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Confidential (FR) Class II FOMC

Part 2

June 11, 1975

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the Federal Open Market Committee
By the staff of the Board of Governors of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

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	May	6/6/75	92.9	8.8	6.2	2.4
Unemployment rate (per cent)	May	6/6/75	9.2	8.9[1]	8.7[1]	8.2[1]
Insured unemployment rate (%)	May	6/6/75	7.0	6.8[1]	5.9[1]	3.3[1]
Nonfarm employment, payroll (mil.)	May	6/6/75	76.4	1.0	-1.4	-2.4
Manufacturing	May	6/6/75	18.1	-.7	-4.5	-10.2
Nonmanufacturing	May	6/6/75	58.4	1.5	-.4	.3
Private nonfarm:						
Average weekly hours (hours)	May	6/6/75	36.0	36.1[1]	36.0[1]	36.7[1]
Hourly earnings ($)	May	6/6/75	4.47	5.4	4.5	7.2
Manufacturing:						
Average weekly hours (hours)	May	6/6/75	39.0	39.0[1]	38.8[1]	40.3[1]
Unit labor cost (1967=100)	Apr.	5/29/75	147.3	2.4	9.2	14.2
Consumer prices (1967=100)	Apr.	5/21/75	158.7	7.1	5.7	10.2
Food	Apr.	5/21/75	170.9	4.2	-2.3	8.0
Commodities except food	Apr.	5/21/75	147.5	9.0	8.3	11.0
Services [2]	Apr.	5/21/75	164.1	6.6	6.9	11.0
Wholesale prices (1967=100)	May	6/5/75	172.9	4.2	5.4	11.7
Industrial commodities	May	6/5/75	169.4	2.1	1.4	13.2
Farm products & food & feeds	May	6/5/75	182.1	7.3	12.7	8.3
Personal income ($ billion)[3]	Apr.	5/15/75	1202.4	6.7	3.8	6.9
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Apr.	6/2/75	38.9	9.7	8.0	-11.8
Capital goods industries	Apr.	6/2/75	12.0	7.2	2.8	-10.5
Nondefense	Apr.	6/2/75	10.4	9.0	3.1	-13.0
Defense	Apr.	6/2/75	1.7	-2.7	1.3	8.4
Inventories to sales ratio:						
Manufacturing and trade, total	Mar.	6/6/75	1.70	1.66[1]	1.68[1]	1.46[1]
Manufacturing	Apr.	6/2/75	1.87	1.96[1]	1.92[1]	1.62[1]
Trade	Mar.	6/6/75	1.44	1.42[1]	1.48[1]	1.32[1]
Ratio: Mfrs.' durable goods inventories to unfilled orders	Apr.	6/2/75	.843	.832[1]	.788[1]	.714[1]
Retail sales, total ($ bil.)	May	6/10/75	48.0	2.2	1.5	5.8
GAF	May	6/10/75	12.3	2.5	4.1	3.4
Auto sales, total (mil. units)[3]	May	6/5/75	7.7	5.3	-16.0	-16.0
Domestic models	May	6/5/75	6.2	8.7	-13.4	-21.6
Foreign models	May	6/5/75	1.5	-7.2	-25.4	19.5
Plant & equipment expen. ($ bil.)[4]						
All industries	1975	6/5/75	114.24	-	-	1.6
Manufacturing	1975	6/5/75	48.47	-	-	5.4
Housing starts, private (thous.)[3]	Apr.	5/18/75	990	1.6	-.9	-37.3
Leading indicators (1967=100)	Apr.	5/30/75	125.9	4.4	5.7	-15.9

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

Incoming data for May point to an impending upturn in economic activity. Industrial production held at about the April level, and nonfarm payroll employment showed the second successive monthly increase. There was a broadly-based pick-up in consumer spending, including some recovery in automotive purchases. Moreover, new orders for durables and building permits for housing rose sharply in April. On the inflation front, price movements have continued in line with the overall moderation evidenced since late last year.

However, there are still questions about the near term vigor of the expected recovery. Automotive sales, despite the modest recent improvement, are still at a very low level and a new survey showed further downward revisions in capital spending plans. And, while business inventories declined sharply again in April, the liquidation of durable goods at the producer level still has some way to go.

The industrial production index is estimated to have been essentially unchanged in May, following progressively smaller declines in the previous two months. Further increases were recorded in the production of most nonautomotive categories of consumer goods and auto assemblies rose 5 per cent to an annual rate of 6.6 million units. Despite a small increase in dealer stocks in recent months, a further rise in auto production is scheduled for June and July. The May rise in consumer goods output was about offset by declines in the production of business equipment and metals. In the materials grouping, further increase occurred in nondurables while output of durables continued to drop; raw steel production was reduced 10 per cent further in May.

As a result, capacity utilization of major materials may have declined only a bit further in May.

Nonagricultural employment (household survey) was about unchanged in May, but with farm employment up sharply, total employment rose by 320,000--the second successive month of increase. However, there was a large increase of close to 700,000 in the labor force--mainly adult men and teenagers--and the unemployment rate rose .3 percentage point to 9.2 per cent. Job loss again accounted for a large portion of the rise in unemployment, but new entrants and reentrants also swelled the jobless total.

The increase of about 60,000 in nonfarm payroll employment reflected the emerging pattern of adjustment in overall activity. Increases in employment from April to May occurred in 54 per cent of all industries compared with 42 per cent in the prior month and 17 per cent at the low in February. Employment rose in nondurable manufacturing, where the inventory correction is apparently nearing completion. In addition, there were continued gains in retail trade, service, and government employment. However, employment did continue to fall in the durable goods sector of manufacturing where a large portion of the inventory adjustment is yet to be accomplished, and on balance, factory employment was about unchanged in May. The factory workweek remained at the April level which had shown an upturn from the March low.

Although auto sales did pick up in May for both large and small cars, the 6.2 million unit annual rate for new domestic-type models was only a bit above the December pre-rebate level. Data for 10 days selling periods have shown three consecutive periods of improvement and by the last third of May the sales rate had risen to a 6.4 million unit rate. Sales of foreign cars were at a 1.5 million unit rate in May, slightly below April but a fifth above a year earlier. The import share edged below 20 per cent of the domestic market.

Retail sales, exclusive of autos and nonconsumer items, rose by 1.8 per cent in May, an acceleration of the gains evident since the beginning of the year. Increases were widespread, with particular strength evident in general merchandise. The recent surge in retail sales in probably attributable to the income tax rebates, which were mailed out beginning May 9, as well as the reduction in income tax withholdings.

The Conference Board survey of consumer expectations--taken in late March and early April--showed a marked increase in consumer optimism in regard to future business and employment conditions as well as income flows. Buying plans picked up for automobiles and homes but the improvement was concentrated in the purchases of used cars and existing residential units, perhaps indicating a resistance to the higher price levels of new items in these markets.

Reflecting in part increased consumer demand, new orders received by manufacturers showed a strong surge in April following the sharp erosion since last fall. Total new orders for durable goods rose 9.7 per cent in April, while those for nondefense capital goods rose by 9 per cent. Advances were farily widespread with orders received by iron and steel, electrical machinery, and motor vehicles showing the greatest strength.

Although this is the second increase in the past three months for durable goods new orders, in constant dollars this series remains close to 30 per cent below last summer's peak. New orders have dropped so sharply over the past half year that some recovery is required merely to maintain the current low level of business shipments. Since the level of shipments is still above the ordering rate, backlogs of unfilled orders--which have dropped continuously since last fall--fell further in April. Unfilled orders typically fall for about a quarter after the trough in aggregate activity.

Contracts for commercial and industrial buildings (measured in square footage of floor space) advanced by 43 per cent in April following two months of very sharp decline. Most of the increase was in the commercial category. Although total contracts are now back to about last November's level, they are still 40 per cent below the peak July 1973 level.

Orders and contracts are usually volatile around turning points and a single month's change may not be representative of changes in business demand. Evidence of continued caution in fixed investment plans was apparent in the results of recent plant and equipment surveys. The quarterly Commerce survey of plant and equipment expenditures--taken in late April and May--indicates a further erosion of plans for the second half of the year. Current dollar outlays for all industries are now scheduled to drop a bit further in the second quarter, to begin rising fractionally in the third quarter, and by the final quarter of the year to show an increase at only a 5.4 per cent annual rate. The survey reports that businesses plan a 1.6 per cent increase in capital outlays for 1975 as a whole, compared to an anticipated gain of 3.3 per cent in the previous survey. Plans of manufacturers weakened more from the prior survey than did those outside of manufacturing. Among manufacturers, strength is found only in the materials producing industries, whereas in nonmanufacturing the major sources of support are in transportation, mining, and gas utilities. Consistent with the weakening in manufacturing, the Conference Board reports that newly approved capital appropriations of large manufacturing companies fell by 9.4 per cent in the first quarter, following a 26 percent drop in the fourth quarter.

The liquidation of business inventories that began the first quarter continued in April, with the book value of manufacturers' stocks down by $13.3 billion and wholesale stocks off at a $6 billion rate--in both cases more than in March. Nearly all of the liquidation in manufacturing was in nondurable goods, and large stock adjustments still seem likely in the durable goods sector. At wholesale, however, durable goods stocks were reduced sharply in both March and April.

Despite continued signs of an impending recovery in residential construction, housing starts remained below a 1 million unit annual rate in April. However, residential building permits increased substantially after having fluctuated around historically low levels in the early months of 1975. Moreover, with builders' backlogs of uncompleted dwelling units reduced and savings flows to major lenders continuing very strong, increases in housing starts are still expected soon.

Wage increases continue at a moderate pace. The average hourly earnings index for private nonfarm workers rose 0.6 per cent in May after remaining unchanged in April. The rate of change in this index since year-end has been 7.1 per cent at an annual rate, as compared to an 8.7 per cent annual rate of rise over the second half of 1974. May increases in wages were particularly sharp in mining, transportation, and trade.

Wholesale prices rose 0.4 per cent, seasonally adjusted, in May. The rise in industrial commodities of 0.2 per cent was in line with the increases of the previous two months. Over the past 6 months these prices have risen at an average monthly rate of under 0.3 per cent, as compared to nearly 2 per cent over the preceding half year. In May, increases in the prices of lumber, plywood, millwood, and fuels were partially offset by lower prices for some chemicals and metals. Compared with recent months, producer finished goods rose at a substantially reduced rate, but the rate of advance for consumer nonfood finished goods rose somewhat.

Prices of farm and food products in May rose 0.6 per cent, much less than the big surge in April. The advance in the past month was due mainly to still higher prices of livestock and meats but there were also significant advances for eggs and cotton.

In April, the consumer price index rose at a seasonally adjusted annual rate of about 7 per cent. This was greater than in March, in large part because of the reversal in food prices. The inflation at retail so far this year--somewhat over 6 per cent--is about half that recorded in 1974.

The staff continues to expect Federal spending of $322 billion on a unified budget basis in the fiscal year ending this June. The current staff estimate of receipts is $281 billion. It now appears that most of the one-time disbursements associated with the Tax Reduction Act of 1975 will be made before the end of this fiscal year. Rebate payments on 1974 tax liabilities are expected to be entirely completed by mid June. The timing of the $50 cash payment to social security beneficiaries is more uncertain, but checks are ready for mailing as soon as Congress appropriates the funds.

For FY 1976, the staff now expects unified budget outlays to total $367 billion. This is well above the Administration's estimate as forecast in the Mid Session Review[1/] but is equal to the target outlays contained in the Congressional budget resolution. Nevertheless, there are a number of differences between the staff's estimate and the Congressional Budget Committees' final recommendation. A number of programs, currently pending in Congress and included in the House-Senate budget forecast--such as emergency housing assistance and public works

1/ A reconciliation is presented in Appendix A.

grants for states and localities--face the possibility of a Presidential veto. Given the uncertainty surrounding any veto override, the staff has excluded these programs from the latest Greenbook forecast. On the other hand, the staff is expecting higher levels of defense spending and unemployment compensation.

For FY 1976, the staff has increased the revenue forecast by $10 billion to about $299 billion. The increase in the oil import fee to $2 per barrel, reestimates a personal income tax elasticities, and higher income assumptions are responsible for most of this rise. Given these revenue and outlay forecasts, the staff is currently expecting the FY '76 deficit to be close to $68 billion. The high employment budget (NIA basis) continues to show a shift from a CY '74 surplus of approximately $19 billion to deficits of $10 billion and $4 billion in CY '75 and '76.

SELECTED UNEMPLOYMENT RATES
(Seasonally Adjusted)

	1974		1975	
	May	November	April	May
Total	5.2	6.6	8.9	9.2
Men 20 years and over	3.4	4.6	7.0	7.3
Women 20 years and over	5.1	6.6	8.6	8.6
Teenagers	15.6	17.4	20.4	21.8
Household heads	3.0	3.9	6.0	6.3
White	4.7	5.9	8.1	8.5
Negro and other races	9.3	11.6	14.6	14.7
White collar workers	3.2	3.8	4.7	5.4
Blue collar workers	5.8	8.3	13.0	13.0
State insured*	3.3	4.3	6.8	7.0

* per cent of covered workers

Table 1

CHANGES IN NONFARM PAYROLL EMPLOYMENT
(IN THOUSANDS)

	Employment May 1975	Average Monthly Change: May 1974-May 1975	Average Monthly Change: Nov. 1974-May 1975	Average Monthly Change: Apr. 1975-May 1975
Total Nonfarm	76,443	-160	-327	+62
Goods-producing	22,230	-221	-326	-43
Construction	3,435	-53	-71	-35
Manufacturing	18,090	-172	-257	-11
Durable	10,513	-116	-183	-52
Nondurable	7,577	-56	-74	+41
Service-producing	54,213	+62	-1	+105
Trade	16,850	-12	-33	+32
Services	13,788	+30	+11	+30
Government	14,916	+61	+58	+59
State & local government	12,184	+59	+60	+56

Table 3

AUTO SALES

(Seasonally adjusted annual rates)

	Total	Domestic Total	Domestic Large	Domestic Small	Imports
1974: QI	9.0	7.5	4.8	2.7	1.6
QII	9.2	7.9	5.4	2.5	1.3
QIII	10.1	8.5	5.5	3.0	1.6
QIV	7.4	6.1	3.9	2.2	1.3
Oct.	8.0	6.4	3.9	2.5	1.6
Nov.	7.0	5.7	3.7	2.0	1.3
Dec.	7.2	6.1	4.0	2.1	1.1
1975: QI	8.3	6.6	3.6	3.0	1.7
Jan.	8.1	6.6	3.7	2.9	1.5
Feb.	9.2	7.2	3.6	3.6	2.0
Mar.	7.7	6.0	3.6	2.4	1.6
Apr.	7.3	5.7	3.8	1.9	1.6
May	7.7	6.2	4.1	2.1	1.5

Table 4

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

	1974 QIV	1975 QI	May 75 / 75 QI	Mar.	Apr.	May
Total sales	-3.2	2.7	2.8	-1.9	1.2	2.2
Durable	-10.9	5.3	2.6	-8.3	4.7	2.7
Auto	-15.5	7.2	3.0	-11.9	5.7	3.5
Furniture and appliance	-7.0	-.7	3.5	-.2	3.7	-.1
Nondurable	.4	1.6	2.9	1.0	-.2	2.0
Food	1.6	2.9	-.5	1.5	-2.7	1.3
General merchandise	-1.5	.3	5.8	.9	.8	3.1
Gasoline	-1.3	1.2	4.0	.9	1.3	2.0
Total, less auto and nonconsumption items	-.1	1.6	2.7	.9	-.1	1.8
GAF	-3.1	1.0	5.2	-.2	1.8	2.5
Real*	-6.2	.9	n.a.	-2.0	.7	n.a.

*Deflated by all commodities CPI, seasonally adjusted.

Table 5

New Orders
(Per cent change from prior month)

	Total Durable Goods	Nondefense Capital Goods
1974:July	1.8	6.6
Aug.	3.7	-7.8
Sept.	-6.2	.2
Oct.	-2.8	-3.8
Nov.	-4.2	-6.7
Dec.	-12.4	-1.5
1975:Jan.	-4.7	-3.7
Feb.	2.7	-1.1
Mar.	-4.1	-4.5
Apr.(p)	9.7	9.0

Table 6

SURVEY RESULTS OF ANTICIPATED PLANT
AND EQUIPMENT EXPENDITURES
(Per cent change from prior year)

	1974	1975 McGraw-Hill Apr. Survey	1975 Commerce Dec. Survey	1975 Commerce Feb. Survey	1975 Commerce May Survey
All industry	12.7	5.5	4.6	3.3	1.6
Manufacturing	21.0	8.5	9.0	7.1	5.4
Durables	17.5	1.9	1.8	.0	-2.4
Nondurables	24.7	14.9	16.0	14.1	12.9
Materials producers	34.6	21.8	19.5	17.3	16.6
Other producers	9.5	-5.3	-1.7	-3.5	6.4
Nonmanufacturing 1/	7.6	3.4	1.6	.6	-.9
Railroads	29.5	31.9	27.7	13.6	11.9
Air & other transportation	1.2	12.4	3.0	11.2	9.0
Electric utilities	10.6	.0	1.2	-.7	-1.9
Gas utilities	5.8	16.1	21.9 2/	4.1	6.5
Communications	8.6	-4.0	-1.8 2/	-2.8	-4.3
Commercial & other	3.0	1.0	-4.3 2/	-3.5	-5.4

1/ Contains industries not shown separately

2/ Confidential

Table 7

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

	1974 QIII	1974 QIV	1975 QI	1975 March	April
Manufacturing and trade	59.2	52.9	-11.4	-22.4	n.a.
Manufacturing	37.7	29.7	3.2	-9.6	-13.8
Durable	23.3	19.1	7.6	-2.4	-1.3
Nondurable	14.5	10.6	-4.5	-7.2	-12.6
Trade, total	21.4	23.2	-14.5	-12.8	n.a.
Wholesale	8.6	8.3	-4.1	-5.1	-6.0
Retail	12.8	14.9	-10.4	-7.7	n.a.
Auto	4.0	11.8	-8.5	-2.2	n.a.

INVENTORY RATIOS

	1974 March	1974 April	1975 March	1975 April
Inventory to sales:				
Manufacturing and trade	1.46	1.46	1.70	n.a.
Manufacturing, total	1.62	1.62	1.96	1.87
Durable	2.04	2.04	2.58	2.46
Nondurable	1.16	1.17	1.34	1.27
Trade, total	1.32	1.31	1.44	n.a.
Wholesale	1.09	1.08	1.28	1.28
Retail	1.51	1.50	1.57	n.a.
Inventories to unfilled orders				
Durable manufacturing	.722	.714	.832	.843

Table 8

NEW PRIVATE HOUSING UNITS
(Seasonally adjusted annual rates, in millions of units)

	1970 1/	1974	1975			Per cent change in April from:	
	QI	QIV	QI	Mar. (r)	Apr. (p)	Month ago	Year ago
Permits	1.10	.78	.70	.71	.90	+27	-31
Starts	1.24	1.00	.99	.97	.99	+ 2	-37
1-family	.69	.76	.74	.76	.75	-.4	-23
2- or more-family	.55	.24	.25	.22	.24	+ 9	-61
Under construction 2/	.89	1.23	1.12	1.12	n.a.	- 4 3/	-29 3/
Completions	1.39	1.63	1.37	1.25	n.a.	- 6 3/	-31 3/
MEMO: Mobile home shipments	.37	.23	.20	.20	.19	- 3	-55

1/ Previous cyclical trough.
2/ Seasonally adjusted, end of period.
3/ Per cent changes based on March.

HOURLY EARNINGS INDEX*

(Seasonally adjusted; per cent change, annual rates)

	May 1974- May 1975	Nov. 1974- May 1975	Apr. 1975- May 1975
Total private nonfarm	8.8	7.2	7.8
Manufacturing	10.1	8.0	7.4
Construction	8.4	6.7	7.0
Trade	8.2	6.9	8.5
Services	6.9	7.1	6.9

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

Table 10

PRICE BEHAVIOR
(Percentage changes, seasonally adjusted annual rates)1/

	Relative importance Dec. 1974	Dec. 1973 to Dec. 1974	Dec. 1974 to Mar. 1975	Mar. to Apr. 1975	Apr. to May 1975
		WHOLESALE PRICES			
All commodities	100.0	20.9	-6.3	18.5	4.2
Farm and food products	29.1	11.0	-27.6	57.7	7.3
Industrial commodities2/	70.9	25.6	4.2	1.1	2.1
Materials, crude and intermediate	46.0	28.2	2.7	3.4	0.0
Finished goods:					
Consumer nonfood	17.5	20.5	3.8	2.4	4.0
Producer	8.6	22.6	11.8	7.5	3.7
Consumer foods	13.4	13.0	-12.9	31.7	21.2

	Relative importance Dec. 1974	Dec. 1973 to Dec. 1974	Dec. 1974 to Mar. 1975	Mar. to Apr. 1975
		CONSUMER PRICES		
All items	100.0	12.2	6.0	7.1
Food	24.8	12.2	-0.2	4.2
Commodities (nonfood)	39.0	13.2	7.4	9.0
Services	36.2	11.3	8.2	6.6
Addendum				
All items less food and energy3/4/	68.3	11.3	9.4	6.3
Petroleum products3/	4.4	22.8	-0.5	10.5
Gas and electricity	2.6	19.6	17.7	16.2

1/ Not compounded for one-month changes.
2/ Stage of processing components do not add to the total because they include some items found in farm and food products group.
3/ Confidential--not for publication.
4/ Energy items excluded: gasoline and motor oil, fuel oil and coal, and gas and electricity.

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

	Fiscal 1975 e/		Fiscal 1976 e/		Calendar Years		F.R.B. Staff Estimates				
							Calendar Quarters				Half-Year
							1975				1976
	Adm. Est. 5/30/75	F.R. Board	Adm. Est. 5/30/75	F.R. Board	1974 Actual	1975 F.R.B. e/	I*	II	III	IV	Jan.-June
							Unadjusted data				
Federal Budget											
Surplus/deficit	-42.6	-41.0	-59.9	-67.8	-10.9	-65.8	-18.0	-9.4	-15.2	-23.2	-29.4
Receipts	281.0	281.0	299.0	299.2	280.5	281.2	65.1	76.1	72.9	67.1	159.2
Outlays	323.6	322.0	358.9	367.0	291.4	347.0	83.1	85.5	88.1	90.3	188.6
Means of financing:											
Net borrowing from the public	50.8	51.1	74.0	77.6	11.8	78.5	19.4	16.9	16.4	25.8	35.4
Decrease in cash operating balance	n.a.	.5	n.a.	2.7	4.5	-.1	-.7	-2.1	2.4	.3	--
Off-budget deficit (-) 1/	n.a.	-13.3	-14.2 2/	-14.2	-3.6	-16.5	-5.3	-6.3	-1.4	-3.5	-9.3
Other 3/	n.a.	2.7	n.a.	1.7	-1.7	3.9	4.6	.9	-2.2	.6	3.3
Cash operating balance, end of period	n.a.	8.7	n.a.	6.0	5.9	6.0	6.6	8.7	6.3	6.0	6.0
Memo: Sponsored agency borrowing 4/	n.a.	10.9	n.a.	n.e.	16.6	1.9	.1	-.2	.9	1.1	n.e.
							Seasonally adjusted annual rates				
National Income Sector											
Surplus/deficit	n.a.	-46.8 5/	n.a.	-68.7 5/	-8.1	-75.2	-54.7	-103.5	-71.2	-71.3	-64.3
Receipts	n.a.	282.6 5/	n.a.	306.9 5/	291.1	281.6	283.8	251.3	290.0	301.4	320.0
Expenditures	330.9 2/	329.3	371.4 2/	375.6	299.1	356.8	338.5	354.8	361.2	372.7	384.3
High Employment surplus/deficit (NIA basis) 6/7/	n.a.	3.8	n.a.	-5.3	19.1	-9.9	9.2	-36.5	-4.3	-8.2	-4.4

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

1/ Deficit of off-budget Federal agencies, i.e., Federal Financing Bank, Postal Service, Export-Import Bank, Rural Electrification and Telephone revolving fund, Housing for the Elderly or Handicapped Fund, and Pension Benefit Guaranty Corporation.
2/ Unpublished confidential O.M.B. estimate consistent with Mid-Session Review of the 1976 Budget, May 30, 1975.
3/ Checks issued less checks paid, accrued items, and other transactions.
4/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Association, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.
5/ Quarterly average exceeds fiscal year total by $.6 billion for fiscal 1975 and $.9 billion for fiscal 1976 due to spreading of wage base effect over calendar year.
6/ Estimated by F.R. Board staff.
7/ The high-employment budget estimates now fully incorporate taxes on inventory profits beginning in 1973.

DOMESTIC FINANCIAL SITUATION

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator	Latest data: Period	Latest data: Level	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
Monetary and credit aggregates			SAAR (per cent)		
Total reserves	May	34.6	-14.3	-3.9	.9
Reserves available (RPD's)	May	32.8	-9.8	-4.1	2.0
Money supply					
M1	May	289.9	11.7	9.0	4.4
M2	May	637.6	13.7	11.2	7.8
M3	May	1029.7	14.9	13.7	8.5
Time and savings deposits (Less CDs)	May	347.6	15.0	12.8	10.7
CDs (dollar change in billions)	May	85.6	-2.8	-6.5	7.1
Savings flows (S&Ls + MSBs + credit unions)	May	392.1	17.1	18.0	9.8
Bank credit (end of month)	May	703.0	3.8	4.3	3.7
Market yields and stock prices		Percentage or index points			
Federal funds	wk. endg. 6/4/75	5.24	-.18	-.64	-6.21
Treasury bill (90 day)	" 6/4/75	5.23	-.18	-.31	-2.80
Commercial paper (90-119 day)	" 6/4/75	5.43	-.55	-.82	-5.27
New utility issue Aaa	" 6/6/75	9.55	-.25	.64	.32
Municipal bonds (Bond Buyer)	1 day 6/5/75	7.05	.10	.51	1.04
FNMA auction yield (FHA/VA)	6/2/75	9.14	-.16	.35	-.41
Dividends/price ratio (Common stocks)	wk. endg. 5/30/75	4.10	-.12	-.48	-.04
NYSE index (12/31/65=50)	end of day 6/9/75	48.54	.56	3.66	-.45
Credit demands		Net change or gross offerings: Current month		Year to date	
		1975	1974	1975	1974
Business loans at commercial banks	May	-1.5	3.4	-4.3	17.6
Consumer instalment credit outstanding	April	-.2	1.2	4.2	16.0
Mortgage debt outst. (major holders)	March	2.5	4.2	7.9	11.7
Corporate bonds (public offerings)	May	3.7e	2.4	17.1e	9.8
Municipal long-term bonds (gross offerings)	May	2.5e	2.3	11.5e	11.0
Federally sponsored Agcy. (net borrowing)	May	-1.6e	1.5	-.9e	2.8
U.S. Treasury (net cash borrowing)	June	1.3e	-3.9	36.3e	-3.0
Total of above credits		6.7	11.1	71.8	65.9

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Most short-term interest rates have changed little on balance since the Ma- 20 FOMC meeting. The relative stability of the Federal funds rate, at a time of continued weak business short-term credit demands and Chairman Burns' statement that major adjustments in stabilization policy would be undesirable in the near-term, has provied no impetus for significant movements in short-term market yields. Long-term Treasury yields also have changed little on balance since the successful completion of the large May note and bond financing, and corporate bond yields have displayed a similar stability in the face of a large volume of new issues. Municipal bond yields, however, have risen a bit in response to the uncertainties created by New York City's financial problems, which now appear to have been alleviated.

In the primary and secondary markets for home mortgages, yields have eased somewhat in recent weeks. The restoration of liquidity at savings and loan associations apparently has progressed to the point where these institutions are willing to allocate a greater share of new funds to mortgages, particularly in light of reduced expectations of interest rate increases in the months ahead.

Monetary Aggregates. Deposit growth was exceptionally strong at banks and at nonbank thrift institutions during May and early June. M_1 expansion accelerated to an 11.7 per cent rate in May; M_2 grew at a 13.7 per cent annual rate, as time and savings deposits other than large CD's increased even more rapidly than they had in

SELECTED SECURITY MARKET QUOTATIONS
(One day quotes-in per cent)

	Aug. FOMC Aug. 20	Mar. FOMC Mar. 18	Apr. FOMC Apr. 15	May FOMC May 20	June 3	June 10
Short-term						
Federal funds 1/	12.23	5.38	5.44	5.13	5.24	5.17 4/
Treasury bills						
3-months	9.05	5.42	5.48	5.11	5.24	5.08
6-months	9.13	5.53	5.80	5.37	5.50	5.32
1-year	8.86	5.63	6.28	5.70	5.78	5.60
Commercial paper						
1-month	12.00	5.88	6.00	5.25	5.25	5.38
3-months	11.88	6.00	6.13	5.50	5.50	5.63
Large neg. CD's 2/						
3-months	12.35	6.05	6.15	5.60	5.50	5.50
6-months	12.15	6.25	6.70	6.10	6.13	6.13
Federal agencies						
1-year	9.65	6.23	7.05	6.44	6.35	n.a.
Bank prime rate	12.00	7.75	7.50	7.25	7.25	7.00
Long-term						
Corporate						
New AAA 1/	10.10	9.27	9.65	9.54	9.62	9.55p
Recently offered 3/	10.02	9.31	9.60	9.61	9.70	9.57p
Municipal (Bond Buyer) 3/	6.61	6.65	7.03	6.88	7.09	7.05
U.S. Treasury (20-year constant maturity)	8.58	7.97	8.29	8.14	8.19	n.a.
Stock prices						
Dow-Jones	726.85	779.41	815.08	830.49	846.14	822.12
N.Y.S.E.	39.32	45.10	45.66	47.80	49.35	48.12

1/ Weekly average.
2/ Highest quoted new issues
3/ One day quotes for preceding Thursday.
4/ Average for first 6 days of statement week ending June 11.

earlier months of this year. Savings and loan associations and mutual savings banks registered record deposit gains for the month of May. As in other recent months, passbook savings accounted for much of the consumer-type time and savings deposit growth at commercial banks; no breakdown for the month is yet available for the nonbank thrift institutions, which recently have been displaying a similar trend.

The surge in deposit growth has coincided with the disbursement of a large volume of income tax refunds and rebates and with the reduction in tax withholding. The proportion of these funds flowing into deposits may have been greater than anticipated in staff projections. The sum of rebate and refund checks to individuals mailed in May was \$12.4 billion--a few hundred million dollars less than FRB staff had expected. Also, workers' take-home pay was boosted nearly \$1 billion in May by lower withholding, which began during the month. Disbursement of the remaining refunds and rebates will be virtually completed by mid-June, but there is some question about the timing of \$1.7 billion of special payments to social security recipients.

<u>Short-term Credit Markets</u>. Although the Treasury has continued to raise new cash through sizable additions to regular weekly and monthly bill auctions, bill rates have changed little on balance since the May FOMC meeting. The bill market has been aided by increased foreign purchases, reflecting reflows of oil payments and exchange market intervention, and by the willingness of dealers to maintain

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1974		1975			
	QIII	QIV	QI	Mar.	Apr.	May p
			Per cent at annual rates			
M_1	1.0	5.3	2.4	11.0	4.2	11.7
M_2	4.2	6.7	8.4	11.8	7.7	13.7
M_3 1/	3.8	6.9	10.4	14.0	11.8	14.9
Adjusted bank credit proxy	6.7	4.2	3.1	5.8	5.1	2.9
Time and savings deposits at commercial banks:						
a. Total	9.1	11.7	10.1	3.1	4.7	4.2
b. Other than large CD's	7.1	7.9	13.6	12.5	10.6	15.0
Deposits at nonbank thrift institutions: 2/						
a. Savings and loans	3.3	9.2	17.0	23.3	17.2	20.8
b. Mutual savings banks	.4	5.0	10.5	18.0	10.2	15.9
c. Credit unions	6.1	12.0	18.9	21.2	20.8	16.4
			Billions of dollars 3/			
Memoranda:						
a. U.S. Government demand deposits	.3	-1.5	-0.4	0.1	1.4	--
b. Negotiable CD's	1.2	1.8	-0.2	-2.3	-1.4	-2.8
c. Nondeposit sources of funds	0.1	-0.1	-0.6	--	0.2	0.7

1/ M_3 is defined as M_2 plus deposits of mutual savings banks and shares of savings and loan associations and credit unions.
2/ Based on month-end series.
3/ Changes 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.
p - Preliminary.

INDIVIDUAL INCOME TAX REFUNDS AND REBATES
(In billions of dollars)

	May	June
1972	3.0	.7
1973	6.4	.6
1974	5.7	.5
1975	12.4[1/]	1.9[2/]

1/ Preliminary. Includes $6.7 billion in rebates.
2/ Estimated. Includes $1.4 billion in rebates.

large bill inventories. Dealer attitudes about current bill holdings have been influenced to some extent by the prospect for reduced supplies resulting from net seasonal bill redemptions over the latter half of June. Primarily, however, the stability of bill yields underscores the continuing intensity of general demands for liquid assets.

With businesses continuing to liquidate inventories and to fund short-term debt, commercial and industrial loans at commercial banks and commercial paper of nonfinancial firms both contracted markedly in May. The 14 per cent annual rate of decline in the sum of the two aggregates was the sharpest of the year. But total loans and investments of commercial banks continued to expand mainly on the strength of large acquisitions of Treasury securities.

The weakness of business loan demand, together with the rapid growth of demand and consumer-type time and savings deposits, has led weekly reporting banks to allow the run-off of a substantial additional volume of large time deposits. Negotiable CD's declined \$2.8 billion, seasonally adjusted, between the last statement weeks of April and May.

Consumer Credit. Total consumer credit outstanding fell considerably less in April than in March, as a \$1.7 billion increase in noninstalment debt partially offset a large \$2.9 billion drop in instalment credit. The rise in noninstalment debt was the first since last September and was centered in the charge account category. Also indicative of the pick-up in consumer buying of nondurable goods and small durables was the leveling off of "other consumer goods" credit in April following declines in each month of the first quarter.

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

	1974 QIII	1974 QIV	1975 QI	1975 Mar.	1975 Apr.	1975 May e
Total loans and investments 2/	7.3	-1.1	4.4	6.7	2.4r	3.8
U.S. Treasury securities	-29.1	-27.5	82.1	121.6	118.6r	80.0
Other securities	2.3	9.3	-1.4	-4.3	-2.6	5.2
Total loans 2/	12.8	-1.2	-1.5	-2.4	-9.8	- 6.5
Business loans 2/	15.3	3.5	-4.5	-10.4	-4.6	- 9.9
Real estate loans	7.3	5.9	3.7	2.7	2.7r	.9
Consumer loans	7.2	-3.3	-6.7	-14.4	-7.3r	n.a.
Memo:						
Business loans plus nonfinancial commercial paper (per cent) 3/	19.4	4.3	-2.6	-10.3	-3.6	-15.3

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank), and nonconsolidated nonbank subsidiaries of holding companies.
3/ Nonfinancial commercial paper is measured from end-of-month to end-of-month.
n.a. not available.
r - revised.

Long-Term Securities. Corporations sold a large volume of long-term debt in May without noticeable impact on yields in that market. The May public bond total was $3.7 billion--the second largest volume on record for any month--as almost $1 billion of the nearly $1.6 billion of issues postponed in April were brought to market. Industrial firms again accounted for about two-thirds of the May calendar, but lower-rated issues (less than Aa) contributed appreciably more to the month's total than earlier this year. The corporate market staged a small rally in the first week of June despite a rapid build-up in the projected June volume to about $3.6 billion. Expectations that the Treasury would not place excessive demands on the capital markets over the near term provided some stimulus for the buildup in both the May and June corporate bond calendars.

Stock prices have declined only slightly from their recent highs, with the Dow-Jones industrial average currently standing 42 per cent above its December 1974 low. The reduced cost of equity funds has prompted a resurgence in new stock flotations, by industrial firms as well as by utilities. Industrial firms accounted for about 40 per cent of the stock issued in May.

The Treasury is not expected to offer additional coupon securities until just before the end of June when maturing bills that currently fill the end-of-June slot in the 2-year note cycle will be replaced by notes. As for July, the outlook is somewhat uncertain. The Treasury's staff, and some market participants, currently believe that new cash needs during the month will be small enough to enable the

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

	QI[e]	QII[e]	May[e]	June[f]	July[f]
			Gross offerings		
Corporate securities					
Total	4,867	5,145	5,335	5,375	4,600
Publicly-offered bonds	3,489	3,417	3,700	3,600	3,100
Privately-placed bonds	675	717	650	750	600
Stocks	703	1,010	985	1,025	900
Foreign securities 1/	365	375	500	400	350
State and local government securities					
Long-term	2,253	1,427	2,450	2,500	2,200
Short-term	2,554	3,281	3,700	3,200	3,000
			Net offerings		
U.S. Treasury 2/	6,484	5,633	8,100	1,300	8,000
Sponsored Federal agencies	40	-78	-1,610	766	601

1/ Includes issues of foreign private and official institutions.
2/ Total Treasury issues, including Federal Financing Bank.
e - Estimated
f - Forecasted.

Treasury to rely solely on add-ons to bill auctions. Others, including the Board's staff, foresee a possible need for issuance of coupon securities in addition to the extra bills, perhaps in the neighborhood of $1 to $3 billion.

Public attention has been focused on the municipal bond market during the past few weeks, owing to New York City's problems. Unable to sell debt in an unreceptive market, the City was bailed out of its cash flow crunches in April and May by State advances on welfare payments. Most recently, the City administration presented a "crisis" budget--one implying about a 20 per cent cut in the municipal work force--and the State legislature passed a bill creating the Municipal Assistance Corporation which will buy about $3 billion of the City's outstanding short-term debt and issue its own long-term debt. This Corporation, backed by taxes that ordinarily would go to the City, seems to have alleviated, at least temporarily, the City's cash flow problems. In exchange for this aid, the charter of the Municipal Assistance Corporation requires that the city put its financial house in order over the longer term by instituting a number of reforms, including a limit on its short-term borrowing, phasing in a better accounting system, and elimination of current expense items from its capital budget.

New York City's financial difficulties had been reflected not only in a breakdown of both the primary and secondary markets for its obligations, but in the yields on debt obligations of other State and local units as well. This was most apparent in the market for securities associated with New York State, where rates on new issues in May were exceptionally high. Outside New York State, some recent offerings have received a single bid rather than the several usually received in the past. Underwriting syndicates, by allocating new issues among a larger number of firms, were diffusing the risk of individual offerings and assuring increased breadth of marketing. However, immediately following news of an apparent resolution of New York City's financial difficulties, the tone of the municipal market improved.

Mortgage Markets. New and outstanding mortgage commitments at S&L's rose substantially further in April, the latest month for which data are available. With record May deposit inflows at the non-bank thrift institutions, further significant gains in commitments seem likely, and recent yield developments suggest this. Furthermore, field reports indicate that commitments by S&L's and other lenders for short-term, high-yield construction loans, while still being issued on a very selective basis, have been increasing in volume in some parts of the country.

Mortgage rates began to ease again in May as the stabilization of money and bond market yields alleviated, to some extent, lender apprehension over possible near-term disintermediation and further diversion of funds by diversified lenders. Still, some concern about disintermediation remains, owing in part to the large contribution of potentially volatile passbook savings to the recent growth of time and savings deposits at both banks and thrift institutions.

Despite the continued limited participation by diversified lenders in the primary mortgage market (partly because of the large spread of corporate bond rates over mortgage rates), average rates on new mortgage loan commitments at S&L's have declined 3 basis points since mid-May. In the secondary market, average yields in the FNMA auctions also have eased. Demand for FNMA's commitments declined further as fears of falling mortgage prices lessened and as GNMA-guaranteed mortgage-backed securities once again became an attractive marketing alternative to FNMA for originators of FHA/VA loans.

FNMA AUCTION RESULTS-HOME MORTGAGE COMMITMENTS

	Government-underwritten			Conventional		
	Amount (In $ millions)			Amount (In $ millions)		
of auction	Offered	Accepted	Average yield	Offered	Accepted	Average yield
1974--High	1,155 (3/25)	333 (3/25)	10.59 (9/9)	164 (4/8)	63 (4/8)	10.71 (9/9)
Low	26 (11/18)	18 (11/18)	8.43 (2/25)	14 (10/21)	7 (11/18)	8.47 (3/11)
1975--High	552 (4/7)	321 (3/24)	9.37 (1/13)	100 (4/7)	51 (4/21)	9.50 (1/13)
Low	25 (2/10)	18 (2/10)	8.78 (3/10)	11 (1/27)	9 (2/10 2/24)	8.96 (3/10)
1975--Apr. 7	551.6	277.2	8.98	99.8	44.6	9.13
21	470.9	247.3	9.13	79.2	51.3	9.26
May 5	525.5	280.4	9.29	69.8	43.9	9.43
19	165.6	115.0	9.25	46.4	38.4	9.41
June 2	172.5	80.4	9.14	51.2	27.1	9.26

NOTE: Average secondary market yields are gross before deduction of fee of 38 basis points paid for mortgage servicing. They reflect the average accepted bid yields 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.

CONVENTIONAL HOME MORTGAGES AT SELECTED S&L's

	Average going rate on 80% loans (per cent)	Basis point change from month or week earlier	Rate spread1/ (basis points)	Federal Home Loan Bank districts with funds in short supply
1974--High	10.03 (9/27, 10/18)	--	97 (11/15)	12 (May, July-Nov.)
Low	8.40 (3/15, 3/22)	--	-106 (7/12)	0 (Feb.-Mar.)
1975--Jan.	9.29	-30	29	3
Feb.	9.02	-27	8	1
Mar.	8.85	-17	-75	0
April	8.83	-2	-83	0
May	8.90	+7	-71	0
May 16	8.93	+4	-61	0
23	8.93	0	-68	0
30	8.90	-3	-71	0
June 6	8.90	0	-65	0

1/ Average mortgage return, before deducting servicing costs, minus average yield on new issues of Aaa utility bonds paying interest semi-annually and with 5-year call protection.

INTERNATIONAL DEVELOPMENTS

U.S. International Transactions
(in millions of dollars; seasonally adjusted)

	1974			1975p/		
	Year	Q-3	Q-4	Q-1	Mar.*	Apr.*
Goods and services, net 1/	3,281	-248	912			
Trade balance	-5,791	-2,475	-1,472	1,340	1,329	181
Exports	97,081	24,731	26,217	26,822	8,717	8,388
Imports	102,872	27,206	27,689	25,482	7,388	8,207
Net service transactions	9,072	2,227	2,384			
Remittances and pensions	-1,775	-456	-463			
Gov't grants and capital, net	-4,398	-769	-1,568			
Bank-reported private capital, net change	-2,385	1,994	482	-4,848	-2,142	282
Claims on foreigners (inc. -)	-19,152	-1,996	-4,304	-3,687	-2,250	-769
Liquid	-5,800	-431	-1,740	-4,668	-2,197	
Other	-13,352	-1,565	-2,564	981	-53	
Liabilities to foreigners (inc. +)	16,767	3,990	4,786	-1,161	108	1,051
Liquid liabilities to:	16,728	4,010	4,899	-1,082	97	1,193
Commercial banks abroad	12,588	2,896	2,868	-2,160	204	
(of which liab. to branches) 2/	(2,349)	(-503)	(217)	(-1,000)	(-135)	
Other private foreigners	2,852	893	731	230	-37	
Int'l & regional organizations	1,288	221	1,300	848	-70	107
Long-term liabilities	39	-20	-113	-79	11	-142
Private transactions in securities, net	-1,346	-138	-1,355	-1,557	-365	67
U.S. purchases (-) of foreign securities	-1,951	-306	-686	-2,034	-474	-162
(of which: New bond issues)	(-2,336)	(-416)	(-770)	(-2,129)	(-549)	(-246)
Foreign purchases (+) of U.S. securities	605	168	-669	477	109	229
Stocks	447	82	-23	958	235	260
Bonds	158	86	-646	-481	-126	-31
U.S. direct investment abroad, (inc. -)	-6,801	-2,047	-2,600			
Foreign direct investment in U.S., (inc. +)	2,308	-89	-561			
Nonbank-reported: liquid claims, (inc. -)	-19	564	-283			
: other claims, (inc. -)	-2,946	-324	-232			
: liabilities, (inc. +)	1,047	354	28			
Changes in liab. to foreign official agencies	9,761	1,323	4,394	3,131	516	-650p/
OPEC countries (inc. +) 2/3/	9,947	3,934	2,656	236	-737	
Other countries (inc. +)	-186	-2,611	1,738	2,262	1,253	
Changes in U.S. reserve assets (inc. -)	-1,434	-1,003	137	-326	-174	18
Gold	--	--	--	--	--	--
Special drawing rights	-172	-123	-20	-5	-5	-8
Reserve position in the IMF	-1,265	-728	-84	-307	-152	14
Convertible currencies	3	-152	241	-14	-17	12
Errors and omissions	4,707	839	1,109			
Memo:						
Official settlements balance, S.A.		-320	-4,531	-2,805		
N.S.A.	-8,327	-1,609	-4,105	-2,167	-342	
O/S bal. excluding OPEC, S.A.		3,614	-1,875	-2,569		
N.S.A.	1,620	2,325	-1,449	-1,931	-1,079	

* Not seasonally adjusted (except for merchandise trade data).

1/ Differs from "net exports" in the GNP account by the amount of special military shipments to Israel (excluded from GNP net exports).

2/ Not seasonally adjusted.

3/ Partly estimated.

Foreign exchange markets. Exchange markets have been very quiet in the past few weeks. Rates have not varied much, and volume has been on the light side. On a weighted average basis against 10 leading foreign currencies the dollar has declined by less than 1/2 per cent since the last Greenbook. It has moved within a range of no more than two per cent around its present level for the past three months.

Intervention purchases of dollars by major foreign central banks totaled around $3/4 billion, net, over the past four weeks, tending to provide support for the dollar. The System, meanwhile, has both purchased and sold foreign currencies in the market with a small net balance of purchases.

The central banks of Canada and Switzerland have been the largest net purchasers of dollars, around $200 million each. The Canadian dollar rebounded, after having fallen sharply in previous weeks, as bond market conditions in New York turned more favorable in May, and several Canadian issues previously postponed were marketed. A substantial part of the Swiss intervention was simply an offset to the sale of dollars by the BNS under its capital export conversion regulations (whereby foreign issuers of franc loans and bonds in Switzerland are obliged to convert the francs into dollars with the BNS) and did not result from any major new upward pressure on the franc's exchange value.

The Bank of France and the Bank of England each purchased around $100 million, with the British purchases coming after the favorable vote on the EC referendum, which sparked some demand for sterling.

The Bundesbank sold some $80 million, while other major foreign central banks either purchased small amounts of dollars or did not intervene at all in the period.

The System made net repayments of $30 million equivalent on swap drawings, using small net market purchases during the period, existing balances, and $53 million equivalent of marks purchased directly from the Bank of Norway (proceeds of a Norwegian Government bond issue denominated in marks).

In the gold market, after a brief flareup when the price went as high as $175, the price eased back, then dropped sharply to $162 when the Treasury on May 30 announced further gold sales. The price subsequently recovered to around the mid-$160's.

Euro-currency market. Euro-dollar deposit rates have declined in most maturities in the past month. The 3-month rate was 5-3/4 per cent on June 11, compared with 6-1/2 per cent in the week of May 14, and the excess over the U.S. 60-89 day CD rate has been reduced by a comparable amount. The overnight Euro-dollar rate, however, has moved up slightly to a 5.37 per cent average in the week of June 11, also rising relative to the Federal funds rate.

U.S. banks' gross liabilities to their foreign branches rose from an average of $2.7 billion in the week of May 7 to $3.1 billion in the week of June 4.

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)(*)
1975-Feb.	6.02	6.24	-0.22 (0.30)	7.26	6.10	1.16 (1.40)
Mar.	5.77	5.54	0.23 (0.73)	6.85	5.86	0.99 (1.22)
Apr.	5.35	5.49	-0.14 (0.17)	7.04	5.85	1.19 (1.22)
May	5.20	5.22	-0.02 (0.20)	7.30	5.41	1.89 (1.85)
Apr. 30	5.23	5.71	-0.48(-0.26)	6.93	5.88	1.05 (0.96)
May 7	5.22	5.42	-0.20 (0.02)	6.69	5.63	1.06 (0.98)
14	5.22	5.20	0.02 (0.24)	6.50	5.50	1.00 (0.92)
21	5.13	5.13	0.00 (0.21)	5.99	5.25	0.74 (0.65)
28	5.04	5.14	-0.10 (0.11)	5.98	5.25	0.73 (0.64)
June 4	5.49	5.24	0.25 (0.48)	6.01	5.25	0.76 (0.68)
11p/	5.37	5.15	0.22 (0.44)	5.73	5.25	0.48 (0.38)

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

SELECTED EURO-DOLLAR AND U.S. COSTS FOR PRIME BORROWERS
(1975; Friday dates)

	May 9	May 23	June 6	June 10d/
1) 3-mo. Euro-$ loan a/	7.69	7.13	6.44	7.06
2) 90-119 day com'l. paper b/	6.13	5.76	5.63	5.75
3) U.S. bank loan:				
a) predominant prime rate	7.50	7.25	7.25	7.00
b) with 15% comp. bal's. c/	8.82	8.53	8.53	8.24
c) with 20% comp. bal's. c/	9.38	9.06	9.06	8.75
Differentials:				
(1) - (2)	1.56	1.37	0.81	1.31
(1) - (3a)	0.19	-0.12	-0.81	0.06
(1) - (3b)	-1.13	-1.40	-2.09	-1.18
(1) - (3c)	-1.69	-1.93	-2.62	-1.69

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

There has been little change in the past month in the cost of Euro-dollar loans relative to the costs of U.S. commercial paper borrowing and U.S. bank loans, on which the prime rate has dropped 1/2 per cent at the majority of banks.

Euro-currency deposits of OPEC countries are estimated by the Bank of England to have increased by $4.3 billion in the first quarter. This was less than the estimated $5.9 billion rise in the fourth quarter of last year, but probably was a somewhat larger percentage of the total OPEC investible surplus than in the previous quarter.

According to World Bank estimates, $1,625 million of medium-term Euro-currency credits were completed in April, almost double the monthly average of $855 million in the first quarter. Developing countries and Soviet Bloc countries accounted for nearly all the increase. Four oil-exporting countries -- Indonesia, Ecuador, Algeria, and Dubai -- completed $260 million of credits in April and were negotiating for additional credits totalling $450 million. Indonesia borrowed $200 million for a nickel mining project and was arranging a $300 million loan to refinance short-term Petrofina borrowings. In May, total loan completions continued to run well above the first-quarter level.

In the Euro-bond market, new issue volume in April was the highest of any month on record, amounting to $963 million according to Morgan Guaranty Trust Co. compilations. Yields rose sharply in April -- in part because of higher U.S. bond yields -- and new issues appear to have dropped off in May to $400 million. Maturities on new issues have remained short, generally 5 to 10 years. After an absence of U.S. borrowers for more than a year, several U.S. companies have begun or completed arrangements for Euro-bond issues in recent weeks. In early June a Swiss company, Alusuisse, issued the first SDR-denominated Euro-bond, on which interest and redemptions will be paid in U.S. dollars at the going rate for the SDR.

U.S. International Capital Transactions

Bank-reported private capital transactions in April showed a net inflow of $.3 billion following two months of substantial outflows. Bank lending to foreigners rose by $.8 billion, a considerably smaller increase than in either February or March. Most of the April increase was in short-term claims for banks' own account; only a small amount was for the accounts of their domestic customers.

Bank-reported liabilities to private foreigners increased by $1.1 billion in April; this increase largely offset the reduction in the first quarter. Preliminary information indicates that only a small part of the increase was to banks' foreign branches dispite the reduction in reserve requirements on Euro-$ borrowings. Liabilities to branches increased by $.3 billion in April after declining by $.2 billion in March. Most of the April increase in total bank-reported liabilities appears to have been to other foreign banks. In May, there was a reduction in bank liabilities early in the month as U.S. rates started to decline faster than foreign rates, and there was renewed borrowing later on as U.S. rates were fairly stable and foreign rates began to fall faster. For the month of May as a whole, there appears to have been little net change in liabilities.

Transactions in securities other than Treasury issues resulted in a small net inflow of funds in April. Net foreign purchases of U.S. securities (primarily stocks) amounted to $.2 billion, about the same level as the average for the first quarter. About half the April increase was credited to European countries and the other half to "other Asian" (probably OPEC) countries. U.S. net pruchases of foreign securities continued fairly strong in April but not at the unusually high pace of the first quarter. Purchases of new foreign bond issues amounting to $.2 billion accounted for virtually all of the transactions; the new issues were primarily by the Asian Development Bank, France, and Canada. In May, purchases of new bond issues were at about the same level as in April and were almost entirely Canadian.

U.S. liabilities to foreign official agencies declined by $.7 billion in April. Official holdings of OPEC countries at the Federal Reserve Bank of New York accounted for all of the increase following a sharp decline in March. The March decline primarily reflected a delay in tax collections by Iran; Iran's tax collections in April were initially deposited at the FRBNY but were withdrawn later in the month. Preliminary weekly data indicate that in May liabilities to official accounts increased somewhat; major foreign central banks have purchased around $1/2 billion in the past four weeks. There was little change in OPEC holding at the NY Fed in May.

U.S. Merchandise Trade

In April, the U.S. merchandise trade balance (balance of payments basis) was in surplus by $2.2 billion at an annual rate. During the first quarter, the monthly balances fluctuated widely mainly because of variations in fuel imports resulting from uncertainty regarding imposition of oil import fees. Recorded oil imports were very high in January (when importers accelerated filing of documents to avoid the $1 import fee which was imposed on February 1), and very low in March. In April fuel imports returned to more "normal" levels. The trade balance excluding fuel imports has varied by only small amounts in the past four months.

For the first four months of 1975 combined, the trade balance was in surplus by $4.9 billion at an annual rate, compared with a deficit rate of $6.3 billion in the last four months of 1974. This swing from a deficit to a surplus reflected a $2.4 billion annual rate increase in exports and a $8.7 billion annual rate decline in imports. Petroleum accounted for only about one-fourth of the import decline. The largest part of the $11.2 billion swing in the balance occurred because the volume of nonfuel imports declined sharply as U.S. economic activity contracted (see line 9 of the table below).

U.S. MERCHANDISE TRADE (BOP basis)

	Amounts, Bil.$, SAAR		Changes			
	Sept.-Dec. 1974	Jan.-Apr. 1975	Amount (Bil.$)	Percent Value	Percent Price	Percent Volume
1. Trade Balance	-6.3	+4.9	+11.2			
2. Exports	103.5	105.8	+2.3	+2.2	+4.2e	-1.8e
3. Agricultural	21.9	23.8	+1.9	+8.6	-.6e	+9.5e
4. Nonagricultural	81.6	82.0	+.4	+.5	+4.7e	-4.0e
5. Machinery	(26.4)	(27.7)	(+1.3)	(+4.9)	(+7.5)e	(-2.5)e
6. Other	(55.2)	(54.3)	(-.9)	(-1.6)	(+3.6)e	(-5.1)e
7. Imports	109.7	101.0	-8.7	-7.9	+4.2	-11.7
8. Fuels	30.6	28.4	-2.2	-7.1	+.8	-7.8
9. Nonfuels	79.1	72.6	-6.5	-8.2	+4.5	-12.3

e) April 1975 estimated.

Nonfuel imports, for the first four months of 1975 combined, declined 12 percent in volume from the Sept.-Dec. 1974 level. The drop was broadly distributed among most commodity categories -- industrial materials (other than petroleum), capital equipment, automotive imports from Canada, foodstuffs (largely the result of sharply reduced sugar arrivals resulting from excessive domestic inventories), and other consumer good imports. Imports of cars from Europe and Japan were about 10 percent below the volume of imports in Sept.-Dec. 1974. However, the number imported exceeded sales of these foreign cars which suggests a continued drawing down of inventories this year. The overall average price of nonfuel imports increased by 4.2 percent in the January-April period; declines in the import prices of various materials (e.g., steel, copper, tin, etc.) were more than offset by increases in prices of other materials and of manufactured goods.

Imports of fuels declined in January-April, largely because of reduced economic activity in the United States. The price of imported oil was $11.59 in April and has varied little over the four month period.

Agricultural exports, for January-April, accounted for most of the total export rise from the last four months of 1974. However, all of the increase occurred in January; since then both the volume and price of agricultural exports have declined.

The value of nonagricultural exports increased by less than 1 percent in the January-April period. Increased shipments of some industrial materials such as coal, nuclear fuels, as well as nonmonetary gold, machinery, and automotive equipment to non-Canadian destinations were largely offset by declines in other industrial supplies, civilian aircraft, and automotive equipment to Canada. The value of machinery exports has been buoyed by sharp price increases; it is estimated that the volume of machinery exports was down by about 2-1/2 percent in January-April after rising throughout 1974. The volume of all nonagricultural commodities combined is estimated to have declined by about 4 percent as foreign activity continued very weak during the first four months of the year. The volume of export orders for durable goods (excluding motor vehicles and aircraft) which had dipped in the last half of 1974 picked up slightly in January-April, returning to nearly the level of early 1974.

By area, the value of U.S. exports has continued to increase to all areas except Canada and Japan. Exports to non-oil-exporting developing countries have been surprisingly strong.

Economic Activity and Prospects in Major Foreign Industrial Countries

In practically all the major industrial countries, the fall in output which began in late 1973 or early 1974 has been continuing through the second quarter of this year, according to data now available. The impact of this recession on the OECD countries as a group has been intensified by a very high rate of inflation, which has cut into real income and savings. In addition, restrictive actions taken in various countries to combat inflation have contributed to a deepening of the recession.

Industrial Production in Major Industrial Countries
(Percentage change from preceding period, seasonally adjusted)

	1974				1975				
	Q1	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Canada	2.4	-0.9	-1.2	-1.3	-2.8	-2.3	0.9	-0.8	
France	3.0	0.3	1.1	-6.6	-3.1	0.9	0.0	-3.4	
Germany	0.0	-0.6	-2.1	-3.0	-3.1	1.0	0.0	0.0	-1.9e
United Kingdom1/	-5.5	4.2	0.8	-2.9	-0.4	2.0	0.6	-0.9	
Italy	2.4	-0.7	-2.5	-7.5	-1.7	1.9	1.9	-8.1	9.6
Japan2/	-2.0	-2.0	-3.3	-7.8	-7.7	-4.2	-0.6	1.5	0.5
United States2/	-1.7	0.5	0.1	-3.3	-8.0	-3.1	-2.2	-1.3	-0.4

e - FRB staff estimate
1/ All Industries
2/ Mining, Manufacturing and Utilities
Sources: National sources; Italian data seasonally adjusted by Federal Reserve Staff. Data relate to all industries excluding construction, except as indicated in notes.

Because of steep drops in December, production in the first quarter of 1975 was lower than in the last quarter of 1974. However, there were signs that the fall in output may have been moderating. Production in Germany, Italy and the United Kingdom steadied or even rose slightly early in the year, although in a number of cases further declines were recorded in March. While month-to-month changes are difficult to interpret, preliminary data for April, available for a few countries, show Italian output recovering to January/February levels, and Japanese output was again up slightly. Staff seasonal adjustments, however, make it seem likely that German production fell again in April. Preliminary data for the United Kingdom, Japan and Germany suggest that real GNP continued to decline in most major countries during the first quarter of 1975, except in the United Kingdom, where GDP rose very slightly.

As the recession has lengthened, production declines in the major countries have in some cases become rather large. Comparing latest figures against the peak quarterly averages reached in late 1973 or early 1974, these decreases range from under 6 per cent in the case of the United Kingdom, to nearly 18 per cent in the case of Italy.

With the recession lengthening, there are now considerable margins of unused capacity. In Germany, for instance, the economic institutes estimate that industry is operating at only about 75 per cent of capacity, which is lower than the level reached in the sharp 1966-67 downturn, and in Japan the utilization rate appears to be somewhat less than 80 per cent. Construction -- both for residential and business purposes -- remains quite depressed, and so far has been buoyed only slightly by the public investment programs and aid to housing announced in several countries. Production of consumer durable goods generally continues weak as a result of the pessimistic state of consumer confidence, and automobile production is at low levels for both structural and confidence reasons. With the possible exception of France and Canada, business fixed investment seems likely to fall further in the first half of 1975 from second half 1974 levels.

Since our last review of this subject in March, the weakness in output has spread to sectors such as steel, chemicals and certain other producers' goods. Until then, some of these had continued to enjoy near boom conditions, but output has begun to fall in these sectors also.

As a result of these developments, seasonally adjusted unemployment in the major countries has continued to rise, and in most cases has exceeded previous postwar peaks. With the exception of Denmark, which

Unemployment Rates in Major Industrial Countries
(Per cent of labor force, monthly rates or averages, seasonally adjusted)

	1974				1975		
	Q1	Q2	Q3	Q4	Q1	Apr.	May
Canada	5.4	5.3	5.3	5.6	6.9	7.2	7.1
France	2.3	2.3	2.5	3.2	3.8	4.1	
Germany	1.9	2.4	3.0	3.6	3.7	4.7	5.1[e]
Great Britain	2.4	2.4	2.7	2.7	3.1	3.3	3.6
Italy 1/	2.8	2.7	2.8	3.2	2.8		
Japan	1.3	1.2	1.3	1.7	1.7	1.8[e]	
United States	5.2	5.1	5.5	6.6	8.4	8.9	9.2

e - FRB staff estimate 1/ Quarterly data
Sources: OECD Main Economic Indicators, and national sources; U.S. Embassy in Paris for French data.

this spring had over 11 per cent of its labor force unemployed, most of the smaller industrial countries have had lower jobless rates than the large ones, but unemployment in these countries has now also begun to rise significantly. First preceding and now accompanying the rise in outright unemployment has been an increase in the number of workers on short-time in various countries. In most countries, but especially in Japan and Italy, this has meant that unemployment figures do not fully reveal the degree of underutilization of labor resources.

Consumer price increases in the major countries are quite far apart on a year-to-year basis -- ranging, for the most recent three months, from 6.0 per cent in Germany to 21.3 per cent in Italy. In recent months, however, annualized rates of price change show some convergence toward single digit inflation. Quarter to quarter rates, for instance, have come down considerably in Italy, and a similar if lesser deceleration is evident in Japan, France, Canada, and some of the smaller countries. In the United Kingdom, however, the annual rate of increase from November-January to February-April was over 29 per cent.

Consumer Prices in Major Industrial Countries
(Percentage change from previous period, not seasonally adjusted)

	1974				1975						Change in Latest 3 months from	
	Q1	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.	May	Year Earlier	Preceding 3 months, annual rate
Canada	2.4	3.3	3.0	2.7	2.2	0.5	0.8	0.5	0.5	0.8	10.8	7.4
France	3.7	4.1	3.3	3.1	2.8	1.1	0.8	0.8	0.9		13.3	10.9
Germany	2.4	1.6	0.9	1.4	1.9	0.9	0.5	0.5	0.8	0.6	6.0	7.5
U.K.	4.1	5.9	2.5	4.5	6.0	2.6	1.7	2.0	3.9		20.9	29.2
Italy	5.4	5.2	6.0	6.2	3.5	1.3	1.4	0.1	1.4		21.3	13.1
Japan	9.9	4.7	3.7	4.4	1.5	0.5	0.3	1.0	2.2	1.0e	14.1e	13.2e
U.S.	2.8	2.8	3.0	2.9	1.8	0.5	0.7	0.4	0.5		10.5	6.9

e - FRB staff estimate.
Sources: National sources.

Recent movements in wholesale prices of manufactured goods show similar trends, with price changes moderating toward more normal levels in most countries. In Japan and France they have actually been negative in recent months, but in the United Kingdom wholesale price increases are still running over 27 per cent at an annual rate.

As surveyed in the last Greenbook, reflationary fiscal and monetary policies have been adopted in most of the industrial countries. Significant countercyclical actions have been taken primarily in Germany and France among the large countries. A new Canadian budget and a Japanese announcement on fiscal measures are expected later this month. Most countries have provided special assistance to housing and construction in general. Some have reduced personal tax rates to offset fiscal drag and help maintain real disposable income. Among other measures, the Germans and French have incorporated tax or rebate incentives to encourage capital investment by private enterprises, and the British adjusted corporate tax rates to help improve firms' liquidity positions. Fiscal authorities in a number of countries now appear to be waiting out the effects of these generally expansionary measures. In a few cases, such as in some of the smaller countries (Finland and Belgium) and, on June 5, in France, authorities have also announced impositions of selective price controls or freezes.

A number of policy initiatives have been undertaken by monetary authorities in recent months. In mid-April, and again on June 7, the Bank of Japan cut its bank rate. In Germany, the Bundesbank on May 22 reduced its discount and lombard rates for the sixth time since last summer, and cut reserve requirements by 5 per cent of previous levels. The Bank of Italy (on May 28) and the Bank of France (on June 5) also announced bank rate reductions. Among the smaller countries, Austria, Belgium and Denmark have also reduced discount rates. In Italy, Belgium and France credit ceilings have been liberalized, although in some countries such ceilings at present pose no constraint to credit expansion, due to the weak state of private and commercial loan demand. Central banks in several major countries have publicly encouraged domestic financial institutions to cut their lending rates to stimulate activity, although so far this has occurred only to a limited extent.

Prospects for economic recovery in the major industrial countries are still clouded by great uncertainties. Both national authorities and outside observers have had to revise their forecasts downward several times. The state of consumer and business confidence is depressed almost everywhere, although recent survey results in Japan, Germany and France (though not in the United Kingdom) show some improvement in consumer sentiment compared to earlier in the year. Likewise, businessmen's concerns over undesirably high inventory levels have lessened somewhat, but inventory/sales ratios are still troublesome, especially in Japan and Canada. In Germany, inventory buildups were low during 1974, and most inventory adjustment now appears to be over. Industrial orders data, however, in countries for which they are at least partially collected, still show no concrete signs of an output recovery, and new foreign orders appear especially weak.

Which sectors may lead an economic upturn is a matter of debate in various countries. Several countries, but especially the United Kingdom, are looking to exports, although if forecasts of a 2-3 per cent decrease in the volume of world trade in 1975 over 1974 are correct, it is unlikely that exports can serve as a leading sector for the OECD countries taken together. In general, authorities in most industrial countries expect private consumption to be the leading sector in the recovery, and are carefully watching retail sales data. Following a small decrease (-0.4 per cent) in real disposable income in the major OECD countries during 1974, consumers' real income may rise between 1 and 2 per cent this year, according to OECD Secretariat estimates, and could serve as a source of strength in the recovery. At the same time, however, personal savings rates, already exceptionally high in Japan, have risen appreciably in several countries, notably the United Kingdom, Canada and Germany. In the latter, personal savings reached almost 16 per cent of disposable income, according to latest data. The savings rate appears to have fallen slightly only in France and Italy. A further decline in inflation rates and restoration of consumer confidence might contribute to a decrease in savings rates and lend strength to a consumption-led upturn.

With capacity utilization at very low levels, it seems unlikely that business investment will serve as a source of relief in the present recession. In Canada and the United Kingdom there is strong demand for energy-related investments, but elsewhere most observers expect that in 1975 real private fixed capital formation will be lower than in 1974, although some recovery is possible for the second half of the year.

Most observers agree that economic recovery in the major foreign countries is likely to be slow by comparison with historical experience, and that considerable slack will remain in labor and material resources for the foreseeable future. Given known movements in production and the sluggishness of order inflows so far this year, it seems inescapable that industrial output will be lower in the first half of 1975 than in the second half of 1974, and probably for the year as a whole. With the exception of France, the same conclusions apply with respect to real GNP. And while inflation rates in most countries are decelerating, there may well be limits on further decreases in rates of price change, due to the continued working through of last year's high wage agreements and associated cost-of-living escalators, likely new petroleum price increases, and, importantly, the desire of enterprises to improve their profit margins. These factors may well combine to form a rather high floor under inflation rates in the near future, particularly in the absence of a strong economic recovery with associated large productivity increases.

GREENBOOK APPENDIX*

The President's Mid-Session Budget Review

The President recently released his revised budget outlook for fiscal years 1975 and 1976. As Table I shows, the budget deficit is now expected to be $42.6 billion in FY 75 and $59.9 billion in FY 76, both about $8.0 billion above the February estimate. The FY 76 deficit projection presented in the Mid-Session Review provides little new information, since it is about equal to the $60 billion target announced by the President in late March. However, the Mid-Session Review does offer the first detailed look since the February budget at the assumptions behind the Administration's spending and revenue estimates.

Table I
Comparison of Alternative Budget Estimates
(Fiscal years; billions of dollars)

	1975			1976			
	February Estimate	Current Estimate	FRB(June) Greenbook	February Estimate	Current Estimate	Congres. Resolution	FRB(June) Green-book
Receipts	278.8	281.0	281.0	297.5	299.0	298.2	299.2
Expenditures	313.4	323.6	322.0	349.4	358.9	367.0	367.0
Deficit	-34.7	-42.6	-41.0	-51.9	-59.9	-68.8	-67.8

Fiscal Year 1975

The Administration now estimates that outlays will be $323.6 billion,up from the $313.4 billion forecast earlier this year, and receipts are estimated to be $281.0 billion, $2.2 billion more than in February. Most of the FY 75 outlay revision has been due to: Congressional inaction on the President's proposed budget reductions and Congressional passage of the Tax Reduction Act of 1975 which mandated a $50 cash payment to social security recipients. Higher defense purchases and increased participation both in the foodstamp and veterans programs

* Prepared by James S. Fralick, Economist, Government Finance Section, Division of Research and Statistics.

also increased projected outlays in the current fiscal year.

The estimates provided in the Mid-Session Review indicate that total outlays rose by a projected 21.0 per cent in FY 75 following a 9 per cent rise in FY 74. Not surprisingly, most of the FY 75 gain was due to higher outlays for income security and human resources, each responding to rising prices and higher levels of unemployment.

The staff now estimates that FY 75 expenditures will be $322.0 billion, slightly below the $323.6 billion estimated by the Administration. Slightly different assumptions regarding defense spending, income security outlays and the timing of V.A.-held mortgage sales to private investors account for most of the discrepancy between the Greenbook and the Administration's forecast. It should be noted that since 1970 each Mid-Session Review has overestimated actual budget outlays by about $1.0 to $3.0 billion. This is illustrated in Table II.

Table II
Comparison of Mid-Session Forecasts (MSF) with Actual
Budget Outlays and Receipts
(Fiscal years; billions of dollars)

	1973		1974		1975 est.	
	MSF	Actual	MSF	Actual	MSF	FRB
Outlays	249.8	246.5	269.5	268.4	323.6	322.0
Receipts	232.0	232.2	266.0	264.9	281.0	281.0
Deficit	-17.8	-14.3	-3.5	-3.5	-42.6	-41.0

On the receipts side, the Tax Reduction Act is estimated to have lowered FY 75 revenues by $4.3 billion more than the tax proposals contained in the February budget. This added tax cut was more than offset by Administration reestimates particularly of nonwithheld individual income taxes. This revision reflects a significant underestimate by the Treasury of CY 74 personal tax liabilities and confirms a large upward response in personal tax rates to inflation induced gains in nominal incomes.

Fiscal Year 1976

The President's current estimate of FY 76 outlays is $358.9 billion, $9.5 billion above the February forecast. Approximately $3.8 billion of this increase is due to Congressional inaction on the President's proposed deferrals and rescissions. Most of the remaining

$5.7 billion increase in spending is due: (a) to increased outlays for the public employment program, (b) to higher participation rates in the veterans and foodstamp programs and (c) to the extension of unemployment compensation benefits. These increases are offset to some extent by reduced energy equalization payments due to a postponement until September 1, 1975 of the effective date of the President's energy program and by a shift in the petrodollar financing facility from a direct loan to a loan guarantee program.

The budget estimates presented in both the Mid-Session Review and the February budget are based on the assumptions that the Congress will approve the President's energy program. The main elements of that program are: (a) a $2 import fee on imported crude oil effective June 1, 1975, (b) a $2 per barrel excise tax on domestic crude oil beginning September 1, 1975, (c) the complete decontrol of all oil and all new natural gas prices and (d) a windfall profits tax. It should be noted that the President, in announcing the $2 import fee on imported oil, indicated that he might consider a phased decontrol program and a windfall profits tax with a plowback provision, but these proposals were not incorporated into the Mid-Session Review.

The February Budget and the Mid-Session Review both assume that any energy related tax increases will be completely passed back to the economy in the form of new individual and corporate tax cuts, and energy equalization payments to compensate low income individuals and all levels of government for higher energy prices. In addition, the outlay estimates contained in the President's revised budget message assume that the provisions of the Tax Reduction Act of 1975 are not extended; that there are no Congressionally mandated cuts in defense spending; that Federal pay raises are held to 5 per cent in October, 1975; and that revenues from the sale of offshore oil leases (an offset to outlays) reach $8.0 billion, up by $5.7 billion from the likely FY 1975 level.

The Mid-Session Review Compared to the Staff's Estimate

The staff now forecasts that FY 76 spending will be $367 billion, approximately $8.0 billion more than the Administration's estimate. As Table II shows, the staff has removed the energy

Table III
Reconciliation of Staff and Administration Outlay Estimates
(Fiscal year 1976; billions of dollars)

Administration's estimate (6/1)		$358.9 billion
Staff adjustments: Total		+8.1
Reduction of projected offshore oil lease sales 1)	+3.0	
Removal of outlays associated with energy package 2)	-5.2	
Higher pay raises and rejection of remaining caps	+2.8	
Congressional rejection of remaining deferrals and rescissions	+5.8	
Assumptions about weaker economy	+1.1	
Higher outlays for Public Service Jobs	+ .6	
Staff budget estimate (June Greenbook)		$367.0 billion

1) In budget accounting, an oil lease sale is treated as an offset to outlays; thus a reduction in projected oil lease sales results in an expenditure increase.

2) It is estimated that the staff's assumption of higher oil prices serves to increase defense outlays by $.6 billion.

equalization payment, but this is more than offset by an anticipated shortfall in offshore oil sales, and by Congressional inaction on the 5 per cent cap on programs tied to the CPI and on the remaining deferrals and rescissions. A detailed examination of the status of the budget reductions proposed by the President is shown in Table IV.

Table IV
Current Staff View on President's Proposed Budget Reductions

Total Reductions originally proposed		$17.0
Less previously recommended reductions now in President's budget:		5.4
Congressional inaction on deferrals and rescissions	$1.0	
Congressional action on foodstamps	.7	
Inaction on "cap" for OASDI and SSI raises	2.3	
Release of $2.0 billion highway funds	1.4	
Less Staff adjustments:		8.6
Rejection of remaining caps	2.8	
Congressional rejection of remaining proposed reductions	5.8	
Equals Realized Budget Reductions (Staff Estimate)		3.0

In contrast to the Administration's revenue assumptions, the staff is assuming that most of the provisions of the Tax Reduction Act of 1975 will be made permanent. Furthermore, the staff estimates do not include a large part of the net increase in revenues associated with the President's energy programs. We are, however, assuming that the $2 per barrel fee on imported crude oil and the 60 cent tax on imports of refined oil products will be extended through FY 76. As Table V indicates these adjustments are more than offset by additional tax receipts mainly due to different tax rate assumptions, including different estimates of yields on payroll taxes.

Table V
Receipts Reconciliation
(Fiscal year 1976; billions of dollars)

Administration's receipts est. (6/1)		$299.0
Staff adjustments: Total		+.2
Removal of energy package other than current import fees*	-2.2	
Extension of Tax Cut Act of 1975	-4.9	
Net Effect of Different Income and Tax Rate Assumptions	+7.3	
FRB Revenue Estimate (June Greenbook)		$299.2

* The June Greenbook incorporates a $2 per barrel import fee with a total estimated revenue gain of $3.4 billion.