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Content last modified 6/05/2009.

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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

May 15, 1974

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

May 15, 1974

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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	Apr.	5/3/74	90.3	-2.4	-1.0	2.3
Unemployment rate	Apr.	5/3/74	5.0	5.1 1/	5.2 1/	5.0 1/
Insured unemployment rate	Apr.	5/13/74	3.4	3.4 1/	3.1 1/	2.7 1/
Nonfarm employment, payroll (mil.)	Apr.	5/3/74	76.9	2.0	2.0	2.4
Manufacturing	Apr.	5/3/74	19.9	4.5	-1.5	1.0
Nonmanufacturing	Apr.	5/3/74	57.0	1.1	3.3	2.9
Private nonfarm:						
Average weekly hours (hours)	Apr.	5/3/74	36.6	36.8 1/	36.7 1/	37.2 1/
Hourly earnings ($)	Apr.	5/3/74	4.08	2.9	6.0	6.3
Manufacturing:						
Average weekly hours (hours)	Apr.	5/3/74	39.5	40.4 1/	40.3 1/	40.9 1/
Unit labor cost (1967=100)	Mar.	4/26/74	128.2	5.6	8.0	7.2
Industrial production (1967=100)	Apr.	5/15/74	124.7	4.8	-2.2	.5
Consumer goods	Apr.	5/15/74	128.3	8.5	-2.8	-2.0
Business equipment	Apr.	5/15/74	128.6	6.6	5.7	7.5
Defense & space equipment	Apr.	5/15/74	80.9	-5.9	-2.5	1.1
Materials	Apr.	5/15/74	128.6	3.7	-3.4	.7
Consumer prices (1967=100)	Mar.	4/21/74	143.2	12.9	13.8	10.2
Food	Mar.	4/21/74	159.1	9.1	19.8	18.3
Commodities except food	Mar.	4/21/74	131.5	17.6	15.2	7.9
Services 2/	Mar.	4/21/74	147.0	9.9	8.9	7.6
Wholesale prices (1967=100)	Apr.	5/9/74	155.2	8.6	12.9	18.8
Industrial commodities	Apr.	5/9/74	149.8	27.8	26.7	20.7
Farm products & foods & feeds	Apr.	5/9/74	169.9	-35.6	-17.3	14.6
Personal income ($ billion) 3/	Mar.	4/17/74	1099.9	5.6	4.0	9.6
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Mar.	4/30/74	42.1	-2.4	1.4	2.7
Capital goods industries:	Mar.	4/30/74	13.4	-6.9	3.6	7.4
Nondefense	Mar.	4/30/74	11.9	-2.6	2.8	12.5
Defense	Mar.	4/30/74	1.5	-31.1	10.7	-21.3
Inventories to sales ratio:						
Manufacturing and trade, total	Mar.	5/14/74	1.44	1.45 1/	1.46 1/	1.43 1/
Manufacturing	Mar.	4/30/74	1.61	1.60 1/	1.60 1/	1.58 1/
Trade	Mar.	5/14/74	1.28	1.30 1/	1.32 1/	1.28 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	Mar.	4/30/74	.713	.714 1/	.716 1/	.817 1/
Retail sales, total ($ bil.)	Apr.	5/10/74	44.4	1.4	3.4	7.8
GAF	Apr.	5/10/74	11.8	- .8	4.2	11.5
Auto sales, total (mil. units) 3/	Apr.	5/6/74	9.1	2.9	-2.8	-23.7
Domestic models	Apr.	5/6/74	7.8	5.6	2.1	-22.2
Foreign models	Apr.	5/6/74	1.3	-10.5	-24.5	-31.5
Plant & equipment expen. ($ bil.) 4/						
All industries	1974	5/3/74	119.14	--	--	19.4
Manufacturing	1974	5/3/74	50.21	--	--	32.1
Housing starts, private (thous.) 3/	Mar.	4/16/74	1,460	-21.6	4.1	-36.0
Leading indicators (1967=100)	Mar.	4/29/74	172.2	1.7	4.1	6.8

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate. 4/ Planned--McGraw-Hill May survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Recent data suggest a leveling out in overall economic activity in the second quarter and a continuation of rapid price increases. The first quarter turned out weaker than the staff had expected--with real GNP down at an annual rate of 5.8 per cent and prices as measured by the private fixed-weight index up at a rate of 12.5 per cent, according to the initial Commerce estimates.

An improvement recently in industrial output, payroll employment, and retail trade reflects to a large extent some recovery of domestic auto production and sales. Industrial production is now estimated to have risen 0.4 per cent in April, and figures for February and March were revised up. The April index level is about the same as the first quarter average. In addition to an appreciable increase in auto assemblies, increases occurred in output of steel and other durable auto supply industries. Production of business equipment was revised up for March and increased moderately further in April to a new high. Most other sectors of the index changed little.

The unemployment rate edged down to 5.0 per cent in April, the second straight month of slight decline. The civilian labor force was also off a little, and has shown little change in the last three months. Nonfarm payroll employment increased moderately in April, with manufacturing employment showing its first advance since last November. The sharp decline in the factory workweek in April appears to be attributable mainly to the occurrence of Good Friday within the reporting week.

Retail sales rose moderately in April, with the automotive group accounting for much of the advance. Unit sales of domestic-type autos increased 6 per cent but sales of domestic-type small cars showed no increase and there was a further decline in sales of imported cars. The slight increase in retail sales outside the automotive area was apparently less than the rise in prices.

Although the sharp decline in activity in the first quarter was accompanied by some easing in rates of capacity utilization in manufacturing, business demands for plant and equipment remain strong, according to the latest McGraw-Hill survey. However, new orders for nondefense capital goods in constant prices have changed little on balance in recent months. Purchasing agents continue to report numerous basic commodities in short supply, but the list is not quite as extensive as a few months ago.

The increase in wage rates has accelerated somewhat in recent months, rather than slowing as initial reports had indicated. The adjusted hourly earnings index for private nonfarm workers was revised up for February and March and a sizable further increase was reported for April, when the index was 7.1 per cent above a year earlier. Unit labor costs in the private nonfarm economy increased by an exceptionally large amount in the first quarter.

Inflationary pressures continue to be acute, even though wholesale prices of farm products and processed foods declined substantially in April, for the second consecutive month. The drop of 3.0 per cent in this category did not, however, fully offset the 2.3

per cent rise in industrial commodities, and the total index increased 0.7 per cent. Increases in April were again widespread among commodity groups, with metals, paper, and chemicals accounting for more than half of the advance. With price controls ended on April 30, except for petroleum and products, a further sizable increase seems in prospect for the May index. In March, the consumer price index had risen 1.1 per cent, and increases were widespread among commodities and services.

Outlook. Staff projections through mid-1975 incorporate the following policy assumptions: (1) Growth in M_1 is assumed to average an annual rate of 5-1/2 per cent for the second and third quarters of this year, and an annual rate of 5-3/4 per cent over the remainder of the projection period. Nominal GNP is expected to grow faster than this, and short-term interest rates are projected to rise somewhat further. (2) The staff still assumes an adjustment in withholding schedules to effect an $8 billion annual rate reduction in the amount of over-withholding, beginning about August 1. (3) A public employment program is assumed with outlays amounting to $1.6 billion for fiscal 1975, bringing the number of State and local government employees under the program to 200,000 by the second quarter of calendar year 1975. Other Federal expenditure assumptions remain close to the budget for fiscal 1975. (4) Wage and price controls have now ended except for petroleum, and it is assumed there will be no reimposition of controls during the projection period.

Real GNP in the second quarter is still projected to stabilize, following the sharp first quarter decline, as real consumer spending firms following earlier sharp reductions, business fixed investment strengthens, and the drop in residential construction slows considerably. Such a leveling off would be consistent with further monthly increases of industrial production.

Growth in real GNP in the second half of 1974 is now projected at an annual rate of 2-3/4 per cent, somewhat slower than last time. Projected new car sales have been revised down; 1975 models are not expected to be as favorably received as anticipated earlier, partly in view of the large auto price increases occurring and in prospect. Housing starts are still expected to rise and then level off in the second half of the year. The stimulative effect of the Administration's newly announced mortgage financing program is expected to be about offset by smaller inflows to thrift institutions than previously anticipated.

In the first half of 1975, the rate of real growth in GNP is projected to slow to an annual rate of 2-1/4 per cent--about the same as expected earlier--mainly reflecting a drop in residential construction. Housing starts and activity should hold up a little better than earlier expected because of the new Administration program, but real consumer expenditures are expected to be a bit weaker.

An important difference between the current projection and that of four weeks ago is the faster rate of price rise now expected, particularly over the balance of this year. The upward revision reflects much larger than expected recent increases in wholesale prices of industrial products and consumer prices of goods and services, suggesting that underlying inflationary pressures are stronger than we had anticipated. We continue to expect strong pressures from unit labor costs as workers strive to recoup--or improve--real earnings that have already been significantly eroded by inflation. However, the staff is still projecting a continued slowing of the rate of price increase over the entire projection period, largely because of the likelihood of a substantial moderation in the rise of prices of foods and petroleum products.

The unemployment rate is projected to rise to just over 6 per cent in the spring of 1975. This is a little less than projected last time, because the rate most recently has been held down by failure of the civilian labor force to show any growth.

STAFF GNP PROJECTIONS

	Changes in nominal GNP $ billion		Per cent change annual rate: Real GNP		Per cent change annual rate: Gross private product fixed weighted price index		Unemployment rate	
	4/10/74	5/15/74	4/10/74	5/15/74	4/10/74	5/15/74	4/10/74	5/15/74
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 1/	133.9	133.9	5.9	5.9	6.1	6.1	4.9	4.9
1974	106.6	108.8	.3	- .2	8.4	9.2	5.6	5.4
1973:I 1/	43.3	43.3	8.7	8.7	7.0	7.0	5.0	5.0
II 1/	29.5	29.5	2.4	2.4	7.9	7.9	4.9	4.9
III 1/	32.5	32.5	3.4	3.4	7.0	7.0	4.7	4.7
IV 1/	33.0	33.0	1.6	1.6	8.6	8.6	4.7	4.7
1974:I	15.5	14.3	-4.2	-5.8	10.8	12.5	5.2	5.2
II	24.5	28.2	- .3	- .4	7.8	9.3	5.5	5.2
III	31.0	32.0	2.9	2.4	6.4	7.0	5.7	5.5
IV	35.5	36.0	3.5	3.0	6.2	6.7	5.9	5.7
1975:I	28.0	30.0	2.3	2.3	5.5	5.8	6.1	5.9
II	26.5	27.0	2.3	2.2	5.0	5.2	6.3	6.1
Change: 72-IV to 73-IV	138.3	138.3	4.0	4.0	7.8	7.8	- .6	- .6
73-IV to 74-IV	106.5	110.5	.4	- .2	7.8	8.8	1.2	1.0
74-II to 75-II	121.0	125.0	2.7	2.5	5.8	6.2	.8	.9

1/ Actual.

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 I	1973 II	1973 III	1973 IV	1974 Ip
Gross National Product	1289.1	1398.0	1242.5	1272.0	1304.5	1337.5	1351.8
Final purchases	1281.1	1389.2	1237.8	1267.5	1299.8	1319.4	1344.0
Private	1004.0	1080.3	969.2	992.2	1020.8	1033.8	1048.1
Excluding net exports	998.2	1078.0	969.2	989.4	1013.2	1021.0	1038.6
Personal consumption expenditures	804.0	877.2	779.4	795.6	816.0	825.2	844.6
Durable goods	130.8	129.8	132.2	132.8	132.8	125.6	124.5
Nondurable goods	335.9	377.3	322.2	330.3	341.6	349.6	362.3
Services	337.3	370.2	325.0	332.6	341.6	350.0	357.8
Gross private domestic investment	202.1	209.6	194.5	198.2	202.0	213.9	201.8
Residential construction	58.0	49.9	59.0	59.6	59.2	54.0	49.5
Business fixed investment	136.2	150.9	130.9	134.1	138.0	141.8	144.4
Change in business inventories	8.0	8.8	4.6	4.5	4.7	18.0	7.8
Nonfarm	7.3	8.3	4.4	4.4	3.2	17.3	6.8
Net exports of goods and services 1/	5.8	2.3	.0	2.8	7.6	12.8 2/	9.5 2/
Exports	102.0	132.8	89.7	97.2	104.5	116.4 2/	125.9 2/
Imports	96.2	130.5	89.7	94.4	97.0	103.6	116.4
Gov't. purchases of goods and services	277.1	308.9	268.6	275.3	279.0	285.6	295.9
Federal	106.6	115.7	105.5	107.3	106.8	106.8	111.3
Defense	73.9	79.1	74.3	74.2	74.2	73.0	76.2
Other	32.7	36.6	31.2	33.1	32.7	33.8	35.1
State & local	170.5	193.2	163.0	168.0	172.2	178.8	184.6
Gross national product in constant (1958) dollars	837.4	835.5	829.3	834.3	841.3	844.6	832.0
GNP implicit deflator (1958 = 100)	153.9	167.3	149.8	152.5	155.1	158.4	162.5
Personal income	1035.4	1136.3	996.6	1019.0	1047.1	1078.9	1093.9
Wage and salary disbursements	691.5	748.6	666.7	682.6	699.3	717.2	726.0
Disposable income	882.5	968.6	851.5	869.7	891.1	917.8	930.5
Personal saving	54.8	64.6	50.0	51.0	51.1	67.1	60.6
Saving rate (per cent)	6.2	6.7	5.9	5.9	5.7	7.3	6.5
Corporate profits & inventory val. adj.	109.0	116.1	104.3	107.9	112.0	111.9	107.5
Corporate profits before tax	126.3	141.9	119.6	128.9	129.0	127.4	138.4
Federal government receipts and expenditures, (N.I.A. basis)							
Receipts	265.0	292.5	253.6	262.4	269.5	274.3	285.9
Expenditures	264.0	298.4	258.6	262.4	265.6	269.6	281.3
Surplus or deficit (-)	1.0	-5.9	-5.0	.0	4.0	4.7	4.6
High employment surplus or deficit (-)	-1.3	- .8	-2.4	-1.7	-2.1	1.1	3.2
State and local government surplus or deficit (-), (N.I.A. basis)	10.5	3.4	13.9	11.5	10.4	6.0	5.8
Total labor force (millions)	91.0	93.2	90.0	90.8	91.3	92.2	92.8
Armed forces "	2.3	2.3	2.4	2.3	2.3	2.3	2.3
Civilian labor force "	88.7	90.9	87.6	88.5	89.0	89.9	90.5
Unemployment rate (per cent)	4.9	5.4	5.0	4.9	4.7	4.7	5.2
Nonfarm payroll employment (millions)	75.6	77.1	74.6	75.3	75.7	76.6	76.7
Manufacturing	19.8	19.9	19.6	19.8	19.8	20.1	19.9
Industrial production (1967 = 100) 3/	125.6	125.8	123.1	124.8	126.7	127.0	124.7
Capacity utilization, mfg. (per cent) 3/	83.0	80.0	82.8	83.3	83.3	82.6	80.4
Major materials (per cent) 3/	93.2	89.1	92.8	92.8	94.1	93.2	90.2
Housing starts, private (millions, A.R.)	2.04	1.65	2.39	2.21	2.01	1.58	1.60
Sales new autos (millions, A.R.)	11.44	9.52	12.23	11.73	11.74	10.09	9.07
Domestic models	9.67	8.02	10.27	9.87	10.11	8.44	7.49
Foreign models	1.77	1.50	1.96	1.86	1.63	1.65	1.59
1/ Net exports of g. & s. (bal. of paymts.)	6.9	4.8	.7	2.4	8.6	15.9 2/	12.0 2/
Exports	102.7	135.5	90.2	97.2	105.0	118.7 2/	128.6 2/
Imports	95.8	130.7	89.4	94.8	96.4	102.8	116.6

2/ Includes effects of shipments of military equipment and supplies to Israel; for 1973-IV 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; for 1974-I they are estimated at $.5 billion, annual rate, all from defense stocks.

3/ Incorporates new revisions in series.

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.)

	1974 Proj.	1974				1975	
			Projection				
		Ip	II	III	IV	I	II
Gross National Product	1398.0	1351.8	1380.0	1412.0	1448.0	1478.0	1505.0
Final purchases	1389.2	1344.0	1370.0	1403.2	1439.5	1469.8	1496.8
Private	1080.3	1048.1	1065.5	1090.4	1117.3	1138.9	1157.9
Excluding net exports	1078.0	1038.6	1063.0	1091.0	1119.5	1143.2	1165.0
Personal consumption expenditures	877.2	844.6	866.3	888.2	909.7	928.2	947.1
Durable goods	129.8	124.5	129.0	131.6	133.9	135.2	136.4
Nondurable goods	377.3	362.3	371.5	382.3	392.9	401.6	410.8
Services	370.2	357.8	365.8	374.3	382.9	391.4	399.9
Gross private domestic investment	209.6	201.8	206.7	211.6	218.3	223.2	226.1
Residential construction	49.9	49.5	48.3	49.8	52.1	52.9	51.4
Business fixed investment	150.9	144.4	148.4	153.0	157.7	162.1	166.5
Change in business inventories	8.8	7.8	10.0	8.8	8.5	8.2	8.2
Nonfarm	8.3	6.8	10.0	8.5	8.0	8.0	8.0
Net exports of goods and services 1/	2.3	9.5 2/	2.5	- .6	-2.2	-4.3	-7.1
Exports	132.8	125.9 2/	132.8	135.2	137.4	137.8	139.1
Imports	130.5	116.4	130.3	135.8	139.6	142.1	146.2
Gov't. purchases of goods and services	308.9	295.9	304.5	312.8	322.2	330.9	338.9
Federal	115.7	111.3	114.4	116.3	120.8	123.4	125.8
Defense	79.1	76.2	78.3	79.2	82.7	84.6	86.1
Other	36.6	35.1	36.1	37.1	38.1	38.8	39.7
State & local	193.2	184.6	190.1	196.5	201.4	207.5	213.1
Gross national product in constant (1958) dollars	835.5	832.0	831.2	836.3	842.5	847.3	851.9
GNP implicit deflator (1958 = 100)	167.3	162.5	166.0	168.8	171.9	174.4	176.7
Personal income	1136.3	1093.9	1122.0	1152.5	1176.7	1201.5	1225.7
Wage and salary disbursements	748.6	726.0	738.7	757.2	772.3	788.1	803.3
Disposable income	968.6	930.5	954.5	983.8	1005.5	1022.6	1042.5
Personal saving	64.6	60.6	61.9	68.3	67.4	65.0	65.1
Saving rate (per cent)	6.7	6.5	6.5	6.9	6.7	6.4	6.2
Corporate profits & inventory val. adj.	116.1	107.5	112.6	118.0	126.3	129.1	130.6
Corporate profits before tax	141.9	138.4	142.0	142.5	144.5	144.0	142.5
Federal government receipts and expenditures, (N.I.A. basis)							
Receipts	292.5	285.9	292.6	293.6	297.7	307.4	312.1
Expenditures	298.4	281.3	294.1	305.4	312.9	319.5	325.7
Surplus or deficit (-)	-5.9	4.6	-1.5	-11.8	-15.2	-12.1	-13.6
High employment surplus or deficit (-)	- .8	3.2	.8	-4.3	-3.1	9.0	10.4
State and local government surplus or deficit (-), (N.I.A. basis)	3.4	5.8	3.2	2.2	2.4	- .2	-2.6
Total labor force (millions)	93.2	92.8	92.9	93.4	93.7	93.9	94.2
Armed forces "	2.3	2.3	2.3	2.3	2.3	2.2	2.2
Civilian labor force "	90.9	90.5	90.6	91.1	91.4	91.7	92.0
Unemployment rate (per cent)	5.4	5.2	5.2	5.5	5.7	5.9	6.1
Nonfarm payroll employment (millions)	77.1	76.7	77.0	77.2	77.3	77.4	77.5
Manufacturing	19.9	19.9	19.9	19.9	19.9	19.9	19.9
Industrial production (1967 = 100)	125.8	124.7	125.1	126.2	127.3	128.2	129.2
Capacity utilization, mfg. (per cent) 3/	80.0	80.4	79.9	79.8	79.8	79.6	79.5
Major materials (per cent) 3/	89.1	90.2	89.1	88.7	88.3	88.3	88.3
Housing starts, private (millions, A.R.)	1.65	1.60	1.60	1.70	1.70	1.60	1.50
Sales new autos (millions, A.R.)	9.52	9.07	9.40	9.70	9.90	10.00	10.00
Domestic models	8.02	7.49	8.00	8.20	8.40	8.50	8.50
Foreign models	1.50	1.59	1.40	1.50	1.50	1.50	1.50

1/ Net exports of g. & s. (bal. of paymts.)	4.8	12.0 2/	5.0	1.9	.3	-1.8	-4.6
Exports	135.5	128.6 2/	135.5	137.9	140.1	140.5	141.8
Imports	130.7	116.6	130.5	136.0	139.8	142.3	146.4

2/ Includes effects of shipments of military equipment and supplies to Israel; for 1974-I these are now estimated at $.5 billion, annual rate, and considered as a sale, all from U.S. military stocks and thus reducing defense purchases by that amount.

3/ Incorporates new revisions in series.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1973	1974 Proj.	1973 I	1973 II	1973 III	1973 IV	1974 Ip
	Billions of Dollars						
Gross National Product	133.9	108.9	43.3	29.5	32.5	33.0	14.3
Inventory change	2.0	.8	-3.6	- .1	.2	13.3	10.2
Final purchases	132.0	108.1	46.8	29.7	32.3	19.6	24.6
Private	121.9	76.3	38.9	23.0	28.6	13.0	14.3
Net exports	28.5	-3.5	3.5	2.8	4.8	5.2	-3.3
Excluding net exports	105.4	79.8	35.4	20.2	23.8	7.8	17.0
Personal consumption expenditures	77.5	73.2	26.8	16.2	20.4	9.2	19.4
Durable goods	13.4	-1.0	9.3	.6	.0	-7.2	-1.1
Nondurable goods	36.0	41.4	11.5	8.1	11.3	8.0	12.7
Services	28.1	32.9	6.0	7.6	9.0	8.4	7.8
Residential fixed investment	4.0	-8.1	2.1	.6	- .4	-5.2	-4.5
Business fixed investment	18.0	14.7	6.6	3.2	3.9	3.8	2.6
Government	22.1	31.8	7.9	6.7	3.7	6.6	10.3
Federal	2.2	9.1	2.8	1.8	- .5	.0	4.5
State and local	20.0	22.7	5.0	5.0	4.2	6.6	5.8
GNP in constant (1958) dollars	46.7	-1.9	17.0	5.0	7.0	3.3	-12.6
Final purchases	45.7	-1.9	20.0	5.0	7.3	-6.2	-5.0
Private	44.0	-3.9	19.1	4.2	7.5	-5.3	-14.6
	Per Cent Per Year[1]						
Gross National Product	11.6	8.4	15.2	9.9	10.6	10.5	4.4
Final purchases	11.5	8.4	16.7	9.9	10.6	6.2	7.7
Private	12.0	7.6	17.8	9.8	12.0	5.2	5.6
Personal consumption expenditures	10.7	9.1	15.0	8.6	10.7	4.6	9.7
Durable goods	11.4	- .8	33.9	1.8	.0	-20.0	-3.5
Nondurable goods	12.0	12.3	15.6	10.4	14.4	9.7	15.3
Services	9.1	9.8	7.7	9.7	11.3	10.2	9.2
Gross private domestic investment	13.3	3.7	11.2	7.8	7.9	25.7	-20.8
Residential structures	7.4	-14.0	15.6	4.1	-2.7	-30.8	-29.4
Business fixed investment	15.2	10.8	23.0	10.1	12.2	11.5	7.5
Gov't. purchases of goods & services	8.7	11.5	12.7	10.4	5.5	9.8	15.2
Federal	2.1	8.5	11.4	7.0	-1.9	.0	17.9
Defense	- .7	7.0	10.9	- .5	.0	-6.3	18.7
Other	8.6	11.9	12.4	26.7	-4.7	14.1	16.3
State and local	13.3	13.3	13.3	12.8	10.4	16.2	13.6
GNP in constant (1958) dollars	5.9	- .2	8.7	2.4	3.4	1.6	-5.8
Final purchases	5.8	- .2	10.3	2.4	3.6	-2.9	-2.4
Private	6.8	- .6	12.0	2.5	4.4	3.0	-8.1
GNP implicit deflator	5.4	8.7	6.1	7.3	7.0	8.8[2]	10.8[2]
Private GNP fixed weighted index[3]	6.1	9.2	7.0	7.9	7.6	8.6	12.5
Personal income	10.2	9.7	8.7	9.3	11.5	12.7	5.7
Wage and salary disbursements	10.1	8.3	11.6	9.9	10.2	10.6	5.0
Disposable income	10.7	9.8	11.5	8.8	10.2	12.5	5.7
Corporate profits before tax	28.9	12.4	61.5	34.9	.3	-4.9	39.3
Federal government receipts and expenditures (N.I.A. basis)							
Receipts	15.9	10.4	31.3	14.6	11.3	7.8	18.0
Expenditures	7.9	13.0	-2.6	6.0	5.0	6.2	18.5
Nonfarm payroll employment	3.9	2.0	4.5	3.7	2.2	4.4	.8
Manufacturing	4.7	.5	5.4	4.7	1.2	4.5	-2.9
Industrial production	9.0	.2	10.0	5.6	6.2	1.0	-7.1
Housing starts, private	-13.4	-19.3	1.0	-27.0	-32.0	-61.3	2.9
Sales new autos	4.6	-16.8	4.6	-15.4	.2	-45.5	-34.5
Domestic models	3.7	-17.1	16.0	-14.9	10.1	-51.5	-38.0
Foreign models	9.8	-15.3	42.3	-18.1	-41.7	5.8	-14.0

1/ Percentage rates are annual rates compounded quarterly.
2/ Excluding Federal pay increases rates of change are: 1973-IV, 8.2 per cent and 1974-I, 10.7 per cent.
3/ Using expenditures in 1967 as weights.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1974 Proj.	1974				1975	
			Projection				
		Ip	II	III	IV	I	II
	Billions of Dollars						
Gross National Product	108.9	14.3	28.2	32.0	36.0	30.0	27.0
Inventory change	.8	-10.2	2.2	-1.2	- .3	- .3	.0
Final purchases	108.1	24.6	26.0	33.2	36.3	30.3	27.0
Private	76.3	14.3	17.4	24.9	26.9	21.6	19.0
Net exports	-3.5	-3.3	-7.0	-3.1	-1.6	-2.1	-2.8
Excluding net exports	79.8	17.0	24.4	28.0	28.5	23.7	21.8
Personal consumption expenditures	73.2	19.4	21.7	21.9	21.5	18.5	18.9
Durable goods	-1.0	-1.1	4.5	2.6	2.3	1.3	1.2
Nondurable goods	41.4	12.7	9.2	10.8	10.6	8.7	9.2
Services	32.9	7.8	8.0	8.5	8.6	8.5	8.5
Residential fixed investment	-8.1	-4.5	-1.2	1.5	2.3	.8	-1.5
Business fixed investment	14.7	2.6	4.0	4.6	4.7	4.4	4.4
Government	31.8	10.3	8.6	8.3	9.4	8.7	8.0
Federal	9.1	4.5	3.1	1.9	4.5	2.6	2.4
State and local	22.7	5.8	5.5	6.4	4.9	6.1	5.6
GNP in constant (1958) dollars	-1.9	-12.6	- .8	5.1	6.2	4.8	4.6
Final purchases	-1.9	-5.0	-1.4	4.5	6.3	4.8	4.4
Private	-3.9	-7.0	-2.0	4.2	6.2	4.4	3.9
	Per Cent Per Year 1/						
Gross National Product	8.4	4.4	8.6	9.6	10.6	8.5	7.5
Final purchases	8.4	7.7	8.0	10.1	10.8	8.7	7.6
Private	7.6	5.6	6.8	9.7	10.2	8.0	6.8
Personal consumption expenditures	9.1	9.7	10.7	10.5	10.0	8.4	8.4
Durable goods	- .8	-3.5	15.3	8.3	7.2	3.9	3.6
Nondurable goods	12.3	15.3	10.6	12.1	11.6	9.2	9.5
Services	9.8	9.2	9.2	9.6	9.5	9.2	9.0
Gross private domestic investment	3.7	-20.8	10.1	9.8	13.3	9.3	5.3
Residential structures	-14.0	-29.4	-9.4	13.0	19.8	6.3	-10.9
Business fixed investment	10.8	7.5	11.5	13.0	12.9	11.6	11.3
Gov't. purchases of goods & services	11.5	15.2	12.1	11.4	12.6	11.2	10.0
Federal	8.5	17.9	11.6	6.8	16.4	8.9	8.0
Defense	7.0	18.7	11.5	4.7	18.9	9.5	7.3
Other	11.9	16.3	11.9	11.5	11.2	7.6	9.6
State and local	13.3	13.6	12.5	14.2	10.4	12.7	11.2
GNP in constant (1958) dollars	- .2	-5.8	- .4	2.4	3.0	2.3	2.2
Final purchases	- .2	-2.4	-6.5	2.2	3.0	2.3	2.1
Private	- .6	-4.0	-1.2	2.5	3.7	2.6	2.2
GNP implicit deflator	8.7	10.8 2/	9.0	7.0	7.3 2/	6.0 2/	5.2
Private GNP fixed weighted index 3/	9.2	12.5	9.3	7.0	6.7	5.8	5.2
Personal income	9.7	5.7	10.7	11.3	8.7	8.7	8.3
Wage and salary disbursements	8.3	5.0	7.2	10.4	8.2	8.4	7.9
Disposable income	9.8	5.7	10.7	12.9	9.1	7.0	8.0
Corporate profits before tax	12.4	39.3	10.8	1.4	5.7	-1.4	-4.1
Federal government receipts and expenditures (N.I.A. basis)							
Receipts	10.4	18.0	9.7	1.4	5.7	13.7	6.3
Expenditures	13.0	18.5	19.5	16.3	10.2	8.7	8.0
Nonfarm payroll employment	2.0	.8	1.6	1.0	.5	.5	.5
Manufacturing	.5	-2.9	.0	.0	.0	.0	.0
Industrial production	.2	-7.1	1.3	3.3	3.7	3.0	3.1
Housing starts, private	-19.3	2.9	.0	27.4	.0	-21.5	-22.8
Sales new autos	-16.8	-34.5	15.4	13.4	8.5	4.1	.0
Domestic models	-17.1	-38.0	30.1	10.4	10.1	4.8	.0
Foreign models	-15.3	-14.0	-39.9	31.8	.0	.0	.0

1/ Percentage rates are annual rates compounded quarterly.
2/ Excluding Federal pay increases rates of change are: 1974-I, 10.7 per cent; 1974-IV, 6.2 per cent; 1975-I, 5.5 per cent.
3/ Using expenditures in 1967 as weights.

Industrial production. After falling for four consecutive months, industrial production rose 0.4 per cent in April, following upward revisions in February and March of 0.1 and 0.3 percentage points, respectively. The April rise in production reflected increased output of autos, business equipment, and durable goods materials. Most other sectors of the index showed little change.

Auto assemblies rose 13.5 per cent in April and were at an annual rate of 7.5 million units compared with 6.6 million units in March. May and June production schedules indicate some further increases. Output of other durable consumer goods and nondurable consumer goods changed little at advanced levels. Production of business equipment which was revised up for March, increased further in April as did output of steel and other durable goods materials, mainly in the automotive supplying industries. Production of nondurable goods materials and construction products was unchanged. Pressures on capacity in most materials industries continued strong.

INDUSTRIAL PRODUCTION
(1967=100, seasonally adjusted)

	1973	1974			Per cent change		
	April	Feb.	March	April	QIV '73 QI '74	Month ago	Year ago
Total index	124.1	124.6	124.2	124.7	-1.8	.4	.5
Market groupings:							
Final products	120.0	120.3	120.3	121.0	-2.0	.6	.8
Consumer goods	130.9	127.8	127.4	128.3	-3.3	.7	-2.0
Business equip.	119.6	127.3	127.9	128.6	.2	.5	7.5
Materials	127.7	128.3	128.2	128.6	-1.8	.3	.7
Industry groupings:							
Manufacturing	123.8	124.2	124.2	124.7	-1.3	.4	.7
Durables	120.6	119.6	120.0	121.1	-2.7	.9	.4
Nondurables	128.4	131.0	130.5	130.2	.5	-.2	1.4
Mining & utilities	126.6	126.3	125.8	125.9	-2.9	.1	-.6

Retail sales. Although the current value of sales in April rose 1.4 per cent from March, this largely reflected some recovery in expenditures for the automotive group. Excluding autos and non-consumption items, sales were only 0.5 per cent above the previous month.

April outlays for durable goods were up 3.1 per cent, as the 5.9 per cent gain of the automotive group more than offset a 1.7 per cent decline for furniture and appliances. Sales of nondurable goods advanced 0.7 per cent, but probably declined in real terms. Outlays for the food group were virtually unchanged but sales of the general merchandise category rose almost 1 percentage point following a strong gain in March. Sales of gasoline stations rose 6.5 per cent and were about 15 per cent above a year earlier, but prices have risen very sharply in recent months and by March were 42 per cent above a year earlier.

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

	1973		1974	1974		
	QIII	QIV	QI	Feb.	March 1/	April 2/
Total sales	2.9	.3	1.4	.5	1.5	1.4
Durable	1.9	-3.4	-3.0	-1.5	2.1	3.1
Auto	3.0	-6.6	-8.3	-3.2	1.6	5.9
Furniture and appliance	1.0	-1.0	4.6	-1.3	9.1	-1.7
Nondurable	3.4	2.2	3.5	1.4	1.3	.7
Food	4.7	1.9	4.4	.9	- .1	.2
General merchandise	2.0	1.2	3.8	.0	4.1	.7
Gasoline	.3	2.3	3.2	3.6	1.1	6.5
Total, less auto and nonconsumption items	3.1	2.0	3.6	1.1	1.8	.5
GAF	2.1	.7	3.9	.0	5.1	- .8
Real*	.3	-1.9	-2.1	-1.1	.4	n.a.

*Deflated by all commodities CPI, seasonally adjusted.

1/ Preliminary estimate.
2/ Advance estimate.

<u>Unit sales of consumer durables</u>. April sales of new domestic-type autos were at a 7.8 million unit annual rate, 6 per cent above the rate in February and March but a fifth below that of April a year ago. Large cars sold at a 5.2 million unit rate, up 8 per cent from March but a fourth below last year. Sales of domestic-type small cars continued to show little change at a 2.6 million unit annual rate, the same as in March but 13 per cent below a year earlier. The small car share edged down further accounting for 33 per cent of domestic-type sales, slightly below 34 per cent a month earlier but up from 30 per cent a year earlier.

Stocks of all domestic-type new cars continue to decline on a seasonally adjusted basis. Combined with the increased sales of April, stocks were equivalent to a 58 days supply, down from a 63 days supply at the end of March and a recent high of 69 days supply at the end of December.

Foreign auto sales in April were at a 1.3 million unit annual rate, down 10 per cent from a month earlier and a third below the same month a year ago. The import share of the market, seasonally adjusted, amounted to 14 per cent, down from the 16 per cent of both a month and a year earlier.

Factory sales of major home appliances, TVs, and radios in April are estimated to have declined 7 per cent from March; all items included in the index, except washers and driers, were below the March levels.

SALES OF SELECTED CONSUMER DURABLES
(Seasonally adjusted)

	1973	1974			Per cent change from	
	April	Feb.	Mar.	April	Month ago	Year ago
	Annual rates, millions of units					
Auto sales	11.9	9.0	8.8	9.1	3	-24
Foreign	1.9	1.6	1.4	1.3	-10	-33
Domestic	10.0	7.4	7.4	7.8	6	-22
Small	3.0	2.7	2.6	2.6	0	-13
Large	7.0	4.7	4.8	5.2	8	-26
	Indexes, 1967=100					
Home goods factory unit sales	158	144	159	148e	- 7	- 6
TVs 1/	169	146	169	149	-12	-12
Radios 1/	88	82	98r	75	-24	-15
Major appliances	154	145	155	150e	- 3	- 3

1/ Includes domestic and foreign label imports.
e/ Estimated on the basis of data through April 27.

Manufacturers' orders and shipments. New orders for durable goods declined 2.4 per cent in March (p), following a 1.7 per cent rise in February. Much of the drop occurred in defense capital goods; excluding this category, orders were down about 1 per cent. Nondefense capital goods orders were off 2.6 per cent (compared with the 4.7 per cent drop indicated in the advance report) after rising 4.0 per cent in February.

For the first quarter, as a whole, new orders for durable goods fell 1.7 per cent (p) following a fourth quarter rise of about the same size. Orders for motor vehicles and parts and for primary metals were very weak in the first quarter, and the rise in nondefense capital goods orders slowed perceptibly. In real terms, new durable goods orders were off 5 per cent in the first quarter and orders for nondefense capital goods were essentially unchanged.

Shipments of durable goods were off slightly in March and down 0.8 per cent for the first quarter as a whole. Unfilled orders continued to rise but a bit more slowly than previously.

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

	1973		1974	
	QIII from QII 1/	QIV from QIII 1/	QI from QIV (p)1/	Mar. from Feb. (p)
Durable goods, total	.7	1.8	-1.7	-2.4
Excluding defense	1.8	1.2	-2.2	- .9
Excluding primary metals and motor vehicles and parts	.1	4.2	2.1	-3.7
Primary metals	-2.8	.3	-3.1	5.4
Motor vehicles and parts	6.7	-7.2	-17.9	-4.4
Household durables	.5	4.2	.7	5.8
Nondefense capital goods	2.3	4.2	2.0	-2.6
Defense capital goods	-22.7	16.7	11.7	-31.1
Construction and other durables	1.7	2.8	1.3	-2.5
In 1967 $				
Durable goods, total	-1.2	.6	-4.9	-4.3
Nondefense capital goods	1.0	2.7	.2	-3.8

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

<u>Inventories</u>. Book value of manufacturing and trade inventories increased at a $30 billion annual rate in March (p), following a $37 billion rate in February. For the first quarter as a whole, the book value increase was $35.4 billion annual rate--about the same as in the fourth quarter. The current first quarter estimate is about $3 billion below the $38 billion January-February (p) average rate which was available at the time the preliminary first quarter GNP estimates were made by the Commerce Department.

In manufacturing, the $21 billion annual rate of increase in book value in the first quarter was a bit more rapid than the fourth quarter rate. By stage of processing, stocks of materials and supplies and of finished goods rose more rapidly in the first quarter than in the fourth while work-in-process inventories grew more slowly. Auto stocks at retailers dropped $2.5 billion, annual rate, in the first quarter and this was the major factor making for slower growth of retail inventories. Wholesale trade inventories grew more rapidly in the first quarter than in the fourth mainly because of rapid increases in prices.

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

	1973		1974	
	QIII	QIV	QI	Mar.(p)
Manufacturing and trade	21.1	36.5	35.4	29.8
Manufacturing, total	12.4	19.0	20.8	14.8
Durable	9.8	12.8	13.1	9.6
Nondurable	2.6	6.3	7.7	5.2
Trade, total	8.7	17.5	14.6	15.0
Wholesale	4.5	6.6	9.9	10.8
Retail	4.2	10.9	4.7	4.2
Auto	1.2	4.4	-2.5	-5.9

The overall manufacturing and trade inventory-sales ratio edged down from 1.45 to 1.44 in March, thus continuing at the low level of late 1972 and early 1973. The ratio of inventories to unfilled orders at durable goods producers was about unchanged at .713.

INVENTORY RATIOS

	1973		1974	
	Feb.	Mar.	Feb. r/	Mar.(p)
Inventories to sales:				
Manufacturing and trade	1.44	1.43	1.45	1.44
Manufacturing, total	1.58	1.58	1.60	1.61
Durable	1.87	1.89	2.00	2.02
Nondurable	1.22	1.21	1.16	1.16
Trade, total	1.30	1.28	1.30	1.28
Wholesale	1.16	1.13	1.07	1.05
Retail	1.40	1.38	1.49	1.48
Inventories to unfilled orders:				
Durable manufacturing	.836	.816	.714	.713

Cyclical indicators. The Census composite index of leading indicators rose 1.7 per cent in March (p). The Boston FRB deflated leading index (with no trend adjustment) was up .7 per cent; the Census deflated coincident index declined for the fourth straight month.

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

	1973			1974		
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.(p)
12 Leading, trend adjusted	.9	1.3	-2.1	1.6	.8	1.7
5 Coincident	1.5	1.1	- .2	- .4	.6	.1
5 Coincident, deflated	1.1	.5	-1.1	-1.4	- .2	- .4
6 Lagging	1.9	1.0	1.7	1.3	.4	2.0
	Leading indexes prior to trend adjustment					
Census undeflated	.5	1.0	-2.4	1.2	.3	1.4
Boston FRB deflated	.5	.3	-4.1	- .1	.2	.7

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

Leading indicators available for April are the average workweek in manufacturing and common stock prices, both of which declined.

<u>Construction and real estate</u>. Seasonally adjusted outlays for new construction put in place edged off further in April. Except for a temporary rise in February, such outlays have tended downward in every month since July 1973, primarily reflecting lower private residential expenditures which were down further in April to a level 20 per cent below their February 1973 peak. Private nonresidential and public construction outlays also slackened from their peaks 2 months earlier. With construction costs continuing to rise, the total value of new construction in constant dollars dipped again in April and was 13 per cent below the January 1973 high.

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

	1973		1974		Per cent change in April from	
	QI	QIV	QI(r)	Apr. 1/	Mar. 1974	Apr. 1973
Total - current dollars	136.5	134.7	134.1	132.4	-1	- 1
Private	103.3	101.3	98.6	97.4	-1	- 4
Residential	60.5	54.6	50.1	49.2	-2	-15
Nonresidential	42.8	46.7	48.6	48.2	--	+12
Public	33.2	33.4	35.5	35.0	-1	+ 7
State and local	28.0	28.9	30.3	30.0	--	+ 7
Federal	5.2	4.5	5.2	5.0	-9	+10
Total - 1967 dollars	93.9	85.8	83.6	81.6	-1	- 9

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

Merchant builder sales of new single-family homes, up sharply in March, increased 9 per cent during the first quarter. This was the first quarterly rise since the fourth quarter of 1972, although it was still three-tenths below the peak rate in that quarter. Stocks of unsold new homes declined only slightly in March and, even at the improved sales rate, represented more than 9 months' supply. The median price of units sold was up 3 per cent further and continued above the rising median price of units for sale. Sales of used homes remained moderately below a year earlier, while the median price of such units, at $31,350, rose 2 per cent and was more than a tenth above March 1973.

Residential rental vacancy rates in the first quarter of 1974 averaged 6.2 per cent. While this was the highest average since the second quarter of 1965, it was well below the peak reached in that year. The increase reflected, in part, the relatively high pace of completions and a shift into the rental category of condominiums and other "for sale" units for which demands had slowed appreciably this winter. Even so, at 1.2 per cent, the homeowner vacancy rate remained at the high average of last year's fourth quarter.

RESIDENTIAL VACANCY RATES
(Per cent)

	Average for the first quarter 1965	1971	1972	1973	1974
Rental units	8.5	5.3	5.3	5.7	6.2
Northeast	6.3	2.4	3.2	3.6	4.1
North Central	7.8	6.1	5.9	5.7	6.4
South	9.3	7.4	6.7	7.2	7.9
West	11.0	5.4	5.3	6.3	6.2
Homeowner units	1.7	1.0	1.0	1.0	1.2
Northeast	.9	.7	.4	.5	.8
North Central	1.3	.8	1.0	1.0	1.0
South	1.9	1.2	1.2	1.1	1.4
West	2.1	1.5	1.2	1.4	1.5

Anticipated plant and equipment spending. The latest McGraw-Hill survey, conducted in March and early April, indicates that businesses are planning a 19 per cent increase in plant and equipment outlays during 1974--a little more than reported two months earlier. Manufacturing industries continue to plan especially large increases, with primary metals and nonelectrical machinery showing the greatest strength among durable producers, and petroleum, paper, and chemicals planning the sharpest gains within the nondurable groupings. Outside of manufacturing, mining, railroads and public utilities are planning large increases. The survey also indicates that manufacturers plan to devote 53 per cent of this year's anticipated capital expenditures to expansion, up from an average of 49 per cent since 1968. Manufacturing capacity is expected to increase by 6 per cent this year, close to the recent historical average but below the 7 per cent rise reported for 1973.

This McGraw-Hill survey, as did the preceding one, shows significantly more strength than the latest Commerce survey; this discrepancy can largely be attributed to bias adjustments and the dominance of large firms in the McGraw-Hill sample.

EXPENDITURES FOR PLANT AND EQUIPMENT BY
U.S. BUSINESS IN 1974
(Figures are per cent changes from 1973)

Survey Date	Commerce 1/ Dec. 1973	Commerce 1/ Feb. 1974	McGraw-Hill Oct. 1973	McGraw-Hill Feb. 1974	McGraw-Hill Apr. 1974
All industry	12.0	13.0	13.6	18.5	19.4
Manufacturing	16.8	19.3	24	31	32
Durables	16.6	17.6	26	30	29
Nondurable	17.1	21.1	22	32	35
Nonmanufacturing 2/	9.1	9.1	7	11	12
Railroads	17.2	21.3	10	21	29
Air & other transportation	-5.7	-8.6	-11	-11	0
Electric utilities	15.7	17.0	14	18	17
Gas Utilities	18.3	29.7	5	31	26
Communications	10.8	10.1	5	7	8
Commercial	3.2	1.4	4	6	5

1/ Expectations corrected for systematic biases.

2/ Contains industries not shown separately.

Labor market. The unemployment rate edged off 0.1 per cent in April for the second month in a row. The drop was primarily the result of labor force withdrawals by teenagers and adult men; however, some firming in labor demand was evident in payroll employment, which rose by 125,000 in April.

Unemployment recently has hit hard workers with strong labor market attachment. Despite declines in their labor force, the unemployment rates for prime working age men (25-54 years) and married men have been rising. Although initial claims for unemployment insurance suggest that layoffs have slowed, there has been no significant re-hiring and insured unemployment has risen considerably since January.

SELECTED UNEMPLOYMENT RATES
(Per cent, seasonally adjusted)

	1973		1974		
	Apr.	Oct.	Jan.	Mar.	Apr.
Total	5.0	4.6	5.2	5.1	5.0
Males 20 years and over	3.4	3.0	3.4	3.4	3.6
Males 25-54 years	2.7	2.2	2.7	2.7	3.0
Females 20 years and over	4.8	4.4	5.2	5.0	4.9
Teenagers	15.2	14.0	15.6	15.0	13.8
White	4.5	4.1	4.7	4.6	4.5
Negro and other races	9.2	8.4	9.4	9.4	8.7
Married men	2.4	2.1	2.3	2.4	2.5
State insured	2.7	2.7	3.0	3.3	3.3

The civilian labor force has shown a small net decline since January. Slowing in labor force growth during a period of reduced output growth is not unusual, as fewer marginal workers enter and some leave the labor market. The monthly pattern of labor force growth is volatile--frequently, several months of little or no growth are followed by a big jump. Part of the recent drop in the labor force has occurred among teenagers (which is unusual). Meanwhile, labor force growth among adult women has continued at the rapid pace of 1973.

Payroll data for April suggest some improvement in labor demand from the winter months and the March data have been revised upward considerably and now show only a small decline. The April payroll advance was led by a 75,000 gain in manufacturing (concentrated in transportation equipment)--the first factory job increase since November, when the impact of the oil embargo was first felt. The volatile construction series showed a decline for the second month. Since last November, total payroll employment has increased at a half million annual rate, compared to 2-3/4 million over the four quarters of 1973. Manufacturing employment however remains well below its recent peak in that month. The factory workweek, after edging down for several months, dropped sharply in April. Most of the decline probably is attributable to the fact that Good Friday fell within the survey period, but some of it may have reflected an attempt to reduce labor inputs.

CHANGES IN PAYROLL EMPLOYMENT
(In thousands; seasonally adjusted)

	1972 QIV- 1973 QIV	Nov. 1973- Apr. 1974	Mar. 1974- Apr. 1974
	------Average Monthly Change----------		
Total nonfarm	229	46	126
Private	198	- 5	71
Manufacturing	63	-33	75
Durable goods	54	-27	78
Transportation equipment	4	-24	57
Construction	16	-13	- 73
Trade	47	0	38
Service	50	29	31
Government	31	51	55

Earnings. The average hourly earnings index for private nonfarm production workers rose strongly in April and figures for the preceding two months were revised up. Since April 1973, the index has risen by 7.1 per cent--compared to 6.7 per cent over the four quarters of 1973--with the largest increases in manufacturing and services. The recent acceleration probably reflects a response to the prolonged period of decline in real spendable earnings, and rapid wage increases are likely to continue.

HOURLY EARNINGS INDEX*
(Seasonally adjusted; per cent change)

	1971 QIV- 1972 QIV	1972 QIV- 1973 QIV	April 1973- April 1974
Total private nonfarm	6.5	6.7	7.1
Manufacturing	6.4	6.5	7.4
Construction	6.2	6.7	7.0
Transportation and p.u.	11.2	7.4	6.0
Trade	5.5	6.8	6.8
Services	5.7	6.3	7.1

* Excludes effects of fluctuations in overtime premiums in manufacturing and shifts of workers between industries.

Collective bargaining. Major collective bargaining agreements in the first quarter provided somewhat larger wages increases than settlements reached in 1973, but continued to be relatively moderate. However, these data exclude possible cost-of-living increases provided in agreements which cover more than half the workers bargaining during the period. Also, in a number of recent contracts cost-of-living protection has been extended and improved.

Settlements concluded in the first quarter covered only about 500,000 workers--about 10 per cent of those scheduled to bargain this year. First year wage adjustments averaged 6.2 per cent, up from the 5.8 per cent gain in 1973. Slightly larger increases were evident in both the manufacturing and nonmanufacturing sectors where major settlements included the can, aluminum, food, and transit industries. Pay increases in construction remained modest. Over the life of the contract, wage adjustments were about the same as in 1973, and wages and benefits combined averaged 5.9 per cent over the life of the contract--down slightly from 6.1 per cent in 1973.

WAGE INCREASES PROVIDED BY MAJOR CONTRACT SETTLEMENTS*1/
(Mean per cent wage adjustment--annual rate)

	1971	1972	1973	1973 QI	1973 QII	1973 QIII	1973 QIV	1974 QI
Average-over-life-of contract								
Total	8.1	6.4	5.2	4.5	5.7	5.3	4.3	5.3
Manufacturing	7.3	5.6	4.9	6.1	5.2	5.1	3.9	4.9
Nonmanufacturing	8.9	6.9	5.4	3.8	5.8	5.5	5.7	5.5
Construction	10.8	6.0	5.2	4.9	5.8	4.6	4.9	4.8
First year								
Total	11.6	7.3	5.8	5.3	6.1	5.9	5.4	6.2
Manufacturing	10.9	6.6	5.9	6.5	6.0	5.9	5.3	6.1
Nonmanufacturing	12.2	7.8	5.6	4.7	6.1	5.8	5.7	6.3
Construction	12.6	6.9	5.2	4.5	6.3	4.6	4.8	5.2

* Applies to settlements affecting 1,000 or more.
1/ Excludes possible cost-of-living adjustments.

Wholesale prices. Wholesale prices rose 0.7 per cent, seasonally adjusted, between March and April. The change reflected another sharp increase in prices of industrial commodities, only slightly less than the average of the last six months, and the largest drop in prices of farm products and foods in the last six months.

The index of industrial commodities increased by 2.3 per cent, seasonally adjusted (not at an annual rate), to a level more than 20 per cent above that of April 1973. Price increases were widespread, but those for metals, pulp and paper products, chemicals, and machinery and equipment were especially important. The index of refined petroleum products, a prime mover in the rise in the WPI in recent months, declined for the first time since last August as prices of both gasoline and distillates fell.

WHOLESALE PRICES
(Per cent changes at seasonally adjusted compound annual rate)1/

	April 1973 to April 1974	Dec. 1972 to June 1973	June 1973 to Dec. 1973	Dec. 1973 to April 1974	Mar. 1974 to April 1974
		(6 mo.)	(6 mo.)	(4 mo.)	(1 mo.)
All commodities	18.1	22.3	14.3	20.7	8.6
Farm products	14.7	47.5	8.8	1.6	-35.6
Industrial commodities	20.7	12.5	17.2	29.8	27.8
Crude materials	53.1	23.3	40.2	84.7	63.8
Intermediate materials	20.1	13.3	12.3	37.1	36.7
Finished goods	17.8	10.0	21.1	23.5	10.1
Producer	8.3	5.7	4.8	14.9	16.5
Consumer nonfoods	22.6	12.2	29.6	15.3	6.7
Nondurable	32.9	17.0	47.1	17.4	3.8
Durable	5.8	5.0	2.3	11.9	11.9
Consumer finished foods	15.9	28.3	16.9	16.4	1.5

NOTE: Farm products include farm products and processed foods and feeds.
1/ Not compounded for one-month changes.

The index of farm products and processed foods and feeds fell 3.0 per cent, seasonally adjusted, with most of the decline accounted for by lower prices of grains, livestock, meat and poultry, manufactured animal feeds, and oilseeds.

Since the April pricing date of the WPI, announcements of price increases have included those for steel mill products, copper, and motor vehicles. What the precise quantitative effect of these changes will be on the May WPI is not yet known, but we estimate that of themselves they will probably amount to an increase of about one-half per cent.

Consumer prices. Consumer prices rose at nearly a 13 per cent annual rate in March--almost as much as in February. Despite a fall in meat prices, the advance for foods was at a substantial 9 per cent rate. Prices of other commodities and services, however, advanced even more than in January and February, and the first-quarter rise in the CPI marked a sharp acceleration from the already large quarterly increases of 1973.

The acceleration for nonfood commodity prices since December appears to have wiped out much of the lag which had developed with respect to increases at the wholesale level. This is not apparent in the aggregate CPI and WPI statistics because the latter are distorted by an enormous rise in the index for refined petroleum products (revised index to appear in June). If we look at comparable commodity groupings, however, we now find only a few for which a substantial "catch up" at retail still seems needed.

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

	Relative importance Dec. 1973	June 1973 to Sept. 1973	Sept. 1973 to Dec. 1973	Dec. 1973 to Mar. 1974	February to March 1974
All items	100.0	10.3	9.0	14.5	12.9
Food	24.8	28.3	9.2	21.3	9.1
Commodities less food	38.6	2.6	7.9	16.0	17.6
Services 2/	36.5	7.4	9.4	9.2	9.9
Addendum					
All items less food and energy components 3/ 4/	68.8	5.6	5.5	8.0	8.8
Services less home finance 2/ 3/ 5/	29.9	4.8	7.2	10.2	11.9
Commodities less food, used cars, home purchase 3/	30.9	2.3	10.5	19.0	17.6

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.

In March, apart from meats, poultry and eggs, most food groups registered further large increases, though not quite so much as in February. Beef prices, however, fell 2 per cent and have declined further since the early-March CPI pricing dates. Pork prices have also declined substantially, following the fall in animal prices, but the farm-retail spreads for both pork and beef continued high in April, according to preliminary Department of Agriculture data.

Gasoline prices rose about 6 per cent (seasonally adjusted, hot annual rate) for the third successive month, but fuel oil prices were down somewhat. Apparel prices were up about one per cent, as in February, and those of other nondurables, as well as of household durables, continued to advance strongly.

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 Mar. 1974	February to Mar. 1974
Gasoline and motor oil, fuel oil and coal	4.0	23.4	75.0	99.3	58.0
Gas and electricity	2.4	6.9	11.8	30.1	23.7
All items less energy components	93.6	8.3	6.9	11.1	11.1

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

The rise in service costs accelerated in March as large and widespread advances were registered for most categories. Since December, gas and electricity rates have increased nearly 7 per cent, medical services nearly 3 per cent, and housekeeping and home maintenance services 4 per cent (not annual rates, not seasonally adjusted).

Agriculture. Prices received by farmers fell 6 per cent during the month ending April 15, but they were still 17 per cent above a year earlier. Lower prices for livestock, grains, and oilseeds were only partly offset by higher cotton and potato prices. By early May, wheat and hog prices had fallen another 27 per cent and 15 per cent, respectively, and there were smaller declines in cattle, corn, soybean, and cotton prices.

Recent declines in feed grain prices have not been large enough to make livestock feeding profitable, partly because hog and cattle prices also have fallen further. Based on price relationships during the first week in May, hog and cattle feeders would lose about $10 and $75 respectively on each animal marketed. Losses are reflected in the reduced scale of feedlot operations as marketings of fed cattle continues to outnumber placements.

April production of red meat and poultry was 2 per cent below the March level, seasonally adjusted, but cold storage stocks of meat and poultry are at very high levels. On March 31, beef and pork stocks were about 40 per cent above a year ago while poultry stocks were 90 per cent larger.

The 1974 grain crop outlook is good with record acreages and yields expected to result in a 27 per cent larger winter wheat crop, compared to a year ago. Sowing of the expected 4 per cent larger feed grain acreage is ahead of recent years. Planting of the expected 18 per cent greater cotton acreage is ahead of last year but behind other recent years.

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
Monetary and credit aggregates				SAAR (per cent)	
Total reserves		April	35.9	33.5	.8
Reserves available (RPD's)		April	33.7	20.6	10.8
Money supply					
M1		April	276.7	7.9	10.5
M2		April	588.0	8.0	10.0
M3		April	919.2	7.5	9.3
Time and savings deposits (Less CDs)		April	311.3	7.8	9.5
CDs (dollar change in billions)		April	75.3	7.6	9.8
Savings flows (S&Ls + MSBs)		April	331.2	6.9	7.9
Bank credit (end of month)		April	664.2	16.5	16.4
Market yields and stock prices			Percentage or index points		
Federal funds	wk. endg.	5/8/74	11.29	2.31	2.16
Treasury bill (90 day)	"	5/1/74	8.78	.18	1.70
Commercial paper (90-119 day)	"	5/1/74	10.98	1.35	2.94
New utility issue Aaa	"	5/3/74	9.27	.49	1.16
Municipal bonds (Bond Buyer)	1 day	5/2/74	5.91	.18	.75
FNMA auction yield	(FHA/VA)	4/29/74	9.34	.39	.82
Dividends/price ratio (Common stocks)	wk. endg.	4/24/74	3.95	.24	.35
NYSE index (12/31/65=50)	end of day	5/6/74	48.33	-1.22	1.56

Credit demands		Net change or gross offerings: Current month 1974	Current month 1973	Year to da[te] 1974
Business loans at commercial banks	April	4.9	2.4	14.1
Consumer instalment credit outstanding	March	.7	2.0	2.2
Mortgage debt outst. (major holders)	Feb.	--	4.1	--
Corporate bonds (public offerings)	Feb.	1.7	.6	3.8
Municipal long-term bonds (gross offerings)	Feb.	1.9	1.5	4.1
Federally sponsored Agcy. (net borrowing)	May	1.2 e	1.8	2.0 e
U.S. Treasury (net cash borrowing)	April	-2.3 e	-2.2	1.0 e
Total of above credits		8.1	10.2	27.2

e - Estimated

DOMESTIC FINANCIAL SITUATION

Business credit demands in short- and long-term markets continued large through April. Financial and nonfinancial businesses drew heavily on bank lines last month, with some of this demand representing shifts from other financial markets. Although capital market financing remained large, scheduled corporate bond issues aggregating about $650 million were either postponed or cancelled in April and outstanding nonbank commercial paper declined a further $800 million last month. Investors were reported to be increasingly hesitant to purchase less than the highest quality obligations in the commercial paper market, and some issuers, particularly REIT's, had to draw on bank lines to refund maturing paper.

Banks financed their continued large credit demands in large part by very heavy CD borrowing and by tapping the Euro-dollar and commercial paper markets. Enlarged bank demands for short-term funds, in combination with the System's restraint on reserve availability, led to increases of up to 1-1/2 percentage points in short-term rates since the last Committee meeting. Most recently CD offering rates have trended downward for the highest quality issues, with the range of offering rates on 90 day paper between 11 and 11-1/2 per cent.

While Treasury bill rates have moved through a wide range, they did not rise as much as other short-term rates, and the three-month bill rate most recently has been below its level at the time of the last FOMC meeting. Bills have been in scarce market supply partly as a result of foreign and Federal Reserve purchases. In addition, demand for Treasury securities from domestic investors has been strong, reflecting in part increased investor emphasis on higher quality assets. Also, the bill market has been influenced by anticipated reinvestment from the $1.5 billion mid-May paydown in the current Treasury refunding.

Rate increases in longer-term markets have been substantially less than in short-term markets. Rates on securities have risen from 20 to 40 basis points, as buying interest--particularly on the part of small investors--increased at the higher yields. Small investors have been increasingly attracted to the entire maturity spectrum of marketable financial assets in recent weeks, and noncompetitive tenders for bills and recent Treasury and agency notes and bond offerings have been large.

Paralleling the public's shift to market instruments, inflows of savings to thrift institutions slowed in April and there were reports that in early May inflows continued weak, with outflows at New York and Massachusetts savings banks. Thrift institutions were forced to liquidate assets (including, it is reported, corporate bonds at the Massachusetts savings banks), to step up their borrowing from the FHLB and related sources, and probably to cut-back on their new mortgage commitment activity. At commercial banks, the estimated inflow of time and savings deposits in denominations of less than $100,000 moderated sharply in April, but banks, in the aggregate, were able to supplement the slower consumer-type inflows with negotiable CD's and other large denomination time deposits.

Rates on new mortgage commitments rose 45 basis points since the last Committee meeting, with S&L's reporting mortgage funds in short supply in 11 of 12 FHLB districts; at the time of the last FOMC meeting, only 2 Districts reported inadequate supplies of funds. The current primary mortgage rate nationally averages nearly 9 per cent, which is at or above the mortgage rate ceiling in 16 states. It also compares with rates on FHLB advances in excess of 10 per cent for those maturing in under one year and 8-3/4 per cent for the special subsidized advance program announced May 10.

Foreign financial flows through the U.S. banking system remained sizeable in April and early May. Foreign deposits at New York City banks, mainly foreign official time accounts, increased about $1 billion in this period, probably reflecting the lower relative yield available on Treasury bills. Bank lending to foreigners was also active. About $500 million of loans were made to foreign commercial banks by Midwestern and Western U.S. banks, less than half to Japan with the balance broadly distributed. And about $400 million was lent to foreign businesses, with a significant share accounted for by a loan to a French firm for the purpose of financing oil imports.

Outlook. The recent Board announcement regarding the availability of Federal Reserve credit to Franklin National appears to have been well taken in financial markets. However, investors can be expected to continue to favor high quality borrowers in coming weeks. Thus, Treasury and agency securities, as well as prime name CD and commercial paper issues, are likely to be in good demand. Yield spreads between such instruments and lower quality assets are likely to widen.

The emphasis on credit quality could make market financing more difficult and more expensive for some borrowers, and a number of these may be forced to fall back on banks as a last resort. To the extent that individual banks facing such increased loan demands may experience difficulties in selling their CD's, liquidity pressures would intensify. In any event, given the present structure of market rates, the prime loan rate may be expected to rise somewhat further in the weeks ahead. Such pressures would be intensified if loan demands at banks continue strong. Under such circumstances, banks could also be expected to withdraw further from the tax-exempt and mortgage markets.

The attractive yields available on market instruments are likely to contribute to continued difficulties for thrift institutions. As inflows to intermediaries remain limited, mortgage market conditions will tighten further. However, increased support activity by the housing agencies, particularly with the housing programs already announced by the Administration, may be expected to limit upward pressures on mortgage rates and to increase credit availability. The increased supply of agency securities will at the same time though add to upward rate pressures in securities markets generally and exacerbate the problem of the thrift institutions.

Monetary aggregates. The latest data available indicate that M_1 in April slowed somewhat relative to the rapid March pace, expanding at a 7.9 per cent annual rate, somewhat lower than estimated earlier. At its level in April, the narrow money stock was 6.7 per cent higher than 12 months previously. Foreign official and foreign commercial bank demand balances accounted for roughly 2 percentage points of the April growth, after having contributed little to the March expansion.[1/] Despite the slower growth of M_1 in April, expansion of M_2 was essentially the same as in March, due to a pick-up in "other time" deposits. However, reduced inflows to nonbank thrift institutions lowered the rate of growth of M_3.

The strength of commercial bank "other time" deposits is not indicative of inflows of small denomination deposits in April. Estimates based on data reported by member banks subject to marginal reserve requirements suggest that large time deposits included in M_2--i.e., those other than negotiable CD's at weekly reporters--may have accounted for most of the April strength in this component. After removal of these large time deposits, the estimates shown in the table indicate that savings and small denomination time deposits at commercial banks slowed markedly in April, paralleling the reduction of inflows to thrift institutions. While these estimates are subject to some uncertainty in reflection of the lack of knowledge regarding the typical seasonal movement in large time deposits, it is clear that consumer type deposit inflows at banks in April slowed markedly.

1/ A more detailed analysis of demand deposit ownership in the first Quarter is presented in the Greenbook Supplement.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1973 QIII	1973 QIV	1974 QI	1974 Feb.	1974 March	1974 April
			Per cent at annual rates			
M_1 (Currency plus private demand deposits)	-.2	7.5	6.7	12.9	10.6	7.9
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	5.2	10.1	9.4	13.4	8.3	8.0
M_3 (M_2 plus time and savings deposits at mutual savings banks and S&L's)	4.5	9.2	9.1	11.4	8.5	7.5
Adjusted bank credit proxy	10.5	3.3	8.5	1.3	11.3	31.9
Time and savings deposits at commercial banks						
a. Total	14.0	5.8	15.3	14.9	9.0	30.6
b. Other than large CD's	10.4	12.5	12.0	13.8	6.6	7.8
			Billions of dollars 1/			
Memoranda:						
a. U.S. Government demand deposits	-.1	--	-.4	-3.2	.7	.9
b. Negotiable CD's	1.6	-1.3	1.6	1.1	1.1	7.6
c. Nondeposit sources of funds	.6	--	.4	.2	1.0	1.0

1/ Change in average levels month-to-month or average monthly change for the quarter, measured from last month in quarter to last month in quarter, not annualized.

GROWTH RATES OF TIME AND SAVINGS DEPOSITS AT COMMERCIAL BANKS AND NONBANK THRIFT INSTITUTIONS
(Seasonally adjusted annual rates of growth)

	"Other time" component of M_2 1/	Estimated "other time" adjusted to exclude all large deposits 1/	Deposits at thrift institutions
	(1)	(2)	(3)
1974--January	15.2	12.4	7.7
February	13.8	10.8	7.8
March	6.6	12.6	10.4
April	7.8	-.5	3.0

1/ The "other time" component of M_2 includes some large denomination time deposits--namely large nonnegotiable CD's at weekly reporting banks and large negotiable and nonnegotiable CD's at nonweekly reporting banks. Estimates of the volume of such large time deposits included in M_2 are derived by blowing up total large time deposits reported weekly by banks subject to marginal reserve requirements to an all commercial bank estimate and subtracting from this estimate the volume of large negotiable CD's at weekly reporting banks. The figures in column 2 reflect the estimated "other time" component after these estimated large time deposits have been excluded.

NOTE: Growth rates for "other time" and "other time, adjusted" are calculated from daily averages. Thrift institution growth rates are calculated from data for the last day of the month.

Although aggregate net inflows of demand and other time deposits were relatively strong in April, they were not sufficient to meet the continued rapid expansion in bank credit demands. As a result, large banks had to expand their already heavy reliance on the negotiable CD market in April, raising CD offering rates in the process by about 1.5 percentage points. The average volume of outstanding CD's increased by a record breaking $7.6 billion during the month, and CD sales have continued strong in early May. From the end of February to early May, outstanding CD's have increased by close to $12 billion (seasonally adjusted)--the sharpest percentage increase (17.5 per cent) for any two month period since the spring of 1970.

About 85 per cent of CD sales in this period have been concentrated in the major money market centers of New York, San Francisco and Chicago. Although these three centers have traditionally accounted for a large proportion of CD sales, their share of recent net issues has been somewhat larger than their share of outstandings--especially in San Francisco. Banks in this city, while accounting for only 11 per cent of total outstanding CD's, were responsible for 30 per cent of the overall March-April increase. A survey of selected member banks in the three districts suggests that somewhat greater than normal sales of CD's were being made to commercial banks and to commercial bank trust departments seeking high yielding liquid assets, and to foreigners; somewhat fewer sales were made to nonbank financial institutions.

In addition to CD sales, banks also continued to borrow Eurodollars in April and to obtain funds from their affiliates' issuance of commercial paper. With these other sources of funds rising, the adjusted credit proxy in April rose at the fastest rate in the history of the series--nearly a 32 per cent annual rate.

Bank credit. Total loans and investments of commercial banks--last-Wednesday-of-the-month series, seasonally adjusted--expanded at a 16.5 per cent rate in April, continuing the strong growth trend of the first quarter. As in March, rapidly expanding business credit demands provided the main source of bank credit growth in April, with business loans rising at a 35 per cent annual rate. Additional demands for bank credit in April came from nonbank financial institutions and foreign commercial banks. In contrast, security loans declined, and consumer loans--which have evidenced slower growth since the beginning of the year reflecting the weakness in retail sales generally--stopped growing entirely in March and were estimated to remain unchanged in April.

Banks added moderately to their security holdings in April, acquiring both U.S. Treasury issues and some tax warrants. However, liquid asset holdings of banks rose less rapidly than liabilities, and at large banks the liquidity ratio dropped to the lowest level since July. Although the ratio of liquid assets to liabilities at these large banks has declined almost a percentage point since January, it still remains well above the very low levels reached in 1969-70.

The expansion of business loans in April continued to be broadly based across industry categories, with only loans to commodity dealers showing weakness. Trade, manufacturing, public utilities, metals, chemical and rubber, and mining firms all borrowed heavily during the month,

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

	1973		1974			
	QIII	QIV	QI	Feb.	Mar. r	Apr.
Total loans and investments[2/]	11.4	4.4	16.2	15.0	17.1	16.5
U.S. Treasury securities	-34.4	-22.0	18.8	40.1	0	8.6
Other securities	12.3	12.6	9.1	10.2	0	4.6
Total loans[2/]	17.8	5.5	17.9	13.5	24.0	20.7
Business loans[2/]	17.3	5.1	23.2	9.7	42.1	35.0
Real estate loans	17.0	14.2	12.0	7.1	14.1	14.0
Consumer loans	14.7	10.1	6.9	4.4	0	0

Memorandum:

	(Average monthly change, billions of dollars)					
Loans to nonbank financial institutions	.9	-.5	.9	.3	.4	1.5

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.

as they had in March, along with foreign businesses. The weakness in commodity loans probably reflects some paying down of borrowings which had been very large earlier in the year and in late 1973.

Despite a 2 percentage point rise in the prime rate in April and early May, many nonfinancial business borrowers in April, as in March, still found bank credit to be relatively more attractive than the commercial paper market.[1/] In addition, in recent weeks there have been reports of increasing hesitancy on the part of investors to acquire lower quality commercial paper, causing some paper issuers to draw more heavily on their bank lines. Also, bank credit has apparently been buoyed by cancellations and reductions in the size of scheduled corporate bond offerings as the cost of capital market financing continued to rise.

FOOTNOTE 1 FROM P. II-10.

1/ A 50 basis point spread of the prime rate over the commercial paper is considered "normal". With the paper rate most recently at 11-1/8 per cent, a prime rate of 11-5/8 would be required to establish this rate relationship, but the volume of paper being sold is so small that the paper rate itself may not be indicative of equilibrum rate pressures.

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 1/ 2/	Dealer placed commercial paper	Total	Annual rate of change in total 3/ (per cent)
		Average monthly changes			
1973--QI	--	4.1	-1.1	3.0	25.5
QII	--	2.2	.1	2.3	18.1
QIII	--	2.2	.1	2.3	16.9
QIV	--	.7	1.1	1.8	12.8
1974--QI	--	3.1	.4	3.5	24.3
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	1.7	3.0	20.6
Mar.	-.09	5.7	-2.1	3.6	24.3
Apr. e/	-.08	4.9	-.2 e/	4.7 e/	31.1 e/
Weekly Pattern:					
1974--Mar. 6	+.22				
13	+.10				
20	-.13				
27	-.33				
Apr. 3	-.35				
10	-.15				
17	-.05				
24	+.03				
May 1	-.30				
8	-.15				

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/ Estimated.

Reflecting special factors, and despite continued reductions in outstanding dealer placed commercial paper, total short-term credit flows to business increased at a historically high 31 per cent annual rate in April. While, as noted above, some shifting from long to short-term markets has occurred, the sustained pace of total short-term credit demands since year-end has been unusually large. Available data suggest that this strength cannot be explained by inventory accumulation alone, even when adjusted for inflation. Reduction in estimated internal funds generation in the corporate sector for the first quarter suggest that total external financing needs have been rising faster than anticipated. Moreover, it is possible that aggregate measures of the financing gap tend to understate credit requirements in some industries.

Accompanying the expansion in business credit in April, banks extended a large amount of credit to nonbank financial institutions, both finance companies and others. With the cost of commercial paper rising rapidly and with more selective investors, finance companies no doubt shifted at least some of their borrowing from the commercial paper market to banks; the rise in bank loans to finance companies was accompanied by a decline of $600 million in directly placed commercial paper in April. Loans to institutions other than finance companies were also very strong especially in California and New York City. In California, S&L's and mortgage companies were responsible for a large proportion of such loans, while in New York City, REIT's accounted for a significant share followed by mortgage and insurance companies.

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

	Change in outstanding during:			Outstanding
	QI 1974	March 1974	April 1974e	April 30, 1974e
Total commercial paper outstanding	3.0	-1.8	*	44.7
Bank-related	1.2	.5	.8	6.8
Nonbank-related	1.8	-2.3	-.8	37.9
Dealer	1.3	-2.1	-.2	13.2
Direct	.6	-.3	-.6	24.7

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.

Loans by large U. S. banks to foreign commercial banks, which had increased over $1 billion in March, rose an additional $500 million in April. Most of these loans were extended by banks in San Francisco and Chicago; while some of the borrowing was identified with Mexican and Japanese customers, the large share of such loans was reportably distributed among a wide number of countries. The growth in borrowings by foreign businesses in April, of about $400 million, was concentrated primarily in one large bank which reported borrowings by French interests related to oil payments.

Nonbank financial intermediaries. Seasonally unadjusted sample data indicate that nonbank thrift institutions experienced net deposit outflows during April. On a seasonally adjusted basis, growth at S&L's and MSB's is estimated to have fallen sharply below the first quarter pace. Some of the slowing is undoubtedly attributable to the mid-April tax payment date, but small investors apparently have turned increasingly to competing market instruments offering higher yields--especially Treasury securities, as evidenced by the exceptionally large amount of noncompetitive tenders in recent Treasury offerings.

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

	Mutual savings banks	Savings and loan associations	Both
1973 - QI r/	7.1	12.3	10.7
QII r/	7.1	11.4	10.1
QIII r/	1.2	4.9	3.8
QIV r/	5.2	9.3	8.1
1974 - QI p/	5.2	10.2	8.7
1974 - February r/	5.4	8.9	7.8
March p/	6.5	12.1	10.4
April e/	.0	4.0	2.5

r/ Revised (see note).
p/ Preliminary.
e/ Estimated on the basis of sample data.
NOTE: These growth rates incorporate revised seasonal adjustment procedures and recent FHLBB benchmark revisions.

Unfavorable deposit experience at both S&L's and MSB's has continued in the early part of May. A sample of 17 large New York City mutual savings banks experienced a $13 million outflow during the first five business days of May, compared to inflows averaging $50 million during the comparable period in recent years. A sample of 13 large S&L's in California had only a small net inflow during the first few days of May--a period when deposit inflows are normally strong.

Advances from the FHLBanks to S&L's increased by over $1 billion in April. Even though the FHLBB attempted in late April to slow the pace of borrowings by imposing stricter standards of need, the net increase in advances during the first 10 days of May totaled approximately $300 million. As a result, the liquidity of the FHLBank System has declined to about $750 million, below the low point reached last summer.

During April, $175 million out of $1.7 billion of special forward commitments were taken down. Under this program S&L's paid a 1/4 per cent commitment fee last fall to obtain commitments for 8-1/2 per cent, 2-year advances which could be taken down six months to one year from the date of the commitment. At current rate levels, advances under the special program are quite attractive relative to other borrowings.

Fragmentary data from large life insurance companies indicate that policy loan activity during April increased from the first quarter pace, but did not approach the record volume experienced last August and September. At this point, life insurance company representatives indicate that these institutions are in relatively comfortable cash positions and appear to be prepared for increased policy loan demands.

Long-term securities markets. Bond yields rose further over the inter-meeting period. In the corporate market, the advance was somewhat slower than it has been in the preceding 2 months, with the indexes for new and recently-offered Aaa utility issues moving up roughly 1/4 of a percentage point. As rates neared the record levels of 1970, investor buying interest seemed to increase--particularly among individuals. Nevertheless, no sustained rally developed in the face of a further increase in short-term rates, still rapid inflation, and higher forecasts of business investment. Furthermore, dividend omissions by Consolidated Edison and Franklin New York heightened investor concern about the quality of credit. Yields on municipals increased a bit more than corporate yields and there was no indication of a deceleration in the rate uptrend in that market. The relative rise, on a taxable-equivalent basis, of municipal yields is attributable in part to decreased commercial bank interest.

Although the Dow-Jones Industrial average fluctuated in a narrow range around 850, the broader NYSE composite index declined to the lowest level in 4 years. Utilities and financial corporation shares were exceptionally weak. Trading volume was light, worsening the economic strains on securities firms.

SELECTED LONG-TERM INTEREST RATES

	New Aaa utility bonds 1/	Recently offered Aaa utility bonds 1/	Long-term State and local bonds 2/	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)	8.23 (1/1)	6.23 (6/24)	6.89 (7/20)
Low	7.02 (2/5)	7.17 (12/31)	4.97 (10/21)	5.87 (1/14)
1972 - High	7.60 (4/21)	7.49 (4/21)	5.54 (4/13)	6.58 (9/27)
Low	6.99 (11/24)	7.15 (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)
1974 - High	9.27 (5/5)	9.14 (5/10)	6.00 (5/9)	7.65 (5/10)
Low	8.05 (2/6)	8.13 (1/4)	5.16 (2/7)	6.93 (2/15)
April 5	8.78	8.75	5.73	7.47
12	9.13	8.92	5.75	7.48
19	8.91	8.95	5.61	7.46
26	8.98	9.08	5.82	7.58
May 5	9.27	9.01	5.91	7.63
10	9.27p	9.14p	6.00	7.65p

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

Corporate bond volume declined in April and was substantially below earlier estimates, as the rise in rates led to approximately $650 million in postponements of scheduled offerings. However, some of these postponed issues were scaled down and rescheduled for May, adding to a substantial volume of other scheduled offerings. Publicly-offered corporate bond offerings are expected to total $2.3 billion in May, with an AT&T issue accounting for $500 million. Another large volume, $2.1 billion, is forecast for June. This would put second quarter public bond volume above the first quarter level, and sharply higher than the 1973 average. Corporate stock and privately placed bond volume is estimated to have been light in April and is expected to continue so in May and June.

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

	1973		1974			
	Year	QIV	QI e/	April e/	May f/	June f/
Corporate securities - Total	2,779	3,399	3,136	3,050	3,400	3,500
Public bonds	1,125	1,675	1,900	1,700	2,300	2,100
Privately placed bonds	725	686	663	500	500	550
Stock	929	1,038	574	850	600	850
State and local government securities	1,942	2,157	2,037	2,300	2,100	2,000

e/ Estimated.
f/ Forecast.

Total corporate security offerings in the first half of 1974 have been exceptionally large, particularly when considered in light of the contemporaneous surge in short-term business borrowing. There have clearly been large needs for funds to finance plant and equipment expenditures and for working capital, and internal funds generation has slowed. The financing gap may in fact be greater than is indicated by preliminary GNP accounts data. Examination of recent corporate earnings reports suggests that profits in the first quarter may have been significantly lower than the implicit Commerce Department estimate.

Tax-exempt bond offerings were somewhat larger than expected in April, with a major New York City issue boosting the total above the average of recent months. There were a number of issue postponements. The forecasted May and June volumes represent a return to something closer to first quarter levels and assume an increased volume of postponements. Municipal bond offerings continue to be augmented by a large volume of pollution control issues, including some sizable floatations for oil company facilities. In addition, short-term borrowing by State and local units has increased in recent months, and this may reflect some temporary deferment of long-term financing, as well as pressure on current municipal budgets from rising expenditures and slower growth of tax receipts.

Consumer credit. The net increase in total consumer credit outstanding during March amounted to a seasonally adjusted annual rate of $10.4 billion; instalment credit advanced $7.4 billion, and growth in noninstalment debt reached $3.0 billion. Even though the increase in total credit was the largest since November--when growth was at a rate of nearly $23.0 billion--the underlying data for March indicate no significant change in the pattern of instalment borrowing from the reduced December-February level. The sharply lower rate of expansion in instalment debt in this year's first quarter, as compared with a year earlier, reflects a virtual leveling in extensions and a continued rise in repayments.

The slowing since last November has been centered in automobile loans and "other consumer goods" credit. Automobile debt declined $720 million in March, seasonally adjusted annual rate, and showed no growth during the first quarter for the first time since the strike-affected fourth quarter of 1970. Other consumer goods credit outstanding increased at a $4.5 billion annual rate in the first quarter, down sharply from the preceding quarter. More than two-fifths of the first quarter growth in other consumer goods credit resulted from a further expansion in bank credit card outstandings; during the fourth quarter, growth in these balances accounted for less than one-fifth of the growth in other consumer goods indebtedness.

Consumer finance rates on new car contracts purchased from dealers by the major automobile finance companies declined in March for the third month in a row. At 12.29 per cent, rates averaged 13 basis points below the December peak but were 44 basis points above a year earlier. The recent easing reflects not only reduced loan demand but also lagged reaction to declines in other market rates during the fourth quarter of 1973. The average amount financed per new car contract (excluding finance charges) rose to $3,450 in March, slightly above the previous high reached last October. The increase in contract amount can be traced to higher unit prices and to a modest expansion in the proportion of sales accounted for by large cars, rather than to an easing of downpayment requirements as the ratio of amount financed to wholesale value, at 88 per cent, remained unchanged for the sixth consecutive month. Meanwhile, auto loan delinquency rates at major finance companies declined 14 basis points in March from the near-record February rate of 2.66 per cent.

CONSUMER INSTALMENT CREDIT

Period	Credit volume 1/			Finance rates 2/
	Net change in outstandings	Extensions	Repayments	New car loans
1973 - QI	23.7	162.4	138.4	11.87
QII	20.2	164.2	144.1	11.91
QIII	21.0	170.1	149.1	12.14
QIV	15.3	164.4	149.1	12.39
1974 - QI	8.8	164.3	155.5	12.34
Jan.	11.0	164.6	153.6	12.39
Feb.	8.1	162.5	154.4	12.33
March	7.4	165.9	158.5	12.29

1/ Billions of dollars, seasonally adjusted annual rates.
2/ Per cent per annum, on contracts purchased by major auto finance companies.

<u>Short-term markets.</u> Private short-term interest rates have continued to advance sharply since the April FOMC meeting, responding to a further significant tightening of the Federal funds market and to the persistence of strong credit demands, particularly at commercial banks. Rates on 3-month commercial paper and bank CD's, for example, are up about one percentage point to levels of 11 per cent and 11-1/8 per cent, respectively. And banks, faced with strong loan demands and sharply rising costs of funds to service these demands, have generally raised their prime rates into the 11.00 to 11.25 per cent area.

SHORT-TERM INTEREST RATES
(Per cent)

	1973		1974		
	Aug.-Sept.	Year-	Mid-Feb. lows	April 16	May 14
Treasury bills					
3-months	9.05	7.46	7.03	8.18	8.13
6-months	9.00	7.43	6.80	8.19	8.16
1-year	8.50	6.86	6.37	8.08	8.17
Commercial					
1-month	10.38	9.75	8.13	10.13	11.00
90-119 days	10.50	9.13	7.75	9.88	11.00
4-6 months	10.50	9.00	7.50	9.75	10.75
Large negot. CD's 1/					
3-months	11.05	9.25	7.95	10.13	11.13
6-months	11.00	8.38	7.50	9.50	10.63
Federal agencies					
1-year	9.49	7.45	7.01	8.50	9.23(5/13)
Bank prime rate	10.00	9.75	8.75	10.00	11.25

				Statement week ended			
				Apr. 17	May 1	May 8	May 14 2/
Federal funds (weekly average)	10.84	9.52	8.93	10.36	11.11	11.29	11.46

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

Treasury bill rates generally rose in unison with private short-term rates in late April and early May, but in recent days they have declined sharply, reflecting the combination of reduced availability of issues to private investors and a strengthening in demands for these issues. Dealer positions in bills, particularly short-term bills, have been very low for some time now, because of Desk purchases of bills for System and, more importantly, for customer accounts, and because of the seasonal decline in bills outstanding associated with the runoff of April tax anticipation bills. In conjunction with this shortage, demand for these instruments has been bolstered in part by the positioning of investors to utilize funds to be obtained from the Treasury's paydown of $1.5 billion out of the $5.6 billion of debt maturing on May 15. In addition, there have been reports of a shift in investor preference toward securities (such as Treasury bill and coupon issues, Federal Agency issues, and top grade CD's) of the highest quality, resulting from the liquidity difficulties acknowledged by the Franklin National Bank and rumored for some other banks.

A moderate relief to the shortage of bills should be forthcoming, as the Treasury has announced its intention to add $200 million to each of the weekly bill auctions starting on May 16 and running through June 13. Other Treasury financing plans are discussed in the Treasury Coupon section.

Treasury coupon market. Treasury coupon yields have also continued to advance since the April FOMC meeting, rising about 15 to 25 basis points on intermediate and long-term issues. The same factors influencing developments in other sectors of the credit markets appear mainly responsible for these increases.

YIELDS, TREASURY COUPON ISSUES
(Constant Maturities)

	1973		1974		
	Aug.-Sept. Highs	Year-end	Mid-Feb. Lows	April 6	May 14
5 years	8.13	6.83	6.72	7.88	8.13
10 years	7.58	6.90	6.93	7.43	7.57
20 years	7.83	7.38	7.41	7.93	8.12

Bidding in the auctions for the three new issues offered in the Treasury's May financing was quite strong. Noncompetitive tenders from the general public aggregated nearly $1.7 billion, an unprecedented 40 per cent of the total public awards. As indicated by the table, auction averages on all three new issues were at or above par, and these issues have since traded on a when-issued basis at yields well below their auction averages.

MAY REFUNDING

Issues	Amount 1/	Maturity	Coupons	Yield: Auction Average	Yield: Current
Note	$2.0	25-1/2 mos.	8.75%	8.75%	8.62
Note	1.75	4-1/4 yr.	8.75	8.73	8.29
Bond	.3	25 yr.	8.50	8.23	8.14
Total	$4.05				

1/ In billions of dollars offered to public.

As mentioned above, the Treasury has announced its intention to raise $1.0 billion in five weekly bill auctions from May 16 through June 13. In addition, the Treasury is expected to conduct another auction in early June--probably totaling $1.5 to $2.0 billion--to cover the low point in its cash balance just prior to the mid-June tax payment date. The issue to be offered in this financing has not yet been announced but it will probably be in the short-term area, possibly a strip of bills. $4.5 billion of June tax anticipation bills are scheduled to mature, thereafter, and the Treasury should not need to return to the market for additional money until sometime in the second half of July. The calendar of Federal Agency borrowing--including operations by both sponsored and budget agencies, as well as financial asset sales--likely to be conducted over the near-term future appears quite heavy, perhaps amounting to $3.0 billion or so in both June and July.

Mortgage market. The mortgage markets tightened markedly during April and early May, following about six months of gradual easing. Interest rates on new commitments for home mortgages have risen sharply in both the primary and secondary mortgage markets since late March. By May 10, S&L's reported funds in short supply relative to demand in 11 of the 12 FHLBank districts--in contrast to the situation in early April when all districts reported adequate supplies of funds.

Contract interest rates on new commitments for 80 per cent conventional home loans at selected S&L's averaged 8.98 per cent by May 10--58 basis points above the recent low late in March.[1/] In areas of the country with relatively liberal usury laws, rates were generally higher--averaging as much as 9.38 per cent in the Los Angeles area. While a few states have recently raised or eliminated usury ceilings applicable chiefly to conventional home mortgage loans, 11

1/ According to the HUD(FHA) field office opinion survey, average interest rates on new commitments for conventional new- and existing-home mortgages rose by 30 basis points during April to levels of 8.90 per cent by the beginning of May. Also, the yield on 8-1/2 per cent FHA-insured mortgages sold in the secondary market rose 51 basis points from that for comparable 8-1/4 per cent mortgages in March.

states still have ceilings of 8-1/2 per cent or less and 6 states have 9 per cent ceilings. Despite the recent increases in home mortgage rates, this type of investment has continued relatively unattractive to diversified lenders as yields on new issues of high-grade utility bonds have remained above even gross yields on home mortgages in most areas of the country.

Average yields on accepted bids in FNMA's May 6 auctions of short-term commitments to purchase FHA/VA home mortgages and high loan-to-value conventional mortgages rose to 9.34 per cent and 9.44 per cent, respectively. Offerings in the latest two auctions declined substantially from the volume posted in the March 25 and April 8 auctions, due in part to FNMA's reimposition of its former $3 million ceiling on the maximum size of competitive offers. In lieu of bidding in the auctions, mortgage originators have also been taking increased recourse to FNMA's one-year standby commitments which are available at a posted yield that is somewhat above the auction average for contracts to be delivered within 4 months.

Reflecting the moderate improvement in commitment activity last fall and early in 1974, seasonally adjusted net mortgage debt formation in the first quarter of 1974 increased slightly from the relatively low rate of $14.2 billion in the previous quarter as S&L's resumed their position as the dominant lender group. Seasonally adjusted new and outstanding commitments at S&L's actually increased somewhat further in April, according to preliminary estimates. However, outstanding commitments were still well below year earlier highs and,

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 (9/28)	--	107 (9/12)	12 (Aug.-Sept.)
Low	7.43 (1/26, 2/2, 2/9)	--	- 12 (8/8)	0 (Jan.-Mar.)
1973				
Aug.	8.66	+48	n.a.	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.	8.42	-10	32	0
Mar.	8.41	- 1	-23	0
Apr. 5	8.44	+ 3	-34	0
12	8.53	+ 9	-60	2
19	8.63	+10	-28	2
26	8.73	+10	-25	6
May 3	8.87	+14	-40	9
10	8.98	+11	-29	11

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.

FNMA AUCTION RESULTS
HOME MORTGAGE COMMITMENTS

	Government-Underwritten			Conventional		
	Amount (in millions of dollars)		Yield to FNMA	Amount (in millions of dollars)		Yield to FNMA
	Offered	Accepted		Offered	Accepted	
1973 - High	551 (9/3)	289 (9/3)	9.37 (9/17)	171 (8/20)	88 (4/16)	9.68 (9/17)
Low	25 (10/15, 11/26)	17 (10/15)	7.69 (1/8)	9 (10/1)	7 (10/1)	7.84 (1/2)
1974 - Jan. 14	40	36	8.71	49	35	8.77
Feb. 11	50	49	8.53	48	48	8.69
25	58	42	8.43	49	39	8.50
Mar. 11	351	285	8.44	74	50	8.47
25	1,154	333	8.62	126	34	8.64
Apr. 8	1,061	267	8.95	164	63	9.00
22	334	169	9.18	80	41	9.21
May 6	256	111	9.34	74	30	9.44

NOTE: Average secondary market yields are gross before deduction of the fee of 38 basis points paid for mortgage servicing. They reflect the average accepted bid yield for home mortgages assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA commitment fees and FNMA stock purchase and holding requirements on 4-month commitments. Mortgage amounts offered by bidders relate to total bids received. The maximum size of competitive offers was $3 million in all but the March 25 and April 18 auctions when the maximum was suspended.

with savings flows deteriorating, reliance on advances from the Federal Home Loan Banks was increasing once again.

On May 10, the Administration announced a number of measures designed to bolster the mortgage and housing markets over the period ahead. These include an increase in the maximum permissible contract interest rate on FHA-insured and VA-guaranteed mortgages to a new high of 8-3/4 per cent from the 8-1/2 per cent ceiling in effect since April 15 of this year. They also include the following plans for subsidizing below-market rates on loans for potentially more than 300,000 units: (a) a further expansion of GNMA's Tandem Plan to cover up to 100,000 new-unit FHA/VA mortgages bearing a special contract interest rate of 8 per cent; (b) authority for FHLMC to make forward commitments through the end of 1974 to purchase up to $3 billion of 8-3/4 per cent conventional new-home mortgages, financing perhaps 100,000 units; and (c) authority for the FHLBanks to extend subsidized advances of up to $4 billion at a rate of $500 million per month during the remainder of this year at an interest rate at least 1/2 percentage point below the FHLB's own borrowing cost. Actually, the initial rate on such advances was set at 8 per cent--3/4 point below the FHLB's latest 5-year debt issue rate.

If money market conditions do not permit the FHLB System to obtain the necessary funds from the private market to cover the FHLMC forward commitments, it is understood that Treasury will provide financing under its statutory standby loan authority. Cost of the subsidized advances, it is expected, will be met from FHLB System's undivided profits.

In addition, new rules were authorized to provide for FHA-insured mobile home loans on terms appreciably better than those presently available in the market.

Agricultural finance. Following receipt of data on year-end 1973 farm loans at banks, net new borrowing by the farming sector in 1973 was again revised upward to a record $10.0 billion, 41 per cent above the previous record of $7.1 billion set in 1972. In the second half of 1973, outstanding farm loans at banks rose by 8.4 per cent, an unexpectedly large gain in view of the seasonal declines generally experienced during harvest periods. Farm loan demand on banks apparently rose as farmers delayed marketings and accelerated purchases in order to reduce 1973 taxable income as well as in response to expectations of future price increases. In addition, several surveys have recently confirmed earlier indications that the availability of credit from suppliers of farm inputs has been sharply reduced, with the loan demand shifted to banks and production credit associations.

Through much of the first quarter, prices indicated for 1974 crop output exhibited considerable strength and apparently stimulated further increases in farm land prices. Nationally, farm land values on March 1 were estimated to have risen by 10 per cent since November 1 and by 25 per cent from a year earlier (preliminary and confidential USDA estimate). West Coast States showed the lowest gains (10 to 15 per cent) for the year ending March 1, whereas the increases in some Corn Belt States exceeded 30 per cent.

NET NEW BORROWING BY THE FARMING SECTOR
(Billions of dollars)

	1966-70 average	1971	1972	1973
Total	3.8	5.4	7.1	10.0
By type of debt:				
Mortgage	1.7	1.8	3.1	5.0
Non-real-estate	2.2	3.5	4.0	5.0
By lender group:				
Banks	.9	1.8	2.4	3.6
Farm Credit System	1.1	1.5	1.7	3.2
Life Insurance companies	.2	--	.1	.4
Farmers Home Administration	.2	.2	.2	.3
Individuals and other lenders	1.4	1.9	2.7	2.5

Federal finance. On Monday, May 13, the Administration requested a Congressional increase in the Federal debt ceiling to \$505 billion. Action on the debt ceiling will be needed by the end of the fiscal year when the ceiling reverts to its permanent level. However, in the absence of earlier action, the Treasury may also have to resort to special measures to remain within the debt ceiling near the end of May and just prior to the redemption of maturing June tax bills.

At the debt ceiling hearings, the Administration presented revised budget estimates for fiscal years 1974 and 1975. For the current year, the outlays estimate has been revised downward to \$269.5 billion from the January projection of \$274.7 billion. In addition to an increase of \$2.1 billion in offshore oil sales, the new estimate primarily reflects a \$1.0 billion decrease in defense spending and reductions of \$.9 billion and \$1.6 billion, respectively, in education and health programs. The major decreases in the health area are in Medicare and Medicaid. The receipts estimate for fiscal 1974 has been lowered by \$4.0 billion to \$266.0 billion, primarily reflecting the recent weakness in corporate income tax collections. These receipts and outlays revisions have reduced the Administration's estimated fiscal 1974 deficit from \$4.7 billion to \$3.5 billion.

The staff's forecasts for the unified budget remain largely unchanged since the April Greenbook, and are roughly similar to the new Budget projections. Outlays are projected at the same level of $269.5 billion as in the new Budget; this still implies an acceleration in spending during May and June. Receipts are projected at a slightly higher level of $266.7 billion, mostly due to higher estimates for individual taxes.

Based on the experience in March and preliminary data for April, it appears that we had consistently overestimated corporate tax receipts this calendar year. The apparent shortfalls in final payments on 1973 liabilities imply a significant drop in the effective corporate tax rate from over 35 per cent in 1972 to 32 per cent in 1973. The shortfall in current payments in April suggest that the effective rate in 1974 will continue at about the 1973 level. While this phenomenon implies a possible redistribution of the share of profits going to corporations with relatively low effective marginal tax rates (such as those in the oil industry), it probably indicates that the overall level of corporate profits in 1973 has been overestimated.

Recent data implies that individual final payments on 1973 liabilities have remained higher than estimated, and that disbursements of individual refunds have receded from their weekly peak of $1.9 billion at the end of March to a level of $1.3 billion for the week ending May 17. Together, these suggest a greater than expected responsiveness of individual tax payments to the growth in taxable income. In 1973, for each 1.0 per cent rise in taxable income, there probably was a corresponding 1.4 per cent increase in individual tax liabilities--a response which is at the high end of the range of previous experience. Given the progressiveness of our personal tax schedule, this undoubtedly reflects the impact of inflation on nominal incomes, although it could also indicate a redistribution of income going to individuals and unincorporated businessess with higher than average marginal tax rates.

In fiscal year 1975, we are projecting a unified budget deficit of $13.0 billion, compared to the Administration's revised forecast of $11.4 billion. Both the staff's and the Administration's outlays estimates--totaling $304 billion and $305.4 billion, respectively--include additional spending for unemployment programs and interest payments. While the staff is assuming a higher level of off-shore oil sales (which are recorded as negative outlays in the Budget), neither set of estimates includes the potential budget impact of the President's recently announced plan to make more mortgage money available. Depending on market conditions, Treasury loans to the FHLB under this plan could add as much as $3.0 billion to fiscal year 1975 outlays.

Despite an upward revision in income assumptions for calendar 1974, particularly a $10 billion increase in corporate profits before taxes, the Administration's new receipts estimate for fiscal 1975 is $1.0 billion less than the January figure. The revised estimate of receipts reflects lower corporate collections which more than offset expected increases in personal taxes. The staff's estimate of fiscal 1975 receipts is $3.0 billion less than the Administration's $294.0 billion figure, despite our higher profits assumptions. This is largely due to assumptions regarding new tax proposals. The Administration's number assumes passage of the Ways and Means Committee's proposal for a phaseout of the percentage oil depletion allowance combined with a windfall profits tax. Together, these would add about $1.3 billion to receipts in the coming fiscal year. The staff has not allowed for the adoption of these proposals. Moreover, in contrast with the revised Budget, we are assuming that the Administration's proposed change in the withholding rate schedule for individuals will be enacted; this latter assumption reduced our fiscal year 1975 receipts estimate by $4.0 billion. Neither staff nor Administration estimates include other tax legislation under consideration in Congress.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Apr.[e]	May	June	July
Total net borrowing	-2.3	-.7	-1.7	3.3
Weekly and monthly bills	--	.6	.4	--
Tax bills	-4.5	--	-4.5	--
Coupon issues, net	1.5	4.1	--	--
As yet unspecified new borrowing	--	--	1.5	3.0
Special foreign series	.5	--	--	--
Agency transactions, debt repayment, etc.	.3	-5.4	.9	.3
Plus: Other net financial sources a/	-1.2	.8	-2.4 b/	2.1 b/
Plus: Budget surplus or deficit (-)	6.6	-4.2	7.9	-8.1
Equals: Change in cash balance	3.1 c/	-4.1	3.8	-2.7
Memoranda: Level of cash balance, end of period	11.5 c/	7.4	11.2	8.5
Derivation of budget surplus or deficit:				
Budget receipts	29.6	20.3	32.0	19.9
Budget outlays	23.0	24.5	24.1	28.0
Maturing coupon issues held by public	--	5.6 d/	--	--
Sales of financial assets	.4	.2	.1	.6
Budget agency borrowing	*	--	.7	.1
Net borrowing by government-sponsored agencies	.8	1.2	2.1	2.2

e--Estimated.
*--Less than $50 million.
a/ Checks outstanding less checks paid and other accrual items.
b/ Reflects assumption of $2.4 billion in deferred receipts from auction of offshore oil leases.
c/ Actual.
d/ In the May refinancing, $3.75 billion of notes and $.3 billion of bonds have been sold to provide funds for a partial refinancing of the $5.6 billion of publicly-held bonds and notes maturing May 15.

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

	Fiscal 1974 e/		Fiscal 1975 e/		Calendar Years		F.R.B. Staff Estimates				
							Calendar Quarters				Half-Yr.
	Adm. Est.	F.R.	Adm. Est.	F.R.	1973	1974	1974				1975
	5-13-74	Board	5-13-74	Board	Actual	FRB e/	I*	II	III	IV	Jan-June
Federal Budget							Unadjusted data				
Surplus/deficit	-3.5	-2.8	-11.4	-13.0	-7.9	-11.2	-7.1	10.3	-5.5	-8.9	1.3
Receipts	266.0	266.7	294.0	291.0	250.4	278.5	60.5	81.9	71.3	64.8	154.9
Outlays	269.5	269.5	305.4	304.0	258.3	289.7	67.6	71.6	76.8	73.7	153.6
Means of financing:											
Net borrowing from the public	n.a.	4.6	n.a.	n.e.	7.9	10.5	3.4	-4.7	3.4	8.4	n.e.
Decrease in cash operating balance	n.a.	1.4	n.a.	n.e.	.7	2.4	2.0	-2.8	2.0	1.2	n.e.
Other 1/	n.a.	-3.1	n.a.	n.e.	-.7	-1.7	1.7	-2.8	.1	-.7	n.e.
Cash operating balance, end of period	n.a.	11.2	n.a.	n.e.	10.4	8.0	8.4	11.2	9.2	8.0	n.e.
Memo 2/: Sales of financial assets 3/	n.a.	2.0	n.a.	5.3	3.6	3.7	.5 e	.7	1.5	1.0	2.7
Budget agency borrowing 4/	1.7	1.7	n.a.	n.e.	-.1	2.0	.4 e	.7	.4	.4	n.e.
Sponsored agency borrowing 5/	13.6	13.4	n.a.	n.e.	16.3	15.0	--	4.1	6.1	4.8	n.e.
National Income Sector							Seasonally adjusted annual rates				
Surplus/deficit	n.a.	.4	n.a.	-13.8	.9	-6.0	4.6	-1.5	-11.8	-15.2	-12.8
Receipts	n.a.	278.9 6/	n.a.	302.1 6/	265.0	292.4	285.9	292.6	293.6	297.7	309.8
Expenditures	n.a.	278.5 7/	n.a.	315.9	264.0	298.4	281.3	294.1	305.4	312.9	322.6
High Employment surplus/deficit (NIA basis) 8/	n.a.	.8	n.a.	3.0	-1.3	-.8	3.2	.8	-4.3	-3.1	9.7

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

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. Most of the market activities of budget agencies are expected to be handled by the Federal Financing Bank in fiscal year 1975.

3/ Includes net sales of loans held by the 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 averages exceed fiscal year total by $1.7 billion for fiscal 1974 and $.6 billion for fiscal 1975 due to spreading of wage base effect over calendar year.

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

8/ Estimated by F.R. Board Staff.

INTERNATIONAL DEVELOPMENTS

CONFIDENTIAL (FR)

III -- T - 1 5/15/74

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

	1973			1974		
	IH	3Q	4Q	1Q	FEB.*	MAR.*
Goods and services, net 1/	785	2,149	3,965			
Trade balance 2/	-1,282	612	1,358	290	146	-240
Exports 2/	31,901	18,143	20,211	22,380	7,593	7,628
Imports 2/	-33,183	-17,531	-18,853	-22,090	-7,447	-7,868
Service balance	2,067	1,537	2,607			
Remittances and pensions	-786	-404	-724			
Govt. grants & capital, net	-1,258	-862	-1,296			
U.S. private capital (- = outflow)	-8,259	-1,197	-4,189			
Direct investment abroad	-2,971	-478	-1,407			
Foreign securities	-75	-204	-512	-666	-63	-312
Bank-reported claims -- liquid	-418	-303	-379	-2,438	-908	-762
" " " other	-3,796	436	-1,423	-2,958	-1,043	-2,120
Nonbank-reported claims -- liquid	-763	-20	-50	-426		
" " " other	-236	-628	-418			
Foreign capital (excl. reserve trans.)	2,818	3,541	5,219			
Direct investment in U.S.	807	753	507			
U.S. corporate stocks	1,426	869	502	378	156	49
New U.S. direct investment issues	658	197	368	25		
Other U.S. securities (excl. U.S. Treas.)	158	121	-206	295		
Liquid liabilities to:	-774	955	4,255	4,273	1,671	2,242
Commercial banks abroad	-1,209	816	3,374	4,288	1,628	2,355
Of which liab. to branches 3/	(7)	(93)	(212)	(3,403)	(44)	(3,597)
Other private foreign	393	189	500	578	171	273
Intl. & regional organizations	42	-50	381	-593	-123	-386
Other nonliquid liabilities	544	646	-207			
Liab. to foreign official reserve agencies	9,884	-2,117	-2,685	-655	235	1,408
U.S. monetary reserves (increase, -)	237	-13	-15	-210	-78	55
Gold stock	--	--	--	--	--	--
Special drawing rights	9	--	--	--	--	--
IMF gold tranche	-5	-13	-15	-209	-69	-4
Convertible currencies	233	--	--	-1	-9	59
Errors and omissions	-3,421	-1,097	-275			
BALANCE (deficit -)						
Official settlements, S.A.	-10,121	2,130	2,700	985		
" " , N.S.A.	-9,226	940	3,000	1,466	-157	-1,463
Net liquidity, S.A.	-8,166	1,498	-1,126			
" " , N.S.A.	-8,230	602	-161			
Liquidity, S.A. 4/	-9,347	1,175	-1,555	-3,288		
" , N.S.A.	-9,352	131	-501	-2,873	-1,828	-3,705
Basic balance, S.A.	-1,554	2,549	214			
" " , N.S.A.	-1,626	825	2,015			

* 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 weakness in the U.S. balance of payments which began to appear at the end of January continued into April and early May. In terms of the over-all balance on official transactions there was a deficit on the order of $2 billion in April (not seasonally adjusted), which would bring the accumulated deficit after January to over $3½ billion. Meanwhile the dollar has depreciated in the market by about 9 per cent from late January to mid-May, in contrast to the buoyancy of the German mark.

A major element in this deterioration is the worsening of the trade balance, which moved into substantial deficit in March (an annual rate of $4.4 billion). Such a development had been expected because of the higher price for oil, but other imports -- foodstuffs and materials -- rose in both price and quantity in March while exports, apart from agricultural sales, flattened out. With oil imports still rising the April trade balance may have also been a large deficit.

Another element in the picture has been stepped up foreign lending by banks in the United States, with claims on foreigners rising by about $5 billion in February-March, and, according to weekly data, by further substantial amounts in April and early May. Though the banks also substantially increased their takings from the Euro-dollar market during this period, and their liabilities to foreign official accounts increased, there was a net outflow, on balance, after January. There was little or no net inflow from transactions in securities in the first quarter, and information on corporate capital flows is still scanty. In general, however, the recent shift in the trade balance has not been countered as yet by rising net capital inflows.

Looking ahead, projections of the trade balance point to further weakening during this year and in early 1975. The prospects for attaining reasonable over-all balance and exchange rate stability depend largely on the extent to which income from direct investments in petroleum abroad will grow and the extent to which capital flows will begin to respond to the tightening of U.S. credit markets. In the somewhat longer run, investment outlets in the U.S. should prove attractive assoil producers begin to place their excess funds into longer-term investments.

Trade deficits will also be experienced by other oil-consuming countries, and efforts to contain these deficits may put further stress on the U.S. trade situation. Many industrial countries will also face more aggressive demands for wage increases than in the past year, intensifying their inflation and payments problems. In the background are anxieties about the safety of funds being placed in international capital markets, and solutions are still being sought for the special difficulties of financing oil importers whose credit-worthiness is in doubt.

<u>Foreign exchange markets</u>. The dollar has depreciated in the exchanges by 2.8 per cent on a weighted average basis since mid-April, despite a sharp change in interest differentials in favor of dollar-denominated assets. The German mark led the appreciation of Continental currencies against the dollar as the continued strong German trade balance persuaded the market that the DM would appreciate. In recent days political developments in the United States have tended to act as an additional depressant on the dollar. Dollar intervention by major foreign central banks since mid-April has consisted largely of dollar sales by the Bank of Italy and, to a lesser extent by the Bank of France, together totaling perhaps $1 to 1-1/4 billion. This intervention, of course, acted to depress the dollar in the exchange markets. On May 14 and 15 the dollar snapped back sharply against Continental currencies on the basis of news reports from Basle that concerted intervention by the Federal Reserve, the Bundesbank, and the Swiss National Bank was under serious consideration.

Weighted Average Exchange Rates,
(Per cent Change from Week Ended
April 10 to Week Ended May 15)

U.S. dollar	-2.8
German mark	4.0
Swiss franc	5.4
French franc	-0.6
Sterling	-0.6
Italian lira	-0.4
Canadian dollar	-1.4
Japanese yen	-2.1

Speculation on a revaluation/appreciation of the mark, which had flared up in March only to subside in early April, arose again after mid-month with rumors in the market of forthcoming German trade figures for March showing a DM 7 to 8 billion surplus. The actual figures, released at the beginning of May, showed instead a DM 5 billion surplus, down slightly from the previous month, but still very strong when compared with the rapid declines of the trade balances of other industrial countries, including the United States. The strength of the mark pulled up other snake currencies against the dollar as snake central banks were obliged to purchase other snake currencies against marks in the amount of nearly $500 million equivalent over the past four weeks.

At the other end of the spectrum from the mark was the Italian lira. The lira was supported by some $1 billion of market intervention by the Bank of Italy in April, and continued to receive support at roughly that rate in the first ten days of May.

After the first-round French election results and the public opinion polls which indicated that Finance Minister Giscard d'Estaing was a very slight favorite to win the runoff election for President, the French franc appreciated sharply along with the Swiss franc and the currencies of the mark bloc.

The Canadian dollar and sterling firmed moderately against the dollar from mid-April while the Japanese yen showed little change.

Euro-dollar market. Rates on Euro-dollar deposits have risen sharply in the past five weeks, particularly in the overnight category where the rate earlier had lagged behind in the general advance underway since mid-February.

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)(*)
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)
Mar.	8.74	9.24	-0.50 (0.26)	9.13	8.60	0.53 (0.58)
Apr.	9.73	10.47	-0.74 (0.11)	10.48	10.05	0.43 (0.47)
1974-Apr. 3	8.53	9.93	-1.40 (-0.66)	9.84	9.50	0.34 (0.37)
10	9.31	10.02	-0.71 (0.10)	10.12	9.88	0.24 (0.26)
17	9.43	10.39	-0.96 (-0.14)	10.42	9.88	0.54 (0.59)
24	10.45	10.82	-0.37 (0.54)	10.59	10.25	0.34 (0.37)
May 1	10.74	11.17	-0.43 (0.50)	11.45	10.75	0.70 (0.76)
8	10.89	11.29	-0.40 (0.55)	11.43	11.00	0.43 (0.46)
15p/	11.33	11.48	-0.15 (0.84)	11.74	11.00	0.74 (0.80

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

SELECTED EURO-DOLLAR AND U.S. COSTS FOR PRIME BORROWERS
(1974; Friday dates)

	Apr. 5	Apr. 19	May 3	May 10
1) 3-mo. Euro-$ loan a/	10.44	10.75	11.75	12.06
2) 90-119 day com'l. paper b/	9.75	10.13	11.13	11.13
3) U.S. bank loan:				
a) predominant prime rate	9.75	10.25	10.75	11.25
b) with 15% comp. bal's. c/	11.47	12.06	12.65	13.24
c) with 20% comp. bal's. c/	12.19	12.81	13.44	14.06
Differentials:				
(1) - (2)	.69	.62	.62	.93
(1) - (3a)	.69	.50	1.00	.81
(1) - (3b)	-1.03	-1.31	-1.00	-1.18
(1) - (3c)	-1.75	-2.06	-1.69	-2.00

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

The overnight rate rose about two percentage points to an average of 11.3 per cent in the week of May 15, in which week their cost to U.S. banks (including required reserves) was about 80 basis points above the cost of Federal funds. This differential was larger than earlier in the month, and contrasted sharply with the situation in late March and early April when the differential was often of opposite sign. The 3-month Euro-dollar rate moved up to an average of 11.7 per cent by the week of May 15, when it exceeded the U.S. 60-89 day CD rate by 3/4 per cent.

U.S. banks' gross liabilities to their foreign branches increased substantially from mid-March to early April, as the cost of Federal funds rose relative to the cost of overnight Euro-dollars. Since then, liabilities to branches have increased still further, although less rapidly than before, even though the cost of overnight Euro-dollars relative to Federal funds has been rising and is now greater than before mid-March. Gross liabilities to foreign branches averaged $3.4 billion in the seven days ended May 10, compared with $2.9 billion in the week of April 17 and about $2 billion in early March.

There has been little change in the relationships between the cost to non-bank borrowers of short-term Euro-dollar loans and of short-term borrowing in the United States, as indicated in the accompanying table showing rates for prime borrowers.

Publicized medium-term Euro-currency bank loans arranged in April are initially estimated at $2.7 billion by the World Bank, down from a monthly average of $4.5 billion in the first quarter. (Almost all such loans are in U.S. dollars). Arrangements in April for loans in excess of $100 million were made by the Spanish Railways ($300 million), the City of Glasgow ($200 million), the Central Bank of the Philippines ($150 million), the Kraft Corp. ($150 million), and the Argentine Maritime Agency (two loans totaling $157.5 million). The Kingdom of Denmark arranged a $300 million loan in early May.

U.S. balance of payments. According to preliminary data, the U.S. official settlements balance in April was in deficit by more than \$2 billion (not seasonally adjusted, not at an annual rate). This was the third consecutive month of deficit (with the deficits becoming increasingly large) and is in sharp contrast to the large surpluses recorded in the fourth quarter of last year and in January. In addition, the international value of the dollar depreciated by about 6-1/2 percent against major foreign currencies from the average rate for January to the average for April and has declined further in May. For the first quarter as a whole, there was a small official settlements surplus, \$0.9 billion, seasonally adjusted, compared to a \$2.7 billion surplus in the fourth quarter.

Although data are available for only certain kinds of transactions for the first quarter and virtually no information is available

U.S. BALANCE OF PAYMENTS
(billions of dollars, seasonally adjusted)

	4Q-73	1Q-74est.	Change
Official settlements balance	+2.7	+.9	-1.8
Trade, net	+1.4	+.3	-1.1
Bank-reported changes, net	+2.4	-1.2	-3.6
- short-term claims, net	(-1.3)	(-5.4)	(-4.1)
- liquid liabilities to private foreigners, net	(+4.3)	(+4.3)	(0)
- long-term, net	(-.5)	(-.1)	(+.4)
Private securities, net	+.2	0	-.2
of which: international institutions	(-.2)	(+.2)	(+.4)
other	(+.4)	(-.2)	(-.6)
Sum of the above	+4.0	-.9	-4.9
Residual	-1.3	+1.8	+3.1

about April, it seems that the worsening in the overall balance largely reflects a substantial weakening in the U.S. trade position and a large shift from a net inflow to a net outflow of bank-reported private short-term capital.

In March, the U.S. trade balance swung into substantial deficit as the lagged effects of earlier oil price increases continued to push up the price of imported oil and as other material prices continued to rise. For the first quarter, the trade surplus was only $160 million compared to a fourth quarter surplus of about $1-1/2 billion (not at an annual rate). (See the discussion of trade on page 13.)

The bulk of the $4 billion shift from net inflow to net outflow of private bank-reported short-term funds is attributable to the sizable increase in foreign lending by banks in the United States (including U.S. agencies and branches of foreign banks) in February and March. (See the above table.) On the liabilities side, while there was a very large capital inflow from abroad reported by banks in the United States, it was about the same size as the fourth quarter inflow. In April, preliminary weekly data suggest that bank claims on foreigners continued to rise strongly, though not at the unusually high rate of February and March; liquid liabilities to private foreigners, in April, appear to have declined somewhat. (A more complete discussion of U.S. bank-reported capital flows in March and April is on page 11.)

Net private security transactions apart from transactions by international institutions (which mainly represent shifts among U.S. assets) showed a small net outflow in the first quarter compared to a relatively large net inflow in the fourth quarter of last year. Foreign purchases of U.S. equity securities were declining during the quarter, and offshore Euro-bond issues by U.S. corporations were virtually nil in the first quarter compared to $.4 billion sales in the fourth quarter. U.S. purchases of foreign securities were slightly greater in the first quarter than in the fourth quarter, mainly because of increased purchases of Canadian new issues. Scheduled offerings of foreign bonds in the U.S. market in the second quarter by borrowers in countries previously subject to the interest equalization tax are still relatively small. Some prospective offerings by such borrowers have been withdrawn or postponed because of the rise in U.S. interest rates.

The sum of the trade and capital transactions described above more than explains the $2 billion decline in the official settlements balance from fourth quarter 1973 to first quarter 1974. This would suggest considerable improvement in other balance of payments accounts. (See the table above.) One major missing category is corporate income and capital flows; it may be that income receipts of oil companies were rising sharply or that net corporate capital flows were relatively favorable.

U.S. bank-reported capital flows. The net private capital outflow from changes in bank-reported claims and liabilities in February ($240 million) was followed by a $700 million net outflow in March. The rise in gross claims in March was again large, and the net outflow was held down greatly by a one-day surge in U.S. banks' Euro-dollar borrowings at month-end. Partial data indicate that April will show another net outflow, magnified by a decline in banks' Euro-dollar borrowings from their exaggerated level at the start of the month.

In March, claims on foreigners rose $2.9 billion, bringing to $5.0 billion the total increase since the end of January. Short-term loans to foreign banks, together with acceptances for foreign account, were up $1.4 billion, of which $700 million was increased credit to Japanese borrowers. In addition to increasing demand for foreign credit in Japan and elsewhere, the slower rise in U.S. short-term interest rates relative to Euro-dollar rates during March attracted foreign borrowers to the United States. Much of the remaining $1.5 billion increase in claims in March consisted of increases in collections ($350 million) and in claims of New York agencies and branches of foreign banks on their head offices ($530 million). All agencies and branches increased their total foreign claims in March by $1.2 billion.

Liabilities to private foreigners rose $2.2 billion in March, all (and more) accounted for by a rise in U.S. banks' Euro-dollar borrowings (liabilities to foreign branches) of $3.6 billion, of which

$2.0 billion occurred at month-end and was reversed April 1, in reflection of Friday technical factors. Liabilities of agencies and branches of foreign banks fell $800 million, and liabilities to international organizations decreased nearly $400 million (partly reflecting a $215 million shift into Agency bonds by the IBRD).

In April, foreign claims of U.S. weekly reporting banks continued to rise, advancing $1.2 billion in the five weeks to May 1. Relative movements of U.S. and Euro-market interest rates in April itself do not appear to have been a major causal factor in this outflow, which included loans to foreign governments and business firms as well as banks. On the liabilities side, U.S. banks' liabilities to foreign branches were down $1.5 billion -- all reflecting the $2 billion April 1 contraction -- and weekly data suggest a net decline for the month in liabilities of agencies and branches of foreign banks as well.

U.S. foreign trade. The U.S. merchandise trade balance for March was a deficit of $2.9 billion (seasonally adjusted annual rate, balance of payments basis), the first deficit in seven months. The shift to a deficit in March reflects, in part, unusually large increases in imports of foodstuffs and nonfuel industrial materials, and a sharp reduction in exports of civilian aircraft, which typically show large month-to-month fluctuations. The balance for the first quarter 1974 was $1.2 billion, compared with $5.4 billion for the fourth quarter 1973. A major source of this quarter-to-quarter deterioration was a doubling of the cost of fuel imports.

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

	1973 Year	1973 1Q	2Q	3Q	4Q	1974 1Q	Feb.	Mar.
EXPORTS	70.3	60.9	66.7	72.6	80.8	89.5	91.1[r]	91.5
Agric.	17.9	14.7	16.5	19.0	21.2	23.5	23.3	24.8
Nonagric.	52.4	46.2	50.2	53.5	59.7	66.0	67.8[r]	66.7
IMPORTS	69.6	64.7	68.0	70.1	75.4	88.4	89.4[r]	94.4
Fuels	8.8	6.7	7.8	9.0	11.5	19.2	20.0	22.1
Nonfuels	60.8	58.0	60.2	61.1	63.9	69.2	69.3	72.3
TOTAL BALANCE	+0.7	-3.8	-1.3	+2.4	+5.4	+1.2	+1.8[r]	-2.9

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

The value of merchandise exports for the first quarter was up by 11 percent over the preceding quarter, mainly because of higher prices. The unit value of agricultural exports rose by 11 percent, with aggregate volume holding steady. While the volume of shipments of wheat fell by one-third in the first quarter 1974, and other food exports also fell somewhat in volume, nonfood agricultural exports, notably tobacco and cotton, rose substantially.

The value of agricultural exports may well decline in the second half of the year. Spot export prices, which normally lead export unit values by several months, have fallen off sharply from their historically high levels in recent weeks. The spot export price of wheat in the first week of May, for example, was about 30 percent below its January-February peak. Record crops are anticipated in the United States this year, and there may be further price declines.

The value of nonagricultural exports in the first quarter rose by 10 percent over the fourth quarter 1973, including a 7 percent increase in unit values. The sharpest price increases were for non-agricultural industrial supplies and materials, particularly in commodities such as coal and fertilizer, for which petroleum is either a substitutute or a material input. There were also sharp increases in the unit values of other basic commodities that are in short supply world-wide, including iron and steel scrap, nonferrous metals and wood. Despite heavy foreign demand, there was a decline in the quantity of coal and nonferrous metals exported during the first quarter, as domestic producers, either troubled by strikes or operating at peak capacity, were unable to produce enough to accommodate total domestic and foreign demand. With the gradual removal of domestic price controls, producers may have been encouraged to supply relatively more to the domestic market as the spread between world and domestic prices narrowed.

The value of consumer goods export continuted to rise -- by 16 percent in the first quarter -- with all of the increase attributed to a surge in volume -- while a 7 percent increase in capital goods exports reflected principally rising unit values. The backlog of foreign orders for machinery remains high, and a continuation of the growth in exports of such goods can be expected.

By region, the sharpest percentage increase in first-quarter exports was to petroleum exporting countries (excluding Canada) -- up by 18 percent in the first quarter over the fourth quarter 1973. However, imports from those countries increased even more shaprly -- reflecting higher petroleum prices -- and our large trade deficit with them increased. Meanwhile, our surplus with Western Europe increased, and our trade balance with Japan shifted into a small surplus for the first time in nearly ten years.

Imports of fuels and lubricants rose from $20.0 billion (seasonally adjusted, annual rate) in February to $22.1 billion in March. Unit values increased by almost 20 percent to over $11 per barrel, as the impact of late December price increases was being reflected more fully in import arrivals. The volume of petroleum imports in March was 5.5 million barrels per day, 30 percent below the pre-embargo peak in August 1973. With the suspension of the embargo the volume, and therefore the value, of imports will probably increase substantially, though high prices should have some restraining effect.

Non-fuel imports in the first quarter of 1974 were 8 percent above their fourth quarter 1973 level, with much of the increase attributable to rising volumes. Nearly half of the increase in value was accounted for by industrial materials; imports of metals rose sharply, partly because of tight supply conditions here, and partly in anticipation of a possible strike in the copper industry. The partial removal of domestic price controls may also have stimulated imports of high priced metals, since these higher input costs could be more easily passed on to the domestic consumer in the absence of administrative review of price increases.

There were sizable increases in the import volumes of coffee, cocoa and sugar, partly due to inventory accumulation in anticipation of both possible future world price increases and a possible dock strike in the fall; also, a 5 percent upward adjustment in the sugar quota was made in January.

Automotive imports from Europe and Japan were also higher in the first quarter than in the fourth quarter 1973, with much of the increase going to replenish inventories that had been depleted during 1973. Foreign car sales in the United States have been weak over the first four months of 1974, averaging 1.5 million units at an annual rate, as compared with 1.8 million units in calendar 1973. The decline in sales is due largely to relative price increases stemming from past dollar depreciations and rising transportation costs and production costs abroad. Imports may decline in coming months, especially as the supply of domestically produced compacts increases.

Cost pressures in major foreign industrial countries. Pressures which are likely to lead to continued high rates of price inflation are already built into the economies of virtually all the major foreign industrial countries. These pressures derive notably from two sources. First, and probably most important, wage demands have been scaled up considerably from the relatively modest levels of 1973 in an attempt partly to catch up for past price increases but largely to insure against future price increases. Indeed, to the extent that escalator clauses have been included in a growing number of labor settlements, such cost of living adjustments are inevitable.

Rates of increase of nominal earnings, real earnings, and real GNP, are shown for major countries in Table 1. In spite of a rapid rate of increase in wages and average earnings last year, sharp increases in the cost of living -- especially beginning late last year -- have caused real wages to rise relatively slowly in many countries. With the exception of France and Italy, real wages grew less rapidly over the year to 1973-Q4 than they did in the preceding five years. If the effects of progressive taxation and higher employee contributions for various items are taken into account, the slowdown in the growth of real wages is even more marked. Moreover, the slowdown took place at a time when total real output had been rising at or above trend rates. Consequently, labor's share of total income tended to fall in many countries last year, again excluding notably France and Italy.

Table 1: Growth of Earnings and GNP in Major Industrial Countries 1/
(Percentage change from preceding year, or same period preceding year)

	Average 1968-72	1973	1973 Q4	1974 Q1
France				
Wage rates	10.9	14.4	15.9	16.8 2/
Real wage rates	5.0	6.5	7.0	4.9 2/
Real GDP	5.7	6.1	5.7	n.a.
Germany				
Wages and salaries	10.7	11.2	12.3	n.a.
Real wages and salaries	6.9	4.0	4.7	n.a.
Real GNP	5.2	5.3	3.6	n.a.
Italy				
Earnings	11.4	23.7	26.1 2/	n.a.
Real Earnings	7.2	11.6	13.0 2/	n.a.
Real GNP	4.4	5.9	n.a.	n.a.
United Kingdom				
Earnings	10.3	13.9	12.7	3/
Real Earnings	3.5	4.3	2.2	3/
Real GDP	2.2	5.4	3.2	n.a.
Japan				
Wage rates	15.7	23.6	26.3	19.2 4/
Real wage rates	9.4	10.6	8.5	-4.6 4/
Real GNP	10.4	11.0	7.1	n.a.

(table continued on next page)

Table 1: Growth of Earnings and GNP in Major Industrial Countries 1/
(Percentage change from preceding year, or same period preceding year)
(continued)

	Average 1968-72	1973	1973 Q4	1974 Q1
Canada				
Earnings	8.1	9.0	9.0	9.7 4/
Real Earnings	4.0	1.3	0	0.4 4/
Real GNP	4.9	7.1	6.9	n.a.
United States				
Earnings	6.1	5.3	6.9	6.3
Real Earnings	1.5	1.4	-1.4	-3.3
Real GNP	3.3	5.9	3.9	0.3p

1/ For each country, the series for nominal wages or earnings, shown in top line, were deflated by some price index to yield real wages or earnings, shown in the middle line. Specifically, the following series were used: France, hourly wage rates in all activities, deflated by the retail price index; Germany, industrial wages and salaries per worker excluding the construction and public energy sectors, deflated by the cost of living index; Italy, hourly earnings in manufacturing, deflated by the consumer price index for all goods and services; United Kingdom, average weekly earnings for all employees, deflated by the general retail price index; Japan, nominal wage index in manufacturing, deflated by the national consumer price index; Canada, average hourly earnings in manufacturing deflated by the consumer price index for all items; United States, average gross hourly earnings in manufacturing, deflated by the consumer price index for all items.

2/ Estimated.

3/ Data are available through February 1974, but are meaningless because of the 3-day work week then in force.

4/ January-February only.

Source: Various national sources.

If output growth is sluggish this year -- as it is expected to be in many countries -- labor is likely to attempt vigorously to protect its share of income.

A second source of upward cost pressures that is already built into the economy derives from the sharp increases in commodity prices last year. In the discussion of price developments abroad in last month's Greenbook, it was concluded that the large increases in raw food prices seem to have worked through to the retail level to a considerable extent, but that a good part of the increases in non-food commodity prices had not yet been passed through. Of course, if commodity prices were to fall, the upward pressures on domestic prices in the industrial countries would tend to be offset at some later stage.

Authorities in many of the industrial countries have adopted a variety of techniques to prevent these cost pressures from manifesting themselves in higher prices. In most countries, except notably Canada, by moderating the growth of aggregate demand through demand management policies authorities hope that some easing of labor markets will tend to restrain wage demands and that expectations of relatively weak demand will reinforce industry's resistance to granting high wage demands. Controls on incomes or prices -- such as those in force in the United Kingdom, France, Italy, Japan and a number of smaller countries -- tend to have similar effects. To the extent that price controls are effective, while controls on wages are absent or ineffective, industry's profit margins, and consequently its investment plans, will be adversely affected. But lower price increases may themselves moderate increases in wage costs.

Other measures taken to moderate the increase in prices were also cited in last month's Greenbook. They include Government subsidies to keep down prices of some items that weigh heavily in workers' consumption, reductions in indirect taxes, and other actions to absorb the cost of higher social benefits in the Government budget rather than in industrial costs. Of course, there may be inflationary implications in the consequently higher level of Government expenditures, as well.

A more detailed discussion of important wage settlements in some major countries, and of the growing use of escalator clauses, follows.

In Germany, an increase in excess of Government guidelines (of 8-1/2 to 9-1/2 per cent) in the salaries of public employees in February of this year is being cited as a benchmark by other groups of German workers. The February settlement provided for an increase of about 13 per cent in average wages and salaries and other benefits. Because wages in the public sector had risen faster than those in the private sector in 1973, and the Government's aim is to preserve relative shares, the bargaining position of workers in private industry seems especially strong. Since the public employees' settlement, workers in the metal industries have been awarded a 15 per cent increase. About 700,000 workers in the chemical industry settled in early May for a 12-13 per cent increase in wages. Settlements in the steel and construction industries also exceeded the Government's guidelines.

One aspect of recently negotiated contracts in Germany, which affects several sectors, is the inclusion of accelerating increases in hourly rates in the last months of the contract period. Thus, a "quasi-escalator" has been written into most recently negotiated settlements. This contrasts with other countries, where contracts tend to be "front-loaded". German unions are also bargaining for the right to reopen wage talks before the official expiration of the contract if price increases are much higher than expected.

Coalminers in the United Kingdom based their claim for a 35 per cent increase in wages this year largely on the fact that their real earnings were growing slowly, relative to growth in the immediately preceding years and relative to the growth of other workers' earnings. After an overtime ban and strike which caused major disruption and added costs to the economy, the miners were awarded virtually all they had asked for. Both the Government and the Trades Union Congress expressed the view that the miners' settlement would not set a precedent for other wage negotiations. In particular, they agreed that the unions should adhere to the limits imposed by Stage III of the Conservative Government's counter-inflation policy until the Labour

Government abolishes those controls; subsequently, unions would abide by a "social contract" in which they would exercise restraint in their wage demands in exchange for desired social reforms. But demands and statements by many unions -- including recently the large engineering unions -- suggest that rank-and-file workers will not easily accept the demands for moderation voiced either by the Government or their own national leaders.

An estimated 15 per cent of all British employees have escalator clauses in their contracts. Those clauses negotiated under Stage III are triggered when the retail price index rises 7 per cent above the October 1973 level. In March, the index had risen 6.1 per cent, so that the clause is likely to be triggered this month or next. When it is, wages automatically increase by roughly 1 per cent; thereafter each 1 per cent increase in the price index triggers a further approximately 1 per cent increase in wages.

Workers in Italy, in contrast to those in most other countries, did very well in 1973. Output was rising very rapidly, and wage settlements were negotiated in the beginning of the year which provided for very large increases immediately together with built-in escalator clauses. This year, in what is generally regarded as a pattern-setting agreement, Fiat accepted what were close to maximum union demands in the contract negotiated in March. In order to maintain the fragile labor peace, the Italian Labor Minister had intervened in the negotiation, and had pressured Fiat into accepting the union demands. Fiat suffered losses in 1973 as a whole due to the sharp fall in demand brought on by the energy crisis at the end of the year; the March settlement will increase their difficulties. In general, wage agreements during 1974 are expected to be very large. Other Italian firms enjoyed strong profits last year and thus are better placed to absorb wage increases, although the continuation of price controls will tend to narrow their profit margins.

The anti-inflationary package announced in France at the end of March renewed the price contracts between Government and industry, which now include a 6-month moratorium on increases in real wages. Nominal wage increases were tied to increases in the consumer price index, although trade unions and opposition political parties do not consider that index to be a true indicator of the cost of living. Presumably, a victory by M. Giscard d'Estaing in the forthcoming election would imply little change in this policy. M. Mitterrand, on the other hand, proposes an immediate 6-month price freeze (not to apply to farm prices) coupled with major negotiations between labor and government aimed at achieving a "new harmonization of incomes within the limits of the country's present growth."

Real wages in the Netherlands remained virtually unchanged in 1973. Nominal wages per worker rose about 15 per cent, while the price of consumer goods rose only 9 per cent. But social insurance contributions were increased, and fiscal drag increased the tax burden, thus eroding what would otherwise have been a substantial increase in real wages. Much the same result is expected in 1974 for wage earners as a group, but there will be significant redistribution of income within the group. A wage settlement imposed by the Government in March, under the Special Powers Act, provided for an across-the-board increase in wages now, with subsequent increases tied to the price index. The across-the-board increase, together with a scheduled tax cut and higher benefits paid to low-income groups, is expected to increase the real disposable income of low-income groups by about 3-4 per cent, with corresponding declines in the real disposable income of high-income groups.

In Japan, the spring wage round in the manufacturing sector concluded with the largest wage settlement negotiated in the immediate post-war period - an increase of 30 per cent. This compared with a rise of 20 per cent in the 1973 wage round and average rises of 16 per cent in the period 1968-72. The 1973 wage increase, despite accelerating price advances, was sufficient to allow real wages to grow by 10-1/2 per cent in 1973 over 1972, the same rate at which they had grown a year earlier. However, early in 1974 the oil price increases, combined with further price rises for raw materials, added sharp upward impetus to the already high inflation rates. Thus, consumer prices in the first quarter of 1974 alone rose by 10 per cent over the preceding quarter. Consequently, real wages began to fall and in February were more than 5 per cent below the preceding year's level. Thus, the 30 per cent wage increase negotiated for fiscal 1974 may, by the end of the period, prove sufficient only to restore the real income level that prevailed at the end of 1973 plus some rather small - by Japanese standards- increased beyond that.

Although Japanese industry appeared relatively satisfied with the wage bargain, primarily because it avoided inclusion of escalator clauses, rising wage costs will be a major factor in the inflationary climate in Japan in 1974, in particular because productivity increases are likely to be very small. In Japan, changes in productivity are rather more heavily influenced by the cycle than elsewhere because traditionally low rates of activity are not reflected in unemployment to the extent that they are elsewhere. Thus, with employment growing at a more or less steady 1 per cent per annum, increases in output largely reflect productivity increases. Thus, in 1973 productivity rose by over 20 per cent with output rising 17.4 per cent. However, at times of sluggish output growth, productivity rates tend to fall to about 3 or 4 per cent, clearly adding to pressure on profit margins. This sort of development is clearly indicated for 1974.

In Canada, real average hourly earnings in manufacturing rose much more slowly in 1973 than they did in the previous five years. A substantial part of the explanation for this lies in higher labor force participation rates (in this case, for young people and adult women).

Higher participation rates tend, for a time, to pull down the growth of total labor productivity. Another result of high participation rates has been to increase the proportion of part-time work, thus slowing the average increase in labor income per employed worker.

Labor's share of total income in 1973 did fall, from the exceptionally high shares of 1971 and 1972. But the fall was much less than the data on average real earnings would suggest, because of the rapid rise in the employed labor force.