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April 12, 1978

**CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

**By the Staff  
Board of Governors  
of the Federal Reserve System**

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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 rate)
Civilian labor force	Mar.	4-7-78	99.4	3.9	2.0	2.9
Unemployment rate (%) <sup>1/</sup>	Mar.	4-7-78	6.2	6.1	6.4	7.4
Insured unemployment rate (%) <sup>1/</sup>	Mar.	4-7-78	3.5	3.7	3.7	4.0
Nonfarm employment, payroll (mil.)	Mar.	4-7-78	84.5	6.3	5.1	3.9
Manufacturing	Mar.	4-7-78	20.1	4.5	5.6	3.8
Nonmanufacturing	Mar.	4-7-78	64.4	6.9	5.0	3.9
Private nonfarm:						
Average weekly hours (hr.) <sup>1/</sup>	Mar.	4-7-78	36.1	35.8	36.2	36.2
Hourly earnings (\$) <sup>1/</sup>	Mar.	4-7-78	5.54	5.55	5.42	5.13
Manufacturing:						
Average weekly hours (hr.) <sup>1/</sup>	Mar.	4-7-78	40.5	40.0	40.5	40.4
Unit labor cost (1967=100)	Feb.	3-29-78	162.6	5.9	12.4	6.6
Industrial production (1967=100)	Feb.	3-15-78	139.2	6.1	-.3	4.5
Consumer goods	Feb.	3-15-78	144.0	12.6	-3.3	2.5
Business equipment	Feb.	3-15-78	154.8	11.0	3.4	7.9
Defense & space equipment	Feb.	3-15-78	80.7	-10.3	7.1	2.8
Materials	Feb.	3-15-78	137.8	.9	-3.5	3.8
Consumer prices (1967=100)	Feb.	3-28-78	188.6	7.7	7.3	6.4
Food	Feb.	3-28-78	201.6	14.5	11.4	7.6
Commodities except food	Feb.	3-28-78	169.9	2.8	5.5	4.4
Services	Feb.	3-28-78	203.0	8.9	7.0	7.7
Wholesale prices (1967=100)	Mar.	4-6-78	204.1	11.9	11.7	6.3
Industrial commodities	Mar.	4-6-78	204.1	5.9	7.8	6.5
Farm products & foods & feeds	Mar.	4-6-78	202.0	34.2	26.2	5.0
Personal income (\$ bil.) <sup>2/</sup>	Feb.	3-17-78	1634.1	6.1	7.9	10.6
						(Not at annual rates)
Mfrs. new orders dur. goods (\$ bil.)	Feb.	3-30-78	65.1	4.5	5.0	18.0
Capital goods industries	Feb.	3-30-78	20.5	5.8	5.3	26.9
Nondefense	Feb.	3-30-78	17.6	7.0	10.7	23.3
Defense	Feb.	3-30-78	2.9	-.8	-18.6	53.9
Inventories to sales ratio: <sup>1/</sup>						
Manufacturing and trade, total	Jan.	4-10-78	1.47	1.42	1.45	1.47
Manufacturing	Feb.	3-30-78	1.53	1.58	1.56	1.59
Trade	Jan.	4-10-78	1.36	1.32	1.34	1.33
Ratio: Mfrs.' durable goods inventories to unfilled orders <sup>1/</sup>	Feb.	3-30-78	.596	.600	.623	.633
Retail sales, total (\$ bil.)	Mar.	4-10-78	62.8	1.9	1.3	8.4
GAF <sup>3/</sup>	Mar.	4-10-78	13.6	1.1	-3.9	8.1
Auto sales, total (mil. units) <sup>2/</sup>	Mar.	4-7-78	12.0	14.2	8.7	-1.7
Domestic models	Mar.	4-7-78	9.9	15.9	11.1	-2.6
Foreign models	Mar.	4-7-78	2.1	6.9	-1.4	2.9
Housing starts, private (thous.) <sup>2/</sup>	Feb.	3-16-78	1,580	2.1	-24.6	-9.8
Leading indicators (1967=100)	Feb.	3-29-78	133.4	.0	-.5	4.8

<sup>1/</sup> Actual data used in lieu of per cent changes for earlier periods.

<sup>2/</sup> At annual rate.

<sup>3/</sup> Excludes mail order houses.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Underlying demand appears to have been generally well maintained through the winter despite the disrupting effects of the severe weather and the coal strike. Employment, production and retail sales all rose sharply in March. Inventory accumulation was strong in February for the second successive month and shipments of business equipment recouped most of the January decline. However, both residential and nonresidential construction activity remained depressed in February. Prices continued to increase rapidly, especially in the food sector.

Employment and Industrial Production

Employment continued to grow at a rapid rate during the first quarter, despite sharp setbacks in production and final demand early in the year. Nonfarm payroll employment rose 435,000 in March (strike adjusted)--following monthly gains averaging 300,000 in January and February--with advances widespread by industry. While hiring has remained strong in the service sector throughout the expansion, there has been a marked acceleration in manufacturing employment since September, and by March, factory jobs had risen to a level just short of the pre-recession peak.

Work schedules returned to more normal levels in March as the factory workweek rose 1/2 hour to 40-1/2 hours. Because bad weather resulted in losses of work-time during January and February, total hours worked in the first quarter were only marginally above the fourth quarter average even though employment increased at a 4.4 per cent annual rate between the final quarter of 1977 and the first quarter of 1978.

AVERAGE MONTHLY CHANGES IN EMPLOYMENT  
(Thousands; based on seasonally adjusted data)

	Dec. 76 to June 77	June 77 to Dec. 77	Dec. 77 to Mar. 78	Jan. 78 to Feb. 78	Feb. 78 to Mar. 78
<u>Nonfarm payroll employment</u> <sup>1/</sup>	298	212	356	336	443
(Strike adjusted)	305	239	344	336	436
Manufacturing	83	43	93	99	75
(Strike adjusted)	85	46	86	104	68
Durable	53	44	71	82	52
Nondurable	30	-1	21	17	23
Construction	47	10	25	31	76
Trade	57	58	80	18	87
Services and finance	70	87	91	119	106
State and local government	25	31	47	34	60
<u>Total employment</u> <sup>2/</sup>	367	327	219	122	263
Nonagricultural	352	328	223	234	195

1/ Survey of establishments.

2/ Survey of households.

SELECTED UNEMPLOYMENT RATES  
(Seasonally adjusted)

	1977				1978		
	QI	QII	QIII	QIV	QI	Feb.	Mar.
Total, 16 years and older	7.4	7.1	6.9	6.6	6.2	6.1	6.2
Men, 20 years and older	5.7	5.2	5.0	4.8	4.6	4.5	4.5
Women, 20 years and older	7.1	7.0	7.0	6.8	5.9	5.7	5.8
Teenagers	18.6	18.1	17.6	16.7	16.9	17.4	17.3
Total, 25 years and older	5.2	5.0	4.9	4.7	4.0	3.9	4.0
Fulltime workers	6.9	6.6	6.5	6.2	5.7	5.7	5.6
White	6.7	6.3	6.1	5.8	5.4	5.3	5.3
Black and other	12.9	12.8	13.6	13.3	12.3	11.8	12.4

The civilian labor force rose somewhat more than total employment in March, and the unemployment rate edged up 0.1 percentage point to 6.2 per cent. Jobless rates were unchanged for most major groups. For the first quarter as a whole, the unemployment rate dropped 0.4 percentage point. Reflecting rapid growth of manufacturing employment, there was a sharp reduction in unemployment among semi-skilled factory workers.

Industrial production is tentatively estimated to have increased by about 1-1/2 per cent in March, following the 1/2 per cent rise in February. Output increases last month were widespread, with consumer goods and business equipment showing strong gains. Auto assemblies increased 13 per cent to a 9.3 million unit annual rate, almost equal to the fourth quarter average. Production of most materials also rose strongly, especially paper and chemicals. Coal output apparently rose somewhat in March, but the bulk of the strike snapback should be concentrated in April.

Reflecting the rebound of output, the manufacturing capacity utilization rate apparently increased about 1 percentage point in March to 83 per cent--a rate equal to that of the second half of last year. The average operating rate for materials-producing plants evidently recovered in March to about 82 per cent, just below the fourth quarter rate.

#### Consumer Sector Activity

Consumer demand is now indicated to have rebounded sharply in February and March, following the earlier weather-related disruptions. Retail sales, excluding autos and mainly nonconsumer items, advanced 3.0 per cent in February (upward revised) and another 2.5 per cent in



RETAIL SALES  
(Per cent change from previous period;  
based on seasonally adjusted data)

	1977	1978			
	QIV	QI	Jan.	Feb.	Mar.
Total sales	4.4	0	-3.5	3.0	1.9
(Real) <sup>1/</sup>	3.4	n.a.	-4.4	2.6	n.a.
Total, less auto and nonconsumption items	4.1	.7	-3.4	3.0	2.5
GAF	6.3	-3.7	-8.6	4.0	1.1
Durable	5.6	-2.3	-5.3	4.1	.5
Auto	6.4	-2.8	-5.3	2.3	.6
Furniture & appliances	3.6	-3.7	-7.1	5.8	-1.8
Nondurable	3.9	1.2	-2.6	2.5	2.6
Apparel	6.9	-6.1	-5.3	.4	1.0
Food	2.5	2.9	1.7	1.4	.5
General merchandise	7.2	-2.8	-10.2	4.6	2.2
Gasoline	2.3	1.9	-2.1	3.6	0

<sup>1/</sup> Deflated by all commodities SA consumer price index.

AUTO SALES  
(Seasonally adjusted, millions of dollars)

	1977		1978			
	QIII	QIV	QI	Jan.	Feb.	Mar.
Total	10.9	10.8	10.8p	10.0	10.5	12.0p
Imports	2.0	2.0	2.0p	2.0	1.9	2.1p
Domestic	8.9	8.8	8.8	8.0	8.5	9.9

March with gains widespread by type of store. Due in part to the severe interruptions in sales during January, however, there was relatively little gain in first quarter retail sales from the advanced level in the final quarter of 1977. Sales of general merchandise, apparel, and furniture and appliances declined in the first quarter; gains were confined largely to food stores and gasoline stations.

Total auto sales were at a 12 million unit rate in March, up more than 1-1/2 million units from February. Most of the increase was in sales of domestic units, which were at a 9.9 million unit rate. The snapback apparently reflected the stimulus of sales contests at all major domestic dealers and the improvement in the weather. Foreign model autos sold at a 2.1 million unit rate, a little higher than in the previous two months but about the same as the average over the previous 12 months.

#### Residential Construction

Private housing starts during January and February averaged 27 per cent below the robust fourth quarter pace, with adverse weather a major factor in the reduced level of activity. In February, new home sales were at an annual rate of 746,000 units--well below the advanced fourth quarter pace of 845,000 units. Reflecting this downturn in sales, inventories of unsold new homes represented 6.5 months supply by the end of February--up from January but considerably below the record 10.0 months' supply of early 1975. In the multifamily sector, starts during January and February were at a 440,000 unit annual rate--a decline from the fourth quarter rate that is comparable to that recorded for single-family homes. However, monthly

PRIVATE HOUSING STARTS AND  
RESIDENTIAL BUILDING PERMITS

	1977	1978		1978	1978	
	QIV <sup>1/</sup>	Jan/Feb average <sup>2/</sup>	Per cent change	Jan <sup>1/</sup>	Feb <sup>2/</sup>	Per cent change
<u>STARTS</u> (in thousands) <sup>3/</sup>	2,146	1,564	-27	1,547	1,580	+ 2
1 - family	1,550	1,122	-28	1,155	1,091	- 6
2 - or more - family	596	441	-26	392	489	+25
Northeast	214	95	-56	118	72	-39
North Central	474	342	-28	281	402	+43
South	876	621	-29	654	588	-10
West	582	506	-13	494	518	+ 5
<u>PERMITS</u> (in thousands) <sup>3/</sup>	1,851	1,559	-16	1,496	1,622	+ 8
1 - family	1,228	997	-19	1,027	967	- 6
2 - or more - family	624	562	-10	469	655	+40
Northeast	187	177	- 5	152	202	+33
North Central	404	322	-20	276	368	+33
South	652	526	-19	545	507	- 7
West	608	534	-12	523	545	+ 4
MEMO: Mobile home shipments (in thousands) <sup>3/</sup>	320	296	- 8	322	269	-16

NEW-HOME SALES AND STOCKS

	Homes sold <sup>3/</sup> (thousands of units)	Homes for sale <sup>4/</sup> (thousands of units)	Month's supply
1977 - Jan.	827	354	5.1
Feb.	826	355	5.2
Mar.	885	358	4.9
Apr.	784	362	5.5
May	810	364	5.4
June	806	367	5.5
July	722	375	6.2
Aug.	881	389	5.3
Sept.	845	389	5.5
Oct.	870	398	5.5
Nov. <sup>1/</sup>	819	401	5.9
Dec. <sup>1/</sup>	853	403	5.7
1978 - Jan. <sup>1/</sup>	804	403	6.0
Feb. <sup>2/</sup>	746	405	6.5

<sup>1/</sup> Revised.

<sup>2/</sup> Preliminary.

<sup>3/</sup> Seasonally adjusted annual rate

<sup>4/</sup> Seasonally adjusted, end of period.

changes in this sector have been erratic, with the total falling 38 per cent in January and rising 25 per cent in February.

### Business Investment

Manufacturers' inventories rose further in February, perhaps signaling an intended build-up of stocks, following the sharply reduced pace of inventory investment in the fourth quarter. The book value of these stocks rose at a \$17.6 billion annual rate in February, up from a \$15.2 billion rate in January. Much of the increase was in durable goods, especially among producers of machinery and defense-related transportation equipment. A decline in inventories was reported at steel mills where shipments advanced sharply in February, while production was curtailed somewhat by coal shortages. By stage of processing, the strength in inventory accumulation was evident at earlier stages of production, possibly presaging further increases in production over the next few months.

Advance indicators of business fixed investment rose sharply in February, but several key components of capital outlays were still below the levels reached in late 1977. New orders for nondefense capital goods, an important indicator of the demand for heavy machinery, rose 7.0 per cent in February, more than reversing the decline in January. Although monthly changes in these bookings have been quite volatile since the middle of 1977, on average these orders have risen at a 20 per cent annual rate since last June. In spite of this continued strength in orders, shipments of nondefense capital goods fell almost 1-1/2 per cent in January and recovered most of this drop in February.

BUSINESS INVENTORIES  
(Change at annual rates in seasonally  
adjusted book value; billions of dollars)

	1976	1977				1978	
	QIV	QI	QII	QIII	QIV	Jan. (r)	Feb. (p)
Manufacturing and trade	14.8	33.6	30.1	27.2	13.1	36.0	n.a.
Manufacturing	9.8	10.6	15.7	10.2	2.8	15.2	17.6
Durable	9.6	6.4	7.9	7.7	3.8	10.2	13.2
Nondurable	.3	4.2	7.9	2.4	-1.0	4.9	4.5
Trade, total	4.9	23.0	14.3	17.1	10.3	20.8	n.a.
Wholesale	3.5	12.0	2.6	4.7	7.5	11.9	10.1
Retail	1.5	11.1	11.8	12.4	2.8	8.9	n.a.
Auto	1.3	2.2	2.4	1.3	1.8	6.5	n.a.

INVENTORY RATIOS

	1976	1977				1978	
	QIV	QI	QII	QIII	QIV	Jan. (r)	Feb. (p)
<u>Inventory to sales:</u>							
Manufacturing and trade	1.50	1.47	1.47	1.49	1.44	1.47	n.a.
Manufacturing	1.66	1.60	1.60	1.61	1.56	1.58	1.54
Durable	2.07	1.97	1.96	1.96	1.90	1.94	1.87
Nondurable	1.23	1.20	1.22	1.22	1.18	1.19	1.17
Trade, total	1.34	1.34	1.34	1.37	1.33	1.36	n.a.
Wholesale	1.24	1.24	1.21	1.24	1.23	1.23	1.21
Retail	1.42	1.43	1.45	1.48	1.43	1.49	n.a.
<u>Inventories to unfilled orders:</u>							
Durable manufacturing	.655	.651	.645	.654	.624	.617	.611

r = revised

p = preliminary

CONTRACTS AND ORDERS FOR PLANT AND EQUIPMENT<sup>1/</sup>  
 (Per cent change from preceding comparable period, seasonally adjusted)

	1977				1978		Feb. 1977
	QI	QII	QIII	QIV	Jan.	Feb.	to Feb. 1978
<u>Current dollars</u>							
Total	3.5	9.0	.7	3.9	-4.1	10.4	31.7
Nondefense capital goods orders	6.8	4.1	.1	9.9	-5.4	7.0	23.4
Construction contracts <sup>2/</sup>	-11.8	37.8	3.2	-22.0	1.8	24.8	73.7
<u>1972 dollars</u>							
Total	1.9	7.7	-1.3	1.9	-5.2	9.7	21.9
Nondefense capital goods orders	5.3	3.0	-2.0	7.8	-6.5	6.2	14.0
Construction contracts <sup>2/</sup>	-14.6	36.0	1.8	-23.8	.8	24.9	62.8

<sup>1/</sup> The Commerce Department creates this series by adding new orders for nondefense capital goods to the seasonally adjusted sum of new contracts awarded for commercial and industrial buildings and for private nonbuilding projects (e.g., electric utilities, pipelines, etc.) This table does not reflect recent benchmark revisions in the new orders data since they have not yet been incorporated by the Commerce Department into the contracts and orders series.

<sup>2/</sup> FRB staff estimate. Derived by subtracting new orders for nondefense capital goods from the published total for contracts and orders.

The value of construction contracts awarded for private non-residential projects--a volatile series--jumped 25 per cent in February, bringing it to 75 per cent above the year earlier level. However, the surge in these contracts has yet to show much influence on actual construction spending. In the first two months of 1978, the average value of nonresidential buildings put-in-place declined slightly from the fourth quarter of 1977.

#### Government Sector Activity

Construction spending by State and local governments was hampered early in the year by the bad weather. In February, construction outlays were almost 10 per cent below December levels. Spending on structures had fallen more than 5 per cent during 1977, despite improved fiscal conditions. State and local employment increased 60,000 in March, in part reflecting the final stages of build-up of the public service employment program.

Federal government outlays during February on a unified budget basis appear to have been about \$1 billion below the level originally expected by the Administration. The latest shortfalls appear to have been concentrated in the areas of farm aid and grants for waste treatment and highways. This data lends further support to the Administration's March budget revisions which lowered fiscal year 1978 expenditures from the \$462 billion estimate presented in the January budget to \$453-1/2 billion. On the receipts side of the budget, the processing of tax refunds

which in February had been running 20 per cent below a year earlier, now appears to have picked up in recent weeks and the processing backlog currently stands at 7 per cent.

### Prices and Wages

Price increases have been considerably larger thus far in 1978 than they averaged over the last half of 1977. The additional pressure has been concentrated among food and some energy items. Producer (wholesale) prices for finished goods increased 0.6 per cent in March, down from the 1.1 per cent rise in the previous month. Over the past three months, wholesale finished goods prices have risen at a 9.6 per cent annual rate--up from a 4.9 per cent rate over the last half of 1977. The speed-up in recent months has primarily been in consumer foods, which rose at a 21 per cent rate. Prices of consumer finished goods excluding food rose at about a 5 per cent rate over the first quarter, while prices of producer finished goods--mostly machinery and other equipment--increased at a 7.3 per cent annual rate.

On a commodity basis, prices for farm and food products continued to increase very rapidly in March as livestock and meat prices, reflecting lower supplies, increased for the sixth consecutive month. Moreover, an Agriculture Department survey published subsequently to the WPI pricing date suggests smaller than expected meat supplies for the remainder of 1978. (See Appendix A.)



RECENT CHANGES IN PRODUCER PRICES  
 (Per cent changes at compound annual rates; based  
 on seasonally adjusted data)<sup>1/</sup>

	Relative Importance Dec. 1977	1977				1978			
		QI	QII	QIII	QIV	QI	Jan.	Feb.	Mar.
Finished goods	41.2	10.0	6.4	2.9	7.0	9.6	7.8	12.9	7.0
Consumer foods	10.3	17.9	4.3	-2.3	7.4	21.0	13.1	35.1	9.6
Consumer nonfoods	18.7	9.0	7.8	4.0	4.4	5.3	6.1	4.1	5.4
Producer goods	12.2	5.0	6.8	6.0	10.5	7.3	5.7	8.1	7.4
Intermediate materials <sup>2/</sup>	45.5	8.9	5.5	7.1	4.0	9.2	10.4	9.8	6.3
Crude materials <sup>3/</sup>	4.6	25.6	-8.1	-5.3	18.5	17.3	18.1	12.5	17.6
All Commodities	100.0	11.1	4.0	2.1	6.7	12.0	10.3	12.0	11.9
Farm and food products	21.0	19.3	-3.1	-14.8	14.5	28.8	13.3	29.4	34.2
Industrial commodities	79.0	8.8	6.4	6.7	4.9	8.0	9.0	8.3	5.9
Industrial commodities ex. fuels and power	67.7	6.7	4.5	7.0	5.5	8.1	10.2	8.2	5.0

- <sup>1/</sup> Changes are from final month of preceding period to final month of period indicated.  
 Monthly changes are not compounded.
- <sup>2/</sup> Excludes intermediate materials for food manufacturing and manufactured animal feeds.
- <sup>3/</sup> Excludes crude foodstuffs and feedstuffs.

The Consumer Price Index rose 0.6 per cent in February, following an 0.8 per cent rise in January. Large increases in food prices, especially for meat and poultry, were largely responsible for the faster growth in both months. In addition, energy prices accelerated markedly in February from the moderate pace over the preceding six months, as a result of very sharp increases in natural gas and electricity rates. These increases were associated with regulations permitting higher purchased gas and fuel adjustment charges, and were most noticeable in areas severely affected by the coal strike. In contrast, price changes for gasoline and fuel oil have remained moderate, averaging less than a 2 per cent annual rate of increase over the past three months. Excluding food and energy items, consumer prices rose 0.4 per cent in February, reflecting significant declines in apparel prices. Prices of new and used cars continued to increase rapidly.

The hourly earnings index rose at a 7.4 per cent annual rate in March with the largest increases in trade and services. This follows a 2.9 per cent annual rate of increase in February and a minimum wage-induced 16.6 per cent rise in January. This pattern is not unusual for a quarter which begins with a minimum wage adjustment. For the quarter as a whole, the wage index was up 9.4 per cent at an annual rate; during 1977 it increased 7.7 per cent.

RECENT CHANGES IN CONSUMER PRICES  
 (Per cent changes at compound annual rates; based  
 on seasonally adjusted data)1/

	Relative Importance Dec. 77 <sup>2/</sup>	1977				1978 <sup>2/</sup>	
		QI	QII	QIII	QIV	Jan.	Feb.
All items	100.0	10.0	7.8	4.5	4.9	9.0	7.7
Food	17.7	15.3	11.5	1.9	4.2	15.3	14.5
Commodities (nonfood)	41.6	7.4	4.2	2.7	5.4	7.8	2.8
Services	40.7	9.8	9.4	7.6	4.9	7.2	8.9
Memoranda:							
All items less food and energy <sup>3/</sup>	73.7	8.5	6.9	5.1	5.3	10.6	4.6
Gas and electricity	3.4	12.5	11.9	12.0	- .9	1.1	17.6
Gasoline and fuel oil <sup>4/</sup>	5.2	12.5	9.9	.8	2.0	1.7	- .6

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.

2/ Based on new index for all urban consumers.

3/ Energy items excluded: gasoline and motor oil, fuel and coal, gas and electricity.

4/ Includes motor oil, coal, and bottled gas.

HOURLY EARNINGS INDEX<sup>1/</sup>

(Per cent change from comparable preceding period at a compound annual rate; based on seasonally adjusted data)

	1977				1978			
	QI	QII	QIII	QIV	QI	Jan. <sup>2/</sup>	Feb. <sup>2/</sup>	Mar. <sup>2/</sup>
Private nonfarm	8.1	6.7	7.7	8.3	9.4	16.6	2.9	7.4
Construction	5.7	4.5	4.0	5.6	7.1	13.0	3.8	6.6
Manufacturing	7.9	7.8	9.2	7.9	8.5	12.0	7.4	5.8
Trade	9.0	6.9	6.5	8.0	12.2	21.8	1.9	9.2
Transportation and public utilities	6.0	7.3	8.0	10.8	7.7	9.6	0	4.7
Services	10.3	5.7	8.4	8.9	11.5	26.6	-1.2	9.1

<sup>1/</sup> Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.

<sup>2/</sup> Monthly change at an annual rate, not compounded.

III-T-1  
SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data		Net change from:		
	Period	Level	Month ago	Three months ago	Year ago
	\$ billions		Per cent at annual rates		
<u>Monetary and credit aggregates</u> <sup>1/</sup>					
Total reserves	March	36.63	-11.7	5.2	6.3
Nonborrowed reserves	March	36.30	-9.3	8.0	5.6
Money supply					
M1	March	340.3	4.2	4.3	6.9
M2	March	820.3	5.4	6.3	8.2
M3	March	1397.5	6.0	6.8	10.0
Time and savings deposits (less CDs)	March	480.0	6.3	7.7	9.1
CDs <sup>2/</sup>	March	82.0	2.6	8.0	19.8
Thrift deposits (S&Ls + MSBs + Credit Unions)	March	577.2	6.9	7.6	12.6
Bank credit (end of month)	March	892.9	9.1	10.5	10.4

Indicator	Latest data		Net change from:			
	Period	Per cent or index	Month ago	Three months ago	Year ago	
<u>Market yields and stock prices</u>						
Federal funds	wk. endg.	4/5/78	6.86	.06	.16	2.26
Treasury bill (90 day)	"	4/5/78	6.39	.06	.23	1.83
Commercial paper (90-119 day)	"	4/5/78	6.76	.01	.08	2.01
New utility issue Aaa	"	4/7/78	8.87	.17	--	.61
Municipal bonds (Bond Buyer)	1 day	4/6/78	5.76	.18	.12	-.03
FNMA auction yield (FHA/VA)		4/3/78	9.44	.08	.31	.72
Dividend price ratio (common stocks)	wk endg.	4/5/78	5.63	-.09	.48	1.34
NYSE index (12/31/65=50)	end of day	4/10/78	50.58	1.10	.81	-4.12

Indicator	Period	Net Change or Gross Offerings			
		Latest Data	Year ago	Year to Date	
				1978	1977
				\$ billions	

<u>Credit demands</u>					
Business loans at commercial banks <sup>1/</sup>	Mar.	3.8	2.3	8.4	5.2
Consumer instalment credit outstanding <sup>1/</sup>	Feb.	2.7	2.0	5.1	4.1
Mortgage debt outstanding (major holders) <sup>1/</sup>	Jan.	7.5	5.9	7.5	5.9
Corporate bonds (public offerings)	Mar.	1.9e	2.6	4.4e	6.5
Municipal long-term bonds (gross offerings)	Mar.	4.3e	4.1	10.3e	10.9
Federally sponsored agcy. (net borrowing)	Mar.	2.0	1.0	4.5	.7
U.S. Treasury (net cash borrowing)	Apr.	-2.1	1.2	18.7	18.9

<sup>1/</sup> Seasonally adjusted.

<sup>2/</sup> \$ billions, not at annual rates.

e Estimated.

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DOMESTIC FINANCIAL DEVELOPMENTS

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Borrowing by nonfinancial sectors apparently quickened in March, particularly in short- and intermediate-term markets, as economic activity rebounded from the effects of the coal strike and adverse weather. For the first quarter as a whole, the volume of funds raised by most sectors was close to the fourth quarter pace. Businesses borrowed heavily from banks throughout the quarter, but retired commercial paper on balance and reduced offerings of long-term securities. However, in March, business borrowing at banks and in the commercial paper market both rose sharply. In the household sector, mortgage financing slowed for the quarter, though it evidently strengthened somewhat in March; consumer credit expanded during the quarter at close to the fourth quarter pace. Gross public sector borrowing about matched the rapid fourth quarter rate, reflecting a March pickup in Treasury short-term borrowing and in advance refunding of tax-exempt bonds.

Growth in the major monetary aggregates slowed further in the first quarter. Although rebounding in March, the rate of M-1 expansion for the quarter was about 2 percentage points below the fourth quarter pace. Weak inflows of savings and small time deposits at commercial banks and reduced deposit inflows to nonbank thrift institutions contributed to slower growth in M-2 and M-3 for the first quarter. In March, however, growth in these aggregates increased slightly due to the recovery in M-1.

III - 2

SELECTED FINANCIAL MARKET QUOTATIONS  
(per cent)

	1977 <sup>1/</sup>		1978 <sup>2/</sup>				Change from:	
	High	Low	Feb.	Mar.	Apr.	Apr.	Feb.	Mar.
			FOMC 28	FOMC 21	Apr. 4	Apr. 11	FOMC	FOMC
<u>Short-term rates</u>								
Federal funds <sup>1/</sup>	6.65	4.47	6.80	6.77	6.86	6.75 <sup>3/</sup>	-.05	-.02
Treasury bills								
3-month	6.27	4.41	6.42	6.22	6.39	6.35	-.07	+1.13
6-month	6.51	4.55	6.71	6.56	6.71	6.74	+0.03	+1.18
1-year	6.62	4.67	6.83	6.75	6.91	6.95	+1.12	+2.20
Commercial paper								
1-month	6.58	4.53	6.50	6.54	6.61	6.63	+1.13	+1.09
3-month	6.66	4.63	6.75	6.75	6.77	6.80	+0.05	+0.05
Large negotiable CDs <sup>4/</sup>								
3-month	6.62	4.60	6.85	6.75	6.95	6.95	+1.10	+2.20
6-month	6.84	4.65	7.20	7.15	7.30	7.38	+1.18	+2.23
Bank prime rate	7.75	6.25	8.00	8.00	8.00	8.00	0	0
<u>Intermediate- and long-term rates</u>								
Corporate								
New AAA <sup>5/</sup>	8.36	7.90	8.71	--	8.83	8.87p	+1.16	--
Recently offered <sup>6/</sup>	8.48	7.95	8.70	8.64	8.75	8.83p	+1.13	+1.19
Municipal								
(Bond Buyer) <sup>7/</sup>	5.93	5.45	5.65	5.58	5.69	5.76	+1.11	+1.18
U.S. Treasury (constant maturity)								
3-year	7.39	5.74	7.70	7.63	7.82	7.82	+1.12	+1.19
7-year	7.66	6.48	7.95	7.88	8.03	8.06	+1.11	+1.18
20-year	7.96	7.20	8.21	8.15	8.29	8.34	+1.13	+1.19
	Low <sup>8/</sup>	High <sup>8/</sup>	FOMC Feb.28	FOMC Mar.21	Apr. 4	Apr. 11	Feb. FOMC	Mar. FOMC
<u>Stock prices</u>								
Dow-Jones Industrial	807.74	985.74	742.12	762.82	755.37	770.18	+28.06	+7.36
N.Y.S.E. Composite	50.13	56.98	48.43	50.05	49.66	50.47	+2.04	+1.42
AMEX	110.37	126.86	122.85	127.32	128.95	132.35	+9.50	+5.03
Keefe Bank Stock <sup>6/</sup>	530	633	561	570	588	588	+27	+18

<sup>1/</sup> Daily average for statement week, except where noted.

<sup>2/</sup> One-day quotes except as noted.

<sup>3/</sup> Average for first 6 days of statement week ending April 12.

<sup>4/</sup> Highest quoted new issues.

<sup>5/</sup> 1978 figures are averages for preceding week.

<sup>6/</sup> 1978 figures are one-day quotes for preceding Friday.

<sup>7/</sup> 1978 figures are one-day quotes for preceding Thursday.

<sup>8/</sup> Calendar week averages.

Market interest rates generally have moved upward in the intermeeting period, with yields on many short- and long-term securities increasing 15 to 20 basis points. Rising yields apparently reflected market reaction to continuing weakness of the dollar in foreign exchange markets, to fears of accelerating inflation, and to concern over a possible bulge in M-1 growth in April. In addition, Treasury bill rates may have been affected by a larger-than-anticipated supply of new securities and diminishing purchases by foreign central banks.

#### Monetary Aggregates and Bank Credit

As economic activity weakened in the first quarter, M-1 growth decelerated to a 5 per cent annual rate from 7 per cent in the fourth quarter. Depressing effects of severe winter weather, the prolonged coal strike, and lagging Treasury tax refund disbursements were particularly evident in February's slight decline in M-1. By late March, however, the flow of tax refunds began to quicken, and as economic activity picked up with improved weather, M-1 was growing briskly.

M-2 expansion moderated during the first quarter to a 6-1/2 per cent rate, as a result of both the slackening in M-1 growth and reduced savings deposit inflows. Savings deposits of individuals increased at the slowest rate since the third quarter of 1973, while business plus State and local government accounts registered net withdrawals for the third consecutive quarter. On balance, savings deposits have changed little from the level reached just after the year-end interest crediting period.



III - 4  
MONETARY AGGREGATES  
(Seasonally adjusted)<sup>1/</sup>

	1977		1978			QI 77-	QI 78 <sup>e</sup>
	QIII	QIV	QI <sup>e</sup>	Jan	Feb	March <sup>e</sup>	
<u>Net changes at annual rates, per cent</u>							
<u>Major monetary aggregates</u>							
1. M <sub>1</sub> (currency plus demand deposits)	8.1	7.2	5.1	9.6	-1.1	4.2	7.3
2. M <sub>2</sub> (M <sub>1</sub> + time & savings deposits at CBs other than large CDs)	9.9	8.0	6.4	8.9	4.4	5.4	8.6
3. M <sub>3</sub> (M <sub>2</sub> + all deposits at thrift institutions)	11.9	10.6	7.4	8.7	5.5	6.0	10.4
<u>Bank time &amp; savings deposits</u>							
4. Total	10.3	13.0	13.1	12.3	13.7	11.4	11.6
5. Other than large negotiable CDs at weekly reporting banks	11.2	8.5	7.4	8.4	8.4	6.3	9.5
6. Savings deposits	7.3	5.4	2.2	6.0	0.5	0.5	6.1
7. Individuals <sup>2/</sup>	9.6	7.0	3.1	6.4	1.2	1.2	7.2
8. Other <sup>3/</sup>	-17.1	-17.8	-8.0	-8.1	8.2	-16.2	-7.5
9. Time deposits	14.6	11.4	12.0	10.5	14.7	12.2	12.7
10. Small time <sup>4/</sup>	8.3	1.0	2.7	5.1	1.5	10.2	7.4
11. Large time <sup>4/</sup>	28.1	32.4	29.9	20.4	38.8	15.6	26.1
<u>Deposits at nonbank thrift institutions<sup>5/</sup></u>							
12. Total	15.0	14.4	8.8	8.5	7.2	6.9	13.1
13. Savings and loans	16.2	15.4	8.9	8.4	6.8	7.0	14.1
14. Mutual savings banks	9.5	9.9	5.2	5.4	5.4	3.6	8.3
15. Credit unions	20.1	20.0	19.4	17.9	15.2	15.0	19.4
<u>MEMORANDA: Average monthly changes, \$ billions</u>							
16. Total US Govt deposits	0.2	0.2	-1.2	-1.7	-2.2	0.4	-0.3
17. Total large time deposits <sup>6/</sup>	1.7	6.2	4.5	3.8	6.0	3.8	3.2
18. Nondeposit sources of funds <sup>7/</sup>	1.4	1.3	1.9	2.2	2.5	1.1	1.5

1/ Quarterly growth rates are computed on a quarterly average basis.  
2/ Savings deposits held by individuals and nonprofit organizations.  
3/ Savings deposits of business, government and others, not seasonally adjusted.  
4/ Small time deposits are time deposits in denominations less than \$100,000. Large time deposits are time deposits in denominations of \$100,000 and above excluding negotiable CDs at weekly reporting banks.  
5/ Growth rates computed from monthly levels based on averages of current and preceding end-of-month data.  
6/ All large time certificates, negotiable and nonnegotiable, at all CBs.  
7/ Nondeposit borrowings of commercial banks from nonbank sources include Federal funds purchased and security RPs plus other liabilities for borrowed money, Euro-dollar borrowings and loans sold, less interbank loans.

e--estimated

Small-denomination time deposits at banks also increased little during the quarter, despite a resurgence in March. With the ceiling rates on savings and shorter-dated small time deposits well below market rates, weakness in these deposits was associated with considerably larger increases in assets of money market mutual funds and higher non-competitive tenders for Treasury bills than in the previous two quarters. Commercial banks continued to issue large-denomination time deposits included in M-2 at about the rapid pace of the fourth quarter, although some slowdown occurred in March.

Both savings and time deposit flows into thrift institutions continued to slow during the first quarter. March deposit growth remained at around the reduced February rate, and M-3 expansion in the quarter was well below the fourth quarter pace.

Total loans and investments at commercial banks increased at a 10-1/2 per cent annual rate in the first quarter, the largest quarterly gain since last year's second quarter. Loan growth remained strong, averaging 13 per cent, bolstered by a large rise in March. Investments increased in the quarter due to the surprising \$5 billion surge in holdings of Treasury securities in February, which had temporarily halted the year-long decline in the proportion of earning assets held as securities (Chart 1). But net liquidation of investments resumed in March.

COMMERCIAL BANK CREDIT  
(Per cent changes at annual rates, based on seasonally adjusted data)<sup>1/</sup>

	1 9 7 7			1 9 7 8			12 mos ending March <sup>e</sup>
	QII	QIII	QIV	QI <sup>e</sup>	Feb	Mar <sup>e</sup>	
Total loans & investments <sup>2/</sup>	12.6	8.6	8.3	10.5	10.1	9.1	10.4
Investments	9.4	-2.9	-5.8	4.4	21.9	-5.6	1.2
Treasury securities	5.4	-19.4	-26.4	12.8	64.9	-12.3	-7.0
Other securities	12.1	8.4	7.4	-0.5	-3.0	-1.5	7.0
Total loans <sup>2/</sup>	14.0	13.7	14.3	13.0	5.4	15.1	14.5
Business loans	12.6	10.2	16.0	16.4	13.9	21.7	14.5
Security loans	18.1	4.3	19.3	-51.0	-182.0	-53.6	-3.4
Real estate loans	17.6	16.6	15.0	14.7	12.2	17.5	16.9
Consumer loans	16.5	18.4	16.2	n.a.	9.1	n.a.	n.a.

MEMORANDA:

1. Commercial paper issued by nonfinancial firms <sup>3/</sup>	38.0	5.3	15.8	-2.5	-40.3	108.3	14.6
2. Business loans at banks net of bank holdings of bankers acceptances	13.3	8.9	14.9	19.8	16.5	22.7	15.0
3. Sum of memo items 1 & 2	15.0	8.6	14.9	18.1	12.6	28.2	14.9
4. Memo item 3 plus business loans from finance companies	16.4	9.4	18.0	n.a.	13.1	n.a.	n.a.

<sup>1/</sup> Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.

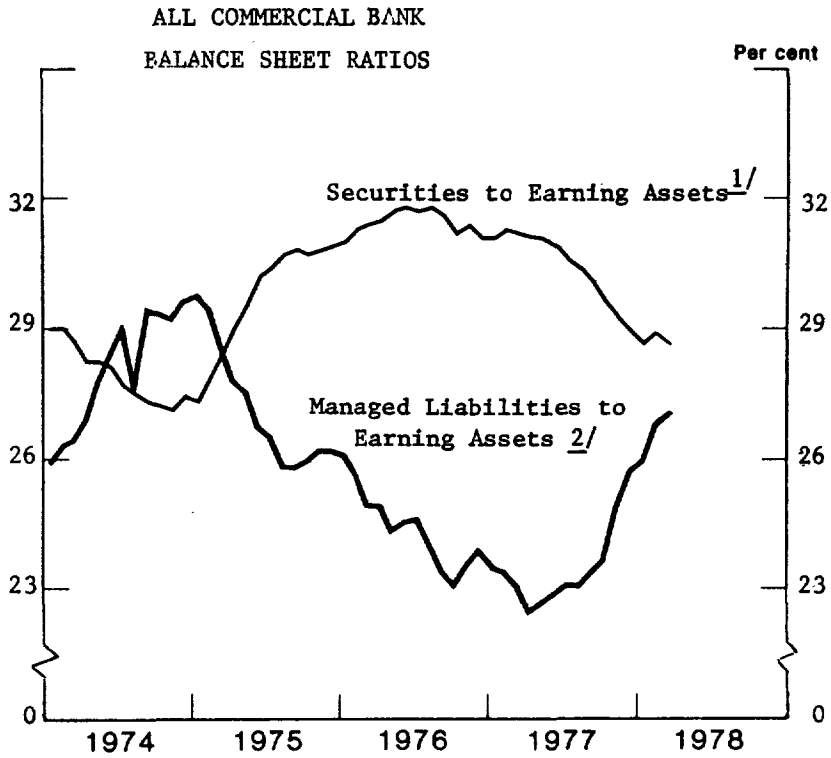
<sup>2/</sup> Loans include outstanding accounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank), and nonconsolidated nonbank subsidiaries of holding companies.

<sup>3/</sup> Measured from end of month.

n.a.--not available

e--estimated

Chart 1



1/ Investments divided by earning assets, both seasonally adjusted.

2/ Total large denomination time deposits plus nondeposit sources of funds, all divided by earning assets, both seasonally adjusted.

Smaller commercial banks financed their loan growth in the first quarter by continued strong inflows of both demand and interest-bearing deposits, and apparently by smaller-than-seasonal net acquisitions of securities. Inflows of savings and small time deposits have been considerably stronger at small than at large banks over the last two quarters. The average size of savings accounts and time accounts under \$100,000 tends to be smaller at small banks, which helps to explain the less vigorous response of their depositors to the rising spreads between market rates and deposit rate ceilings.

In contrast, large banks, with weak inflows of small time and savings deposits, relied heavily on managed liabilities, as in the fourth quarter; these banks dominated the \$13.6 billion increase in large time deposits and the \$5.8 billion gain in nondeposit sources of funds during the first three months of the year. While large-denomination time deposits increased somewhat less than in the fourth quarter, other borrowings--principally repurchase agreements and purchases of Federal funds from nonbanks--rose more strongly. Ratios of managed liabilities to earning assets thus have continued the rise begun in the fourth quarter, although they remain below highs reached in 1974 (Chart 1).

#### Business Credit

Growth in business loans in March accelerated from the rapid pace of other recent months. While a portion of the March advance may have reflected large corporate tax payments, underlying strength was

clearly evident. Over the first quarter, business loans net of bankers' acceptances held by large banks grew at a 20 per cent annual rate, approaching the large quarterly gains in the first half of 1974. Unlike the fourth quarter, these loans grew considerably faster at small than at large banks, restoring the pattern prevailing over the past three years.

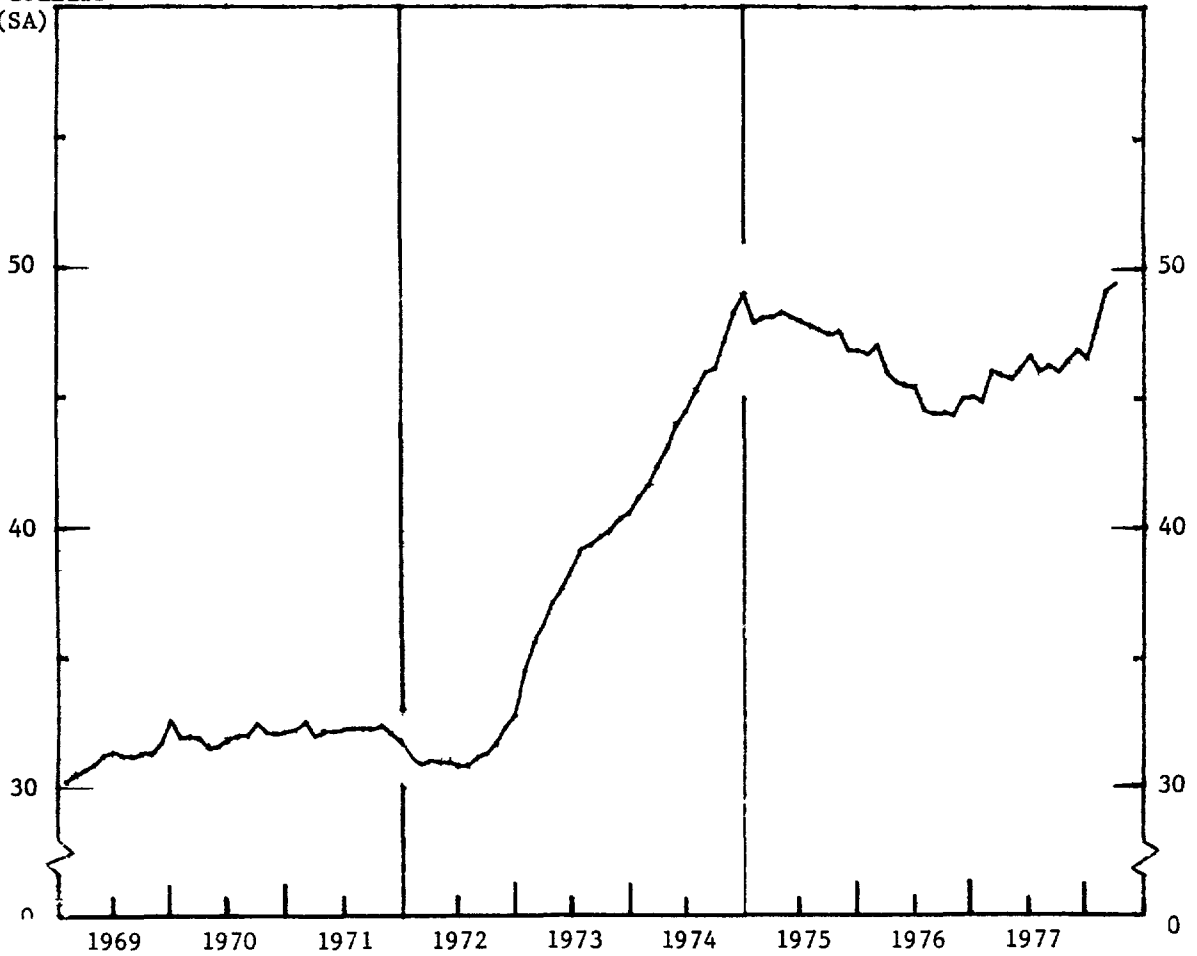
First quarter growth in business loans at the 150 largest banks was widely diffused across industry categories, with particular strength in manufacturing, trade, construction and service industries. A relatively new development at these banks in the first quarter was the stepped-up growth of term loans (Chart 2). One-half of the seasonally-adjusted expansion between December and March in business loans at the largest banks involved loans of longer than one-year maturity. In contrast, in the fourth quarter, only about one-eighth of the business loan expansion at these banks was in term loans.

The expansion in term loans at large banks during the quarter--the most rapid since the very strong gains in 1973 and 1974--reflected the continuing sizable needs of nonfinancial corporations for external financing and a reduced pace of other forms of corporate borrowing. Staff estimates indicate that, with little change in nonfinancial corporations' internal sources of funds, the financing gap widened considerably during the quarter due to a large gain in capital expenditures, particularly for inventories.

Chart 2

Billions  
of dollars  
(SA)

BANK TERM LOANS TO BUSINESS\*



\* Data reflect loans outstanding at about 150 large banks. Term loans include those with original maturities exceeding one year and revolving credits under formal commitments with original maturities exceeding one year.

As business loan demand at banks strengthened, there were no indications either in the Survey of Bank Lending Terms or the Lending Practices Survey for February that banks on average had become more willing to make fixed-rate term loans. In addition, results of the Bank Lending Terms Survey suggested that rates on term loans had increased by more than intermediate- and long-term market yields since the November survey. On the other hand, there have been a few press reports that some money-center banks have become more aggressive recently in seeking business loans.

Commercial paper outstanding of nonfinancial firms contracted slightly during the quarter, after a March gain largely offset sizable declines in the first two months. The January and February declines had occurred mainly because public utilities ran off paper they had issued in December to cover temporarily inadequate cash flows. However, in March commercial paper of utilities declined less than seasonally. Lending to business by finance companies slowed to a 14 per cent rate in the first two months from the very rapid fourth quarter pace, with automotive-related credit again accounting for most of the growth.

In long-term markets, gross public offerings of corporate bonds increased somewhat more than seasonally to \$1.9 billion in March, due largely to a rebound in new debt issues by public utilities from the low February volume. Nevertheless, only \$4.4 billion of new corporate bond issues were publicly offered in the first quarter of 1978, the



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

	1977		1978				
	QIII	QIV	QI <sup>e/</sup>	Feb. <sup>e/</sup>	Mar. <sup>e/</sup>	Apr. <sup>f/</sup>	May <sup>f/</sup>
<u>Gross offerings</u>							
Corporate securities--total	3,717	4,942	2,973	2,550	3,700	3,400	3,300
Publicly offered bonds	2,072	1,955	1,467	1,300	1,900	2,100	1,700
By quality <sup>1/</sup>							
Aaa and Aa	1,055	1,010	725	900	650	--	--
Less than Aa <sup>2/</sup>	1,017	945	742	400	1,250	--	--
By type of borrower							
Utility	575	660	468	165	675	--	--
Industrial <sup>3/</sup>	907	490	490	460	525	--	--
Financial	590	805	509	675	700	--	--
Privately placed bonds	1,019	1,713	867	800	1,000	800	800
Stocks	626	1,274	617	450	800	600	800
Foreign securities--total	744	482	530	9	1,160	--	--
Publicly offered <sup>4/</sup>	520	342	425	--	950	200	450
Privately placed	224	140	105	9	210	--	--
State and local govt. securities--total	5,465	4,812	4,888	4,300	5,800	7,200	5,400
Long-term	3,748	3,595	3,433	2,800	4,300	3,200	3,400
Short-term	1,717	1,217	1,455	1,500	1,500	4,000	2,000
<u>Net offerings</u>							
U.S. Treasury	3,800	7,167	7,200	7,200	12,900	-11,800	6,000
Sponsored Federal agencies	448	554	1,724	2,087	2,447	1,136	2,333

<sup>1/</sup> Bonds categorized according to Moody's bond ratings.

<sup>2/</sup> Includes issues not rated by Moody's.

<sup>3/</sup> Includes equipment trust certificates.

<sup>4/</sup> Classified by original offering date.

<sup>e/</sup> Estimated.

<sup>f/</sup> Forecast.

smallest quarterly total since 1973. In addition, private placements of corporate bonds--an important source of funds for lower-rated industrial companies--are estimated to have decreased in the first quarter.

The slower pace of bond market borrowing in recent months reflects in part the reluctance of some corporate managements to enter into long-term borrowing agreements (including 5 or 10 years of lender call protection) at higher rates of interest. Corporate bond yields have risen 15 to 20 basis points since the last FOMC meeting and currently are at their highest level since mid-1976.

Stock prices have edged up, on average, since the last FOMC meeting. Prices of NYSE-listed stocks generally are about unchanged but prices of issues listed on the American Exchange or traded over-the-counter have moved higher. This divergent movement also characterized the stock market throughout 1977. The NYSE Composite Index has declined, for example, almost 14 per cent since year-end 1976, while the Amex and NASDAQ Composite Indexes have advanced about 17 and 8.5 per cent, respectively.

#### Municipal and Treasury Securities Markets

State and local governments offered \$4.3 billion of tax-exempt bonds in March, a \$1.5 billion increase from February, which raised the monthly average for the first quarter close to the fourth quarter figure. The larger-than-seasonal rise in March was due primarily to an increase in revenue bond offerings, of which more than one-third were issued to refund or advance refund outstanding obligations.

Total refundings of tax-exempt securities reached \$1.1 billion in March, the third largest monthly total on record. Despite Treasury and IRS limits on the type and amount of issues that can be advance refunded, continuation of tax-exempt interest rates far below 1975 levels--especially for lower-rated issues--has maintained the large interest savings available through such refunding. Municipal bond yields, however, have risen almost 20 basis points since the last FOMC meeting, about the same as increases in yields on taxable securities.

Treasury borrowing has been moderately heavy in the intermeeting period, partly because of \$6.0 billion in cash management bills issued to bridge a low point in the Treasury's cash balance prior to the April tax date. The Treasury also raised \$300 million of new money in regular weekly bill auctions, and more than \$3 billion through sales of 2- and 5-year notes. For the first quarter as a whole, the Treasury raised a total of about \$21 billion in new funds--about the same as in the fourth quarter.

Treasury financing was facilitated during most of the quarter by a continuing high rate of security acquisitions by foreign central banks. Securities held in custody for foreign accounts at the Federal Reserve Bank of New York surged by \$7 billion during the month of March and grew about \$12 billion for the quarter, following a \$13 billion gain in the final quarter of 1977. About 85 per cent of the net increase in foreign holdings this year has been accounted for by Japan, Germany,

Switzerland, and Great Britain. Nearly all of this purchase activity by dollar-supporting central banks has taken place in the short-term sector of the market, and very likely helped to hold down interest rates on Treasury bills through mid-March. Since then, foreign central banks have moderated their purchase of Treasury bills.

Sponsored credit agencies borrowed about \$2.0 billion during March, bringing the first quarter total to around \$4.5 billion, more than double the previous quarter's volume. Approximately \$3.0 billion of total Agency borrowing has been accounted for by the FHLB and FNMA to finance the expanded support that these agencies have provided the mortgage market.

#### Mortgage Markets

The volume of net mortgage lending in March apparently picked up somewhat from the January-February pace, but the first quarter total is estimated to have been 10 to 15 per cent below the peak \$141 billion annual rate recorded in the final quarter of 1977. The slowdown for the quarter was most pronounced at the depository institutions, where estimated net lending declined by about a fifth. Volume in the secondary markets for FHA/VA mortgages held up relatively well, as reductions in issues of GNMA-guaranteed securities and net mortgage acquisitions by GNMA were largely offset by larger purchases of loans by FNMA.

Mortgage commitment activity at the nonbank thrift institutions weakened further in February (latest data available). At savings and loan associations, seasonally-adjusted mortgage commitments outstanding

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 INTEREST RATES AND SUPPLY OF FUNDS FOR  
 CONVENTIONAL HOME MORTGAGES  
 AT SELECTED S&Ls

End of period	Average rate on new commitments for 80% loans (Per cent)	Basis point change from month or week earlier	Spread <sup>1/</sup> (basis points)	Per cent of S&Ls with funds in short supply
1976--High	9.00	--	+92	22
Low	8.65	--	+37	2
1977--July	8.93	+5	+76	7
Aug.	8.93	0	+92	14
Sept.	8.90	-3	+65	12
Oct.	8.90	0	+62	11
Nov.	8.93	+3	+70	18
Dec.	9.00	+7	--	22
1978--Jan.	9.05	+2	--	27
Feb.	9.15	+10	+44	38
Mar. 3	9.15	0	--	36
10	9.15	0	+45	37
17	9.23	+8	--	39
24	9.23	0	+62	39
31	9.25	+2	+42	45
Apr. 7	9.28	+3	+41	44

<sup>1/</sup> Average mortgage rate minus average yield on new issues of Aaa utility bonds.

<sup>2/</sup> Per cent reporting supply of funds slightly or substantially below normal seasonal patterns.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

	FNMA auctions of forward purchase commitments						Yields on GNMA guaranteed mortgage backed securities for immediate delivery <sup>2/</sup>
	Conventional			Govt.-underwritten			
	Amount (\$ millions)		Yield to FNMA <sup>1/</sup>	Amount (\$ millions)		Yield to FNMA <sup>1/</sup>	
	Offered	Accepted		Offered	Accepted		
1977--High	416	278	9.21	855	570	8.98	8.43
Low	123	83	8.81	50	35	8.45	7.56
1978--Mar. 6	445	266	9.59	359	219	9.36	8.63
13							8.55
20	379	246	9.62	165	116	9.33	8.68
27							8.67
Apr. 3	523	295	9.69	626	364	9.44	8.70
10							8.70

<sup>1/</sup> Average gross yield before deducting fee of 38 basis points for mortgage servicing. Data, based on 4-month FNMA purchase commitments, reflect the average accepted bid yield for home mortgages, assuming a prepayment period of 12 years for 30-year loan without special adjustment for FNMA commitment fees and related stock requirements. Mortgage amounts offered by bidders relate to total eligible bids received.

<sup>2/</sup> Average net yields to investors assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the prevailing ceiling rate on such loans.

(including loans in process) declined for the second consecutive month, as new commitment activity continued to slow from the peak rates of last fall. Mortgage commitments outstanding at New York mutual savings banks also declined somewhat in February, the third consecutive monthly reduction.

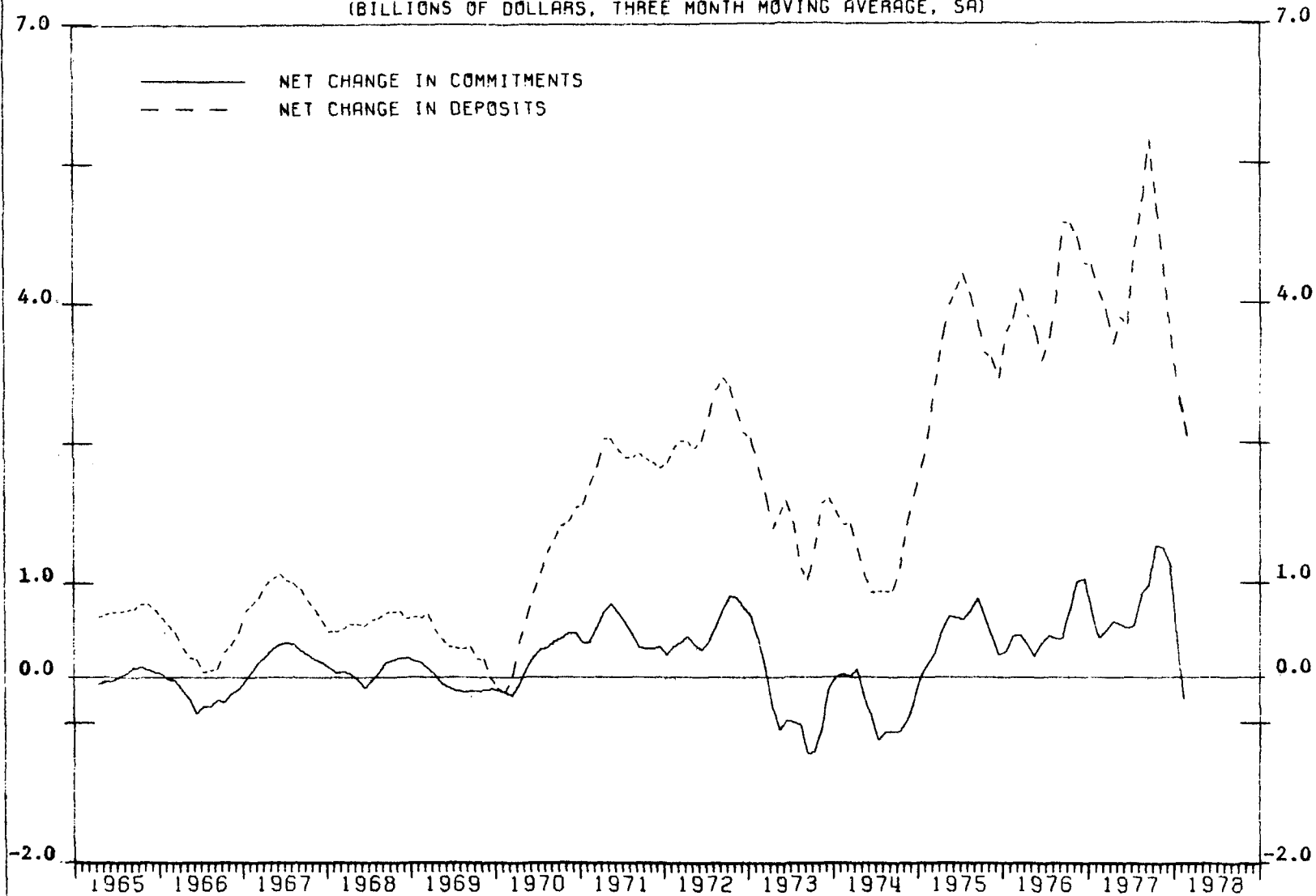
This pronounced slowdown since late last year in mortgage commitment and lending activity at the thrift institutions apparently has been due primarily to the marked slackening of net deposit flows, although impacts of the weather on demands for mortgage funds probably have affected the monthly patterns somewhat.<sup>1/</sup> As shown in Chart 3, the cut-back in S&L mortgage commitment activity has been roughly consistent with the curtailment in deposit growth, in view of typical relationships in past periods. The decline in net mortgage acquisitions also has been in line with movements in both deposits and commitments.

In early April, over two-fifths of a sample of S&Ls surveyed by FHLMC reported the supply of loanable funds to be below seasonal

<sup>1/</sup> The unusually severe weather in January and February clearly depressed private housing starts, and to some extent the construction of projects already underway. For projects under construction, however, reduced takedowns of construction loan instalments would actually help to support S&L mortgage commitments outstanding (the loans-in-process component), but would not reduce the volume of mortgage loans made by S&Ls. When the first instalment is made on a construction loan, all of the loan is removed from S&L outstanding commitments and is added to S&L mortgage assets, according to S&L accounting procedures. At the same time, the undisbursed portion is placed in loans in process (a liability account); subsequent disbursements lower loans in process but are not reflected in mortgage loans made or held.

CHART 3

NET CHANGE IN DEPOSITS AND OUTSTANDING COMMITMENTS AT S&L'S  
(BILLIONS OF DOLLARS, THREE MONTH MOVING AVERAGE, SA)



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patterns double the proportion so reporting at the end of 1977--and 14 per cent indicated the shortfall in supply to be substantial. Average interest rates on new commitments for conventional home loans at S&Ls have increased 5 basis points since the last FOMC meeting to 9.28 per cent--about 35 basis points above levels prevailing in late December. Yields in the secondary markets have increased 10 to 15 basis points since mid-March, and the cumulative increase since December has been on the order of 40 to 50 basis points.

With deposit inflows down substantially, S&Ls have been borrowing large amounts of funds from the FHLBanks to help meet takedowns of outstanding mortgage commitments--outstanding advances rose by \$3.6 billion during the first quarter to a record \$22.5 billion. Moreover, average liquidity ratios at S&Ls have been declining steadily since last August, after seasonal adjustment. In an environment of falling prices for mortgages and mortgage-backed pass-through securities, S&Ls have not been relying heavily on secondary market sales of mortgage assets to supplement their loanable funds. Nor have issues of mortgage-backed bonds been a significant source of funds for the S&L industry in recent months, given the rise in intermediate-term borrowing costs relative to available yields on mortgage investments.

#### Consumer Credit

Consumer instalment credit apparently continued to advance at a relatively strong pace during the first quarter. Preliminary credit



figures from weekly reporting banks, buttressed by a sharp recovery in new-car sales, suggest that consumer credit grew rapidly in March, and the 14 per cent average rate of expansion for the first two months of 1978 was within 2-1/2 percentage points of the recovery high in the second quarter of 1977.

In the past, instalment credit growth has slowed much more sharply from the highest rates reached in an expansion period, as extensions have generally leveled while liquidations have risen further. During the current economic advance, in contrast, extensions have continued to expand, reflecting the strength in consumption spending which has characterized the entire recovery period. Maintenance of the uptrend in extensions may have been aided also by the general lengthening of loan maturities, which, with strong income growth, has helped keep the burden of current repayments relative to disposable income below the highs of the early 1970's.

CONSUMER INSTALMENT CREDIT<sup>1/</sup>

	1975	1976	1977	1977		1978	
				QIII	QIV	Jan.	Feb.
<b>Total</b>							
Change in outstandings							
Billions of dollars	7.3	19.9	30.8	29.9	32.8	29.1	31.9
Per cent	4.7	12.3	16.9	15.1	16.0	13.7	14.8
Bank share (per cent)	39.6	54.0	50.7	51.2	52.5	46.0	48.1
Extensions							
Billions of dollars	163.9	192.4	226.0	228.0	238.3	235.0	242.1
Bank share (per cent)	47.2	48.9	49.1	49.1	49.9	49.1	49.1
Liquidations							
Billions of dollars	156.6	172.4	195.2	198.1	205.5	205.9	210.2
Ratio to disposable income	14.4	14.6	14.9	15.0	15.1	14.8	14.9
<b>Automobile Credit</b>							
Change in outstandings							
Billions of dollars	3.2	10.2	13.3	12.9	13.8	14.2	13.2
Per cent	6.1	18.3	20.2	17.8	18.2	17.9	16.4
Extensions							
Billions of dollars	51.5	62.8	73.1	72.9	76.6	75.2	76.8
New car loans over 36 months as per cent of total new car loans at:							
Commercial banks <sup>2/</sup>	14.0	25.4	40.7	42.8	44.8	n.a.	47.0 p
Finance companies <sup>2/</sup>	23.5	33.9	47.7	51.1	52.7	n.a.	55.6 p

<sup>1/</sup> Quarterly and monthly dollar figures and related per cent changes are seasonally adjusted annual rates.

<sup>2/</sup> Data reported for the mid-month of each quarter.

n.a.--not available.

p--preliminary

U.S. International Transactions  
(in millions of dollars, seasonally adjusted 1/)

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	1976		1977			
	YEAR	YEAR	Q3	Q4	Jan.	Feb.
1. Merchandise exports	114,694	120,472	30,870	29,490	9,786	9,980
2. Merchandise imports	124,014	151,713	38,429	38,369	13,036	14,648
3. Trade Balance	-9,320	-31,241	-7,559	-8,879	-3,250	-4,668
4. <u>Bank-reported private capital flows</u>	-10,377	-4,756	946	-5,807	-3,700	351
5. Claims on foreigners (increase -)	-21,368	-11,424	-1,709	-8,878	-1,688	847
6. Long-term	-2,362	-746	-445	-13	-104	-120
7. Short-term	-19,006	-10,678	-1,264	-8,865	-1,584	967
8. (of which on commercial banks in offshore centers 2/)	(-12,961)	(-7,518)	(-841)	(-6,121)	(-6,321)	(1,193)
9. Liabilities to foreigners (increase +)	10,991	6,668	2,655	3,071	-2,012	-496
10. Long-term	231	374	193	35	-6	-26
11. Short-term	10,760	6,294	2,462	3,036	-2,006	-470
12. to commercial banks abroad	8,030	5,159	3,804	2,080	-2,167	198
13. (of which to commercial banks in offshore centers 2/)	(4,115)	(4,604)	(3,206)	(1,544)	(-1,470)	(-501)
14. to other private foreigners	2,719	1,691	186	443	69	23
15. to int'l and regional organizations	11	-556	-1,528	513	92	691
16. <u>Foreign private net purchases (+) of U.S. Treasury securities</u>	2,783	568	1,252	-313	23	830
17. <u>Other private securities transactions (net)</u>	-7,480	-2,428	-1,640	72	-464	46
18. Foreign net purchases (+) of U.S. corp. securities	1,250	2,934	516	803	2	108
19. (of which stocks)	(853)	(1,385)	(139)	(580)	(5)	(14)
20. U.S. net purchases (-) of foreign securities	-8,730	-5,362	-2,156	-731	-466	-62
21. (new foreign issues of bonds and notes)	(-9,954)	(-6,848)	(-2,276)	(-1,319)	(-666)	(-9)
22. <u>Change in foreign official res. assets in the U.S.</u>	13,091	35,407	7,908	15,156	3,852	2,907
23. OPEC countries (increase +)	6,820	5,978	1,415	746	985	28
24. (of which U.S. corporate stocks)	(1,828)	(1,365)	(362)	(318)	(107)	(48)
25. Other countries (increase +)	6,271	29,429	6,493	14,410	2,867	2,879
26. <u>Change in U.S. reserve assets (increase -)</u>	-2,530	-231	151	*	-140	148
27. <u>Other transactions and statistical discrepancy (net payments (-))</u>	13,833	2,681	-1,058	-229	3,679	386
28. Other current account items	7,893	11,032	3,236	1,849		
29. Military transactions, net	366	1,432	559	50		
30. Receipt of income on U.S. assets abroad	21,369	24,940	6,391	5,876		
31. Payment of income on foreign assets in U.S.	-11,561	-13,005	-3,225	-3,733		
32. Other services, net	2,743	2,460	845	740		
33. Remittances and pensions	-1,878	-2,008	-510	-480		
34. U.S. Gov't grants	-3,146	-2,787	-824	-604		
35. Other capital account items	-4,297	-5,368	860	-1,735		
36. U.S. Gov't capital, net claims (increase -)	725	-1,792	-848	-378		
37. U.S. direct investment abroad (increase -)	-4,596	-5,009	-1,058	-1,549		
38. Foreign direct investment in U.S. (increase +)	2,176	1,527	619	-197		
39. Nonbank-reported capital, net claims (increase -)	-2,602	-94	2,147	389		
40. Statistical discrepancy	10,237	-2,983	-5,154	-343		
MEMO:						
41. Current account balance	-1,427	-20,209	-4,323	-7,030	n.a.	n.a.
42. Official settlements balance	-10,561	-35,176	-8,059	-15,156	-3,712	-3,055
43. O/S bal. excluding OPEC	-3,741	-29,198	-6,644	-14,410	-2,727	-3,027

## NOTES:

1/ Only trade and services, U.S. Govt. grants and U.S. Govt. capital are seasonally adjusted.

2/ Offshore centers are United Kingdom, Bahamas, Panama, British West Indies and Bermuda.

\*/ Less than \$500,000.

## INTERNATIONAL DEVELOPMENTS

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Foreign exchange markets. In the four weeks since the last green book, evidence of a further increase in the U.S. trade deficit led to a further decline of the dollar on foreign exchange markets. Most of this decline occurred on March 31, following the announcement of a record \$4.5 billion U.S. trade deficit in February. Over the past month, the dollar's trade-weighted exchange value against major foreign currencies dropped by 1-1/3 per cent, bringing the total decline in the dollar's average exchange value since last September to 8 per cent.

United States intervention activity during the period was on a smaller scale than in recent months. Over the past four weeks the Desk made net sales of \$37 million equivalent of marks. Gross mark sales of \$120 million equivalent were financed by swap drawings on the Bundesbank of \$49 million equivalent by both the System and the Treasury, and by use of System mark balances. The System's outstanding swap debt to the Bundesbank increased to \$1,844 million equivalent. The Treasury's swap drawings of marks during the period exhausted its \$1 billion swap line with the Bundesbank. The Desk also purchased \$83 million equivalent of marks

during the four-week period. \$56 million equivalent of these purchases were added to System mark balances and the remainder to Treasury mark balances.

The currency in strongest demand over the past month was the Japanese yen.

. In the four weeks since the last green book, the yen has appreciated by over 6 per cent against the dollar.

The mark and other European currencies have moved up by lesser amounts against the dollar,

. Over the past month the mark and associated snake currencies have risen against the dollar by about 2 per cent while the Swiss and French francs have appreciated by about 4 per cent.

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The exceptions to the general rise of foreign currencies against the dollar during the past month were the Canadian dollar and the pound.

The Canadian dollar has been under nearly continuous downward pressure since the election of the Quebec Separatists in the Fall of 1976. Since then the Canadian dollar has dropped by over 20 per cent on a weighted-average basis, falling to its lowest level since the 1930's

against the U.S. dollar. This past month Canadian authorities announced several measures aimed at strengthening the Canadian currency. The Bank of Canada's discount rate was raised by 1/2 percentage point to 8-1/2 per cent. The Canadian government increased its standby credit facility with Canadian banks from \$1-1/2 billion to \$2-1/2 billion and floated \$750 million of Canadian government bonds in the United States.

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The British pound declined by 1 per cent against the dollar over the past month.

. The pound recovered slightly following the U.K. government's budget message on April 11, which coincided with the announcement of an increase in the Bank of England's Minimum Lending Rate from 6-1/2 per cent to 7-1/2 per cent. The British government also announced plans to float \$350 million of 7- and 15-year bonds in the U.S. capital market as part of a program to rearrange the maturity structure of Britain's external debt.

The gold price continued to decline from its \$190 peak of early March, and traded around the \$180 level at the end of the period.

U.S. International Transactions. A February U.S. trade deficit of \$56 billion at an annual rate (estimated on an international accounts basis) brought the combined January-February deficit well above the anticipated rate for the first quarter. Official foreign assets (excluding OPEC) increased by \$2.9 billion in February, bringing the total increase for January-February to \$5.7 billion. The step-up in Japanese intervention purchases in March is likely to have brought the increase in foreign official assets for the first quarter to more than \$12 billion, nearly as much as in the fourth quarter of 1977.

U.S. International Transactions Summary  
(in billions of dollars, (-) = outflow)

	Year		1977		1978	
	1976	1977	Q3	Q4	Jan.	Feb.
1. Trade balance <u>1/</u>	-9.3	-31.2	-7.6	-8.9	-3.3	-4.7
2. (annual rate)			(-30.2)	(-35.5)	(-39.0)	(-56.0)
3. Private capital trans. <u>adj.</u> <u>2/</u>	-15.1	-6.7	-2.0	-3.5	-4.1	-1.2
4. Private capital as rept. net	-15.1	-6.7	.5	-6.0	-4.1	1.2
5. Reporting bias <u>3/</u>	--	--	-2.5	2.5	--	--
6. OPEC net investments in U.S.	6.8	6.0	1.4	.7	1.0	*
7. Other foreign official assets	6.2	29.5	6.5	14.4	2.8	2.9
8. U.S. reserve assets	-2.5	-.2	.2	*	-.1	.1
All other <u>4/</u>	13.9	2.6	1.5	-2.7	3.7	.5
9. Not seasonally adjusted	13.9	2.6	3.0	-3.3	4.7	-.3
10. Seasonal component <u>5/</u>			-1.5	.6	-1.0	.8
Memorandum:						
11. GNP net exports of goods and services	7.8	-10.9	-1.9	-4.6	n.a.	n.a.
12. Current account balance	-1.4	-20.2	-4.3	-7.0	n.a.	n.a.

1/ Seasonally adjusted.

2/ Includes bank-reported capital, foreign purchases of U.S. Treasury securities, and other private securities transactions.

3/ Adjustment for reporting bias in bank-reported data associated with weekend transactions. See page IV 10-11 in the June 1976 green book.

4/ Includes service transactions, unilateral transfers, U.S. government capital, direct investment, nonbank capital transactions, and statistical discrepancy.

5/ Equal but opposite in sign to the seasonal component of the trade balance.

\*/ Less than \$50 million.

The merchandise trade deficit in February, on an estimated international accounts basis, was \$56 billion at an annual rate. The January-February deficit of \$47.5 billion was well above that of the fourth quarter.

U.S. Merchandise Trade<sup>1/</sup>  
(in billions of dollars, seasonally adjusted annual rates)

	1977			1978 <sup>2/</sup>		
	<u>Year</u>	<u>3Qtr</u>	<u>4Qtr</u>	<u>Jan.&amp;Feb.</u>	<u>Jan.</u>	<u>Feb.</u>
<u>Trade Balance</u>	<u>-31.2</u>	<u>-30.2</u>	<u>-35.5</u>	<u>-47.5</u>	<u>-39.0</u>	<u>-56.0</u>
Exports	120.5	123.5	118.0	118.6	117.4	119.8
Imports	151.7	153.7	153.5	166.1	156.4	175.8

<sup>1/</sup> International accounts basis.

<sup>2/</sup> The monthly international accounts figures are only rough estimates, and are subject to considerable revision. There is a break in series beginning with the January 1978 data reflecting revisions in the methods by which export and import data are compiled by the Census Bureau.

The value of exports in February remained little changed from its January and fourth-quarter rates; combined January-February export prices rose by 3 per cent from the fourth quarter average while volumes declined somewhat. The lack of growth in total exports during January-February, following a fourth quarter in which exports were depressed on balance by a dock strike, reflected some offsetting movements among major commodity groups. Exports of agricultural products during January-February were at a higher rate than in the fourth quarter, in part because of strength in corn and wheat shipments. Exports of industrial



supplies fell during the same period, but may have risen slightly in the absence of the coal strike. Exports of machinery and transport equipment, excluding shipments of civilian aircraft, showed no change from the fourth quarter rate. Civilian aircraft shipments fell substantially in January-February from an unusually high fourth-quarter rate.

The value of imports jumped substantially from the January level. For January-February combined imports were 8 per cent higher than in the fourth quarter as prices increased by 2 per cent while the volume increased by 6 per cent. Part of the increase in import prices reflects recent declines in the international value of the dollar. The volume increase was spread over most major commodity groups. The January-February volume of petroleum imports was 8.7 million barrels per day (mbd), compared to 8.5 mbd in the fourth quarter; oil import prices averaged \$13.38 per barrel in January-February, little changed from the average fourth quarter price.

Bank-reported private capital transactions resulted in a net capital inflow of \$350 million in February, a marked turnaround from the \$3.7 billion net outflow reported for January. During the month there was a \$1 billion inflow from U.S. banks' transactions with foreign banks (including their own foreign offices) offset by a reduction of World Bank holdings of CDs. The proceeds of these sales of CDs were invested in Treasury securities, and accounted for the \$800 million of private purchases of U.S. Treasury securities recorded in February.

Foreign private net purchases of U.S. corporate stocks were \$14 million in February. The \$225 million (annual rate) January-February rate of net foreign purchases of corporate stocks was well below the \$1.4 billion net inflow for 1977 as a whole.

U.S. net purchases of foreign securities fell to \$62 million in February, compared to a monthly average of \$450 million in 1977. The fall reflected the dearth of new issues; new foreign bond issues totalled only \$9 million in February.

Foreign official assets in the United States (excluding OPEC) increased by \$2.9 billion in February. In the first quarter of 1978, data now available suggest that foreign official assets may have increased

Maturity Profile  
of Foreign Official Holdings of U.S.  
Treasury Marketable Securities 1/2/3/  
(billions of dollars)

	Amount Outstanding				Change in Holdings in 1978 10
	Dec. 31, 1976	Dec. 31, 1977	Mar. 31, 1978		
Time remaining to maturity-					
Less than 3 months	20.5	24.0	29.2	5.2	
3 months to 6 months	12.1	16.6	20.9	4.3	89%
6 months to 1 year	2.6	7.5	8.8	1.3	
1 year to 2 years	4.9	12.2	14.4	2.2	
2 years to 5 years	3.7	8.4	7.6	-.8	11%
More than 5 years	.4	.9	.9	*	
<b>Total</b>	<u>44.2</u> (100%)	<u>69.6</u> (100%)	<u>81.8</u> (100%)	<u>12.2</u>	(100%)

1/ Custody holdings at FRBNY of foreign official institutions (excluding holdings of international agencies).

2/ Securities held as collateral for repurchase agreements are excluded.

3/ Includes custody holdings for OPEC countries.

\*/ Less than \$50 million.

by \$12 billion, a rate only slightly below the \$14 billion increase in the fourth quarter of 1977.

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OPEC banking and security holdings in the United States showed little change in February. Preliminary indications for March are that OPEC holdings declined from their end-February level, suggesting that the increase for the first quarter was about the same as the \$750 million increase recorded in the fourth quarter of 1977.

Foreign economic developments. Recent evidence concerning the economic recovery abroad has been mixed. After several indications of renewed growth in Germany and Japan toward the end of last year and the beginning of this year, output growth appears to have slackened. In Japan the index of industrial production fell by 0.6 per cent in February following three consecutive monthly increases amounting to a 3.9 per cent increase. Meanwhile, preliminary indications are that German industrial production fell over 3 per cent in February after an increase of 4.3 per cent during the previous 3-month period. Although it is too early to put much weight on these data, the absence of a continuation and strengthening of the output recovery that began late last year in these two key economies is not encouraging. The Canadian economy also showed some weakness as industrial production fell by more than 1 per cent in January.

Elsewhere developments have been somewhat more propitious. Stock market and foreign exchange market activity suggest a positive response in France after the election, and a turnaround may be in the offing. However, as has been the case with the United Kingdom, it may take time for the psychological uplift in financial markets to be reflected in real economic variables. Also, it appears that a recovery may be beginning in Italy. Several countries have taken or are likely to take policy measures designed to stimulate activity. This week the United Kingdom and Canada announced mildly stimulative budgets. Late last year and early this year, the Japanese announced expansionary

policies, while stimulative measures are likely in France. These actions improve the likelihood of a more concerted recovery abroad.

Notwithstanding the general moderation in the rate of increase of wholesale and consumer prices abroad, there are some disquieting developments on the price front. Recent labor compensation packages in Germany exceeded the government's recommendations. Additionally, survey data reveal that French industrialists are expecting more rapid wage increases over the coming months. Labor disputes arose in Finland over compensation for the February 16 devaluation. However, recent settlements with Swedish unions stand out as being very moderate compared with those of previous years.

Japan continues to experience large and growing trade- and current-account surpluses, and preliminary data indicate that Germany's trade balance increased in February.

Notes on individual countries. On April 11, British Chancellor of the Exchequer Denis Healey announced the government's budget plans for the fiscal year 1978-79, which started this month. The measures announced include tax cuts of some £2.5 billion and government spending increases of about £.5 billion. The tax reductions are concentrated on personal income and consist of: increased personal exemptions; a 9 percentage point reduction in the tax rate for the first £750 of taxable income; and increases in the income levels at which income is taxed at higher rates. The increases in government spending are to be mostly in the areas of health, education, social programs, and employment-related measures and are to be financed out

Real GNP and Industrial Production in Major Industrial Countries  
(percentage change from previous period, seasonally adjusted)

		1975	1976	1977	1977					1978	
					Q1	Q2	Q3	Q4	Dec.	Jan.	Feb.
Canada:	GNP	1.1	4.9	2.6	1.8	0.0	1.3	0.8	*	*	*
	IP	-4.8	5.0	3.3	2.1	0.3	0.0	0.7	0.2	-1.1	
France:	GDP	0.1	5.2	2.2	1.4	-0.7	0.3	1.4	*	*	*
	IP	-9.2	10.1	1.7	2.4	-2.1	-1.3	-0.3	-3.1	2.4	0.8
Germany:	GNP	-2.5	5.7	2.4	0.8	0.0	-0.1	1.4	*	*	*
	IP	-5.6	7.8	3.0	1.4	-1.1	0.3	1.1	1.7	1.7	-3.3
Italy:	GDP	-3.5	5.7	1.7	1.7	-2.5	-0.5	-0.1	*	*	*
	IP	-9.2	12.9	0.8	3.3	-7.2	-3.7	-0.4	-2.8	5.4	2.2
Japan:	GNP	2.5	6.2	5.1	2.1	1.7	0.4	1.0	*	*	*
	IP	-11.0	11.1	4.1	1.3	-0.3	-0.2	1.2	0.9	0.9	-0.6
United Kingdom:	GNP	-2.1	2.3	0.8	-0.7	-0.5	-0.3	0.1	*	*	*
	IP	-4.9	0.5	0.2	0.1	-1.2	0.8	-1.0	0.9	0.6	
United States:	GNP	-1.3	6.0	4.9	1.8	1.5	1.3	1.0	*	*	*
	IP	-8.9	10.1	5.6	1.5	2.5	1.1	0.6	0.2	-0.8	0.5

\* GNP data are not published on monthly basis.

Consumer and Wholesale Prices in Major Industrial Countries  
(percentage change, from previous period or as indicated)

		1975	1976	1977	1977			1978	Latest 3 Months from:		
					Q2	Q3	Q4	Q1	Previous 3 Months (at Ann. Rate)	Year Ago	Latest Month
Canada:	CPI	10.8	7.5	8.0	2.4	2.2	2.2	3.6	15.2	10.7	Mar.
	WPI	6.5	4.3	9.1	2.9	0.9	1.0		4.2	10.2	Dec.
France:	CPI	11.7	9.6	9.5	3.1	2.4	1.9		5.4	9.1	Feb.
	WPI	-5.7	7.4	5.6	1.1	-0.9	0.0		2.3	1.6	Feb.
Germany:	CPI	5.9	4.6	3.9	1.4	0.2	0.2	1.3	5.3	3.1	Mar.
	WPI	3.4	5.8	1.8	1.2	-1.8	-0.9		2.3	-0.3	Feb.
Italy:	CPI	16.9	16.8	18.4	3.8	2.5	3.3	2.6	10.7	13.5	Feb.
	WPI	8.5	22.9	17.4	2.4	1.5	2.0		7.6	8.8	Feb.
Japan:	CPI	12.1	9.7	8.3	2.5	0.3	0.8	0.9	3.6	4.6	Mar.
	WPI	3.0	5.5	2.0	0.1	-0.5	-0.7		-4.0	-1.5	Feb.
United Kingdom:	CPI	24.2	16.6	15.8	4.5	1.6	1.5		6.5	10.5	Feb.
	WPI	24.1	16.4	19.2	4.5	3.3	1.6		10.3	12.5	Mar.
United States:	CPI	9.1	5.7	6.5	2.1	1.5	1.1		5.8	6.6	Feb.
	WPI	9.2	4.6	6.1	2.5	0.2	1.1	2.4	10.0	6.3	Mar.

Trade and Current-Account Balances of Major Industrial Countries<sup>a/</sup>  
(billions of U.S. dollars; seasonally adjusted)

	1975	1976	1977	1977				Dec. '77	Jan. '78	Feb. '78
				Q1	Q2	Q3	Q4			
Canada: Trade	-0.6	1.2	2.7	0.8	0.3	0.6	1.0	0.4	0.2	0.2
Current Account	-4.7	-4.2	-4.0	-0.8	-1.4	-1.1	-0.7		*	
France: Trade	1.5	-4.2	-2.4	-1.1	-0.6	-0.5	-0.2	0.3	-0.5	0.0
Current Account	0.0	-6.0	-3.1	-1.3	-0.6	-0.8	-0.3		*	
Germany: Trade	15.3	13.5	16.4	3.7	4.2	3.7	4.8	1.4	1.2	n.a.
Current Account	3.9	3.4	3.6	0.6	1.5	-0.5	1.9		*	
Italy: Trade	-3.5	-6.5	-2.5	-1.4	-0.8	0.1	-0.4	0.1	0.0	n.a.
Current Account <sup>b/</sup>	-0.6	-2.9	n.a.	-0.9	0.2	2.4	n.a.		*	
Japan: Trade	5.0	9.9	17.5	4.2	4.4	4.2	4.6	1.5	2.1	2.5
Current Account	-0.7	3.7	11.1	2.3	2.8	2.7	3.1	1.0	1.5	1.9
United Kingdom: Trade	-7.1	-6.3	-2.9	-1.6	-1.2	-0.1	0.1	-0.1	-0.6	0.2
Current Account	-3.7	-2.0	0.0	-0.9	-0.6	0.8	0.6	0.0	-0.5	0.4
United States: Trade	9.0	-9.3	-31.4	-7.2	-7.8	-7.6	-8.9	-2.5	-3.3 <sup>e</sup>	-4.7 <sup>e</sup>
Current Account	11.5	-1.4	-20.2 <sup>e</sup>	-4.2	-4.6	-4.3	-7.0 <sup>e</sup>		*	

<sup>a/</sup> The current account includes goods, services, and private and official transfers.

<sup>b/</sup> Not seasonally adjusted.

\* Comparable monthly current-account data are not published.



of the contingency reserve. The expansionary nature of the budget had been widely expected. According to the Chancellor, the public sector borrowing requirement (PSBR) for fiscal 1978-79 is forecast to be £8.5 billion -- 5.25 per cent of nominal GDP -- compared with last fiscal year's estimated £5.7 billion -- 4.5 per cent of nominal GDP. These PSBR figures are within the targets agreed upon earlier with the IMF.

Output in the United Kingdom has been stagnant in recent quarters, but most forecasters continue to expect a moderate recovery during the next year or so. According to the British government, the April 11 fiscal measures will increase real GDP growth by about 0.75 percentage points in the next year. The government is now forecasting that real GDP will grow some 3 per cent over the next 12 months.

The major proposal in the Canadian FY1978 budget which was announced on April 10 is a plan to compensate the provinces for a reduction of 2 percentage points in their retail sales taxes for a six-month period. In return, the provinces are to bear the cost of further sales tax reductions that are prescribed by the federal government. This program is expected to spur consumption and partially to offset inflation. If all provinces agree to the package -- Quebec has declined so far -- tax revenues foregone by federal and provincial governments would be about C\$1 billion. Other proposals include tax incentives for research and development, for railway capital expenditures, and for energy development, and changes in the tariff schedules.

In total, federal expenditures and nominal GNP are projected to increase by 9 per cent and 11 per cent, respectively, in FY1978. The financial requirement is expected to be C\$11.5 billion, up from C\$8.5 billion during FY1977.

Government spokesmen in Germany have expressed doubt in recent weeks as to the likelihood of achieving the 3-1/2 per cent real GNP growth target for 1978. This pessimism, which is supported by a decline in new manufacturing orders in February, apparently stems from continued weakness of the dollar against the DM and, more importantly, from concern over union militancy. Since late January, strikes by dock workers, printers, and metal workers have made increased union militancy felt throughout Germany. Unions are demanding (and so far have received) wage increases in excess of government recommendations and contractual assurances of job or income security.

In Japan, very large current-account surpluses were recorded in January (\$1.6 billion) and February (\$1.9 billion); preliminary trade figures suggest that last month's surplus was also very large. Accordingly, the authorities have taken several additional steps to stimulate the domestic economy and to try to control the extremely strong upward pressure on the yen which developed during March. On March 15 the Bank of Japan reduced the discount rate by 0.75 per cent to 3.5 per cent, its lowest level in more than thirty years; other domestic interest rates have declined accordingly. At the same time, the marginal reserve requirement on free-yen deposits held in Japanese banks

by non-residents was raised to 100 per cent, and a prohibition was placed on purchases by non-residents of bonds of five years maturity or less.

The most visible economic impact of the victory of the center-right coalition in the recent French elections has been on financial markets. The average value of stocks traded on the Paris stock exchange rose by 18.5 per cent from March 10 to March 28, and bond yields have come down. The re-appointment of Prime-Minister Raymond Barre suggests that there will be continuity of the economic policies maintained in 1977 which aim at continued slowing of inflation and reduction of the current-account deficit. In light of electoral commitments, however, some shift towards larger government transfers and a larger budget deficit is expected. These factors, and other indicators, suggest a resumption of more vigorous growth in output in coming months.

There are signs that the decline in economic activity in Italy has halted and that a recovery may have started. Preliminary data indicate that industrial production in February was 8.3 per cent higher than the average for the fourth quarter of 1977. According to survey results, inventory levels, while still high, may have stabilized and business expectations for future levels of production and orders have improved.

In Sweden, the Employers' Confederation recently concluded 21-month agreements with the two major unions. Nominal wage increases were held to 1.6 to 1.9 per cent this year and 2.6 to 3.1 per cent for next year. However, contracts can be renegotiated if the inflation rate exceeds 7.2 per cent this year or 5 per cent next year, as is likely. Even without renegotiation, actual wage inflation will be higher due to wage drift.

Monetary conditions and monetary policy in major foreign countries. Both short- and long-term interest rates have continued to decline in the past several months, except in the United Kingdom and Canada (see Table). The decline reflects the still-weak state of economic activity, the moderation of inflation rates, and -- in Germany, Japan, and Switzerland -- sharp upward pressure in exchange markets and large official intervention, which has tended to increase domestic liquidity. The tendency for interest rates to decline was reinforced in Japan and Switzerland by cuts in central bank discount rates from 4.25 to 3.50 per cent in March and from 1.50 to 1.00 per cent in February, respectively. In France, short-term interest rates have declined over 200 basis points in the past month, following the pre-election runup.

Significant changes in growth rates of the monetary aggregates have occurred in Canada, where monetary growth seems to have slowed, and in Germany, where the growth of "central bank money" seems to have quickened (see Table).

After declining throughout most of 1977, British interest rates began to rise late in November when it became clear that the growth rate of sterling-denominated  $M_3$  ( $\pounds M_3$ ) threatened to exceed the 9-13 per cent target range for FY1977/78. The Bank of England's Minimum Lending Rate was raised from 5.0 to 7.0 per cent last November and, though it was lowered by 1/2 percentage point in January, it was raised to 7.5 per cent effective April 12. In his budget message on April 11, Chancellor Healey announced that, with  $\pounds M_3$  increasing about 1/2 per cent in March, the growth rate of

$M_3$  in FY1977/78 would exceed the target -- but only slightly -- and that the target for the next 12 months is now a range of 8-12 per cent; the target will be reviewed once every six months.

In an attempt to offset the persistent downward pressure on the exchange value of the Canadian dollar, the Bank of Canada raised its discount rate by one-half percentage point in March and by the same amount again in April; the rate now stands at 8.50 per cent. Although the growth rate of  $M_1$  in Canada lies within the 7-11 per cent target range, it is near the lower end of that range, so that the interest rate increases run somewhat counter to what domestic considerations alone would have dictated.

The Belgian National Bank has lowered its discount rate five times this year (from 9.0 to 5.5 per cent), thus reversing the sharp increases in that rate last December when downward pressure on the Belgian franc within the E.C. snake intensified.

The Bank of Italy extended until the end of July ceilings (in force since April 1977) on bank credit in lire to large commercial customers. It is likely that some form of ceilings on credits to the private sector will be required even after July, given the large public sector deficit to be financed and the high degree of liquidity forced on the banking system by current ceilings and by large sales of Treasury bills used to finance the deficit in the past.

**3-Month and Long-Term Interest Rates In Selected Industrial Countries**  
(per cent per annum)

	<u>1977</u>				<u>1978</u>	<u>Latest:</u>	Change from 1977 Q4 to latest
	<u>Q1</u>	<u>Q3</u>	<u>Q3</u>	<u>Q4</u>	<u>Q13</u>		
<b>3-Month Rates <sup>1/</sup></b>							
Belgium	7.72	6.94	6.42	6.79	7.15	5.50 (4/11)	-1.29
Canada	7.88	7.39	7.34	7.26	7.22	7.95 (4/11)	0.69
France	9.90	9.16	8.52	9.19	9.85	8.38 (4/11)	-0.19
Germany	4.68	4.41	4.10	4.04	3.48	3.55 (4/11)	-0.49
Italy	16.04	15.47	13.48	11.72	n.a.	11.75 (4/11)	0.03
Japan	7.40	6.09	5.94	5.46	5.15	4.50 (4/11)	-0.96
Netherlands	5.98	3.59	5.46	5.71	5.21	5.00 (4/11)	-0.71
Switzerland	1.93	3.46	2.60	2.25	0.63	0.25 (4/11)	-2.00
United Kingdom	11.80	8.01	6.90	5.71	6.59	7.31 (4/11)	1.60
United States	4.70	5.07	5.71	6.58	6.77	6.70 (4/11)	0.22
<b>Long-Term Gov't. Bond Yields <sup>2/</sup></b>							
Canada	8.82	8.70	8.61	8.77	9.17	9.21 (4/7)	0.44
France	10.65	10.92	10.81	10.86	n.a.	10.90 (3/24)	0.04
Germany	6.68	6.11	5.70	5.60	5.20	5.20 (3/31)	-0.40
Italy	14.72	14.71	14.58	14.25	14.06	14.06 (3/31)	-0.19
Japan	8.42	7.32	6.86	6.27	6.04	6.04 (3/31)	-0.23
Netherlands	7.55	7.15	7.18	7.37	n.a.	7.00 (3/10)	-0.37
Switzerland	3.96	4.38	3.94	3.75	2.49	2.49 (3/31)	-1.26
United Kingdom	11.63	12.24	9.44	9.57	10.20	10.18 (4/7)	0.61
United States	7.72	7.57	7.61	8.00	8.31	8.14 (4/7)	0.14

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- <sup>1/</sup> The 3-month rates are averages of daily rates. All are interbank rates, except; Canada - finance company paper rate; Japan - rate on paper of 2-month or greater maturity; U.S. - 90-day CD rate.
- <sup>2/</sup> Long-term yields are end-of-period quotations. The rates quoted are all government bond yields (mostly composite yields).

**Growth of the Money Stock in Selected Industrial Countries\***  
(seasonally adjusted)

	Percentage change from previous year		Percentage change from previous quarter at annual rates				Percentage change from previous month at monthly rates		
	1976	1977	1977				Dec.	Jan.	Feb.
			Q1	Q2	Q3	Q4			
Canada (M <sub>1</sub> )	8.1	8.5	8.9	10.3	11.8	12.2	2.0	-0.8	1.5
France (M <sub>2</sub> ) <sup>1/</sup>	12.8	13.9	14.3	8.9	15.8	12.7	1.7	n.a.	n.a.
Germany (CBM <sup>2/</sup> )	9.2	9.0	7.8	6.5	12.8	11.5	0.5	1.8	1.0
Japan (M <sub>2</sub> )	15.2	11.4	10.2	9.6	14.0	8.7	0.9	0.6	n.a.
Switzerland (M <sub>1</sub> ) <sup>3/</sup>	8.1	5.2	5.1	-0.5	-5.6	23.8	4.5	0.1	n.a.
United Kingdom (£ M <sub>3</sub> <sup>4/</sup> )	8.5	7.3	-7.4	10.9	11.6	16.9	0.9	2.3	1.1
United States (M <sub>1</sub> )	5.1	7.2	7.1	8.3	8.3	7.4	0.6	0.8	-0.1
(M <sub>2</sub> )	9.8	10.6	11.3	9.3	10.3	8.2	0.5	0.7	0.4

\* The aggregates shown in this table are those for which central banks have explicit targets or which are the focus of most attention.

<sup>1/</sup> For France, "percentage change from previous year" measures the change in the twelve months to December 1976 and to December 1977, respectively.

<sup>2/</sup> "Central Bank Money," approximately equal to a weighted sum of the components of M<sub>3</sub>.

<sup>3/</sup> Not seasonally adjusted.

<sup>4/</sup> "Sterling M<sub>3</sub>", or that part of M<sub>3</sub> denominated in sterling.

Appendix A\*

FOOD PRICES: RECENT DEVELOPMENTS AND THE OUTLOOK

Consumer food prices accelerated to nearly a 16 per cent annual rate of increase in early 1978, following an average rate of 3 per cent over the second half of 1977. Unlike early 1977, when the run-up of food prices resulted mainly from temporary bad weather effects, the recent increases apparently stem from fundamental changes in underlying determinants of prices and costs. Specifically, higher prices are reflecting curtailed supplies of meat in a period of rapid income growth and strengthening demand, rising labor costs, and government programs to support higher farm prices. Food price increases for 1978 as a whole now appear likely to be larger than the rise that was generally expected earlier. The Department of Agriculture, which until late March had been forecasting a 4 to 6 per cent increase in food prices between 1977 and 1978, now forecasts a rise of 6 to 8 per cent.

Table 1

CONSUMER FOOD PRICES  
(Per cent change, seasonally adjusted annual rate)

Category	Relative Importance In Total Food	Dec. 76 to Feb. 77	June 77 to Sept. 77	Sept. 77 to Dec. 77	Dec. 77 to Feb. 78
Total Food	100.0	19.2	1.9	4.2	15.9
Food at Home <sup>1/</sup>	69.1	21.8	.8	4.0	17.5
Meats, Poultry, Fish and eggs	22.3	21.2	-3.3	6.5	38.9
Dairy Products	9.3	-2.1	3.7	-3.8	5.6
Cereals and Bakery Products	8.6	1.4	7.2	4.8	12.0
Sugar and Sweets	2.5	16.5	1.7	4.3	13.2
Food Away From Home	30.9	9.8	5.9	4.6	13.5

<sup>1/</sup> Several items in Food at Home are not shown separately, including fruits and vegetables, nonalcoholic beverages, and fats and oils.

\* Prepared by John Rosine, Economist, Wages, Prices and Productivity Section, Division of Research and Statistics.



### Sources of Recent Price Acceleration

After declining in the summer of 1977, retail meat prices (CPI Meats, Poultry, Fish and Eggs) turned up in the fourth quarter and soared in January and February. These prices rose at a 39 per cent annual rate in the first two months of 1978, and accounted for one-half of the total increase in retail food prices over that period. Declining meat supplies appear to have been an important factor in the recent sharp price increases.<sup>1/</sup> Beef production, which has been trending lower for some time, appears for the first quarter to have been down more than 4 per cent from mid-1977, reflecting steep reductions in the Nation's cattle herd which have occurred over the past three years. Pork production also declined in the first quarter to a level below a year earlier, reversing production gains achieved in the second half of 1977.

Table 2

#### QUARTERLY MEAT PRODUCTION AND MEAT PRICES (Based on seasonally adjusted data)

Period	Per cent change from previous period		
	Beef <sup>1/</sup>	Pork <sup>1/</sup>	Consumer Price Index Meats, Poultry, and Fish (annual rate)
1976 - QI	4.5	6.1	-13.8
QII	-1.1	-.8	-3.2
QIII	4.4	11.7	-10.1
QIV	-5.4	7.6	-12.0
1977 - QI	1.2	-3.6	5.9
QII	.5	-.9	8.2
QIII	-.9	1.1	-1.3
QIV	-2.8	2.3	9.1
1978 - QI <sup>2/</sup>	-.4	-4.0	25.4

<sup>1/</sup> Commercial production, seasonally adjusted, not at annual rates.

<sup>2/</sup> Estimated. Production estimates based on final data for January and February and preliminary weekly data for March. Price estimate allows for 2.5 per cent increase in meats, poultry, and fish in the March CPI.

NOTE: Beef accounts for nearly two-thirds of total red meat production; pork, for about one-third.

<sup>1/</sup> USDA meat supply data have been seasonally adjusted by FRB staff, and the discussion of livestock trends in this section refers to the seasonally-adjusted series.

Minimum wage and payroll tax increases which took effect on January 1 also have contributed to the acceleration in food prices in early 1978. USDA data indicates that processing and marketing costs (the farm-to-retail spread) account for more than three-fifths of the total costs of producing food for home consumption. Labor inputs make up a large share of these nonfarm costs, and rising wages can add considerably to food prices even if farm prices do not rise at all. The most apparent impact of the recent minimum wage increase is on restaurant prices, which rose at a 13 per cent annual rate in early 1978, following moderate increases late last year. The impact on restaurant prices was especially large because labor accounts for a large share of total costs in restaurants; moreover, because of low wage rates prevailing in the industry, a large share of the work force is directly affected by a minimum wage increase. "Food Away from Home" (restaurant food) has the largest weight of any food group in the Consumer Price Index, and large price increases in this group early this year have accounted for about one-fourth of the total increase in retail food prices. Location of these price pressures should occur as pass-through of minimum wage increases is completed late this year.

Actions taken last year by Congress and the Administration are also affecting food prices early this year. The 1977 Farm Bill raised U.S. sugar prices above world levels, and retail sugar prices have been rising recently, even though world supplies are quite abundant. Grain prices are also currently higher than would have been the case but for a number of government actions to support grain prices and raise farm incomes. Ultimately increases in grain prices are passed on to consumers either through higher prices for cereals or for meat products.

The most recent Administration actions to boost grain prices, taken in late March, included (a) cash incentives to crop farmers to take land out of production--in addition to acreage "set-aside" programs **announced earlier--and, (b) expanded diversion of supplies from commercial channels into grain reserve programs.** These actions may not affect retail food prices for some time and the ultimate price impact will depend on how much land farmers retire in response to the cash incentives in the program. Since the cash incentives in this latest program appear to be relatively small, it is possible that not much additional acreage will actually be removed from production.

Legislation which cleared a house-Senate conference committee on April 4 and was approved by the Senate on April 10 would offer farmers considerably larger incentives to retire acreage from production than the Administration's latest program. Estimates of the price impact of the bill suggest that it would add 2 or 3 per cent to food prices or about

1/2 per cent to the general price level. Administration officials have said that if the committee bill is approved by Congress the President will veto it.

### The Near-Term Price Outlook

Evidence available in early April points to further sizable near-term increases in retail food prices. Wholesale prices for foods rose again in the March Wholesale Price Index. Prices for meats and livestock were up sharply for the sixth consecutive month. Further price increases for cattle occurred following the mid-March WPI pricing date.

Table 3

PRODUCER (WHOLESALE) FOOD PRICES  
(Per cent change, seasonally-adjusted annual rate)

Category	June 1977	Sept. 1977	Dec. 1977
	to Sept. 1977	to Dec. 1977	to Mar. 1978
Consumer Finished Foods	-2.3	7.4	21.0
Intermediate Foods and Feeds	-44.0	26.6	44.3
Crude Farm Products <u>1/</u>	-21.3	17.9	44.0

1/ Includes some nonfood items, mainly fibers, leaf tobacco, and part of oilseeds.

Expectations of a sharp rebound in pork supplies were reversed this past month by a USDA survey which showed much smaller inventories of hogs on U.S. farms than analysts had been expecting. The survey also indicated that since a previous survey in December, producers have scaled back considerably their expansion plans for 1978. If these survey data accurately reflect this year's pork supply prospects then pork production will be up only moderately from 1977, and with the expected decline in beef production, total meat supplies in 1978 would likely be less than in 1977. Judging from past experience, a decline in meat supplies in 1978 of 2 or 3 per cent--which now seems plausible--could generate retail meat price increases over the year of 10 to 15 per cent.

Table 4

## MEAT PRODUCTION AND MEAT PRICES FOR SELECTED YEARS

Year	Commercial Red Meat Production <sup>1/</sup>	Consumer Price Index Meats, Poultry and Fish <sup>2/</sup>
1965	-3.3	11.2
1969	.3	11.2
1972	-1.9	10.3
1973	-5.9	26.4
1975	-3.0	15.7
1976	7.9	-10.0
1977	.4	7.0

<sup>1/</sup> Per cent change from previous year.

<sup>2/</sup> Per cent change, December to December.

Partly in response to the USDA's surprising "Hogs and Pigs" survey, futures prices for livestock have risen sharply over the last month. At the beginning of March, futures prices for livestock were still indicating a modest price advance from December 1977 to December 1978. By the beginning of April, the increase over the year had widened to about 12 per cent. Most of the additional rise was indicated for prices over early 1978; the term structure of futures prices in early April, as in early March, indicated a leveling off in livestock prices over the second half of 1978.<sup>2/</sup>

<sup>2/</sup> While current futures prices thus provide some reason to hope for a leveling off of meat prices in the second half, it should be noted that supply movements in the livestock sector are frequently quite volatile and that consequently, current futures prices often do not provide good forecasts of future cash prices.

Table 5

LIVESTOCK PRICE TRENDS AS INDICATED BY FUTURES PRICES<sup>1/</sup>  
(Per cent change)

Period	Pricing Date (Beginning of Month)	
	March	April
December 1977 to December 1978	2.3	11.3
1978: February to April	-3.2	+6.8
April to June	-2.4	-3.0
June to August	-.2	.1
August to October	-.3	-.4
October to December	1.0	.4

<sup>1/</sup> Futures prices for live cattle and live hogs, weighted using WPI weights and seasonally adjusted using WPI seasonal factors for livestock.

Dairy prices also are expected to add to food costs. Under existing legislation, which authorizes periodic upward revisions in dairy price supports as farmers' costs rise, dairy price supports were increased 4.8 per cent effective April 1 of this year. This increase is expected to be quickly passed through to retail prices.

#### Long-Run Food Price Determinants

The main long-run determinants of food prices--worldwide weather and growing conditions--are not predictable. Other factors which are more predictable suggest that food prices will continue to be under strong upward pressures.

Costs of processing and marketing food products will rise further in coming years as already legislated step increases in minimum wages take effect. In addition, if historically low rates of increase in productivity in some food sectors (retailing; eating and drinking establishments) continue into the future, then a large portion of the wage increases will be translated into higher unit labor costs.

Efforts of farmers to obtain legislated adjustments in price support levels are likely to continue so long as farm production costs keep rising with inflation. Indeed, in assessing long-run food price prospects it seems reasonable--given the prevailing political environment--to anticipate recurring legislated increases in farm price support levels to help farmers stay even with inflation.

A cyclical downtrend in beef production--which appears likely to last into the early 1980's--will provide an additional source of upward pressure of food prices, unless there is an unexpectedly strong, and sustained expansion in the production of other meat products.