding advances since January 1973. Repayments of borrowed money, in conjunction with continued additions to liquid assets, have strengthened the liquidity position of these institutions. The liquidity ratio (cash and investment securities divided by the sum of savings capital and borrowings) at S&L's was 9.1 per cent in January, somewhat below the 10.5 per cent average achieved during the first half of 1973, but substantially above the current required minimum of 5.5 per cent.

Consumer credit. Seasonally adjusted growth in total consumer credit outstanding recovered somewhat in January, but even so, the $9.5 billion annual rate of increase was the second smallest in two years. Increases in the three major components of instalment debt exceeded their sharply reduced December rates, but these were partly offset in the total by a $1.5 billion rate of decline in noninstalment credit outstanding.

Instalment credit outstanding increased at an $11 billion annual rate in January, double the December rate, as "other consumer goods" and personal loans expanded rapidly. Automobile credit, which had declined slightly in December, edged higher again in January, but the gain was still far below the rate of increase in any recent quarter. Other consumer goods credit rose at an annual rate of $5.6 billion in January, with a record two-fifths of the rise accounted for by open-end accounts in the form of bank credit-card balances outstanding. Personal loans were up at a $4.5 billion annual rate--the only type of credit to increase faster than in the last half of 1973. To some extent the strength in personal loans may be related to the rising burden of consumer debt, as indicated by the record ratio of total consumer credit outstanding to disposable personal income of 19.4 per cent in the fourth quarter of 1973, up from 18.6 per cent a year earlier, and the further recent uptrend in consumer credit delinquency rates.

Rates on new car loans financed through major auto finance companies edged down 3 basis points in January to 12.39 per cent, the first decline in this series in almost a year.

NET CHANGE IN CONSUMER INSTALMENT CREDIT OUTSTANDING
(Billions of dollars, seasonally adjusted annual rates)

	Total	Automobile	Other consumer goods	Personal loans	Home improvement
1973 - QI	24.0	10.0	7.4	5.4	1.1
QII	20.0	7.4	6.9	4.7	1.0
QIII	21.0	7.2	8.2	4.3	1.3
QIV	15.3	3.2	7.4	3.5	1.2
Dec.	4.9	-.3	3.0	1.0	1.2
1974 - Jan.	11.0	.7	5.6	4.5	.2

Short-term interest rates. At the time of the February FOMC meeting, the market generally expected a further near-term easing in monetary policy; and short-term rates, which had been declining since early December, were at levels that could be substained only by a further drop in the Federal funds rate. These expectations, however, were shaken by subsequent developments, such as the persistence of the funds rate at about 9 per cent, Congressional testimony by Chairman Burns, the precipitous rise in the money stock during the first three weeks of February, and some recent evidence that the economy is not slowing as much as market participants had expected. As a consequence, many market participants have concluded that the System will not encourage a further significant drop in the funds rate over the near-term, and most rates have adjusted upward.

Treasury bill rates, which have been rather volatile in recent months, rebounded most sharply, rising 65 to 100 basis points. Several special influences have added to the upward pressure on bill yields. For example, the System has reduced its bill holdings by nearly $1.0 billion through sales and redemptions since the last FOMC meeting, partly to absorb funds released by the sharp decline in the Treasury balance at the Fed in late February and early March. Also, the Treasury auctioned $1.5 billion of reopened April TABs on February 26; although this offering was expected by the market, it was not well received. Further, with bill yields generally one to two percentage points below dealer borrowing costs, the resulting large negative carry on dealer positions has been an additional source of market pressure. On the other hand, foreign accounts brought about $400 million of bills during the inter-meeting period.

Private short-term rates have risen about 1/4 to 1/2 of a percentage point, reflecting not only the recent shift in market expectations but also strong business credit demands at banks and in the commercial paper market. The lagging bank prime rate, on the other hand, has declined to a general level of 8-3/4 per cent--with a few banks as low as 8-1/2 per cent--in reaction to the interest rate declines that had taken place earlier.

Treasury coupon market. Yields on Treasury coupon issues rose slightly in the week before the last meeting and have risen another 15 to 35 basis point since then. For example, prices of the three new issues in the February refunding are now all between 1-1/3 and 2 points below the levels at which they were issued. Moreover, the coupon market remains in a somewhat vulnerable position. Dealer coupon inventories, initially enlarged by awards of the new issues, were distributed rather slowly during the refunding period and still are almost double their 1973 average. Also, dealers have become more aggressive in seeking to reduce their positions, and these efforts have given an added impetus to the most recent yield advances.

Looking ahead, the Treasury may need to raise about $3.0 billion of new money in early April--possibly $2.0 billion through a 2-year note and $1.0 billion through a June TAB. Additional new money may need to be raised in early June. It should be noted that foreign redemptions of special issues have continued to subside, amounting to less than $50 million, net, over the past month.

In the Agency market, there has been little change in financing plans since the February Greenbook.

SHORT TERM INTEREST RATES
(per cent)

	Early Dec. highs	Feb. 19	Feb. 26	Mar. 5	Mar. 12
		Daily rates			
Treasury bills					
3-months	7.68	7.03	7.30	7.73	7.83
6-months	8.08	6.80	7.18	7.56	7.60
1-year	7.47	6.39	6.63	6.97	7.05
Commercial paper					
1-month	9.88	8.25	8.25	8.50	8.63
90-119 days	9.50	7.88	7.88	8.13	8.38
4-6 months	9.25	7.75	7.88	8.00	8.25
Large negot. CD's 1/					
3-months	9.75	8.00	8.13	8.35	8.50
6-months	9.13	7.63	7.50	7.63	8.13
Federal agencies					
1-year	7.83	7.01	7.14	7.42	n.a.
Bank prime rate	9.75	9.00	8.75	8.75	8.75
		Statement week ended			
		Feb. 20	Feb. 27	Mar. 6	Mar. 13 2/
Federal funds					
(weekly average)		9.07	8.81	8.98	8.97

1/ Highest quoted new issues.
2/ Average for first six days of the week.

Long-term securities markets. Long-term interest rates have increased since the February FOMC meeting, with rates on corporate issues showing the largest advance--about 30 basis points. Dealers in this market had been holding substantial inventories in anticipation of price increases. As yields began to rise, however, inventories were liquidated, thereby intensifying downward pressure on prices. In the municipal market, inventory levels have remained relatively high, and the rise in yields has been somewhat smaller.

SELECTED LONG-TERM INTEREST RATES

	New Aaa utility bonds1/	Recently offered Aaa utility bonds1/	Long-term State and local bonds2/	U.S. Government bonds (10-year constant maturity)
1970 - High	9.43 (6/19)	9.20 (6/26)	7.12 (5/28)	8.06 (5/29)
Low	7.72 (12/11)	8.16 (12/18)	5.33 (12/10)	6.29 (12/18)
1971 - High	8.26 (7/30)	8.19 (1/2)	6.23 (6/24)	6.89 (7/20)
Low	7.02 (2/5)	7.14 (12/31)	4.97 (10/21)	5.87 (1/14)
1972 - High	7.60 (4/21)	7.46 (4/21)	5.54 (4/13)	6.58 (9/27)
Low	6.99 (11/24)	7.21 (12/1)	4.96 (12/7)	5.87 (1/14)
1973 - High	8.52 (8/10)	8.32 (8/10)	5.59 (8/3)	7.55 (8/10)
Low	7.29 (1/12)	7.28 (1/5)	4.99 (10/11)	6.42 (1/3)
Feb. 1	8.11	8.19	5.20	7.01
8	8.13	8.19	5.16	6.94
15	8.05	8.25	5.18	6.93
22	8.10	8.24	5.21	6.96
Mar. 1	8.30	8.29	5.26	7.01
8	8.37p	8.29p	5.27	7.09p

1/ FRB series.
2/ Bond Buyer.
r/ Revised.
p/ Preliminary.

Rumors of an end to the Arab oil boycott and the belief that the decline in energy related stocks had proceeded too far apparently caused investors to bid up stock prices during the last three weeks of February and in early March. The rally has been broadly based, with stock of many small companies participating. At first, trading volume was light, but has increased recently with the continuing rise in prices.

Total corporate security offerings in March are expected to increase more than $1 billion above the February level to $4.1 billion. In April, total offerings are expected to decline only moderately. The build-up is accounted for by increases in both bond and stock offerings. The projected level of public bond offerings is particularly large, with the March and April volume expected to be more than twice the monthly average for 1973. The volume of stock offerings also is expected to increase in March and April but to remain below 1973 levels.

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

	1973		1974			
	Year	QIV e/	QI f/	Feb. e/	Mar. f/	Apr. f/
Corporate securities - Total	2,779	3,385	3,467	3,050	4,100	3,800
Public bonds	1,125	1,625	2,200	1,900	2,500	2,300
Privately placed bonds	725	715	667	600	800	800
Stock	929	1,045	600	550	800	700
State and local government securities	1,942	2,157	2,083	1,850	2,300	2,100

e/ Estimated.
f/ Forecast.

An Analysis of the industrial composition of public bond flotations indicates that offerings by manufacturing, public utility, and banks and other financial firms have increased substantially beginning in the fourth quarter of 1973. While the volume of public utility bond issues in the first quarter of this year will be more than twice that of the comparable period a year ago, issues of banks and financial firms will be nearly triple. For manufacturing firms the rate of increase is the greatest, with offerings rising from $85 million in the first quarter of 1973 to over $700 million in the current quarter. Utilities have needed long term funds not only to finance a substantial expansion of capacity, but also to fund short term debt and restore reduced liquidity positions. Although liquidity positions of banks and manufacturing firms are more comfortable, these firms too have felt the need to restructure balance sheets and finance expansion.

The level of municipal offerings is expected to increase in March largely because of special revenue bond issues, and then show a slight decline in April. While casualty insurance companies reportedly have continued to acquire municipals at about the same pace as last year, bank purchases of municipals have picked up in recent months.

PUBLIC BOND OFFERINGS BY SECTOR
(Millions of dollars)

	Manufac-turing	Public utility	Communi-cations	Bank and other financial	Other[1]	Total
1973 - QI	85[2] (03)[3]	1,102 (37)	508 (20)	558 (21)	513 (19)	2,688 (100)
QII	140 (05)	1,238 (42)	794 (27)	400 (13)	398 (13)	2,970 (100)
QIII	38 (02)	837 (42)	722 (35)	250 (13)	151 (08)	1,998 (100)
QIV	763 (16)	1,441 (31)	1,265 (27)	1,117 (24)	86 (02)	4,672 (100)
1974 - QI	720 (13)	2,330 (43)	630 (12)	1,490 (27)	260 (05)	5,430 (100)

1/ Other issuers are extractive, railroad and other transportation, commercial and other.
2/ Issues under $10 million are not included in figures.
3/ Numbers in parenthesis are per cent of total.

Mortgage market. The supply of residential mortgage funds has continued to improve, but demand for mortgage loans by builders and potential buyers has remained relatively slack for this time of year. However, interest rates and non-rate terms have eased only slightly further. Both the volume of new mortgage commitments and the backlog of outstanding commitments at savings and loan associations changed little in February after seasonal adjustment, according to tentative estimates. By January, S&L new mortgage commitments were still running about 40 per cent below the peak rate a year earlier, and outstanding commitments were about 25 per cent below the high reached in February 1973.

Contract interest rates on new commitments for 80 per cent conventional home loans at selected S&L's have continued gradually downward in most recent weeks, and on March 8 averaged 8.41 per cent--44 basis points below the September peak but still significantly above prevailing usury ceilings in 10 states and the District of Columbia. With 8-1/4 per cent FHA-and VA- underwritten mortgages currently selling within about 2 points of par in the secondary market, there is an expectation in the trade of a small further cut in the maximum contract rate on these loans.

Due partly to increases in yields on new issues of high-grade utility bonds, the average gross yield spread favoring home mortgages over such securities recently narrowed further. After allowance for their higher servicing costs, these mortgages--whether originated directly or purchased in the secondary market--now offer no net investment incentive over such bonds for diversified lenders.

Savings and loan associations now report that funds for home mortgages are in adequate supply relative to demand in all 12 of the FHLBank Districts--in sharp contrast with the stiuation last August when all Districts reported funds in short supply. With improvements in the supply of funds, some loosening of nonrate terms occurred as lenders attempted to attract home mortgage borrowers at interest rates which are still high by historical standards. For example, about 70 per cent of S&L's were offering 90 per cent 25-year financing for the purchase of new homes in February, up from 53 per cent in October but still well below the 85 per cent offering such contracts early last year.

Delinquency rates on home mortgages (Mortgage Bankers Association series) declined slightly from the September high and at year-end averaged 4.3 per cent of outstanding loans held by reporting institutions, after seasonal adjustment. Delinquency rates continued to be particularly high for FHA-insured mortgages, and averaged almost 15 per cent for loans associated with the Sec. 235 interest-rate subsidy program which was suspended last year.

CONVENTIONAL HOME MORTGAGES
At 120 S&L's

	Average going rate on 80% loans (per cent)	Basis point change from month or week earlier	Spread[1/] (basis points)	Number of Federal Home Loan Bank districts with funds in short supply
1973 - High	8.85	--	107	12
Low	7.43	--	- 12	0
1973				
Aug.	8.66	+48	72	12
Sept.	8.85	+19	104	11
Oct.	8.68	-17	71	10
Nov.	8.55	-13	70	8
Dec.	8.56	+ 1	n.a.	6
1974				
Jan.	8.52	- 4	27	4
Feb. 1	8.48	- 4	37	4
8	8.46	- 2	33	3
15	8.46	0	41	1
22	8.42	- 4	32	0
Mar. 1	8.41	- 1	11	0
8	8.41	0	4	0

1/ Gross yield spread is average mortgage return before deducting servicing costs minus average yield on new issues of Aaa utility bonds with 5-year call protection.

Agricultural finance. Through January, the cooperative Farm Credit System agencies continued to show high levels of both new loans and repayments, in short-term and mortgage lending alike. This experience appears to reflect simultaneous sharp increases in farmers' costs, receipts, and net income. Receipts from farm marketing reached a seasonally-adjusted annual rate of $108 billion in the last quarter of 1973, 57 per cent above the 1972 average. On the same basis, production expenses were 58 per cent higher, which still permitted total net farm income to rise by 55 per cent.

The Department of Agriculture (USDA) has revised its estimate of the 1973 increase in total farm debt upward to $9.3 billion (estimate published in December was $7.5 billion). At the revised level, the net addition to farm debt surpassed by 29 per cent the previous record gain in 1972 and was about double the average annual increase during 1968-72. The debt increase projected by the USDA for 1974 has been revised upward to $11.9 billion, which would raise total farm debt to $93.1 billion at year-end.

Federal finance. The staff's budget forecasts for the current fiscal year have not been substantially altered since the February Greenbook. The receipts projection is essentially the same at $267.2 billion, while the forecast of outlays has been lowered by $0.7 billion to $271.3 billion, primarily reflecting an apparent shortfall in expenditures during February. The resulting $4.1 billion deficit is slightly less than the Administration's $4.7 billion estimate, which reflects projected outlays of $274.7 billion and receipts of $270.0 billion.

During the past month, however, there have been several legislative developments related to the energy crisis that could have significant effects on the budget, particularly in fiscal year 1975. The recent Senate failure to override the President's veto of the energy bill which would have rolled back gasoline prices may have given alternative proposals, such as the Administration's emergency excess profits tax, a new lease on life. In view of the diversity of tax proposals in this area, however, the staff's Greenbook projection does not include a revenue allowance for such measures.

The President's energy message proposes to increase greatly the acreage allotment for offshore oil drilling. The resulting increase in rents and royalties from the previously projected level of $5 billion (recorded as negative outlays in the unified budget) could reduce the estimated unified budget deficit in fiscal year 1975 by several billion dollars. (These transactions do not affect the NIA budget.)

Several bills extending unemployment benefits are pending in Congress; but our forecast does not include any additional spending for such transfers mainly because of uncertainty about passage, given the substantive differences in pending legislation. The Administration's February 13 proposal would extend unemployment benefits 13 weeks in areas experiencing high unemployment. It would also provide 26 weeks of benefits for workers in industries not previously covered by unemployment insurance. One point of major Congressional opposition to this proposal arises from the fact that it is appended to legislation submitted last year which would prevent strikers from collecting unemployment benefits.

With regard to public service employment, on February 8, Senator Javits co-sponsored the Emergency Energy Employment Act of 1974, which authorizes up to $4 billion to be appropriated for this purpose in fiscal years 1974 and 1975. All these funds would become available if the national (seasonally adjusted) unemployment rate were to exceed 6 per cent for three consecutive months. This measure reportedly could provide as many as 500,000 jobs during the period. At this time, however, our spending estimates include only the $350 million program provided in the budget for fiscal year 1975.

During February the average tax and loan balance (seasonally adjusted) declined $3.2 billion. The cash balance is projected to remain at a low level through early April. A comparison of this year with previous years indicates that the low level of borrowing during February (actually a $0.2 billion net redemption) partly accounted for the large decline. Other contributing factors were relatively high personal tax refunds and an increase in deposits at the Federal Reserve.

Personal tax refunds in February are now estimated to have totaled $1.8 billion, or $0.7 billion more than in February 1973; they averaged $365 per payment. Based on early March IRS reports we currently are estimating that such refunds will total $8 billion during this month, as compared to $6.8 billion a year earlier. The faster processing of refunds this year suggests that a smaller percentage of such checks will be paid during late May and early June compared to last year.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Feb.[e]	March	Apr.	May
Total net borrowing	-.2	1.9	-1.4	.2
Weekly and monthly bills	--	--	--	--
Tax bills	--	1.5	--	--
Coupon issues, net	-.5	--	--	--
As yet unspecified new borrowing	--	--	3.0	5.6
Special foreign series	--	--	--	--
Agency transactions, debt repayment, etc.	.3	.4	-4.4	-5.4
Plus: Other net financial sources a/	-.7	2.6	-.2	-.5
Plus: Budget surplus or deficit (-)	-1.9	-3.7	4.3	-4.4
Equals: Change in cash balance	-2.8 b/	.8	2.7	-4.7
Memoranda: Level of cash balance, end of period	7.7 b/	8.5	11.2	6.5
Derivation of budget surplus or deficit:				
Budget receipts	20.2	18.8	28.7	19.2
Budget outlays	22.1	22.5	24.4	23.6
Maturing coupon issues held by public	4.5 c/	--	--	5.6
Sales of financial assets	.2	.2	.8	.2
Budget agency borrowing	--	.4	.1	.2
Net borrowing by government-sponsored agencies	-.3	.6	.5	-.3

a/ Checks issued less checks paid and other accrual items.
b/ Actual.
c/ In the February refinancing, $3.75 billion of notes and $.3 billion of bonds were sold to provide funds for refunding the $4.5 billion of publicly-held bonds and notes maturing on February 15.

e--estimated.

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

	Fiscal 1974 e/ Budget Doc.	Fiscal 1974 e/ F.R. Board	FY 1975 e/ Budget Doc.	Calendar Years 1973 Actual	Calendar Years 1974 F.R.B. e/	F.R.B. Staff Estimates, Calendar Quarters 1973 IV*	1974 I	1974 II	1974 III	1974 IV
Federal Budget						Unadjusted data				
Surplus/deficit	-4.7	-4.1	-9.4	-7.9	-11.8	-5.0	-5.8	7.7	-4.6	-9.1
Receipts	270.0	267.2	295.0	250.4	278.3	59.9	62.5	80.4	70.0	65.4
Outlays	274.7	271.3	304.4	258.3	290.1	64.9	68.3	72.7	74.6	74.5
Mean of financing:										
Net borrowing from the public	3.5	2.9	12.5	7.9	8.3	6.7	.9	-4.0	3.3	8.1
Decrease in cash operating balance	n.a.	1.8	n.a.	.7	1.9	-2.1	1.9	-2.3	2.3	--
Other 1/	n.a.	-.5	n.a.	-.7	1.6	.4	3.0	-1.4	-1.0	1.0
Cash operating balance, end of period	n.a.	10.8	n.a.	10.4	8.5	10.4	8.5	10.8	8.5	8.5
Memo 2/: Sales of financial assets 3/	3.7	3.1	4.5	3.6	n.e.	.9	.6	1.7	n.e.	n.e.
Budget agency borrowing 4/	1.7	1.3	1.8	-.1	1.6	.2	.4	.4	.4	.4
Sponsored agency borrowing 5/	13.6	9.9	1.3	16.3	1.3	3.2	-.1	.7	.2	.5
National Income Sector						Seasonally adjusted, annual rates				
Surplus/deficit	-4.7	-4.1	-8.6	1.2	-10.3	6.4	1.2	-17.6	-12.8	-12.1
Receipts	280.5	276.8 6/	304.8	265.2	289.4	276.0	282.3	286.0	290.8	298.3
Expenditures	285.2	280.9 7/	313.4	264.0	299.7	269.6	281.1	303.6	303.6	310.4
High Employment surplus/deficit (NIA basis) 8/	n.a.	-1.7	n.a.	-1.3	.1	1.1	3.2	-8.9	1.2	4.8

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

Footnotes continued -

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 $1.7 billion for fiscal 1974 due to spreading of wage base effect over calendar year.

7/ Fiscal year exceeds quarterly average of $.9 billion due to seasonal adjustment.

8/ Estimated by F.R. Board Staff.

INTERNATIONAL DEVELOPMENTS

CONFIDENTIAL (FR)

III -- T - 1

3/13/74

U.S. Balance of Payments
(In millions of dollars; seasonally adjusted)

	1973					1974
	YEAR	IH	3Q	4Q	DEC.*	JAN.*
Goods and services, net 1/	6,450	766	2,056	3,628		
Trade balance 2/	688	-1,282	612	1,358	664	558
Exports 2/	70,255	31,901	18,143	20,211	6,810	7,094
Imports 2/	-69,567	-33,183	-17,531	-18,853	-6,146	-6,536
Service balance	5,762	2,048	1,444	2,270		
Remittances and pensions		-786	-422			
Govt. grants & capital, net		-1,258	-872			
U.S. private capital (- = outflow)		-8,203	-704			
Direct investment abroad		-2,971	-228			
Foreign securities	-792	-75	-204	-513	-48	-291
Bank-reported claims -- liquid	-1,169	-446	-344	-379	-160	-616
" " " other	-4,783	-3,762	404	-1,425	-1,084	322
Nonbank-reported claims -- liquid	-658	-763	-19	124	55	
" " " other		-186	-313			
Foreign capital (excl. reserve trans.)		2,731	3,299			
Direct investment in U.S.		807	720			
U.S. corporate stocks	2,796	1,426	869	501	-2	174
New U.S. direct investment issues		658	193	324		
Other U.S. securities (excl. U.S. Treas.)		158	96	-168		
Liquid liabilities to:	4,435	-771	951	4,255	606	430
Commercial banks abroad	2,860	-1,186	846	3,200	149	374
Of which liab. to branches 3/	(337)	(7)	(93)	(237)	(-806)	(-154)
Other private foreign	1,201	372	155	674	464	131
Intl. & regional organizations	374	43	-50	381	-7	-75
Other nonliquid liabilities		453	470			
Liab. to foreign official reserve agencies	5,081	9,901	-2,108	-2,711	-576	-2,942
U.S. monetary reserves (increase, -)	209	237	-13	-15	-5	-187
Gold stock	--	--	--	--	--	--
Special drawing rights	9	9	--	--	--	--
IMF gold tranche	-33	-5	-13	-15	-5	-136
Convertible currencies	233	233	--	--	--	-51
Errors and omissions		-3,388	-1,236			
BALANCES (deficit -						
Official settlements, S.A.		-10,138	2,121	2,726		
" " , N.S.A.	-5,291	-9,223	933	2,999	581	3,129
Net liquidity, S.A.		-8,158	1,533	-1,274		
" " , N.S.A.	-7,899	-8,202	639	-336	80	
Liquidity, S.A. 4/		-9,367	1,170	-1,529		
" , N.S.A.	-9,726	-9,352	128	-502	-25	2,699
Basic balance, S.A.		-1,553	2,539			
" " , N.S.A.		-1,646	712			

* 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/ 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. The U.S. dollar, after appreciating against leading foreign currencies by about 15 percent (trade-weighted basis) from October through late January, depreciated about 5 percent during the first three weeks of February. During the past three weeks, it has shown little net change. It is now down about 15 percent from its May 1970 level.

The U.S. payments balance on the official settlements basis has shown a roughly corresponding movement. The large surplus in January ($3.1 billion, not seasonally adjusted) was followed by a deficit of about $1/2 billion in February, judging by preliminary weekly data, with most of this occurring early in the month.

The weakening of the dollar in February probably reflected a shift in net flows of short-term private capital. There had been substantial net inflows late last year and in January. These apparently diminished, or gave way to net outflows, in February. Factors that would have contributed to such a shift included the removal of U.S. capital controls at the end of January, relaxation by several foreign countries of restraints on capital inflows, and a decline in U.S. interest rates during February while rates abroad remained high.

Monetary authorities in most industrial countries are continuing to follow very restrictive policies. Recent reappraisals of the economic outlook abroad have led most observers to be somewhat less gloomy about the adverse impact of the oil crisis on economic activity, but also somewhat more pessimistic about the possibility of bringing inflation under early control.

In January, the U.S. trade surplus was still large, though down moderately from the exceptionally large December surplus. The trade balance is expected to shrink during the months ahead as U.S. imports more fully reflect higher oil prices.

Gross capital flows into and out of the United States are expected to be large this year, but there is still little basis for predicting how they and the current account may balance out. In exchange markets there seems to be no strong feeling that the dollar will move very much further in either direction.

The increasing flow of funds to oil-exporting countries is apparently still being placed mainly in the Euro-dollar market. Demands for medium-term credit in that market, including demands by governments, have greatly increased in recent weeks, and Euro-dollar rates have risen. Evidently this market will be handling much of the recycling of funds between oil-exporters and oil-importers for some time to come.

<u>Foreign exchange markets</u>. In the first three weeks of February the dollar depreciated by an average of nearly 5 per cent under the influence of declining U.S. interest rates, the elimination or relaxation of capital controls by the U.S. and most major foreign countries, and adverse price and output developments in the U.S. economy. In the past three weeks, the dollar has on balance held steady, despite occasional erratic fluctuations.

During February and so far in March foreign central bank intervention has been largely confined to Italy, Canada and the United Kingdom. The Bank of Italy made total intervention sales of $1 billion in February and has continued to intervene on the same scale in March. During this period the lira has depreciated sharply against other continental European currencies while appreciating slightly against the dollar, influenced by political instability, worsening inflation and a deteriorating payments position in Italy. Half of the Italian intervention sales in February were financed out of reserves while the other half were financed from state-controlled borrowing in the Euro-dollar market and by swaps with Italian commercial banks.

The Bank of Canada took in $360 million in February to hold down a rise in the Canadian dollar resulting mainly from an increase in Canadian relative to U.S. interest rates. So far in March interest rate differentials have moved in favor of the U.S. and the Canadian dollar has eased, prompting net intervention sales of $50 million by the Bank of Canada.

The pound received a total of $200 million intervention support from the Bank of England during February and a further $200 million on March 1 following the U.K. general election. Subsequently the pound has firmed to $2.34, an increase of 6 cents from its level of four weeks ago, influenced by a tightening in the U.K. money market.

The System intervened on four days in late February and early March selling marks and, on one occasion, French and Belgian francs at times when the dollar was experiencing downward pressure in the New York market.

The Bank of Japan has not intervened in the Tokyo market since late January. During January, the yen received a total of $1.7 billion in intervention support to keep the dollar from rising above the 300 yen/$ level. Since then the yen has floated upward against the dollar, rising to a current level of 283 yen/$.

The gold price has fluctuated downward in March after a speculative jump of nearly 40 per cent in February. Gold shot up from $130 on February 1 to a peak of $180 on February 27 in very active trading. In recent weeks the price has fluctuated erratically between $160 and $170 and in recent days has held just below $165.

Euro-dollar market. Since mid-February Euro-dollar rates have reversed part of their sharp decline begun the month before. The 3-month deposit rate averaged 8.79 per cent in the week of March 13, up 40 basis points from one month earlier, and over the same period the overnight rate advanced 30 points to an average of 8.54 per cent in the latest week. While U.S. CD and Federal funds rates also showed net increases over the

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

Average for month or week ending Wednesday	(1) Over-night Euro-$	(2) Federal Funds	(3) Differ-ential (1)-(2)(*)		(4) 3-month Euro-$ Deposit	(5) 60-89 day CD rate	(6) Differ-ential (4)-(5)(*)	
1973 - Nov.	9.51	10.08	-0.57	(0.26)	9.89	9.11	0.78	(0.51)
Dec.	9.73	9.96	-0.23	(0.62)	10.40	9.43	0.97	(0.94)
1974 - Jan.	9.10	9.65	-0.55	(0.24)	9.38	8.97	0.41	(0.45)
Feb.	8.44	8.98	-0.54	(0.19)	8.51	8.07	0.44	(0.48)
1974 - Jan. 30	8.66	9.47	-0.81	(-0.06)	9.09	8.63	0.46	(0.50)
Feb. 6	8.81	9.13	-0.32	(0.45)	8.79	8.13	0.66	(0.72)
13	8.24	8.90	-0.66	(0.06)	8.39	8.13	0.26	(0.28)
20	8.40	9.07	-0.67	(0.06)	8.36	8.00	0.36	(0.39)
27	8.32	8.81	-0.49	(0.24)	8.48	8.00	0.48	(0.52)
Mar. 6	8.52	8.98	-0.46	(0.28)	8.66	8.25	0.41	(0.45)
13p/	8.54	8.97	-0.43	(0.33)	8.79	8.25	0.54	(0.59)

*/ Differentials in parentheses are adjusted for the cost of required reserves.
p/ Preliminary

period the increases in the Euro-dollar rates were larger, at least partly because of extraordinarily heavy demand for medium-term Euro-dollar loans. The excess of the 3-month Euro-dollar rate over the 60-89 day U.S. CD rate -- which had contracted to one-quarter percentage point by mid-February -- widened to around one-half percentage point in the week of March 13. The cost to banks of overnight Euro-dollars, adjusted for reserve requirements, was about 35 basis points above the Federal funds rate in the latest week. (Beginning March 14, reserve free bases were entirely eliminated).

The yield advantage of Euro-dollar deposit rates over comparable U.S. rates apparently led to a sizable outflow of U.S. funds into Euro-dollar deposits immediately following the removal of U.S. capital controls on January 29. Several sources report that U.S. investors (including

SELECTED EURO-DOLLAR AND U.S. COSTS FOR PRIME BORROWERS
(Friday dates)

	Jan. 18	Feb. 15	Mar. 1	Mar. 8
1) 3-mo. Euro-$ loan[a/]	10.13	8.81	9.19	9.19
2) 90-day com'l. paper[b/]	9.13	8.00	8.25	8.38
3) U.S. bank loan:				
a) with 15% comp. bal's.[c/]	11.47	10.88	10.29	10.29
b) with 20% comp. bal's.[c/]	12.19	11.56	10.94	10.94
Differentials:				
(1) - (2)	1.00	.81	.94	.81
(1) - (3a)	-1.34	-2.07	-1.10	-1.10
(1) - (3b)	-2.06	-2.75	-1.75	-1.75

a/ 1/2 per cent over deposit bid rate.
b/ offer rate plus 1/8 per cent.
c/ prime rate adjusted for compensating balances.

thrift institutions and corporations) placed about $1 billion in CD's and deposits with banks in London, particularly branches of U.S. banks, between January 29 and about mid-February. In addition to the higher yields obtainable in London these U.S. investors are said to have been attracted by the availability there of CD's in the 1 to 5 year maturity range. No official data are yet available with which to evaluate these reports, nor do we know on what scale this flow may be continuing.

The cost of bank credit has remained lower in the Euro-dollar market than in the United States (allowing for the cost of compensating balances but not for reserve requirements on foreign branch loans to U.S. residents). although the gap has narrowed in the past month with the rise in Euro-dollar rates and the further drop in the U.S. prime rate. For prime borrowers the cost of short-term dollar loans in the Euro-market averaged about 9.25 per cent in the week of March 13, compared with 10.3 or 10.9 per cent in the United States with 15 or 20 per cent compensating balances, respectively.

Such differentials help to explain why the termination of the VFCR has been followed by a decline rather than a rise in claims on foreigners reported by the weekly reporting banks. They are also consistent with reports that the end of the Foreign Direct Investment Program has not resulted in more than modest repayments of foreign loans by U.S. direct investors. What repayments have occurred may reflect the lower cost of borrowing in the commercial paper market here compared with the costs of either U.S. or Euro-dollar bank loans.

In the rapidly expanding market for medium-term (over one year) Euro-dollar loans, demand for credit has soared to record levels in recent weeks. According to World Bank estimates, from very late January to the end of February loan agreements were signed for $5.2 billion of new medium-term loans; for January and February together commitments averaged $3.6 billion a month compared with the already high $2.5 billion monthly average in the latt half of 1973. In these two months French public sector borrowers obtained commitments for $2.0 billion in an effort to shield official reserves from the effects of higher oil prices, and Italian state enterprises also agreed to borrow $2.0 billion (of which $1.2 billion by Mediobanca) in reflection of continuing Italian payments difficulties. Early in March three French public sector entities raised another $260 million and the Greater London Council $500 million; the latter followed an earlier $500 million loan this year to the British Electricity Council, as Britain continued to encourage external borrowing to avoid reserve losses or depreciation of the pound.

<u>U.S. balance of payments</u>. In February, the official settlements balance is estimated to have slipped back into a deficit for the month of about $1/2 billion (not seasonally adjusted, not at annual rate), following substantial surpluses in the fourth quarter and January. As U.S. capital controls were removed and interest rates in the United States declined, the net inflow of short-term funds probably slowed markedly from the very heavy inflow recorded in the fourth quarter and through mid-January. With the concurrent weakening of the dollar against most foreign currencies that began in late January, partly in consequence of these reduced inflows, foreign central banks, which had been selling dollars heavily, either withdrew from the exchange market or began to buy dollars in moderate amounts.

Information on specific components of the balance of payments for January is still very partial. The trade balance was again in large surplus in January -- $560 million (seasonally adjusted, not at an annual rate) -- down moderately from the exceptionally large surplus of $665 million in December, as imports rose more sharply than exports. About two-thirds of the increase in the value of imports stemmed from a 30 percent rise in the price of imported oil. The trade balance can be expected to weaken further in the coming months as U.S. imports more fully reflect higher oil prices announced by the oil-exporting countries in December and the higher Canadian tax on oil exports to the United States that became effective on February 1.

Bank-reported claims on foreigners, which had increased very sharply in December, increased further in January but by a much smaller amount -- less than $300 million (not seasonally adjusted, not at an annual rate). Long-term claims actually declined by a small amount but short-term claims rose by over $350 million. However, these short-term outflows of bank credit in January were more than offset by an inflow of funds in the form of additions to bank-reported liabilities to banks and nonbanks abroad.

The net inflow on private securities transactions in January was about as small as in December. U.S. purchases of foreign bonds, especially new Canadian provincial issues, increased substantially from December to January. Foreign net purchases of U.S. stocks also increased; they were $174 million, compared with a small net sale in December. The January purchases were credited principally to France, Switzerland and the Netherlands, with the bulk of the purchases made through branches of U.S. brokerage firms in these countries; some of these may have been for the account of the Middle Eastern oil-exporting countries. Foreign net purchases of U.S. bonds in January were about the same as in December; purchases of Eurobond issues of U.S. corporations fell sharply, but this decline was just about offset by higher net purchases of other types of U.S. bonds.

<u>U.S. foreign trade</u>. In January the U.S. trade balance was again in large surplus -- $6-3/4 billion at an annual rate (balance of payments basis) -- down only moderately from the high surplus recorded in December. January was the fifth consecutive month of trade surplus; the surplus has ranged from a monthly low of $3.0 billion (November) to a high of $8.0 billion (December).

In real terms -- 1967 dollars -- the monthly movement in both exports and imports has been quite erratic over the past five months but exports have generally grown more rapidly than imports, particularly in December and January.

U.S. FOREIGN TRADE - BALANCE OF PAYMENTS BASIS
(billions of dollars, SAAR)

	1973				1974
	Sept.	Oct.	Nov.	Dec.	Jan.
EXPORTS:					
Total					
Current dollars	75.6	78.2	82.6	81.7	85.1
1967 dollars	53.4	53.2	55.4	52.6	54.5
Agricultural					
Current dollars	20.1	20.1	21.6	21.9	22.4
1967 dollars	10.3	10.1	10.6	10.5	10.5
Nonagricultural					
Current dollars	55.5	58.1	61.0	59.9	62.7
1967 dollars	42.9	43.1	45.3	42.3	44.1
IMPORTS:					
Total					
Current dollars	68.1	72.8	79.7	73.8	78.4
1967 dollars	44.7	45.6	48.3	42.7	43.8
Fuels					
Current dollars	9.5	10.2	12.4	12.2	15.4
1967 dollars	6.5	6.6	7.1	5.1	4.8
Nonfuels					
Current dollars	58.6	62.6	67.2	61.5	63.1
1967 dollars	38.2	39.0	41.2	37.6	39.0
BALANCE:					
Current dollars	7.5	5.4	3.0	8.0	6.7
1967 dollars	8.7	7.6	7.1	9.9	10.7

The considerable difference in the size of the trade surplus in nominal and real terms indicates the strong influence of the differential rise in export and import prices. In January the excess of the surplus in real terms over that in nominal terms widened somewhat as prices of imports rose faster than prices of exports. During the last five months of surplus (September 1973 to January 1974), export prices rose at an annual rate of 31 percent, slightly higher than the 27 percent rate of increase from January through August 1973. The acceleration in the prices of imports has been much greater -- 50 percent at an annual rate in the last five months, double the rate of increase in the earlier months of 1973.

The rate of increase in prices of <u>exports</u> of nonagricultural commodities increased very sharply from September to January, by 30 percent at an annual rate, compared with a less than 15 percent rate of increase from January to August 1973. Prices of the two major components of nonagricultural exports -- capital equipment and industrial materials -- both increased steeply in the more recent period. In contrast, the rate of price increase for agricultural exports from September to January slowed markedly to less than half the 75 percent annual rate of increase in the first eight months of 1973. (See table).

PERCENT CHANGES IN UNIT-VALUE
INDEXES OF U.S. EXPORTS AND IMPORTS
(Annual rates)

	January to August 1973	September 1973 to January 1974
Total exports	26.7	31.2
Agricultural	77.5	30.3
Nonagricultural	13.6	29.4
Capital equipment	8.7	26.7
Industrial materials	21.9	49.2
Total imports	25.8	52.8
Fuels	31.1	358.8
Nonfuels	26.0	16.2
Industrial materials	23.8	33.9

For imports, the recent acceleration in prices largely reflects the higher oil prices set by the oil-producing countries in the last quarter of 1973. From September to January the price of imported fuels more than doubled, going from an average price of about $3.35 per barrel (crude and refined products) to over $7.10 per barrel in January. Further increases can be expected in February and March as the price increases announced by the oil-supplying countries at the end of December and the increase on February 1 in the Canadian export tax on crude oil (from $2.20 to $6.40 per barrel) are more fully reflected in the value of imports. The volume of U.S. imports of oil has declined, as a result of the Arab embargo, from an average of 6.5 million barrels per day in January-September 1973 to less than 6 million barrels per day this past January, and even less in February (particularly in the early part of the month) according to weekly data of the American Petroleum Institute. The value of imports over this period, however, has risen from $7 to $14 billion (annual rate). If the oil embargo were to be lifted by the end of March so that an additional million barrels of oil per day could be imported at an estimated price of $10 per barrel, the value of fuel imports this year could be more than $2 billion higher than the current estimate of $21 billion.

U.S. IMPORTS OF PETROLEUM AND PRODUCTS 1/

	Million barrels per day	Import price (dollars per barrels)
1972 - Annual average	4.9	2.59
1973:		
Jan.-Sept. average	6.5	2.99
October	7.3	3.56
November	7.1	4.11
December	6.2	5.46
1974:		
January	5.9	7.17

1/ Includes imports of crude petroleum into the Virgin Islands.

Prices of imports other than fuel rose on average at an annual rate of 16 percent from September to January, down from the 25 percent rate of increase posted in the earlier months of 1973, although prices of industrial materials (other than fuels) continued to rise at a rate of 35 percent. The appreciation of the dollar in exchange markets between

October and January may well have been a factor in slowing the rise in these prices expressed in terms of dollars while the equivalent prices in terms of the currencies of other industrial countries rose more.

Although import movements in recent months have been dominated by the developments in oil, the January trade data suggest that imports of cars may have begun to respond to the shift in domestic demand toward smaller cars. Imports of cars from Europe and Japan in January rose very strongly, exceeding the number of such cars sold in the United States by a considerable amount and permitting some rebuilding of inventories that had been drawn down last year. Although sales of foreign cars in the United States in January and February were relatively low -- 1.6 million units at an annual rate -- a continuation of imports at the January level would suggest a rise in domestic sales of these foreign cars.

<u>Monetary and credit conditions in major industrial countries</u>. With inflationary pressures remaining very strong in all industrial countries, most countries -- except for Italy and Canada -- are continuing to pursue tight monetary policies. In many countries in recent weeks, however, these policies appear to have ceased becoming progressively tighter. In both Italy and Canada, monetary policy can be characterized as one of moderate accommodation rather than restraint.

The recent rise in oil prices can be viewed as having a one-time impact on general price levels, except that it may be adding to wage-push pressures. But underlying upward pressures on prices remain strong, and it is for this reason that most authorities are continuing to maintain relatively tight demand management policies. There is considerable concern about the spring round of wage negotiations in some countries.

A number of countries, including Germany, France, Switzerland, Belgium and Japan have relaxed their curbs on the inflow of capital or taken action (other than on interest rates) to encourage inflows. Such actions reflect concern about a weakening in the balance of payments as a result of higher payments for oil imports.

There are some signs of a slowdown in monetary and credit expansion in recent months. Although the rates of increase remain high in some countries, M_1 growth in the latter part of 1973 was slower in Germany, France, the Netherlands, Belgium and Japan than it had been last spring. Because the earlier rapid growth in credit and money produced high liquidity ratios for the private sector, most monetary authorities are reluctant to implement expansionary policies at this time.

As indicated in the table on the following page, both short-term and long-term interest rates are at relatively high levels in most countries. Except in the U.K., Germany and Canada, short-term rates have increased in recent months. Long-term rates have increased in recent months for all countries, and the rates are particularly high in the U.K., France and Germany.

At present, the outlook is for the maintenance of relatively tight monetary and credit conditions in most countries in the coming months. No significant easing of monetary policies is likely to occur until there is a marked slackening in domestic demand pressures or a significant downturn in international commodity prices.

Germany has been pursuing a tight monetary policy since the autumn of 1972 and is likely to continue this policy in view of the absence thus far of as much weakening in economic activity as had been expected earlier, and because of the relatively large increase in wages (an effective rise of about 12.5 per cent) granted to the public service workers in February. The wage boost exceeded the government's guideline of 9-1/2 per cent. In order to avoid a severe squeeze on bank liquidity, the Bundesbank in January reduced the reserve requirements on bank liabilities to both residents and non-residents. At the same time, the Bundesbank underscored its intention not to undertake any net relaxation

INTEREST RATES FOR MAJOR COUNTRIES
(Per cent per annum, at or near end of month)

	Short-term Rates					Long-term Rates				
	1973			1974		1973			1974	
	June	Sept.	Dec.	Jan.	Feb.	June	Sept.	Dec.	Jan.	Feb.
U.K.	8.38	13.38	16.19	16.19	14.88	10.33	11.45	12.21	13.32	13.47
Germany	13.75	13.75	13.00	11.63	10.25	9.19	9.11	9.51	9.40	9.98
France	8.50	11.80	11.88	15.00	12.75	8.75	9.29	9.46	9.95	10.26
Italy	6.00	8.50	8.38	9.13	9.63	7.37	7.28	7.38	--	--
Belgium	6.00	7.15	7.95	7.95	8.75	7.21	7.62	7.92	8.14	8.22
Netherlands	5.03	7.50	9.08	9.80	9.81	7.83	8.01	8.39	8.74	8.86
Switzerland	2.50	4.50	5.50	5.50	6.50	5.36	5.79	6.30	6.38	6.50
Japan	6.75	9.00	12.00	11.50	12.00	7.55	8.23	9.61	9.66	9.71
Canada	7.00	8.75	9.50	8.75	8.50	7.74	7.72	7.72	7.77	7.73
U.S.	7.29	6.94	7.36	7.92	7.27	6.93	6.95	6.87	7.01	6.96

Notes:
Short-term rates: U.K. - 90-day local authority deposits; Germany - 3-month interbank loan rate; France - call money rate against private paper; Italy - interbank deposits of up to one-month maturity; Belgium - tap rate on 4-month Treasury bills; Netherlands - call money rate; Switzerland - 3-5 month deposit rate; Japan - call money rate, unconditional; Canada - Canadian finance company paper; U.S. - U.S. Treasury bill.
Long-term rates: U.K. - 3-1/2% war loan; Germany - 6% public authority bond yield; France - public sector bonds; Italy - composite yield on all bonds except Treasury bonds (monthly average); Belgium - long-term government bonds, composite yield; Netherlands - average of three 4-1/4 - 4-1/2% government loans; Switzerland - Swiss government composite yield; Japan - 7-year industrial bonds; Canada - government long-term average yield; U.S. - government 10-year constant maturity bond yield.

of monetary policy by terminating the special Lombard loan facility that had been activated at the end of November.

At the end of January, the authorities lifted or relaxed most of the barriers to free movements of capital except for the ban on interest payments by German banks on liabilities to non-residents and the restrictions on non-resident purchases of short-term debt assets. The Bardepot law also remains in effect, but the deposit requirement has been reduced from 50 to 20 per cent and the amount of a given loan exempt from the requirement has been raised from 50,000 to 100,000 DM. The main factors prompting these actions were the general strengthening of the dollar and the expectation that Germany's basic balance of payments would not registar a surplus this year because of the increase in oil prices.

Although there is very little excess liquidity in German money markets, the extremely tight conditions of last spring and summer have not recurred in recent months. There has been some softening in private loan demand as a result of the slowdown in business activity.

Primarily because of reduced demands for credit, short-term interest rates have been declining in recent months. Long-term yields, however, increased in February as bond holders sold in anticipation of rising long-term rates.

In the United Kingdom the Bank of England's efforts to slow the growth of monetary aggregates have been interrupted by the temporary economic disruption in the country. Although the Bank of England introduced a new Special Deposit scheme in mid-December with the aim of making the Bank's control over the money stock more effective, the Bank hesitated to restrict the banking system too vigorously. Instead, it tried to ensure that the banks were sufficiently liquid to help those non-banks whose liquidity might be adversely affected by a reduced cash flow stemming from the three-day work week (which was terminated March 8), and those fringe banks threatened by a crisis of confidence. Three-month market rates of interest have been in the neighborhood of 15 per cent.

Bank liquidity was under pressure in the second half of January when the Government experienced a larger surplus than had been expected. This caused a further rise in short-term interest rates, which led the Bank of England to repay in early February a part -- 0.5 per cent of bank deposits -- of the Special Deposits that had been placed with the Bank. As a consequence, short-term rates dropped back a little. The Bank of England's minimum lending rate decreased from 12.75 to 12.50 per cent on February 1.

Long-term bond yields have been rising persistently during the past year, presumably reflecting an increasing premium for inflationary expectations.

Bank credit to the private sector expanded at a relatively high rate last year, while the monetary aggregates registered somewhat divergent trends. The broad version of the money supply, M3, increased at a seasonally adjusted annual rate of about 25 per cent from July through mid-January. In contrast, the narrow version of money supply, M1, fell during that period after having increased moderately during the previous six months.

The new Labor Government acted quickly to end the miners' strike and to restore the normal work week. The Chancellor of the Exchequer, Denis Healey, will announce the Budget for 1974/75 on March 26. If, as is generally believed, the public sector borrowing requirement is significantly reduced, attempts by the Bank of England to slow the growth of M3 may become more successful.

France has been pursuing a progressively tighter monetary policy during the past year and a half. Bank credit ceilings have been steadily tightened, and in mid-January reserve requirements against resident deposits were increased further by 2 percentage points. At the same time, reserve requirements against non-resident deposits were abolished in order to encourage an inflow of short-term capital.

In contrast to the high degree of business liquidity that still prevailed during much of 1973, businessmen in January reported that their cash positions were much tighter. Banks and other financial institutions have been reporting that their financing conditions have become difficult since they are being pressured for both domestic and export investment credits at the same time that higher corporate and personal income tax payments are falling due.

The tighter credit conditions have contributed to a sharp rise in French interest rates during the past six months, although some rates have recently eased. The call money rate recently stood at about 12 per cent, down from a brief high of 15 per cent in January, but still above the 11 to 11-1/2 per cent rate prevailing during the fourth quarter of last year. Long-term rates are also at record levels, with the yield on public sector bonds exceeding 10 per cent.

French monetary policy is likely to remain restrictive in the coming months, but further tightening appears unlikely. Some of the demand for credit may be relieved by overseas borrowing, as well as a tightening of controls on capital outflows.

Restrictions on French long-term credits from abroad have been eased, and the French Treasury's $1.5 billion Euro-dollar loan has led the way for similar smaller borrowings by French industry.

Italian monetary policy has remained relatively easy, as the main concern of the authorities has been not to stifle the economic recovery that began in mid-1972. The inflationary and balance-of-payments situations have worsened substantially during the past 12 months.

Beginning in July of last year the authorities adopted several measures in order to permit the expansionary monetary policy to continue. These measures included a price freeze in July and a tightening of capital controls on outflows of funds. In September the Bank of Italy raised its basic discount rate from 4.0 to 6.5 per cent in order to bring its lending rate to commercial banks more in line with market conditions.

Last year the Bank of Italy also undertook a series of measures -- including a ceiling on the rate of growth of bank credit -- aiming at restricting speculation and channeling funds toward both small- and medium-sized businesses, as well as toward productive enterprises.

In general, short-term money rates have been rising, while long-term rates have been relatively stable. One indicator of money market rates -- the interbank deposit rate -- increased from 7.75 per cent in October 1973 to 9.6 per cent in February 1974. Yields on public corporation bonds have remained relatively stable during the past year, fluctuating generally between 7-1/2 and 7-3/4 per cent.

Any further restraint at this time is likely to result from the delayed impact of measures taken last year, particularly the 12 per cent credit-ceiling measure. There are strong political and social pressures opposing tightening measures. As a case in point, the coalition government recently fell following the resignation of the Finance Minister, who had earlier agreed to conditions attached to a proposed IMF drawing that other cabinet members felt were too restrictive.

In Switzerland, Belgium and the Netherlands, the authorities are generally pursuing tight money policies, although the Dutch have taken some actions recently to mitigate the severe strains in the money market. Short-term interest rates have been rising substantially, with long-term rates moving up at a somewhat slower pace. In all three countries, monetary and credit policies are likely to remain relatively tight in the near future.

All three countries have recently eased or removed some of their restraints on capital inflows. But the Swiss authorities are trying to discourage capital inflows by restraining the rise in short-term rates.

In Japan, monetary policy has been steadily tightened since early last year. Reserve requirements have been raised six times since then. On December 22 the Bank of Japan's basic discount rate was increased an unprecedented 2 percentage points to 9.0 per cent. Late last month commercial banks were ordered to restrict their credits for the financing of land, distribution activities and unnecessarily high inventory accumulation. The authorities are likely to maintain their tight monetary and fiscal policies until the rise in prices is slowed substantially. Recent news reports, which may prove false, indicate that the Bank of Japan plans to increase its discount rate again in March.

Large monthly deficits in the balance of payments since March of 1973 have prompted the Government in recent months to revise its foreign capital controls so as to encourage the inflow, and to discourage the outflow, of capital.

Although credit conditions have tightened considerably in recent months, loan demand continues strong. Much of this reflects the demand for additional funds to bolster working capital, as well as to make payments for goods at much higher prices. There are signs that the rate of credit expansion has begun to slow down. During the last half of 1973 bank credit increased at a seasonally adjusted annual rate of 14 per cent as compared to 19 per cent in the first half of the year.

As a result of the tighter credit conditions, interest rates have risen substantially. Call loan rates, for example, increased throughout 1973, with the rate for money at a day's notice reaching a 10-year high of 12.75 per cent in mid-February, as compared to a rate of 6.75 per cent in June of 1973 and 9.0 per cent last October. Similarly, the yield on industrial bonds rose from 8.23 per cent in September of 1973 to 9.71 per cent in February 1974.

Following the removal of U.S. capital controls on January 29, the Canadian Government rescinded the guidelines it had imposed in 1968 to prevent a pass-through of funds from the United States following Canada's exemption from the U.S. capital controls program.

M1 increased in Canada at an annual rate of 5.4 per cent from August-October to November-January, a much slower rate than earlier in 1973. Time deposits rose strongly, as savers and investors found the banks' deposit interest rates relatively attractive.

Interest rates on short-term paper have declined since December, but the prime lending rates of the chartered banks increased in December and remained at a relatively high level through February.