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## **Part 2**

March 14, 1979

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

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# **DOMESTIC NONFINANCIAL SCENE**

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March 14, 1979

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	Feb.	3-9-79	102.5	4.0	3.5	3.4
Unemployment rate (%) <u>1/</u>	Feb.	3-9-79	5.7	5.8	5.8	6.1
Insured unemployment rate (%) <u>1/</u>	Feb.	3-9-79	3.0	3.1	3.0	3.6
Nonfarm employment, payroll (mil.)	Feb.	3-9-79	87.8	4.1	3.4	4.3
Manufacturing	Feb.	3-9-79	20.9	4.2	5.5	3.7
Nonmanufacturing	Feb.	3-9-79	66.9	4.1	2.7	4.4
Private nonfarm:						
Average weekly hours (hr.) <u>1/</u>	Feb.	3-9-79	35.7	35.7	35.8	35.7
Hourly earnings (\$) <u>1/</u>	Feb.	3-9-79	5.97	5.94	5.86	5.49
Manufacturing:						
Average weekly hours (hr.) <u>1/</u>	Feb.	3-9-79	40.6	40.7	40.7	40.1
Unit labor cost (1967=100)	Jan.	3-1-79	171.4	7.0	10.0	4.4
Industrial production (1967=100)	Jan.	2-15-79	150.7	1.6	5.4	8.6
Consumer goods	Jan.	2-15-79	150.8	.8	4.3	6.3
Business equipment	Jan.	2-15-79	168.5	.7	3.8	10.4
Defense & space equipment	Jan.	2-15-79	88.4	11.0	7.8	10.9
Materials	Jan.	2-15-79	153.3	.0	5.0	10.1
Consumer prices all items (1967=100)	Jan.	2-23-79	205.0	10.0	8.4	9.3
All items, excluding food & energy	Jan.	2-23-79	197.0	6.1	6.2	8.6
Food	Jan.	2-23-79	224.5	17.4	12.1	12.3
Producer prices: (1967=100)						
Finished goods	Feb.	3-8-79	207.3	12.3	12.7	10.0
Intermediate materials, nonfood	Feb.	3-8-79	229.6	11.1	11.3	8.9
Crude foodstuffs & feedstuffs	Feb.	3-8-79	245.6	45.1	27.1	21.0
Personal income (\$ bil.) <u>2/</u>	Jan.	2-16-79	1815.4	5.2	10.6	12.4
						(Not at annual rates)
Mfrs. new orders dur. goods (\$ bil.)	Jan.	3-5-79	81.3	3.5	5.7	28.4
Capital goods industries	Jan.	3-5-79	25.1	-.1	-1.5	29.3
Nondefense	Jan.	3-5-79	22.3	7.4	.5	35.3
Defense	Jan.	3-5-79	2.7	-36.5	-15.7	-4.9
Inventories to sales ratio: <u>1/</u>						
Manufacturing and trade, total	Dec.	3-9-79	1.37	1.38	1.40	1.41
Manufacturing	Dec.	3-5-79	1.48	1.46	1.49	1.58
Trade	Dec.	3-9-79	1.27	1.27	1.29	1.30
Ratio: Mfrs.' durable goods inven- tories to unfilled orders <u>1/</u>	Jan.	3-5-79	.552	.560	.575	.618
Retail sales, total (\$ bil.)	Feb.	3-12-79	71.5	.6	4.2	16.1
GAF <u>3/</u>	Feb.	3-12-79	15.1	.0	-.5	10.7
Auto sales, total (mil. units.) <u>2/</u>	Feb.	3-5-79	11.3	3.1	4.0	8.2
Domestic models	Feb.	3-5-79	9.0	1.0	2.2	5.7
Foreign models	Feb.	3-5-79	2.3	12.6	11.7	19.2
Plant & Equipment expen. (\$ bil.) <u>4/</u>						
All Industries	1979	3-12-79	171.14	---	---	11.3
	1979 QI	3-12-79	164.23	.2	---	13.9
	1979 QII	3-12-79	167.52	2.0	---	11.1
	2nd HALF	3-12-79	176.09	---	---	19.4
Capital Appropriations, Mfg.	QIV '78	3-5-79	19,229	17.1	---	13.7
Housing starts, private (thous.) <u>2/</u>	Jan.	2-16-79	1,656	-19.7	-19.4	-5.0
Leading indicators (1967=100)	Jan.	3-1-79	136.5	-1.2	-1.7	1.6

1/ Actual data used in lieu of per cent changes for earlier periods.2/ At annual rate.3/ Excludes mail order houses.4/ Planned-Commerce January 1979 Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

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Economic activity moderated early in the year from the brisk pace of the last quarter of 1978, to some extent the result of adverse weather. Retail sales have shown relatively small gains over the past two months. Employment rose considerably further in February; however, industrial production apparently increased only a little following virtually no gain in the preceding month. Housing starts fell sharply in January, apparently reflecting both the effects of severe weather on construction activity and tighter market conditions. Indicators of business spending, however, still show appreciable near-term strength for capital goods, and there was a large rise in the book value of manufacturers' stocks in January. Price increases have accelerated sharply in recent months, with especially rapid increases reported for food, energy, and many industrial materials.

Employment and Production

Demand for labor continued strong in February, as employment at nonfarm establishments rose 300,000--almost matching the brisk gains of the preceding four months. Sizable increases again were reported for retail trade, while employment in contract construction declined for a second month. In manufacturing, employment growth continued relatively robust. The February 75,000 increase in factory jobs was concentrated wholly among producers of durable goods, with particularly large gains in the machinery and transportation equipment industries. But reduced workweeks in a number of nondurable industries resulted in a 0.1 hour decline in the average factory workweek.



CHANGES IN EMPLOYMENT <sup>1/</sup>  
 (Thousands of employees; based on seasonally adjusted data)

	1977	1978	1978			1979		
			HI	QIII	QIV	Jan.	Feb.	
			- - - Average monthly changes - - -					
<u>Nonfarm payroll employment</u> <sup>2/</sup>	284	297	380	56	373	184	301	
Manufacturing	66	62	55	-10	148	83	73	
Durable	50	53	43	19	108	62	82	
Nondurable	16	9	12	-29	39	21	-9	
Construction	30	37	54	7	33	-18	-31	
Trade	79	66	84	45	50	100	130	
Services and finance	82	79	78	71	90	10	80	
State and local government	28	16	47	-44	15	1	6	
Private nonfarm production workers	215	224	260	69	306	62	261	
Manufacturing production workers	52	45	37	-20	128	81	74	
<u>Total employment</u> <sup>3/</sup>	343	275	347	123	282	445	347	
Nonagricultural	338	268	327	129	288	600	267	

<sup>1/</sup> Changes are from final month of preceding period to final month of period indicated.

<sup>2/</sup> Survey of establishments. Not strike adjusted.

<sup>3/</sup> Survey of households.

SELECTED UNEMPLOYMENT RATES  
 (Per cent; based on seasonally adjusted data)

	1973	1978				1979	
	Annual average	QI	QII	QIII	QIV	Jan.	Feb.
Total, 16 years and older	4.9	6.2	6.0	6.0	5.8	5.8	5.7
Teenagers	14.5	16.9	16.1	16.1	16.3	15.7	16.1
20-24 years old	7.8	10.2	9.5	9.4	9.0	8.6	8.6
Men, 25 years and older	2.5	3.5	3.3	3.3	3.2	3.2	3.2
Women, 25 years and older	4.0	5.0	5.1	5.2	4.9	5.0	4.9
White	4.3	5.4	5.2	5.2	5.1	5.1	4.9
Black and other	8.9	12.4	12.1	11.7	11.5	11.2	11.9
Fulltime workers	4.3	5.7	5.5	5.5	5.2	5.2	5.2
White collar	2.9	3.6	3.6	3.6	3.3	3.3	3.4
Blue collar	5.3	7.2	6.7	6.8	6.7	6.4	6.4
Craft and kindred	3.7	5.1	4.4	4.4	4.6	4.5	4.7
Operatives, ex. transport	6.1	8.3	8.2	8.4	7.6	7.6	7.6

Total employment, as measured by the household survey, also posted a large gain (350,000) in February. The unemployment rate, however, was little changed at 5.7 per cent; during the past seven months, the jobless rate has remained at just below 6 per cent. Most indicators are showing relatively little labor market slack for experienced and skilled groups such as adult men (aged 25 to 54 years) or blue-collar craft and operative workers. Moreover, in the manufacturing sector, the average factory workweek (40-2/3 hours) and average overtime (3-3/4 hours) have stood at or near their 1973 peaks since the third quarter of 1978 and the layoff rate (0.8 per hundred employees in January) has been about equal to its 1973 low.

Industrial production apparently increased only a small amount in February, after being little changed in January. During the fourth quarter the monthly increases averaged 0.6 per cent. Auto assemblies were at about an 8.9 million unit annual rate in both January and February--off sharply from the 9.5 million rate in the fourth quarter; these lower rates reflected some weather-related production problems as well as reductions to assembly schedules for inventory control. Weekly data on raw steel production suggest little change in February following a sharp weather-related decline in the previous month, but the level of production in the steel industry remains quite high compared to a year ago. Coal production declined further in February.

With growth of production slowing, capacity utilization in the manufacturing sector was little changed in both January and February.

Even so, the manufacturing utilization rate in February--at about 86 per cent--remained only 2 percentage points below the 1973 high. Operating rates for most materials industries showed somewhat more slack, although utilization rates in durable goods industries such as metals have moved up sharply during the past year.

#### Personal Income and Consumer Spending

Total personal income rose only \$8 billion at an annual rate in January following sizable gains in the three preceding months. Wage and salary disbursements advanced at about the same pace as in November and December, reflecting a large boost in the Federal minimum wage. However, two special factors acted to pull down the January rise in total income: upward adjustments in payroll taxes to finance social security, which are deducted from the personal income totals, and a sharp drop in Government payments to grain farmers, which were bunched in December. Reflecting the relatively small rise in nominal income and an acceleration in consumer price increases, real personal income in January fell at a 4-3/4 per cent annual rate, following three consecutive months of increases.

Consumer spending slowed early in the year from the exceptionally strong increases of the fourth quarter. Retail sales excluding autos and mainly nonconsumer items advanced 1.1 per cent in February, following a 0.5 per cent decline in January. February sales in real terms were undoubtedly below the December level. Furniture and appliance sales continued to rise rapidly in February, but a sharp drop in apparel outlays

PERSONAL INCOME  
(Based on seasonally adjusted data)

	1977	1978				1979
		HI	QIII	QIV	Dec.	Jan.
- - Average monthly change, in billions of dollars - -						
Total personal income	\$12.3	\$14.4	\$16.3	\$21.0	\$21.8	\$ 7.9
Nonagricultural income	12.1	14.9	16.0	18.4	16.6	11.0
Agricultural income	.3	-.5	.4	2.5	5.2	-3.1
Wage and salary disbursements	7.8	11.9	7.2	13.6	11.5	11.8
Private	6.7	10.9	6.4	11.6	10.5	10.1
Manufacturing	2.4	2.9	1.8	5.2	4.4	2.1
Other income	5.0	3.7	9.5	8.0	10.8	1.6
Less: Personal contributions for social insurance	.5	1.1	.4	.6	.5	5.5
- - Percentage change, compound annual rates <u>1/</u> - -						
Total personal income						
Current dollars	11.4	11.0	12.2	13.5	14.6	5.2
Constant dollars <u>2/</u>	4.4	1.1	3.1	4.0	6.9	-4.8
Wage and salary disbursements						
Current dollars	11.0	14.3	8.7	13.6	12.0	12.2
Constant dollars <u>2/</u>	4.1	4.1	-.1	4.1	4.3	2.1

1/ Changes over a period longer than one quarter are from final quarter of preceding period to final quarter of period indicated. Monthly per cent changes at annual rates, not compounded.

2/ Deflated by the CPI for all urban consumers, seasonally adjusted.

left the GAF grouping of stores (general merchandise, apparel, and furniture and appliance)--often an indicator of underlying consumer demand--unchanged over the month.

Sales of domestic and foreign autos were at an 11.3 million unit annual rate in February, slightly above the January rate and the pace for the second half of 1978. Sales of domestic units at a 9.0 million annual rate were little changed from the levels so far reported for the 1979 model year, but there was a surge in small car sales. Sales of imports, at a 2.3 million unit rate, were the highest in almost 2 years. The sharp shift in market shares in February toward more energy-efficient cars--both domestic and foreign--probably reflected renewed concern about higher gas prices and potential gasoline shortages.

#### Business Investment

Business spending commitments suggest the continued rapid growth of capital outlays in the near-term. New orders for nondefense capital goods increased 7.4 per cent in January to a level 5.4 per cent above the advanced fourth quarter rate. Bookings for machinery, which are a good reflection of the underlying demand for capital equipment, rose 3.5 per cent in January, after an 8.8 per cent rise for the fourth quarter as a whole. Another large increase occurred in January in the nonmachinery area of nondefense capital goods orders, which consists mostly of aircraft and ships.

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

	1978				1979	
	QIII	QIV	Feb./QIV	Dec.	Jan.	Feb.
Total sales	2.5	4.2	2.1	1.1	.2	.6
(Real) <u>1/</u>	4.8	-1.0	n.a.	.2	.8	n.a.
Total, less auto and nonconsumption items	2.6	4.0	1.3	1.2	-.5	1.1
GAF <u>2/</u>	2.6	3.2	-.8	1.0	-2.2	.0
<u>Durable</u>	3.3	5.7	1.7	.8	.4	.0
Auto	1.8	4.6	4.0	.9	3.4	-.3
Furniture & appliances	2.6	3.9	3.6	.1	1.6	1.3
<u>Nondurable</u>	2.1	3.4	2.3	1.2	.0	1.0
Apparel	4.4	4.4	-5.4	-.4	-3.2	-3.2
Food	2.1	3.1	3.2	1.1	2.2	-.1
General merchandise <u>3/</u>	1.8	2.5	-.7	2.2	-3.2	.7
Gasoline	.8	4.2	3.0	.3	1.8	.7

1/ Deflated by all commodities SA consumer price index component.

2/ General merchandise, apparel, furniture and appliance stores.

3/ General merchandise excludes mail-order nonstores; mail-order sales are also excluded in the GAF composite sales summary.

AUTO SALES  
(Seasonally adjusted annual rates; millions of units)

	1978			1979	
	QIII	QIV	Dec.	Jan.	Feb.
Total	11.2	11.1	11.1	11.0	11.3
Imports	2.0	2.0	1.9	2.1	2.3
Domestic	9.2	9.1	9.2	8.9	9.0

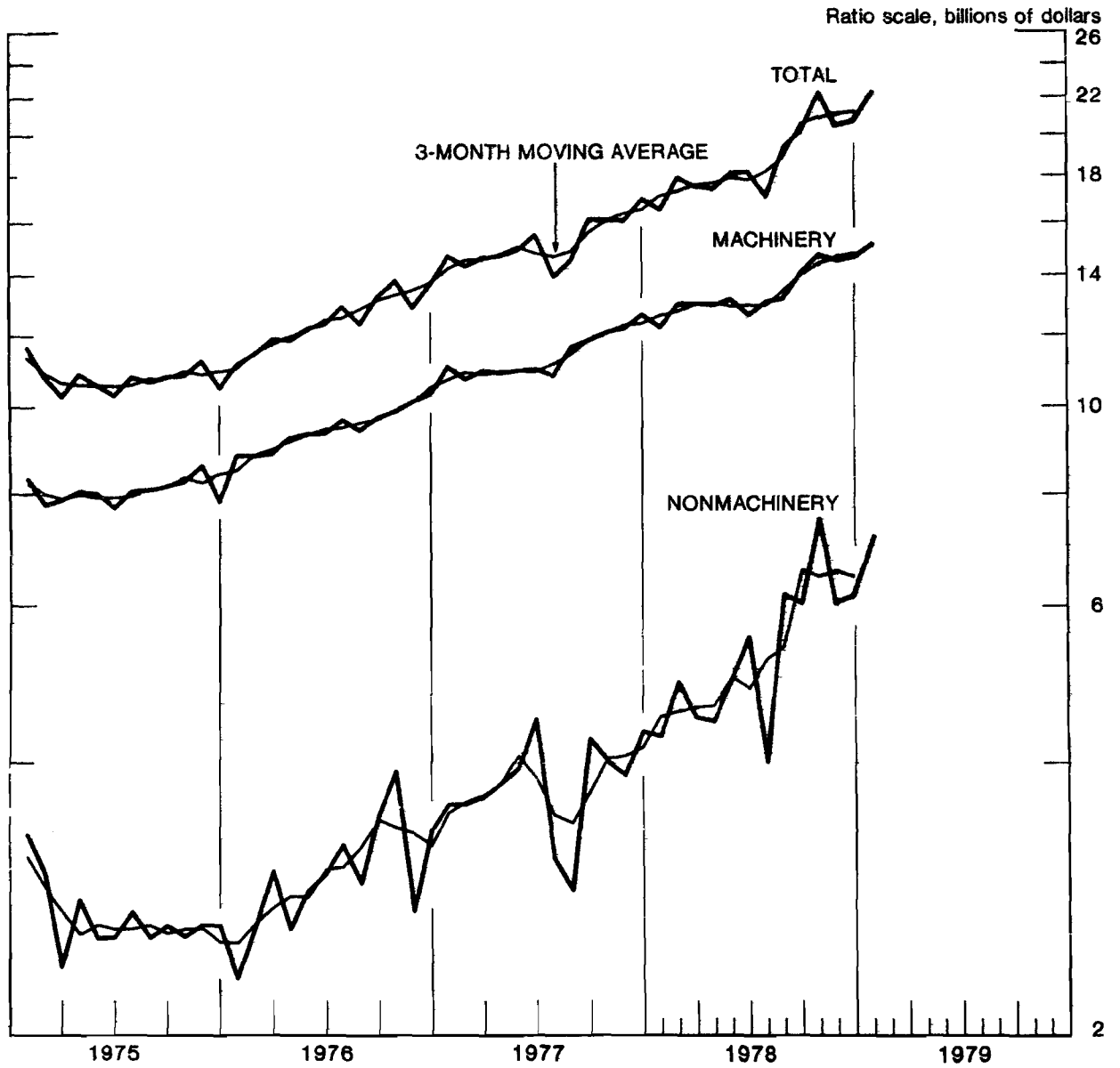
CONTRACTS AND ORDERS FOR PLANT AND EQUIPMENT <sup>1/</sup>  
 (Percentage change from preceding comparable period, seasonally adjusted)

	1978					1979	Jan. 1978
	QI	QII	QIII	QIV	Dec.	Jan.	to Jan. 1979
<u>Current dollars</u>							
Total	13.4	-6.0	11.6	11.0	.4	5.9	22.1
Nondefense capital goods orders	5.6	3.5	5.3	12.5	1.0	7.4	35.2
Construction contracts <sup>2/</sup>	61.2	-44.0	57.9	4.2	-2.9	-2.7	-23.7
<u>1972 dollars</u>							
Total	11.1	-7.0	8.4	8.8	-.4	5.2	13.4
Nondefense capital goods orders	3.5	2.4	2.9	10.3	.2	6.5	26.3
Construction contracts <sup>2/</sup>	59.8	-45.9	50.7	.9	-3.8	-2.4	-32.4

<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., electrical utilities, pipelines, etc.).

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

ORDERS FOR NONDEFENSE CAPITAL GOODS  
(Billions of dollars, S.A.A.R.)





Decisions to undertake new business building activity appear less robust than commitments for new equipment spending. Nonresidential construction contract awards fell in January for the third month in a row from the high October level, and the value of contracts awarded in January was about the same as the monthly average value awarded during 1978.

Despite the continued strength of new orders, surveys of business spending intentions still suggest a quite moderate growth in capital spending for 1979 as a whole. The Commerce Department's February survey of business plant and equipment spending reports that firms plan to increase their capital expenditures 11.3 per cent in 1979, virtually unchanged from the reading reported in January and off from the 13.3 per cent increase in 1978. Upward revisions in spending plans were indicated for the manufacturing sector, especially among durable goods producers, while other sectors revised downward somewhat their earlier-expected growth in these expenditures.

Newly approved appropriations by manufacturers, which typically lead expenditures by three to four quarters, appear generally consistent with recent survey results. These appropriations were up sharply in the latter half of 1978, following a marked slowing earlier. During the four quarters of 1978, manufacturers' appropriations rose 15-1/2 per cent, about the same as the increase in 1977.

The book value of manufacturers' inventories rose at a seasonally adjusted annual rate of \$41 billion in January, up sharply from the moderate \$14-1/2 billion increase in December. The large January inventory investment

MANUFACTURERS' NEWLY APPROVED CAPITAL  
APPROPRIATIONS NET OF CANCELLATIONS  
(Seasonally adjusted)

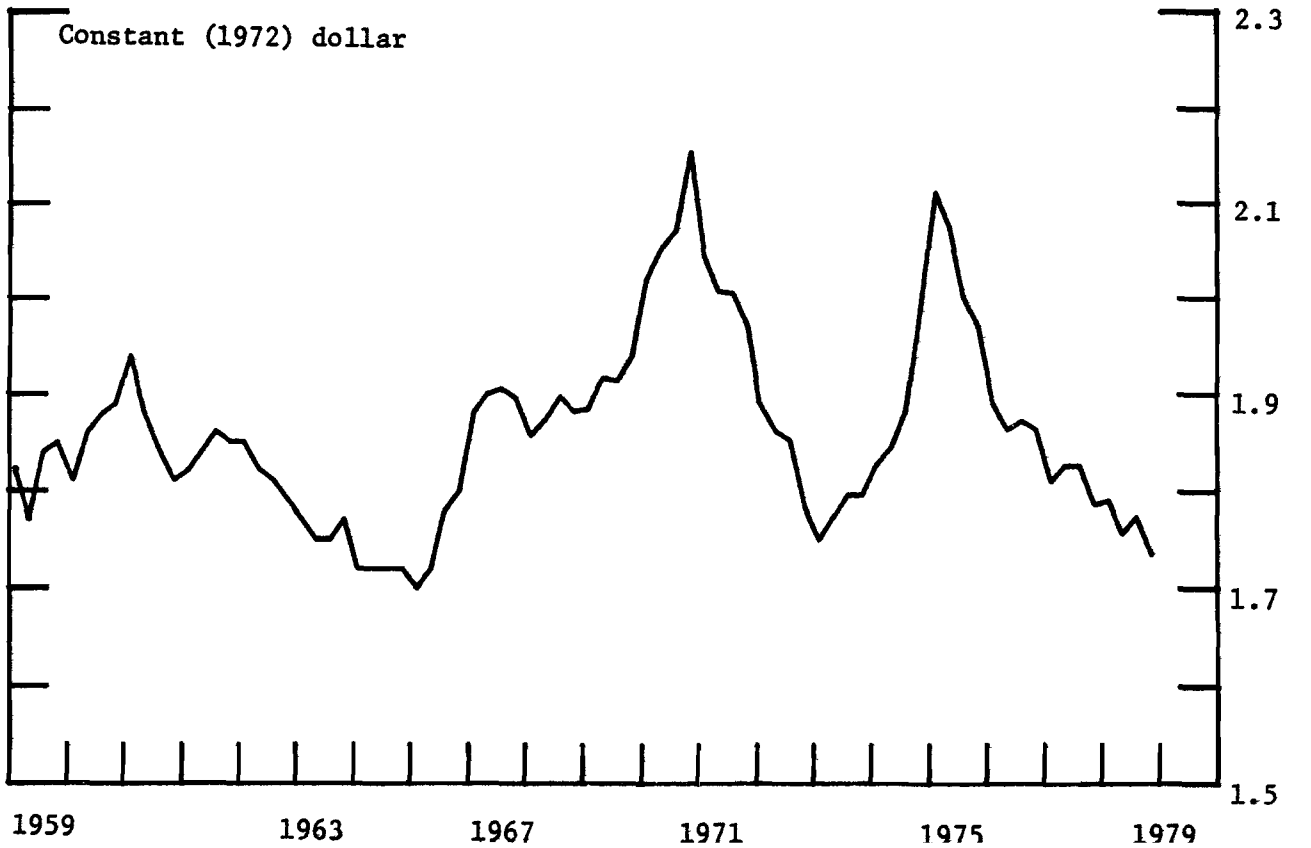
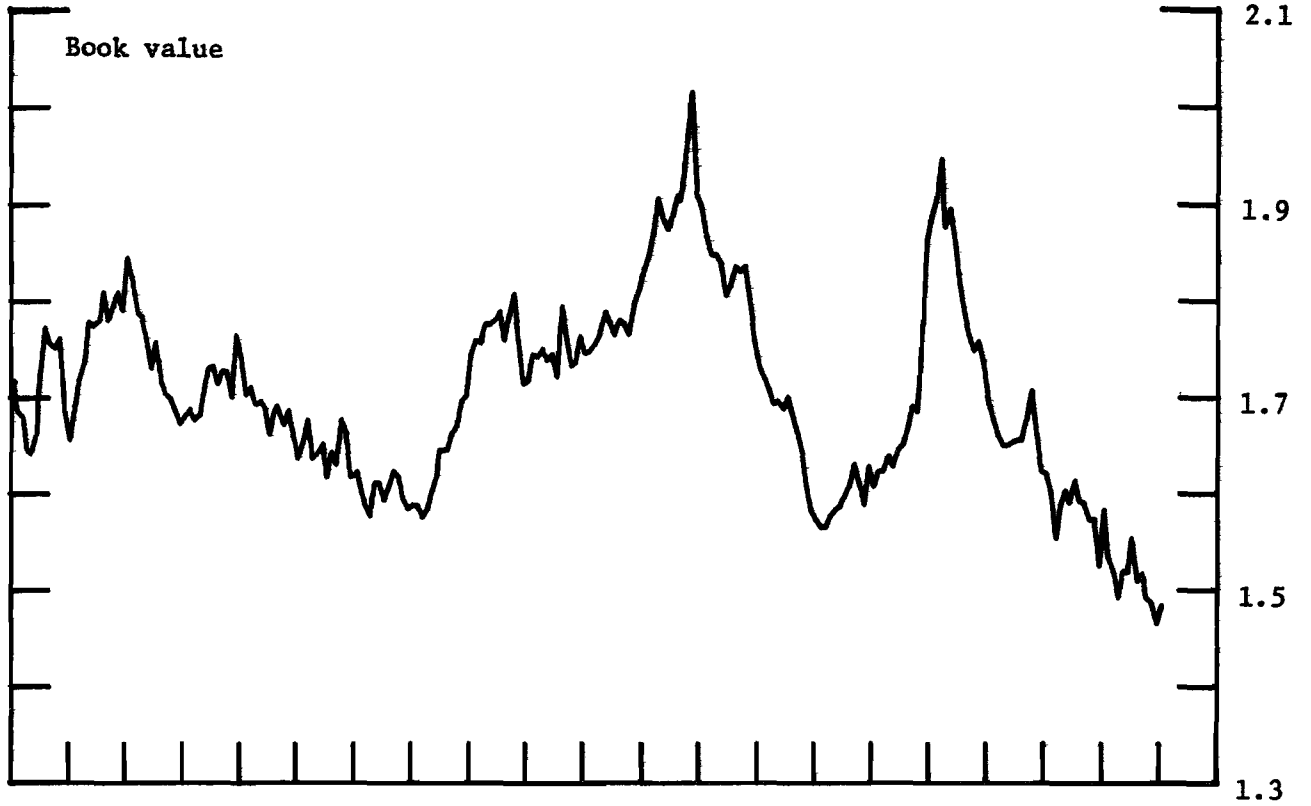


was accompanied by essentially unchanged shipments--probably reflecting some weather-related delivery problems, and the ratio of inventory book values to sales for all manufacturers edged upward in January after falling for three consecutive months. Nonetheless, the manufacturers' stock-sales ratio in book value terms is still low on an historical basis.

As was the case throughout most of 1978, January accumulation by manufacturers was concentrated in durable goods. Heavy stock building was reported by producers of both nonelectrical and electrical machinery and transportation equipment--primarily motor vehicles and parts. The book value of nondurable inventories also grew substantially with the largest increases in stocks of food and rubber products, in part reflecting recent rapid price increases.

The January accumulation at manufacturers' was the largest in more than four years. However, the over-all rate of accumulation during the fourth quarter was relatively low in light of the substantial strength in final demands and, as a result, some building of stocks might be expected early this year. Indeed, if sales had increased in January at the average rate experienced during 1978, inventory accumulation at about a \$29 billion annual rate would have been needed just for manufacturers to maintain the very low December stock-sales ratio. The January accumulation was fairly evenly divided by stage-of-fabrication, which does not suggest significant speculative stock-building of materials and supplies.

INVENTORY/SALES RATIOS  
MANUFACTURING



**BUSINESS INVENTORIES**  
(Annual rate of change in seasonally  
adjusted book values; billions of dollars)

	1977		1978				1979	
	QIII	QIV	QI	QII	QIII	QIVr	Dec.r	Jan.p
Manufacturing and trade	25.2	17.8	44.2	44.3	31.3	38.4	37.6	n.a.
Manufacturing	10.2	2.8	16.6	22.8	18.0	15.0	14.6	41.1
Durable	7.7	3.8	13.2	15.9	14.0	11.9	9.4	29.6
Nondurable	2.4	-1.0	3.4	6.9	4.1	3.1	5.2	11.5
Trade, total	15.0	14.9	27.6	21.5	13.3	23.4	23.1	n.a.
Wholesale	4.7	7.5	19.5	11.8	4.8	13.9	21.8	13.5
Retail	10.3	7.4	8.1	9.8	8.5	9.5	1.3	n.a.
Auto	1.5	2.9	.9	.2	-.2	6.8	7.0	n.a.

1/ Revised.  
2/ Preliminary.

**INVENTORY TO SALES RATIOS**

	1977		1978				1979	
	QIII	QIV	QI	QII	QIII	QIVr	Dec.r	Jan.p
Manufacturing and trade	1.48	1.44	1.46	1.42	1.43	1.39	1.37	n.a.
Manufacturing	1.61	1.56	1.56	1.52	1.54	1.49	1.46	1.48
Durable	1.96	1.90	1.90	1.86	1.87	1.80	1.76	1.79
Nondurable	1.22	1.18	1.17	1.15	1.16	1.13	1.11	1.12
Trade, total	1.35	1.33	1.36	1.31	1.32	1.30	1.29	n.a.
Wholesale	1.24	1.23	1.27	1.20	1.20	1.20	1.19	1.22
Retail	1.44	1.42	1.45	1.42	1.43	1.40	1.38	n.a.

r = Revised.  
p = Preliminary.

The book value of wholesale trade inventories rose at a seasonally adjusted annual rate of \$13-1/2 billion in January, down from the upward revised December rate but still above the average for last year. The increase in these stocks was concentrated in the nondurable sector with large gains in the food area, probably reflecting rapid advances in prices.

#### Residential Construction

Housing activity appears to have slowed in recent months, although part of the decline appears to have been weather-related. Total private housing starts dropped to 1.66 million units in January--nearly 20 per cent below December's downward revised figure. The sharp fall in starts in January was concentrated in the single-family sector, down 26 per cent from the strong December pace. Much of this decline occurred in regions experiencing severe winter weather (North Central States) or abnormally high precipitation (Western States). In addition to the effects of adverse weather, there are indications that underlying housing demand may have weakened somewhat. Sales of both new and existing homes were off in January, with the largest declines occurring in the South where weather conditions apparently were not a factor. Reflecting the slower rate of sales, inventories of new unsold homes represented a 6.4 months' supply in January, up from 6.1 months' supply in the previous month.

In the multifamily sector, starts have fallen for three consecutive months and in January were about 16 per cent below the October level, which was bolstered by Federally supported units. Nevertheless,

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

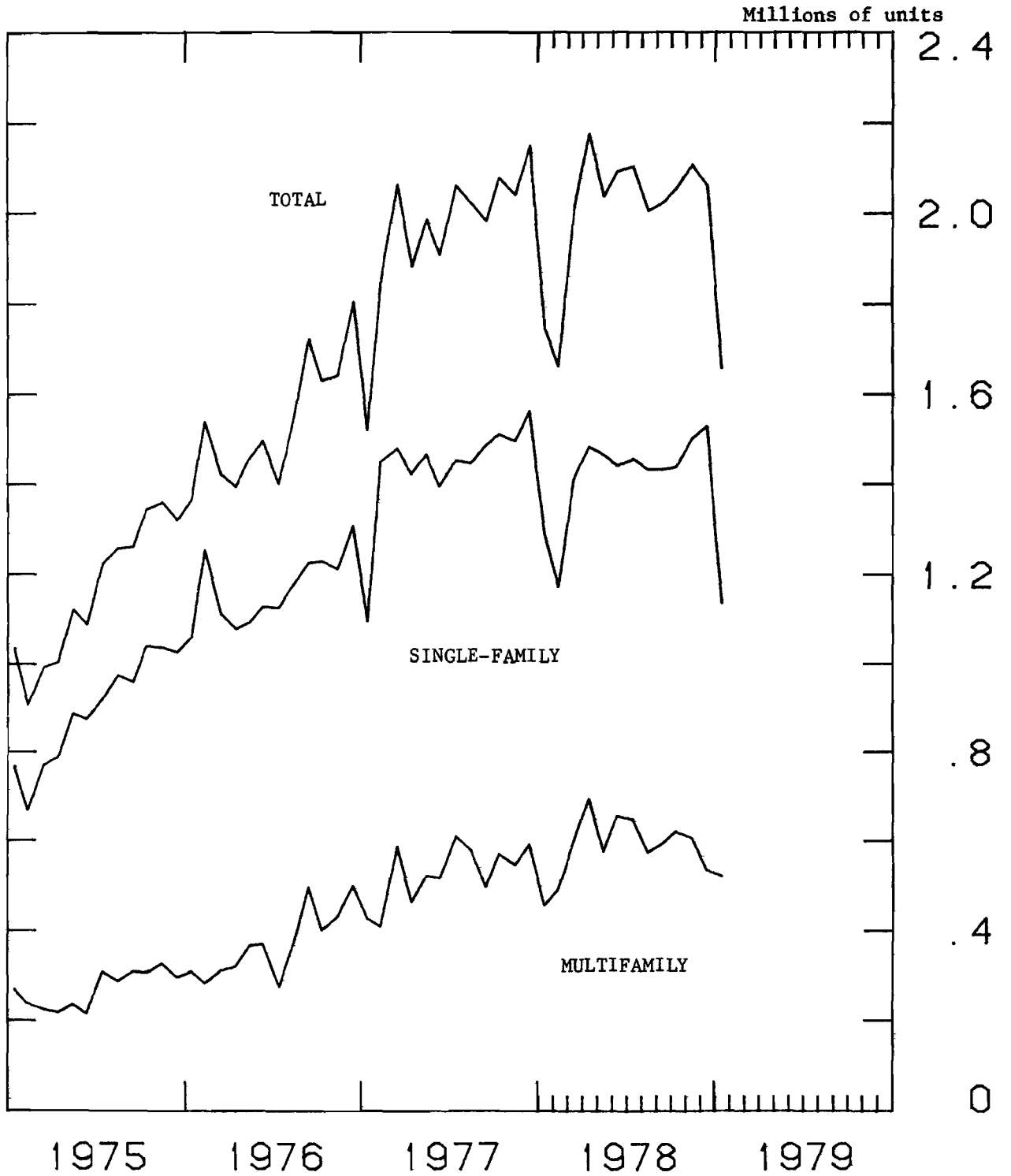
	1978					1979 Jan.
	Annual	QIII	QIV <sup>1/</sup>	Nov. <sup>1/</sup>	Dec. <sup>2/</sup>	
<b>Total</b>						
Permits	1.66	1.64	1.71	1.72	1.66	1.36
Starts	2.02	2.04	2.07	2.11	2.06	1.66
<b>Single-family</b>						
Permits	1.08	1.05	1.13	1.11	1.15	.86
Starts	1.43	1.44	1.49	1.50	1.53	1.14
<b>Sales</b>						
New homes	.82	.80	.84	.81	.81	.78
Existing homes	3.91	3.97	4.27	4.35	4.16	3.71
<b>Multifamily</b>						
Permits	.58	.59	.57	.61	.52	.50
Starts	.59	.60	.59	.61	.53	.52
Mobile home shipments	.28	.26	.29	.28	.30	.30

<sup>1/</sup> Regular monthly revision.

<sup>2/</sup> Preliminary.

Note: Seasonally adjusted housing starts data revised for all months in 1978.

NEW PRIVATE HOUSING STARTS  
(Seasonally adjusted annual rate)





the most recent data on rental units still show continued historically low vacancy rates in all areas of the country, and support for multifamily units from HUD's Section 8 rental assistance program remains a source of strength in the near term. There are no large inventories of unsold condominiums such as those that presaged the sharp decline in multifamily starts in 1973-1974.

#### Government Sector Activity

For the first four months of the current fiscal year, the Federal government deficit (not seasonally adjusted) totaled \$26.5 billion, about \$6 billion below a year earlier. To date, outlays are proceeding about in line with OMB's Budget expectations. However, Federal tax receipts have come in larger than expected in recent months, especially in the withheld tax category.

Incoming data continue to indicate moderate growth in State and local government spending. State and local employment rose slightly in February, after remaining unchanged in January, but the level was still below the peak of last June. Construction outlays as measured by the value of new construction put-in-place declined about 7 per cent in January; despite this, these outlays in real terms were still more than 10 per cent above the year-earlier level.

#### Prices and Wages

So far this year, most measures of inflation have shown marked acceleration from the second half of last year. Consumer prices in

January rose at a 10 per cent annual rate with particularly sharp increases for food and energy items. Acceleration was even sharper at the producer level--both for finished goods and for materials--in both January and February. The rise in producer finished goods prices at a 14 per cent annual rate in the first two months of this year compares with a 9 per cent rate rise over the previous 6 months.

The food index in the CPI rose at more than a 17 per cent annual rate in January. Weather effects contributed to the price increases for some food items--in particular beef and fresh vegetables, but price increases for other food items were also quite large. Further large food price rises were reported at all stages of processing in the February producer price index. Moreover, spot prices for many farm commodities--in particular live cattle--have climbed rapidly into mid-March suggesting little hope of a near-term easing in food prices at the consumer level.

Sharply higher energy prices also were a major contributor to an acceleration in the January CPI as the gasoline index again surged upward. In January, gasoline prices were nearly 10 per cent (not annual rate) above last June. Energy items were also of importance in the large increases in producer prices of nonfood finished goods and materials early this year. Energy prices in the near-term are likely to be boosted further by the recent OPEC price hikes as well as increased markups at the refinery level reflecting less restrictive Department of Energy gasoline price regulations.

RECENT CHANGES IN PRODUCER PRICES  
(Percentage change at compound annual rates; based  
on seasonally adjusted data)1/

	Relative importance Dec. 1978	1977	1978	1978		1979	
				H1	H2	Jan.	Feb.
Finished goods	41.0	6.6	9.1	9.5	8.7	16.0	12.3
Consumer foods	10.4	6.6	11.9	14.1	10.0	21.5	19.0
Consumer nonfoods	18.6	6.1	8.3	7.9	8.6	14.5	10.6
Capital equipment	12.1	7.2	8.0	8.1	7.9	11.6	9.8
Materials:							
Intermediate <u>2/</u>	44.8	6.4	8.2	7.7	8.8	14.4	11.1
Construction	8.3	8.2	11.0	12.7	9.4	12.3	11.7
Crude nonfood	4.8	6.8	15.5	12.8	18.2	19.8	33.3
Crude food	6.8	1.4	18.3	25.9	11.5	33.9	45.1

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

2/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.

RECENT CHANGES IN CONSUMER PRICES  
(Percentage change at compound annual rates; based  
on seasonally adjusted data) 1/

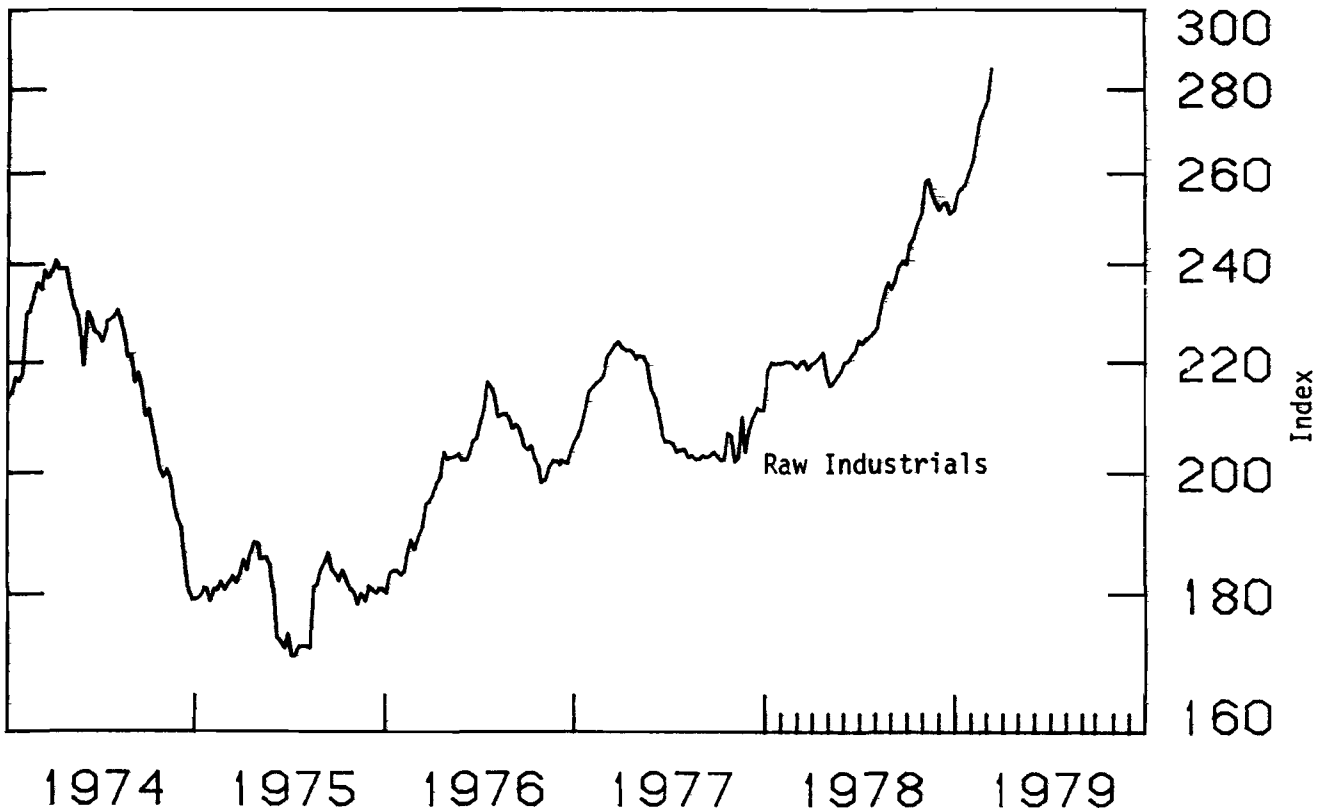
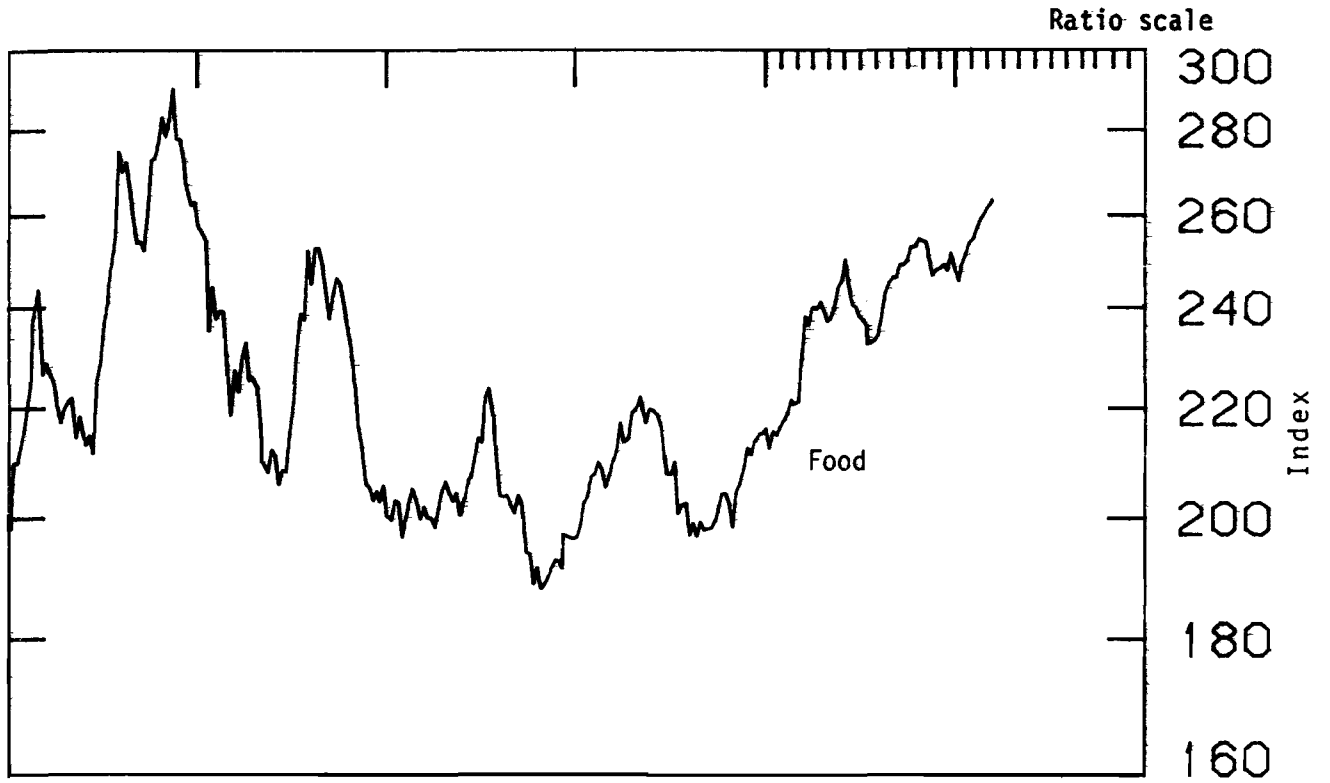
	Relative importance Dec. 1978 <sup>2/</sup>	1977	1978	1978		1979
				H1	H2	Jan.
All items	100.0	6.8	9.0	9.8	8.5	10.0
Food	18.2	8.0	11.8	16.6	7.4	17.4
Commodities (nonfood)	41.1	4.9	7.7	6.5	8.9	10.6
Services	40.8	7.9	9.3	10.0	8.7	6.6
Memoranda:						
All items less food and energy <u>3/</u>	73.3	6.4	8.5	8.4	8.7	6.1
Gas and electricity	3.4	8.7	7.9	15.8	.8	10.6
Gasoline	4.2	4.9	8.5	1.7	15.6	23.7
Homeownership	23.6	9.2	12.4	12.3	12.7	9.5

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

2/ Based on index for all urban consumers.

3/ Energy items excluded: gasoline and motor oil, fuel oil and coal, gas and electricity. Not seasonally adjusted.

BLS TUESDAY SPOT MARKET PRICE INDEXES  
(1967=100)



HOURLY EARNINGS INDEX 1/  
 (Percentage change at compound annual rates;  
 based on seasonally adjusted data) 2/

	1977	1978	1978			1979	
			H1	QIII	QIV	Jan.	Feb.
Total private nonfarm	7.5	8.3	8.8	7.3	8.2	8.9	4.3
Manufacturing	8.3	8.4	8.2	8.1	9.0	6.4	6.7
Contract construction	4.0	7.5	10.6	6.6	4.9	5.5	10.2
Transportation and public utilities	9.1	6.9	6.8	4.5	7.2	-1.2	4.8
Total trade	7.4	9.5	9.7	8.8	8.9	16.6	1.2
Services	7.1	7.6	8.0	5.5	8.6	13.4	1.5

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

2/ Changes over a period longer than one quarter are from final quarter of preceding period to final quarter of period indicated. Monthly per cent changes at annual rates, not compounded.

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# **DOMESTIC FINANCIAL SITUATION**

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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	February	40.8	-19.8	-4.7	2.6
Nonborrowed reserves	February	39.8	-19.5	-7.4	1.2
Money supply					
M1	February	358.8	-3.7	-2.4	4.8
M1+	February	579.6	-6.6	-5.3	2.5
M2	February	877.0	2.2	1.2	7.0
M3	February	1511.3	5.3	4.7	8.5
Time and savings deposits (less CDs)	February	518.2	6.3	3.8	8.6
CDs <sup>2/</sup>	February	102.1	1.6	6.7	23.2
Thrift deposits (S&Ls + MSBs + Credit Unions)	February	634.3	9.5	9.6	10.6
Bank credit (end of month)	February	991.6	10.5	8.5	11.1

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.	3/7/79	10.07	.01	.20	3.31
Treasury bill (90 day)	"	3/7/79	9.41	.18	.48	3.08
Commercial paper (90-119 day)	"	3/7/79	9.96	.02	-.29	3.21
New utility issue Aaa	"	3/9/79	9.61	.19	.33	.91
Municipal bonds (Bond Buyer) 1 day	"	3/8/79	6.35	.04	.06	.77
FNMA auction yield (FHA/VA)	"	3/6/79	10.43	-.19	.03	1.07
Dividend price ratio (common stocks)	wk endg.	3/7/79	5.44	-.01	.16	-.28
NYSE index (12/31/65=50)	end of day	3/12/79	55.84	.80	4.11	1.12

	Period	Net Change or Gross Offerings			
		Latest Data	Year ago	Year to Date	
				1979	1978
<u>Credit demands</u>					
Business loans at commercial banks <sup>1/</sup>	February	3.4	1.8	9.3	3.9
Consumer instalment credit outstanding <sup>1/</sup>	January	3.1	2.4	3.1	2.4
Corporate bonds (public offerings)	February	1.3 <sup>e</sup>	1.5	2.5 <sup>e</sup>	2.8
Municipal long-term bonds (gross offerings)	February	2.7 <sup>e</sup>	2.8	5.6 <sup>e</sup>	6.1
Federally sponsored agcy. (net borrowing)	February	1.5 <sup>e</sup>	1.6	2.6 <sup>e</sup>	2.6
U.S. Treasury (net cash borrowing)	February	-.6 <sup>e</sup>	5.1	2.7 <sup>e</sup>	11.1
				<u>1978</u>	<u>1977</u>
Mortgage debt outstanding (major holders) <sup>1/3/</sup>	December	8.5	9.9	97.9	89.9

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

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

<sup>3/</sup> Includes comm'l banks, S&Ls, MSBs, life ins. cos. FNMA, and GNMA.

e--Estimated.

DOMESTIC FINANCIAL DEVELOPMENTS

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Since the beginning of the year, domestic financial markets have given mixed signals regarding underlying economic activity. On balance, total credit flows to nonfinancial sectors, while showing some moderation from the pace of late last year, continue to be sizable. The monetary aggregates, however, have remained weak.

Business short- and intermediate-term credit demands at commercial banks appear to have been strong in both January and February. In the long-term area, relatively light public offerings of corporate bonds and equities in domestic markets were augmented somewhat by stepped-up issuance of bonds in the Euro-market. In the household sector, mortgage borrowing apparently rebounded somewhat in January while consumer borrowing slowed. Among government units, a strengthening in borrowings by the Treasury during the first two months of the year more than offset a slowdown by State and local governments.

M-1 declined over the December to February period, even after adjustment for shifts of funds into automatic transfer savings accounts (ATS).<sup>1</sup> Although ATS balances have continued to expand, total savings deposits at commercial banks have registered unprecedented declines during the past two months. Appreciable increases in small time deposits and further issuance of large time deposits left M-2 in February only slightly above its level in December.

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<sup>1/</sup> The "ATS" adjustment also includes adjustment for inflows to NOW accounts in New York State.



SELECTED FINANCIAL MARKET QUOTATIONS  
(per cent)

	1978 1/		1978-1979 2/				Change from:	
	High	Low	FOMC Dec.19	FOMC Feb.6	Mar.6	Mar.13	Dec. FOMC	Feb. FOMC
<b>Short-term rates</b>								
Federal funds 1/	10.25	6.58	9.75	10.06	10.07	10.18 <sup>3/</sup>	+.43	+.12
Treasury bills								
3-month	9.30	6.16	9.21	9.21	9.42	9.51	+.30	+.30
6-month	9.51	6.45	9.61	9.34	9.45	9.50	-.11	+.16
1-year	9.62	6.55	9.61	9.30	9.42	9.42	-.19	+.12
Commercial paper								
1-month	10.29	6.48	10.22	9.75	9.75	9.88	-.34	+.13
3-month	10.52	6.68	10.42	9.92	9.96	9.98	-.44	+.06
6-month	10.56	6.70	10.48	9.97	10.02	10.02	-.46	+.05
Large negotiable CD's 4/								
1-month	10.36	n.a.	10.35	9.86	9.89	9.94	-.41	+.08
3-month	10.96	6.77	10.90	10.14	10.15	10.16	-.74	+.02
6-month	11.52	6.97 <sup>p</sup>	11.50	10.50	10.53	10.50	-1.00	0
Eurodollars								
3-month	11.95	7.20	11.69	10.81	10.75	10.81	-.88	0
Bank prime rate	11.57	7.75	11.50	11.75	11.75	11.75	+.25	0
<b>Intermediate- and long-term rates</b>								
S. Treasury (constant maturity)								
3-year	9.59	7.40	9.49	9.13	9.41	9.38	-.11	+.25
7-year	9.22	7.72	9.15	9.01	9.13	9.15	0	+.14
20-year	9.00	8.01	8.99	8.94	9.09	9.06	+.07	+.12
Municipal (Bond Buyer) 5/								
Corporate Aaa	6.67	5.58	6.45	6.22	6.42	6.35	-.10	+.13
New issue 6/								
Recently offered 7/	9.30	8.61	9.29	--	9.64	9.61 <sup>p</sup>	+.32	--
Primary conventional mortgage 7/	9.54	8.48	9.35	9.40	9.67	9.61 <sup>p</sup>	+.26	+.21
Primary conventional mortgage 7/	10.38	8.98	10.35	10.40	10.43	10.40	+.05	0
	Low 8/	High 8/	FOMC Dec.19	FOMC Feb.6	Mar.6	Mar.13	Dec. FOMC	Feb. FOMC
<b>Stock prices</b>								
Dow-Jones Industrial	742.12	907.74	789.85	822.85	826.58	846.93	+57.08	+24.08
NYSE Composite	48.43	60.38	52.58	54.99	54.88	55.99	+3.41	+1.00
AMEX Composite	119.73	176.87	146.38	158.16	164.15	170.15	+23.77	+11.99
NASDAQ (OTC)	102.66	149.53	122.42	124.31	124.43	127.69	+5.27	+3.38

1/ Daily averages for statement week, except where noted.

2/ One-day quotes except as noted.

3/ Average for first 6 trading days of statement week ending March 14.

4/ Secondary market.

5/ One-day quotes for preceding Thursday.

Averages for preceding week.

One-day quotes for preceding Friday.

6/ Calendar week averages.

Despite persistent weakness in the monetary aggregates and a steady Federal funds rate in the area of 10 per cent, most market interest rates have edged up since the last FOMC meeting, after declining in January. While most private short-term rates are 5 to 10 basis points higher (with most of the increase occurring just recently), Treasury bill rates and long-term rates have advanced 10 to 30 basis points over the intermeeting period. Contributing to the back-up in rates were events abroad--notably turmoil in the Middle East and OPEC price increases--and large increases in published price indexes, both of which heightened market concerns about inflation. Many market participants now feel that the Federal Reserve is less likely to ease short-term rates in the near future and that the System might tighten further.

With Treasury bill rates increasing recently relative to those on private short-term obligations, the spread between the secondary 90-day CD rate and the bill rate has continued to narrow from an abnormally large 200 basis points in November of last year to a more typical differential of about 60 basis points in early March. The increase in bill rates since early February appears to be related partly to market reactions to a large volume of cash management bills issued early in March. In addition, foreign official holdings of Treasury obligations have declined since the beginning of the year, as the dollar has performed favorably on foreign exchange markets, and the current account deficit apparently has been financed by private inflows, including net inflows into U.S. banks from their foreign branches.

#### Monetary Aggregates and Bank Credit

M-1 contracted in February at a 3-3/4 per cent annual rate, continuing the pattern of weakness that has been evident since last October.

MONETARY AGGREGATES  
(Seasonally adjusted)<sup>1/</sup>

	1978					1979		Feb. '78 to Feb. '79 <sup>e/</sup>
	H1	QIII	QIV	Nov.	Dec.	Jan.	Feb. <sup>e/</sup>	
<u>Major monetary aggregates</u>								
1. M-1 (currency plus demand deposits)	8.0	8.1	4.4	-2.0	1.7	-5.3	-3.7	4.8
2. M-1+ (M-1 plus savings deposits at CBs and checkable deposits at thrift institutions)	6.2	6.0	2.5	-4.9	-1.4	-8.0	-6.6	2.5
3. M-2 (M-1 plus time & savings deposits at CBs, other than large CDs)	7.7	9.9	7.7	4.7	2.7	-1.2	2.2	7.0
4. M-3 (M-2 plus all deposits at thrift institutions)	8.3	10.4	9.3	6.7	5.5	2.8	4.5	8.4
<u>Bank time and savings deposits</u>								
5. Total	12.2	11.3	12.4	21.9	5.1	9.0	8.4	11.6
6. Other than large negotiable CDs at weekly reporting banks (interest bearing component of M-2)	7.6	11.1	10.2	9.4	3.5	1.6	6.3	8.6
7. Savings deposits	2.9	2.3	-0.9	-9.6	-7.5	-13.0	-12.0	-1.5
8. Individuals <sup>2/</sup>	2.7	3.5	-0.8	-6.9	-6.9	-17.4	-8.2	-1.1
9. Other <sup>3/</sup>	5.2	-12.7	0.0	-45.9	-7.9	40.0	-61.9	-6.4
10. Time deposits	11.7	18.5	19.2	24.5	12.0	12.7	19.9	17.4
11. Small time <sup>4/</sup>	6.8	12.0	15.1	12.0	11.2	15.1	22.0	13.9
12. Large time <sup>4/</sup>	21.5	30.3	26.2	46.0	13.3	8.8	16.3	23.6
13. Time and savings deposits subject to rate ceilings (7+11)	4.7	6.3	6.1	0.0	0.9	-0.3	3.6	5.2
<u>Deposits at nonbank thrift institutions <sup>5/</sup></u>								
14. Total	10.4	11.3	11.6	9.6	9.3	8.5	7.8	10.3
15. Savings and loan associations	10.7	12.3	13.1	11.1	11.5	11.4	11.0	11.9
16. Mutual savings banks	6.6	6.9	7.8	6.0	3.4	3.4	4.2	6.0
17. Credit unions	17.0	13.7	10.1	4.6	9.1	-4.5	-6.8	9.8
<u>MEMORANDA: Average monthly changes, billions of dollars</u>								
18. Total U.S. Govt. deposits <sup>6/</sup>	0.3	1.1	-0.5	0.9	-5.6	-0.6	-4.5	0.1
19. Total large time deposits <sup>7/</sup>	3.6	3.3	4.9	10.8	2.4	4.7	3.1	3.7
20. Nondeposit sources of funds <sup>8/</sup>	0.7	1.1	2.5	-1.9	4.4	5.4	3.9	1.8

e -- estimated.

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 average of current and preceding end-of-month data.

6/ Includes Treasury demand deposits at commercial banks and Federal Reserve Banks and Treasury note balances.

7/ All large time certificates, negotiable and nonnegotiable, at all CBs.

8/ Nondeposit borrowings of commercial banks from nonbank sources include Federal funds purchased and security RPs plus other liabilities for borrowed money (including borrowings from the Federal Reserve), gross Eurodollar borrowings, and loans sold, less interbank borrowings.

Although some of the weakness during the past five months can be attributed to the normal reaction of the public to the sharp run-up in short-term rates in the last several months of 1978, growth in M-1 over this period has fallen below the path consistent with movements in GNP and interest rates, even after adjusting for the effects of ATS. Apparently, the very high levels of interest rates in recent months have encouraged unusually vigorous efforts on the part of the public to pare M-1 balances. The impact of ATS on M-1 growth in February is estimated to have moderated to 2 percentage points at an annual rate from 3 percentage points during each of the first three months ATS was offered.

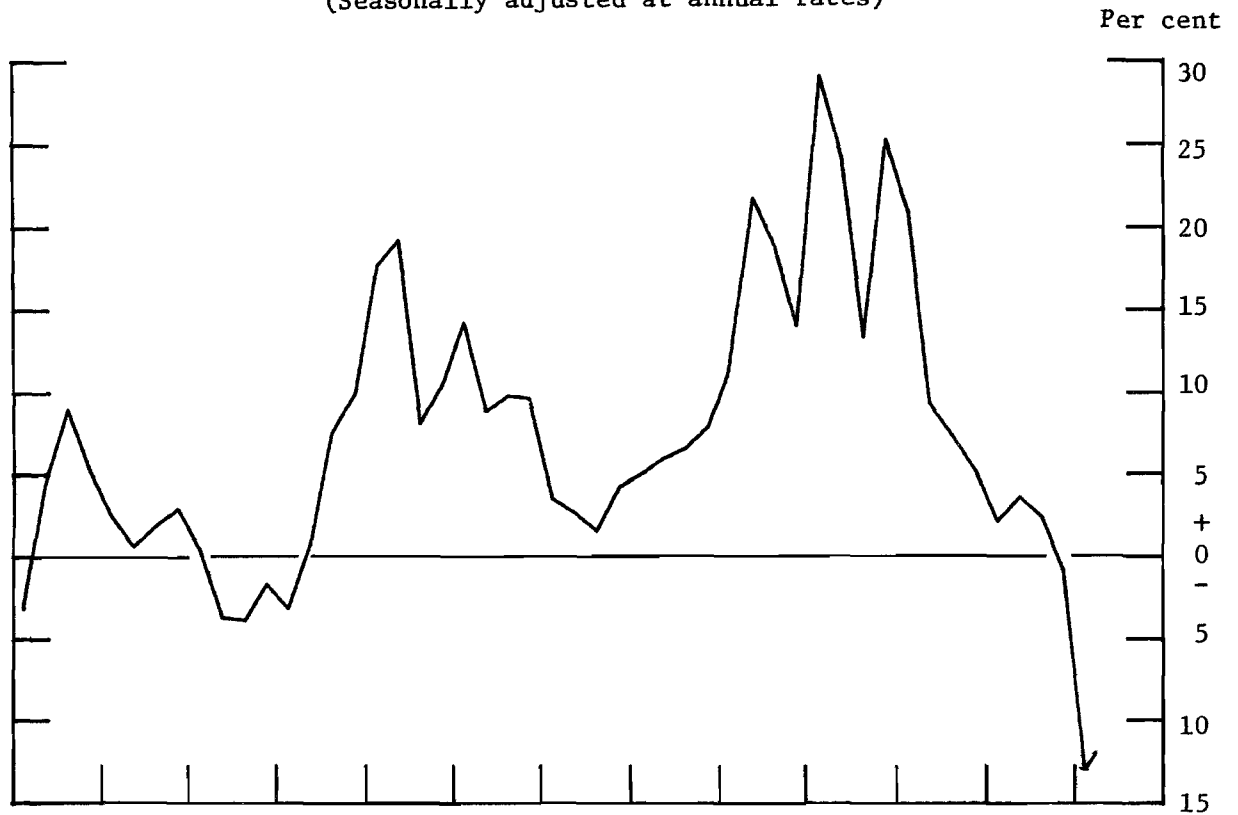
Savings deposits (inclusive of ATS accounts) declined at an annual rate of 12 per cent in February, about the same rate as in January. This weakness is more pronounced than during previous periods of high market interest rates (see Chart on page 6), likely reflecting a greater variety of attractive liquid assets available to the public, including money market certificates (MMCs).

Net issuance of MMCs at commercial banks surged to a record \$8.9 billion in January and likely remained strong in February, considering the acceleration of growth in small time deposits during the month. Owing to the growing popularity of MMCs, the composition of small time deposits has changed markedly (see Chart on page 7). By January, MMCs constituted nearly one-fourth of small time deposits with a maturity of four years or less, and 17 per cent of all small-denomination time deposits.<sup>1</sup> Moreover, MMCs apparently continued to

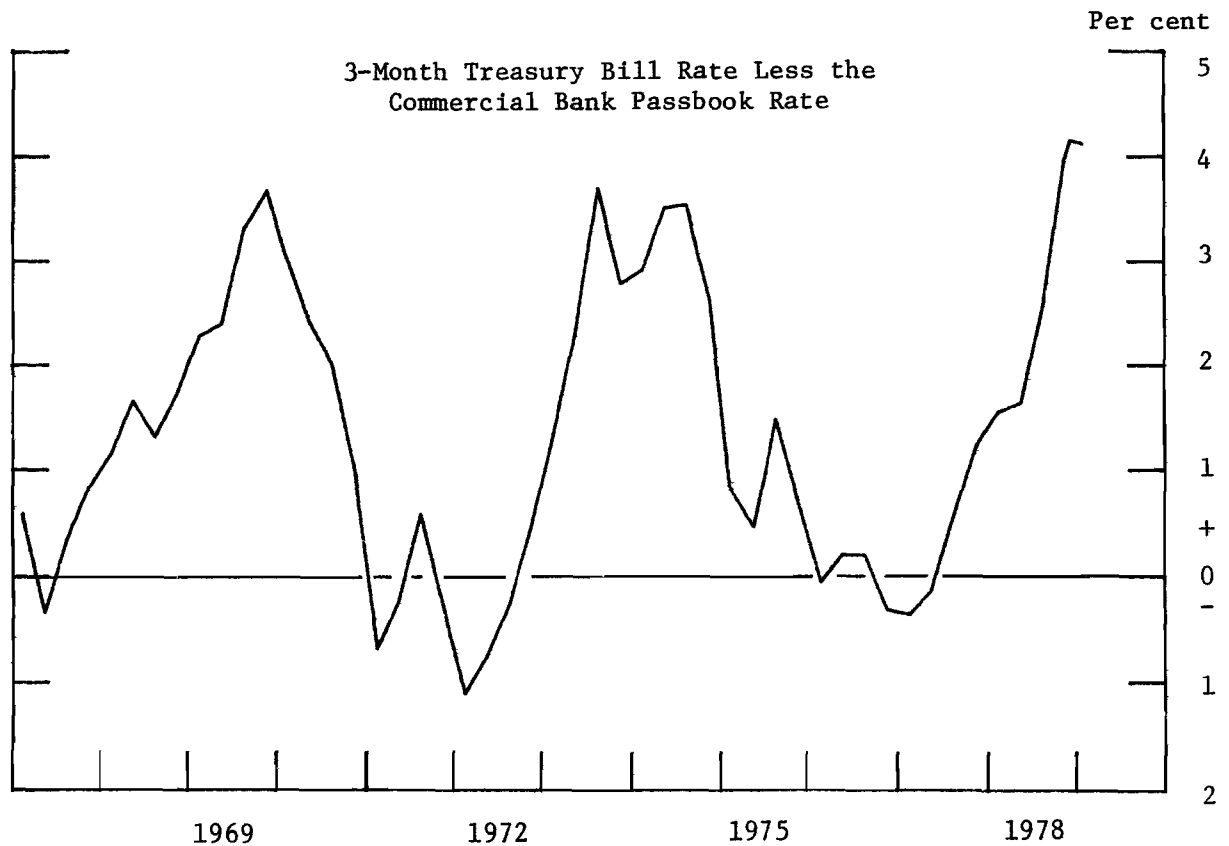
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<sup>1/</sup> Staff estimates, based on an analysis of the 1973 experience, suggest that about half of the funds raised by commercial banks, as well as thrift institutions, through MMCs represent deposits that would not have been attracted or retained in the absence of this instrument.

Growth in Commercial Bank Savings Deposits  
 (Seasonally adjusted at annual rates)<sup>1/</sup>

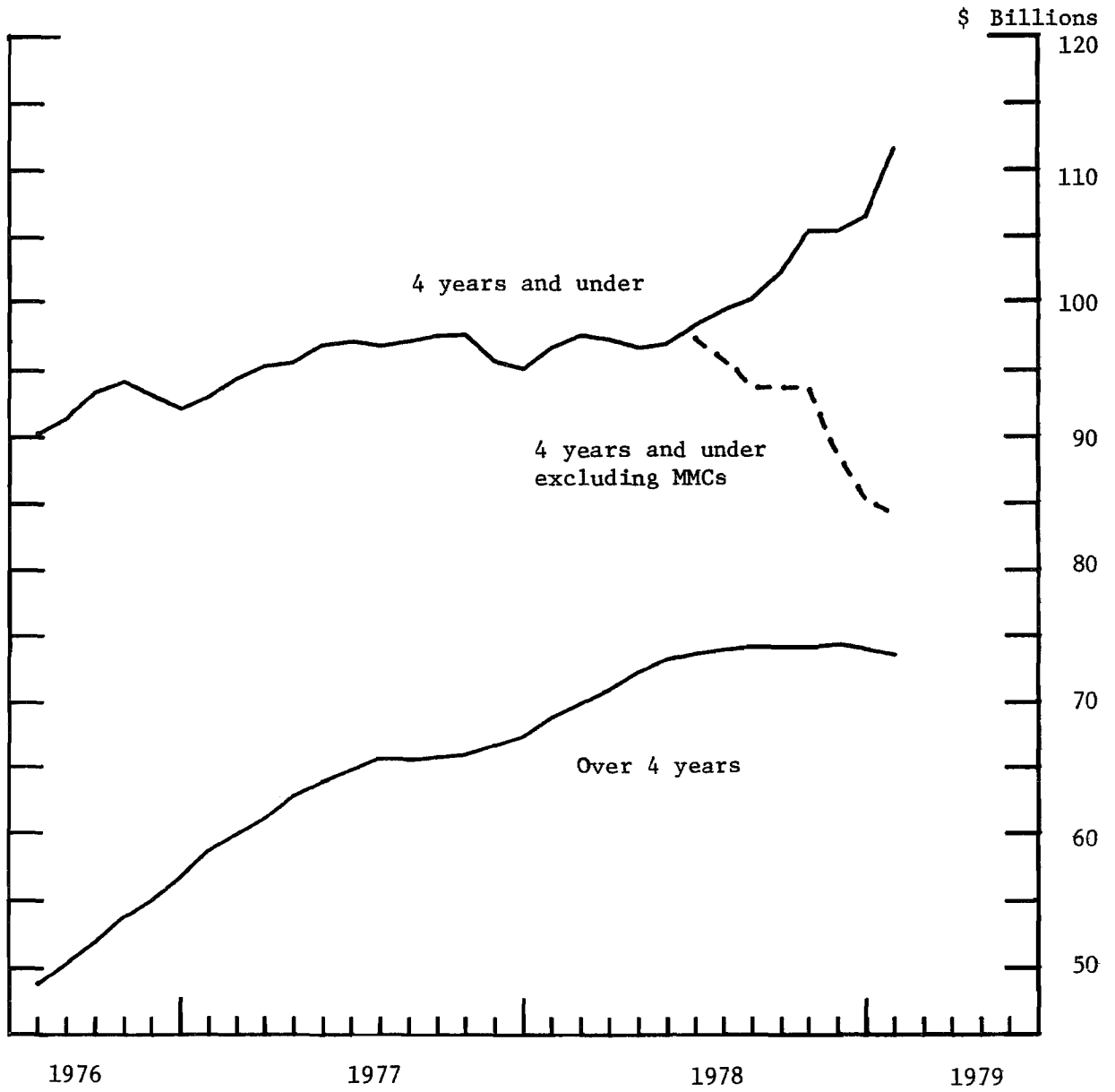


3-Month Treasury Bill Rate Less the  
 Commercial Bank Passbook Rate



<sup>1/</sup> Quarterly average growth rates are shown through 1978:Q4; for 1979 monthly average growth rates are shown for January and February.

Commercial Bank Small Time Deposits  
(By original term to maturity, NSA)



divert funds from small time deposits with a maturity of over four years, as such long-term deposits declined in December and January, the first such monthly declines since their introduction in mid-1973.

The large time deposit component of M-2 also accelerated in February to a 17-3/4 per cent annual rate of growth, roughly twice its increase in January. With the pick-up in growth of both large and small time deposits, M-2 registered a modest increase in February of 2-1/4 per cent, following a decline in January.

Although total deposit growth at thrift institutions has remained stronger than savings and small time deposits at commercial banks, the composition of thrift deposit growth has been very similar to that of commercial banks. MNCs at thrift institutions have continued to augment expansion in total deposits, and savings deposits have decreased in recent months.<sup>1</sup> Total deposits at thrifts grew at a 7-3/4 per cent annual rate in February, somewhat less than in the previous three months.

Weakness in the monetary aggregates during the first two months of the year has been accompanied by activity in some alternative investments that are available to depositors of moderate means. Most notably, money market mutual funds surged by a record \$2.6 billion in January and by another \$2.3 billion in February. In addition, the average weekly amount of noncompetitive tenders in Treasury bill auctions was about the same during the months of January and February as in the fourth quarter of last year.<sup>2</sup>

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<sup>1/</sup> Indeed, on a month-end basis, credit unions experienced a substantial outflow of deposits in January--a development which has been typical recently of the first month of the quarter and appears to be related to depositors taking advantage, during the reinvestment period, of higher yields available on alternative instruments.

<sup>2/</sup> However, in the Treasury's February auction of 2-year notes, noncompetitive tenders were at the lowest level since last April.

Bank credit growth rebounded in January and February, following some sluggishness during late 1978.<sup>1</sup> The acceleration in large part reflected expansion in investments, which had declined over the last half of 1978. In particular, a moderate reduction in bank holdings of Treasury securities in January was more than offset by a sharp increase in such securities in February.<sup>2</sup> Total loan growth over the first two months of the year was moderately above the pace of the previous two months. Strength was especially evident in business loans, which grew at an average annual rate of 24 per cent. In addition, expansion in real estate lending during the first two months of the year was at the same appreciable pace of late 1978; consumer loan growth in January was slightly below that of the fourth quarter.

With growth of bank credit outstripping that of deposits subject to rate ceilings in both January and February, banks turned to managed liabilities to finance the shortfall. Net issuance of large time deposits--including negotiable CDs--was almost \$8 billion over the two months while nondeposit sources of funds are estimated to have yielded an additional \$9-1/4 billion. Reflecting the greater reliance on managed liabilities, the borrowing ratio for large commercial banks has risen further since year-end to a level in excess of the 1974 peak.

Since the turn of the year, Eurodollar borrowings have become a major source of financing for bank credit growth. Over this period, gross liabilities to banks' own foreign branches--included in the non-

1/ Because of difficulties being encountered with new reporting procedures, bank credit figures for both January and February should be considered tentative.

2/ The increases in bank profits since mid-1978 appear to have outpaced the sizable advances in earnings in the first half of last year, and to have continued to induce banks to acquire tax-exempt securities, a major component of other securities.



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

	1978					1979		12 months ending Feb. <sup>e/</sup>
	H1	QIII	QIV	Nov.	Dec.	Jan. <sup>e/</sup>	Feb. <sup>e/</sup>	
1. Total loans and invest- ments <sup>2/</sup>	14.0	8.7	5.9	6.7	1.1	14.8	10.5	11.1
2. Investments	8.5	1.1	-10.3	-20.0	-6.5	3.7	15.7	1.2
3. Treasury securities	9.6	-12.0	-36.2	-61.8	-25.2	-6.8	35.5	-9.0
4. Other securities	7.8	9.0	4.8	3.6	3.5	9.1	5.6	7.5
5. Total loans <sup>2/</sup>	16.2	11.7	12.1	16.8	3.9	18.9	8.6	15.2
6. Business loans	16.7	10.3	6.7	10.0	-0.5	30.6	17.2	15.3
7. Security loans	23.5	-26.8	-43.1	-52.2	-13.6	241.4	-57.4	5.9
8. Real estate loans	18.7	17.6	17.5	21.1	13.8	19.4	14.6	19.2
Consumer loans	20.5	15.6	16.1	17.0	11.7	14.5	n.a.	n.a.

MEMORANDA:

10. Commercial paper issued by non- financial firms <sup>3/</sup>	11.5	28.9	42.7	52.5	37.7	-18.3	--	33.8
11. Business loans at banks net of bank holdings of bankers acceptances	17.7	10.3	8.6	12.8	0.5	28.4	15.4	15.6
12. Sum of items 10 & 11	17.2	11.4	11.3	15.3	3.9	24.6	13.7	16.9
13. Memo item 12 plus business loans from finance companies	16.2	9.7	15.1	17.7	8.2	21.6	n.a.	n.a.

n.a.--not available. e--estimated

<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 amounts of loans reported as sold outright to a bank's own foreign branches, nonconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and nonconsolidated nonbank subsidiaries of the holding company.

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

deposit sources of funds measure--rose \$1 billion, and an estimated \$5 billion was provided by a reduction in gross claims on foreign branches, not included in the nondeposit measure.

### Business Finance

Business short- and intermediate-term borrowing appears to have been sizable during the first two months of the year, mainly reflecting a resurgence in borrowing from banks. Preliminary data indicate that the 28-1/2 per cent growth in business loans net of holdings of bankers acceptances at commercial banks in January was followed by a 15-1/2 per cent increase in February.<sup>1</sup> Strength in business loans at large banks in January was especially evident in the wholesale and retail trade categories--along with services--and accompanied a sizable increase in wholesale trade inventories during that month. In addition, finance company business lending continued to grow in January, although at a rate well below the substantial fourth quarter pace. Indirect evidence--based on finance company issuance of commercial paper and industry reports--indicates that such lending continued to expand in February. By contrast, commercial paper issued by nonfinancial companies declined somewhat over the two months. The recent weakness in commercial paper is attributable in part to communication and electric and gas utilities. Reports indicate that the utilities have recently had strong cash flows and have also turned to longer-term financing, including private placements.

<sup>1/</sup> According to the February Senior Loan Officer Opinion Survey, credit terms on business loans tightened on balance from three months earlier, perhaps reflecting leaner balance sheet positions. The results of this survey are discussed in detail in the appendix.

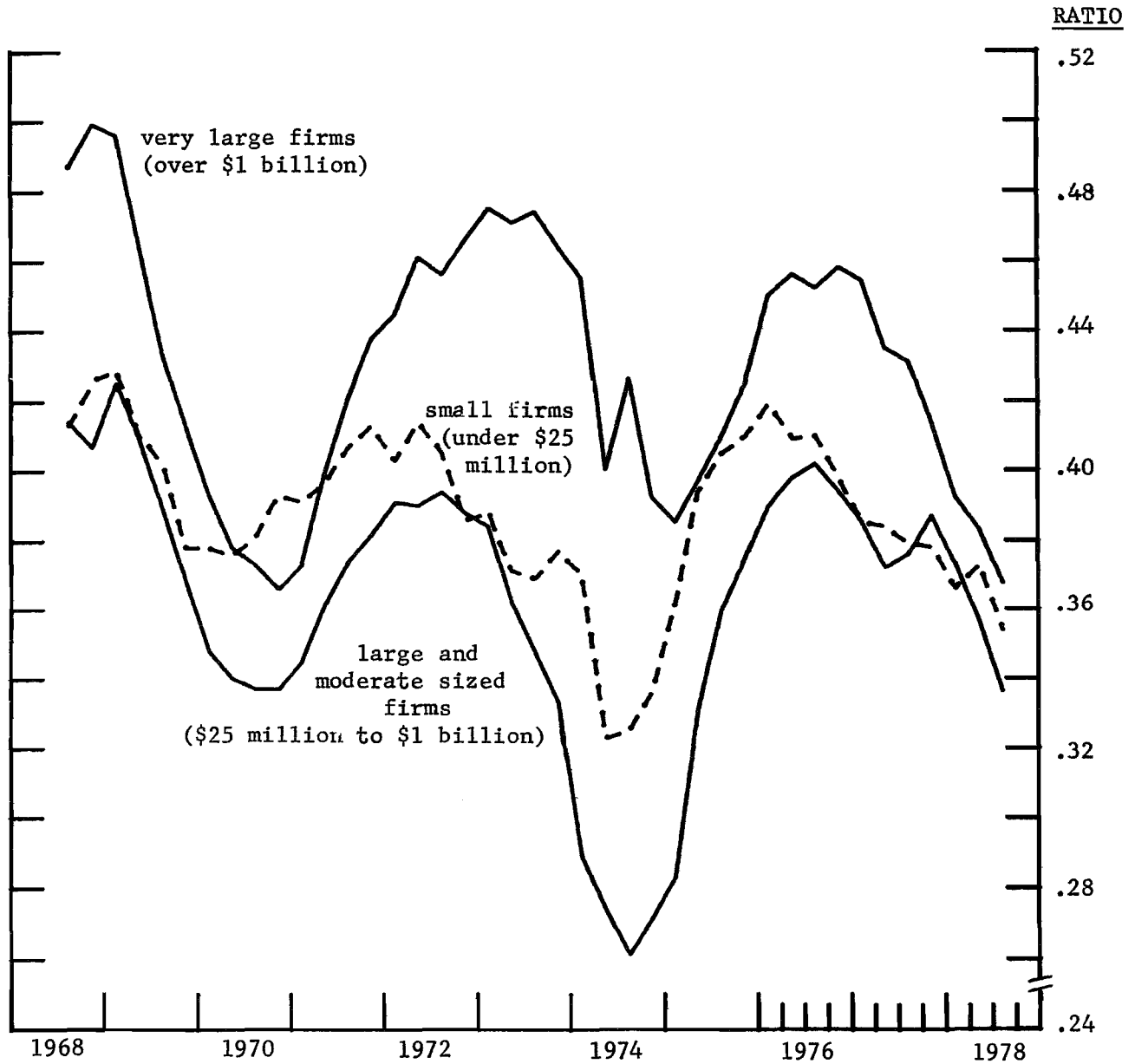
The expansion in short-term borrowing over the past two years has contributed to the erosion of the liquidity positions of manufacturing companies of all sizes (see Chart on page 13). The liquidity ratios for all but the very large manufacturers remained above their 1974 troughs in the third quarter of 1978 (most recent information available), having retraced only a portion of their previous cyclical gains. In contrast, the liquidity ratio for very large companies, those with assets in excess of \$1 billion, had fallen sharply, to a level below its 1974 trough; however, their ratio remained above those of other firms. In addition, many big firms apparently have access to substantial bank lines of credit, as unused loan commitments at large banks have continued to reach new record levels.<sup>1</sup>

In the long-term area, public bond offerings in domestic markets remained light in February. The bulk of the February volume was in utility issues, approximately one-half of which were offerings by two A.T. & T. subsidiaries. Publicly offered industrial issues were at their lowest monthly level since September 1974. Private placements are also estimated to have been somewhat smaller in recent months than in 1977 and most of 1978, although they apparently have declined by less than public offerings.<sup>2</sup>

<sup>1/</sup> Loan commitments to businesses, especially formal commitments, rose markedly in late 1978 and early 1979. From October 1978 through January 1979 unused commitments expanded \$11 billion, to a level of nearly \$157 billion. The January level (most recent data available) was \$21 billion above the level one year earlier.

<sup>2/</sup> December data for a sample of life insurance companies suggest that takedowns of privately-placed bonds in that month fell substantially short of the record volume of 1977. However, these firms did report an increased volume of new loan commitments, indicating that lower-rated industrial concerns--the principal issuers of privately-placed bonds--will continue to receive a large volume of intermediate- and longer-term funds in the coming months.

Liquidity Ratio for Manufacturing Corporations by Asset Size



NOTE: Liquidity ratio equals liquid assets plus other current assets divided by current liabilities.

SOURCE: Quarterly financial Report data, seasonally adjusted by Federal Reserve.

GROSS OFFERINGS OF CORPORATE AND FOREIGN SECURITIES  
(Monthly totals or monthly averages, in millions of dollars)

	1978			1979			
	H1	QIII	QIV <sup>e/</sup>	Jan. <sup>e/</sup>	Feb. <sup>e/</sup>	Mar. <sup>f/</sup>	Apr. <sup>f/</sup>
<u>Seasonally adjusted</u>							
Corporate securities--total	3,587	4,822	3,384	2,925	3,300	2,775	2,875
Publicly offered bonds	1,489	2,365	1,525	1,050	1,275	1,200	1,275
Privately placed bonds	1,366	1,428	1,114	1,200	1,200	1,200	1,200
Stocks	732	1,029	745	675	825	375	400
<u>Not seasonally adjusted</u>							
Publicly offered bonds	1,695	1,761	1,480	1,275	1,250	1,600	1,200
By quality <u>1/</u>							
Aaa and Aa	820	885	883	1,025	650	--	--
Less than Aa <u>2/</u>	875	876	597	250	600	--	--
By type of borrower							
Utility	525	770	625	400	825	--	--
Industrial <u>3/</u>	578	560	405	375	175	--	--
Financial	592	431	450	500	250	--	--
Foreign securities--total	640	328	449	926	655	--	--
Publicly offered <u>4/</u>	466	183	336	675	610	100	300
Privately placed	174	145	113	251	45	--	--

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

2/ Includes issues not rated by Moody's.

3/ Includes equipment trust certificates.

4/ Classified by original offering date.

e/ Estimated.

f/ Forecast.

U.S. corporations have supplemented funds raised in domestic markets with heavier borrowing in the Eurodollar bond market since the first of the year. In February, the volume of such borrowings, at \$600 million, was substantially above the average monthly volume in recent years. For the most part, the proceeds from these issues were returned to parent companies for general corporate use.<sup>1</sup>

Stock offerings in February increased somewhat on a seasonally adjusted basis from January's low level. Public utilities continued to account for the bulk of stock issues. Most stock price indexes have risen moderately, on balance, since the last FOMC meeting. For the year to date, NYSE stock indexes have posted only modest gains, while the American Stock Exchange Composite and NASDAQ indexes have shown more appreciable gains.

Even with the back-up in corporate bond yields since the February FOMC meeting, such rates remain 50 to 100 basis points below their 1974 peaks. By contrast, Treasury coupon rates are about 50 basis points above their 1974 peaks giving rise to a substantially smaller spread between private and Treasury bonds than in 1974.<sup>2</sup> The relatively better performance of private bond rates reflects smaller risk premiums built into private yields--1974 was a recession period--as well as a large issuance of Treasury bonds over the past four years. Within corporate bond markets, yield spreads

<sup>1/</sup> The pick-up in borrowing reportedly was encouraged by a temporary decline in Eurodollar bond yields in late January relative to many domestic U.S. interest rates. Corporations can move quickly to take advantage of such rate movements in Eurodollar markets, in contrast to domestic markets where SEC registration requirements can add significantly to the time required to implement a decision to borrow. In addition, Eurodollar issues typically have much shorter call protection than do domestic issues, increasing their attractiveness to borrowers at this time.

<sup>2/</sup> Treasury bill rates are currently only about 20 basis points below their 1974 peaks, in contrast to private short-term rates which are 200 to 300 basis points below peaks reached in 1974.

remain quite narrow compared to 1974, although they have increased slightly in the past year.

#### Government Debt Markets

Since the last FOMC meeting, the Treasury has raised about \$6.1 billion (NSA) of new money through the sale of marketable issues. A cash management bill, raising about \$4.0 billion, was sold in early March to bridge a low point in the cash balance prior to the mid-April tax date. On the other hand, since mid-February the Treasury has allowed \$200 million of 3-month bills to run off in each weekly auction. In the coupon market, the Treasury raised \$2.9 billion of new cash in its regular auction of 4-year notes in late February. An additional \$1.4 billion equivalent was raised by the Treasury in late February through the sale of Deutsche mark-denominated securities to German investors. The Treasury has now sold three issues denominated in foreign currencies since November 1, totalling \$4.1 billion.

Sponsored credit agency borrowing has been \$4.7 billion thus far during 1979, with \$3.2 billion raised in February. The bulk of this sizable borrowing was done by FHMA, FHLB, and FHLMC; however, not all of the funds were needed by the housing agencies to cover lending, and their liquidity has increased over this period. In particular, the liquidity of the FHLBs rose \$1.4 billion in February, as advances outstanding declined more than \$700 million, a bit less than seasonally.

Gross offerings of tax-exempt bonds in February were \$2.5 billion-- off slightly from January and down substantially from the average monthly volume in 1978. A growing amount of tax-exempt issues has taken the form of revenue bonds to provide low-cost financing for single-family housing. The volume of single-family mortgage revenue bonds was \$400 million in

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

	1978			1979			
	H1	QIII	QIV	Jan.	Feb. <u>e</u> /	Mar. <u>f</u> /	Apr. <u>f</u> /
<u>Seasonally adjusted</u>							
State and local government securities, gross offerings							
Total	5,682	6,236	5,813	4,975	4,500	5,100	6,100
Long-term	3,887	4,378	4,018	2,850	2,550	3,300	3,800
Short-term	1,795	1,858	1,795	2,125	1,950	1,800	2,300
U.S. Government securities, net offerings							
U.S. Treasury <sup>1/</sup>	3,654	3,080	-945	3,276	4,322	6,071	-3,972
Sponsored agencies	2,320	1,641	1,788	1,776	4,431	2,146	1,694
<u>Not seasonally adjusted</u>							
State and local government securities, gross offerings							
Total	6,118	5,985	5,187	4,496	4,400	5,300	6,400
Long-term	4,104	4,217	3,747	2,900	2,700	3,400	3,400
Short-term	2,014	1,768	1,440	1,596	1,700	1,900	3,000
U.S. Government securities, net offerings							
U.S. Treasury <sup>1/</sup>	2,382	3,560	1,152	2,371	7,795	7,300	-10,400
Sponsored agencies	2,012	2,130	1,635	1,454	3,043	2,000	1,530

1/ Marketable issues only.  
e/ Estimated.  
f/ Forecasted.



February, about the same as in January. Such offerings have grown considerably since mid-1973, when Chicago became the first local government to issue securities for such purposes. Prior to that time, the issuance of mortgage revenue bonds was largely confined to State Housing Finance Agencies.

#### Mortgage and Consumer Market Finance

Net mortgage lending picked up in January from the reduced volume in December, but apparently remained below the monthly highs posted in 1978. Net mortgage acquisitions by two key private lender groups--S&Ls and commercial banks--both moved up somewhat in January on a seasonally adjusted basis, after dropping sharply in December. For each group, however, January lending volume remained below November's pace.

Mortgage commitments outstanding at S&Ls declined in January for the second consecutive month. By the end of the month, S&L commitments outstanding were 3 per cent below last November's peak, according to preliminary estimates, and were 2 per cent below their year-earlier level.<sup>1</sup> New commitment policy on conventional home mortgages at S&Ls, commercial banks, MSBs, and mortgage companies remained less accommodative in early February than was the case in the fall of last year, according to a new FHLBB series. Although the proportion of all reporting lenders offering commitments for 25-year loans in the various loan-to-price categories has edged up slightly or has been unchanged since early January, these proportions remain considerably below those of last fall (see Chart on page 20). Moreover, the share of respondents offering commitments in the highest risk bracket (with a 95

<sup>1/</sup> In January, as in December, the year-over-year change in S&L commitments outstanding reflected reductions in eight FHLB districts (mainly in the East) that offset increases in four others (chiefly in the West).

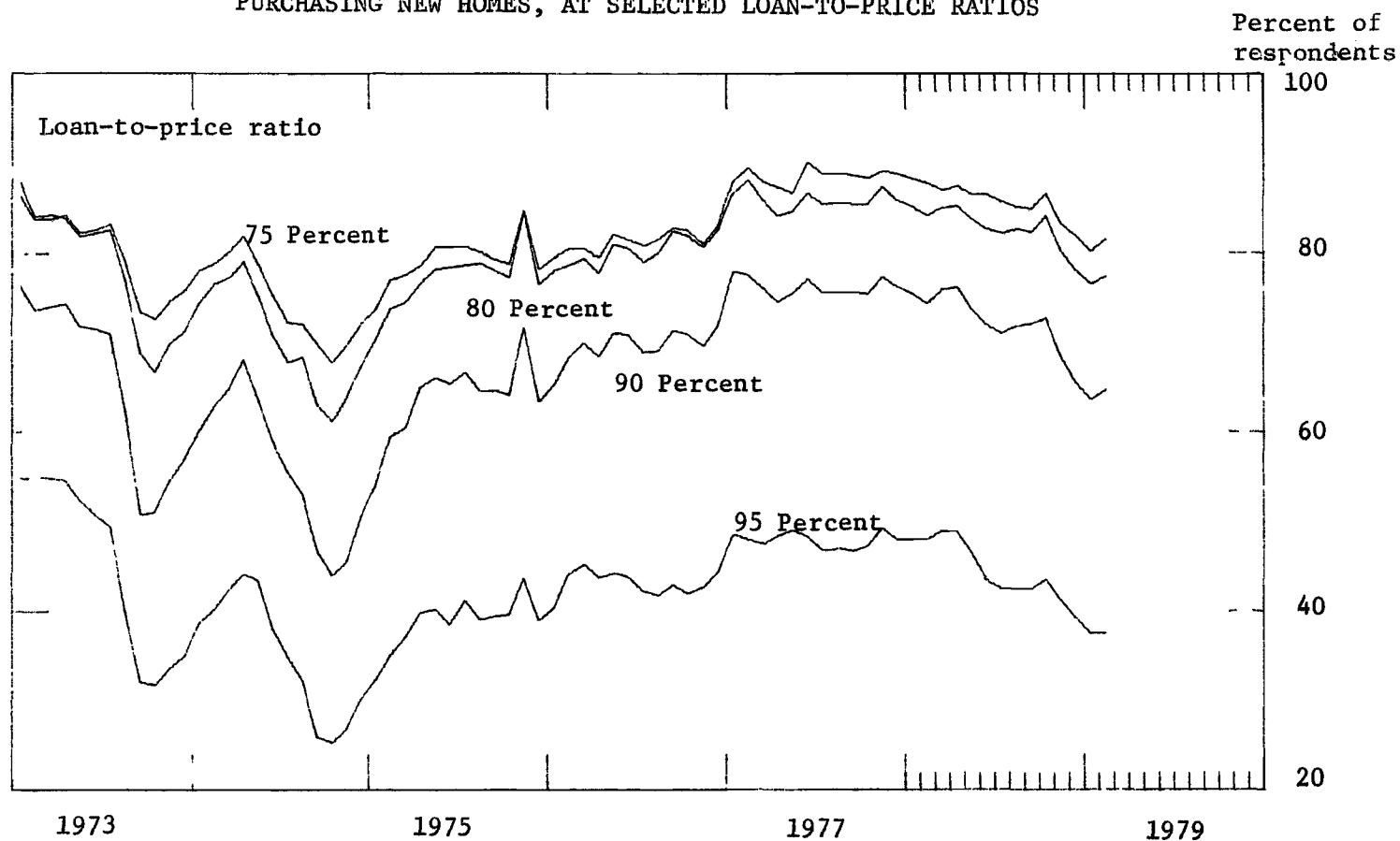
per cent loan-to-value ratio) has remained at the lowest level in four years. To date, however, this measure of lending policy generally has firmed much less than in 1973 and 1974.

Since the last FOMC meeting, average contract interest rates on new commitments for 80 per cent home mortgages at sampled S&Ls have remained essentially unchanged.<sup>1</sup> At a near-record 10.4 per cent, the average rate on March 9 was about 70 basis points above early June, and well in excess of usury ceilings of 10 per cent or less that still prevail in about one-third of the States. Field reports continue to emphasize the restrictive impact of below-market usury ceilings on home mortgage lending, especially on conventional loans. The legislative efforts that are under way in a number of States to ease or remove these ceilings have reportedly increased the reluctance of some lenders to arrange new mortgage commitments at interest rates conforming to current usury limits.

In the secondary mortgage market, yield movements have been mixed since the last FOMC meeting. On balance, yields on GNMA securities have increased along with rates on intermediate-term Treasury securities, while yields in FOMC's bi-weekly auctions of forward commitments have moved down somewhat. In FOMC's March 5 auction, discounts on FHA/VA loans continued to average above 6.0 points, and field reports suggest that discounts of this amount continued to discourage borrowing in the government-underwritten sector of the market.

<sup>1/</sup> Regionally, the average rate--reflecting commitments at S&Ls in States without binding usury ceilings--ranged from 10-1/4 per cent in the Southeast to 10-1/2 per cent in the west and Southwest, where rates were down 1/4 of a percentage point from early February. Further rate increases are in store for many existing borrowers in California with variable-rate mortgage loans outstanding. On February 21, the Federal Home Loan Bank of San Francisco announced a 30 basis point increase in its semi-annual cost-of-funds index for S&Ls in California. Interest rates on outstanding variable-rate mortgages in California may be adjusted in line with this index, after a lag of several months.

PERCENT OF RESPONDENTS OFFERING MORTGAGE COMMITMENTS FOR  
PURCHASING NEW HOMES, AT SELECTED LOAN-TO-PRICE RATIOS



Source: Federal Home Loan Bank Board survey of S&Ls, commercial banks, savings banks, and mortgage companies offering 25-year home loans.

INTEREST RATES AND SUPPLY OF MORTGAGE FUNDS  
AT SELECTED S&Ls

Period	Conventional home mortgages			
	Average rate on new commitments for 80% loans (percent)	Basis point change from month or week earlier	Spread <sup>1/</sup> (basis points)	Percent of S&Ls with mortgage funds in short supply <sup>2/</sup>
1978--High	10.38	--	+ 10	60
Low	8.98	--	+ 30	17
1978--Aug.	9.80	+ 5	+100	57
Sep.	9.78	- 2	+ 72	60
Oct.	9.88	+10	+ 65	59
Nov.	10.11	+23	+ 84	59
Dec.	10.38	+27	--	58
1979--Jan.	10.40	+ 2	--	61
Feb. 2	10.40	0	--	63
9	10.43	+ 3	+101	61
16	10.40	- 3	--	61
23	10.40	0	+ 81	57
Mar. 2	10.43	+ 3	+ 79	56
9	10.40	- 3	+ 79	58

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

<sup>2/</sup> Percent 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	716	363	10.92	1249	605	10.60	9.68
Low	75	48	9.28	130	80	9.13	8.43
1979--Feb. 6	19	18	11.07	42	38	10.61	9.54
13							9.66
20	44	28	11.02	168	123	10.47	9.71
26							9.75
Mar. 5	47	34	10.96	265	142	10.43	9.69
12							9.70

<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 required.

<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.

Consumer instalment credit expansion slowed in January to a 13 per cent annual rate, down from the 17-1/2 per cent pace of the fourth quarter. A portion of the slowdown appears to have been related to narser than normal weatner conditions in some parts of the country.

Meanwhile, the latest information (fourth quarter) on consumer loan delinquencies shows little evidence of increasing payment difficulties. Mortgage delinquencies at S&Ls fell to the lowest levels since 1973, and delinquencies on closed-end instalment loans at commercial banks remained stable, well below the 1975 peaks.<sup>1</sup>

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<sup>1/</sup> The average delinquency rate on bank-card credit has been rising, but tne bulk of the uptrend has occurred in New York. Confidential bank reports further indicate that the increase in New York is concentrated at a single bank that recently embarked on a program of multi-state card issuance.

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

	1976	1977	1978	1978			
				QIII	QIV	Dec.	Jan.
<u>Total</u>							
Change in outstandings							
Billions of dollars	21.1	35.0	44.0	43.1	45.8	52.8	36.7
Percent	12.4	18.3	19.2	17.3	17.6	19.7	13.4
Bank share (percent)	50.2	52.7	53.1	51.9	49.1	47.3	43.4
Extensions							
Billions of dollars	210.0	254.1	298.7	304.9	316.4	318.0	306.5
Bank share (percent)	46.2	46.4	47.8	48.0	47.0	47.2	47.6
Liquidations							
Billions of dollars	188.9	219.2	254.3	261.8	270.5	265.2	269.8
Ratio to disposable income	15.9	16.8	16.8	17.8	17.9	17.4	17.5
<u>Automobile Credit</u>							
Change in outstandings							
Billions of dollars	10.4	15.3	19.2	19.4	18.8	21.4	20.2
Percent	18.2	22.6	23.2	20.9	19.2	21.2	19.7
Extensions							
Billions of dollars	63.6	75.8	88.9	91.8	92.9	94.0	90.5

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

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# **INTERNATIONAL DEVELOPMENTS**

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RESTRICTED

U.S. International Transactions  
(in million of dollars; receipts, or increase in liabilities, +)

March 14, 1979

	1977	1978	1978						
	Year	Year	Q1	Q2	Q3	Q4	Nov.	Dec.	Jan.
1. Trade balance 1/	-31,059	-34,086	-11,920	-10,869	-7,992	-6,305	-1,920	-2,077	-3,440
2. Merchandise exports	120,585	141,892	30,787	32,256	36,486	39,363	13,283	13,164	13,123
3. Merchandise imports	-151,644	-175,978	-42,707	-43,125	-44,478	-45,668	-15,203	-15,241	-16,563
4. Change in net foreign positions of banking offices in U.S. (excl. liab. to foreign official inst.)	-3,907	-13,684	-6,117	2,700	2,030	-12,297	-4,431	-7,243	5,600
Through interbank transactions with									
5. a) Own offices in foreign countries	-2,717	5,380	-3,435	5,107	5,553	-1,845	178	362	1,138
6. b) Unaffiliated banking offices in foreign countries	-2,203	-10,768	-2,368	-981	-1,342	-6,077	-2,710	-5,518	4,371
Through nonbank transactions									
7. a) Claims on nonbanks in foreign countries (increase, -)	-423	-9,801	-179	-1,818	-2,660	-5,144	-2,081	-1,854	390
8. b) Liabilities to private nonbanks in foreign countries (inc. custody liab.)	1,436	1,505	-135	392	479	769	182	-233	-299
9. Private securities transactions, net (excl. U.S. Treas. Oblig.)	-3,050	-589	-585	126	-114	-16	-231	769	-547
10. Foreign net purchases of U.S. corp. bonds	1,130	1,180	73	159	378	570	51	320	-63
11. Foreign net purchases of U.S. corp. stocks	1,325	1,674	341	1,065	-17	285	1	340	60
12. U.S. net purchases (-) of foreign securities	-5,505	-3,443	-999	-1,098	-475	-871	-283	109	-544
13. Foreign net purchases of U.S. Treasury obligations 2/	543	2,278	882	902	-1,054	1,548	-155	1,411	1,220
14. Change in foreign official reserve assets in U.S. (increase +)	35,463	31,333	14,969	-5,414	4,641	17,137	4,095	5,862	296
By Area									
15. G-10 countries and Switzerland	29,414	30,341	12,329	-3,201	5,248	15,965	5,182	4,475	261
16. OPEC	5,758	-1,112	1,276	-2,553	-1,556	1,721	-1,153	1,175	-274
17. All other countries	291	2,104	1,364	340	949	-549	66	212	309
By Type									
18. U.S. Treasury securities	30,266	24,069	12,984	-5,685	3,167	13,858	4,602	4,595	686
19. Other 3/	5,197	7,264	1,985	271	1,474	3,279	-507	1,267	-390
20. Change in U.S. reserve assets (increase -)	-237	788	246	328	14	200	968	-683	-1,818 <sup>5/</sup>
21. All other transactions and statistical discrepancy	2,247	13,960	2,525	12,227	2,475	-267	1,674	1,961	-1,311
MEMO:									
Current account 4/	-15.3	n.a.	-30.3 <sup>e</sup>	-12.7 <sup>e</sup>	15.3 <sup>e</sup>	n.a.	n.a.	n.a.	n.a.

1/ International accounts basis, seasonally adjusted.

2/ Includes U.S. Treasury notes publicly issued to private foreign residents.

3/ Includes deposits in banks, commercial paper, bankers' acceptances, and borrowing under repurchase agreements.

4/ Seasonally adjusted.

5/ Includes \$874 million of newly allocated SDR's.

e/ Estimated - includes revised trade data. See the description in the merchandise trade section of the changes that were made.

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## INTERNATIONAL DEVELOPMENTS

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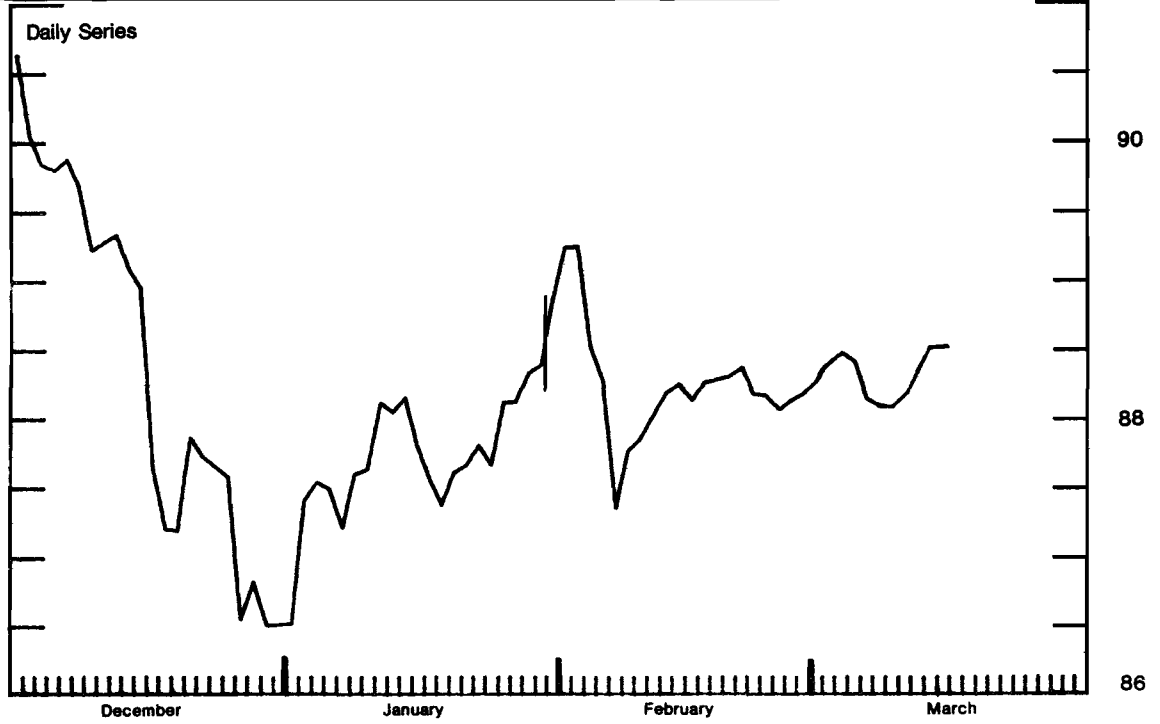
Foreign exchange markets. The average exchange value of the dollar has shown almost no net change over the six week period since the last Greenbook. As shown in the Chart, a sharp drop in dollar exchange rates in early February in reaction to the turmoil in Iran was subsequently reversed and since mid-February the dollar has fluctuated in a narrow range. The dollar has remained in strong demand over the past month despite announcements of unfavorable U.S. inflation and trade data. This strength has been due in part to market perception of continued firmness in U.S. monetary policy as well as indications of a pick-up of inflation abroad.

. Selling pressure on the Japanese currency was generated by evidence of a decline in Japan's current account surplus and an acceleration in Japanese inflation, as well as recognition of Japan's heavy dependence on imported oil at a time of oil shortages and rising oil prices. An additional factor depressing the yen over the past month was the conversion into dollars of several substantial foreign borrowings in yen.

In contrast to the situation in Japan, the relative oil self-sufficiency of Britain and Canada contributed to the recent strong exchange market demand for the pound and Canadian dollar, and both these currencies

WEIGHTED AVERAGE EXCHANGE VALUE OF U.S. DOLLAR

March 1973=100



appreciated by over 2 per cent against the U.S. dollar over the past six weeks. The Bank of England moderated sterling's rise by purchasing

The European Monetary System -- essentially an expansion of the snake currency band to include France, Italy and Ireland -- began operation on March 13. The EMS had originally been scheduled to begin at the first of the year, but was delayed until compromise could be reached on aspects of EEC agricultural policy. The French franc came under heavy selling pressure against the mark in the days immediately preceding the start of the arrangement as the market attempted to assess appropriate cross rates within the EMS.

. Once official parity cross rates were announced, however, speculative pressure on the franc subsided and the EMS began operation with member currencies trading within permitted fluctuation limits without intervention support.

U.S. intervention operations over the past six weeks resulted in net purchases of foreign currencies equivalent to \$1.8 billion.

. With its share of these purchases, the System reduced outstanding mark swap drawings to \$3.4 billion equivalent and repaid in full remaining swap drawings on the Swiss National Bank and the Bank of Japan. Total System swap debt is now less than 2/3 of its peak level at the end of December. In addition to making swap repayments, the System increased

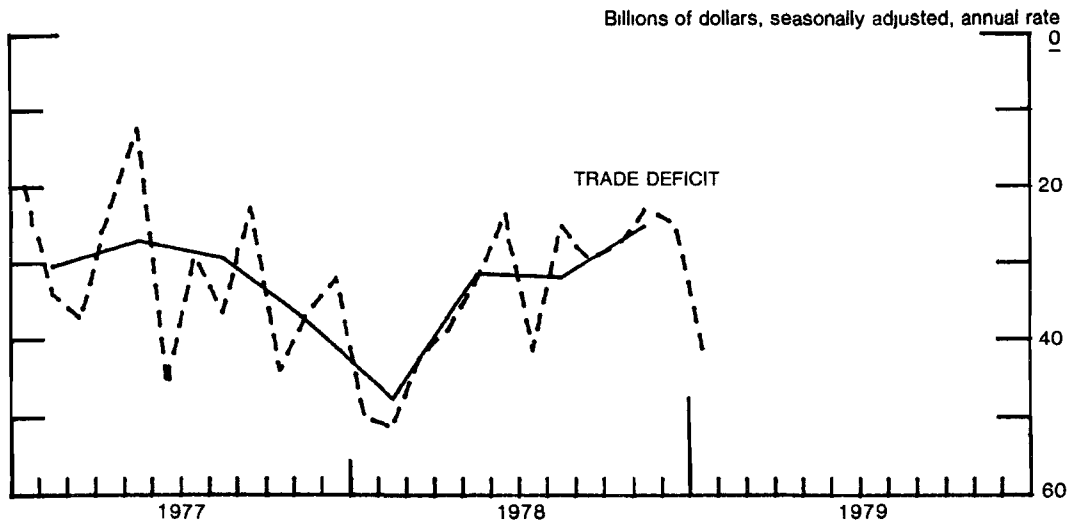
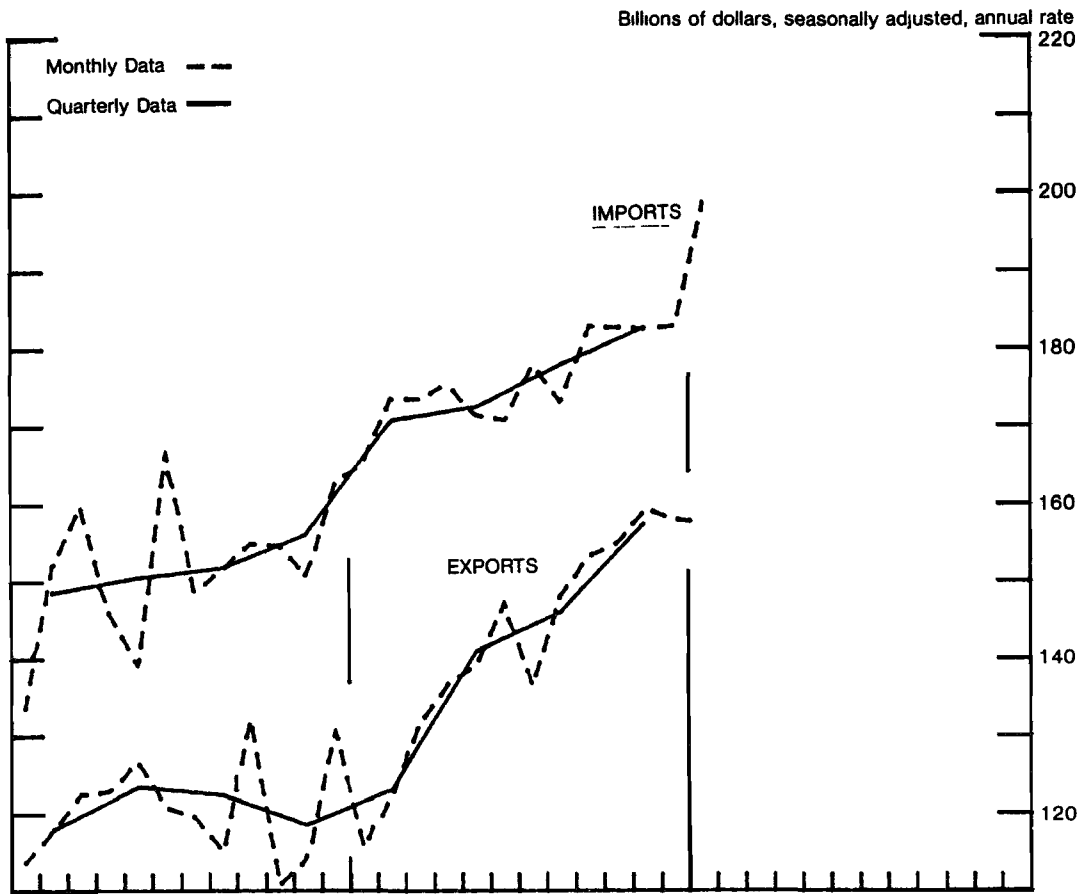
its holdings of yen and Swiss franc balances to a total of \$160 million equivalent. The Treasury increased its holdings of foreign currencies to over \$6 billion equivalent through another issue of mark-denominated notes in February, for which payment was received on March 1.

U.S. International Transactions. The merchandise trade balance in January is estimated to have widened substantially to \$41.3 billion at an annual rate on an international accounts basis. (See the following chart.) This sizeable increase, however, may be due more to a major revision of seasonal adjustment procedures than to change in the underlying U.S. trade position.<sup>1/</sup> The new seasonal adjustment pattern reduces fourth quarter imports with an offsetting rise in first quarter imports. As shown in the table below, when applied to 1978 data the new seasonal pattern produces a more dramatic improvement in the U.S. trade balance during the quarters of 1978 with the deficit falling by the fourth quarter to a \$25 billion annual rate, about \$4 billion less than on the old basis. Moreover, in part because petroleum imports are no longer seasonally adjusted, there is a sharp jump in imports between December and January as compared to little change on the old basis. Against this background the very large increase in the January deficit does not indicate any clear departure from our general outlook for continued improvement in the U.S. trade and current accounts in 1979.

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<sup>1/</sup> Under the new methodology, seasonally adjusted export and import totals are the sum of the seasonally adjusted commodity components -- previously the totals were seasonally adjusted independently -- and components for which no seasonal pattern is apparent, notably oil imports, are no longer adjusted. The new methodology produces the interesting result that the revision in "seasonal factors" leads to a considerable increase in quarter-to-quarter and month-to-month changes in the levels of imports, exports and the trade balance for past years.

### U.S. Merchandise Trade International Accounts Basis



U.S. Merchandise Trade: International Accounts Basis  
(in billions of dollars, seasonally adjusted annual rates)

	Revised Data			Change from Old Method		
	Exports	Imports	Balance	Exports	Imports	Balance
<u>Years</u>						
1977	120.6	151.7	-31.1	0	0	0
1978	141.9	176.0	-34.1	0	0	0
<u>Quarters</u>						
1978 - 1	123.1	170.8	-47.7	+3.6	+3.6	-3.2
2	141.0	172.5	-31.5	+1.3	+1.3	-.6
3	145.9	177.9	-32.0	-1.8	-1.8	-.1
4	157.5	182.7	-25.2	-3.2	-3.2	+4.1
<u>Months</u>						
1978 - Oct.	155.0	182.7	-27.7	-3.2	-3.2	+1.9
Nov.	159.4	182.4	-23.0	-4.6	-4.6	+6.8
Dec.	158.0	182.9	-24.9	-1.8	-1.8	+3.4
1979 - Jan.	157.5	198.8	-41.3	12.7	12.7	-14.7

Most of the increase in the deficit from December to January resulted from a rise in imports. Oil imports were up sharply as the volume of oil imported rose 10 per cent to 9.9 million barrels per day and prices rose 1 per cent on average to \$13.66 per barrel. Much of this increase is associated with the arrival of shipments made in anticipation of the January 1 OPEC price increase. The curtailment of Iranian oil exports late last year should be more apparent in February and March data for U.S. imports while recently announced price increases by some oil producers will be seen largely in second quarter import data. Non-oil imports rose by 8 per cent following continued strength in U.S. economic activity. Most of the increase was in consumer

goods, capital goods, and automotive products from Canada. Auto imports from other regions declined in January.

Exports in January declined slightly from their November-December level. An expected drop in agricultural exports from the high levels of November and December (primarily grains and tobacco) along with a small decline in machinery exports was partly offset by increases in other nonagricultural exports including, primarily, industrial supplies, civilian aircraft, and automotive products.

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

	1 9 7 8 <sup>r</sup>					1979	
	<u>Year</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>Dec.*</u>	<u>Jan.*</u>
<u>EXPORTS</u>	<u>141.9</u>	<u>123.1</u>	<u>141.0</u>	<u>145.9</u>	<u>157.5</u>	<u>158.0</u>	<u>157.5</u>
Agricult.	29.9	26.0	30.7	31.7	31.1	31.5	29.3
Nonagric.	112.0	97.1	110.4	114.2	126.3	126.5	128.2
<u>IMPORTS</u>	<u>176.0</u>	<u>170.8</u>	<u>172.5</u>	<u>177.9</u>	<u>182.7</u>	<u>182.9</u>	<u>198.8</u>
Petroleum	42.3	42.5	40.0	43.5	43.2	44.7	50.2
Nonpetrol.	133.7	128.4	132.5	134.4	139.4	138.2	148.6
<u>BALANCE</u>	<u>-34.1</u>	<u>-47.7</u>	<u>-31.5</u>	<u>-32.0</u>	<u>-25.2</u>	<u>-24.9</u>	<u>-41.3</u>

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

<sup>r</sup>/ Revised

<sup>\*</sup>/ The monthly International Accounts figures are only rough estimates and are subject to considerable revision.



After private capital outflows of about \$10.8 billion and increases in foreign official assets in the U.S. of \$17.1 billion in the fourth quarter of last year, the dollar strengthened in exchange markets in January and February and this pattern of capital movements was reversed. See table below. In January U.S. banks raised about \$5-1/3 billion net from foreign sources, largely in transactions with their foreign branches, and partial data suggest another strong net inflow in February.

A part of the inflow shown in interbank transactions in January reflects the return to U.S. banks of funds shifted by U.S. residents from banks in the United States to banks abroad. The available data for January show that the foreign branches of U.S. banks in the Carribean and the U.K. increased their liabilities to U.S. residents by about \$3 billion. In addition, Eurodollar CD holdings of open-ended money market mutual funds increased by \$225 million (9 per cent of the increase in their total assets), and the Eurodollar CD holdings of short-term unit trusts (closed-ended money-market funds) rose by about \$200 million.

Foreign official holdings of Treasury securities fell by an estimated \$2.9 billion in February following a small increase in January. The retirement of swap-related Treasury nonmarketable securities (in connection with the U.S. repayments of swap drawings) accounted for most of the decrease.

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

	1978	1 9 7 8			1979		
	Year	Q-2	Q-3	Q-4	Nov.	Dec.	Jan.
1. Private capital trans. adj. <u>1/</u>	-12.0	4.2	1.2	-9.8	-4.8	-5.1	6.8
2. Private capital as rept. net	-12.0	3.7	.9	-10.8	-4.8	-5.1	6.8
3. Reporting bias <u>2/</u>	--	.5	.3	1.0	--	--	--
4. OPEC official net investments	-1.1	-2.6	-1.6	1.7	-1.2	1.2	-.3
5. Other foreign official assets	32.4	-2.9	6.2	15.4	5.2	4.7	.6
6. U.S. reserve assets	.8	.3	*	.2	1.0	-.7	-1.8 <u>5/</u>
7. Trade balance, n.s.a. <u>3/</u>	-34.1	-7.3	-9.6	-6.0	-2.0	-1.8	-3.6
8. All Other <u>4/</u>	14.0	8.3	3.8	-1.5	1.8	1.7	-1.7
Memoranda: (seasonally adjusted annual rates)							
9. Trade balance	-34.1	-31.5	-32.0	-25.2	-23.0	-24.9	-41.3
10. GNP net exports of goods and services	-12.0	-5.5	-10.7	-7.8	n.a.	n.a.	n.a.
11. Current account balance	n.a.	-12.7 <sup>e</sup>	-15.3 <sup>e</sup>	n.a.	n.a.	n.a.	n.a.

1/ Includes bank-reported capital, foreign purchases of U.S. Treasury securities, and other private securities transactions. Also includes U.S. Treasury notes publicly issued to private foreign residents in December and January.

2/ Adjusted for reporting bias in bank-reported data associated with week-end transactions. See page IV 10-11 in the June 1976 greenbook.

3/ International accounts basis. For seasonally-adjusted number see line 9.

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

5/ Includes \$874 million of newly allocated SDR's.

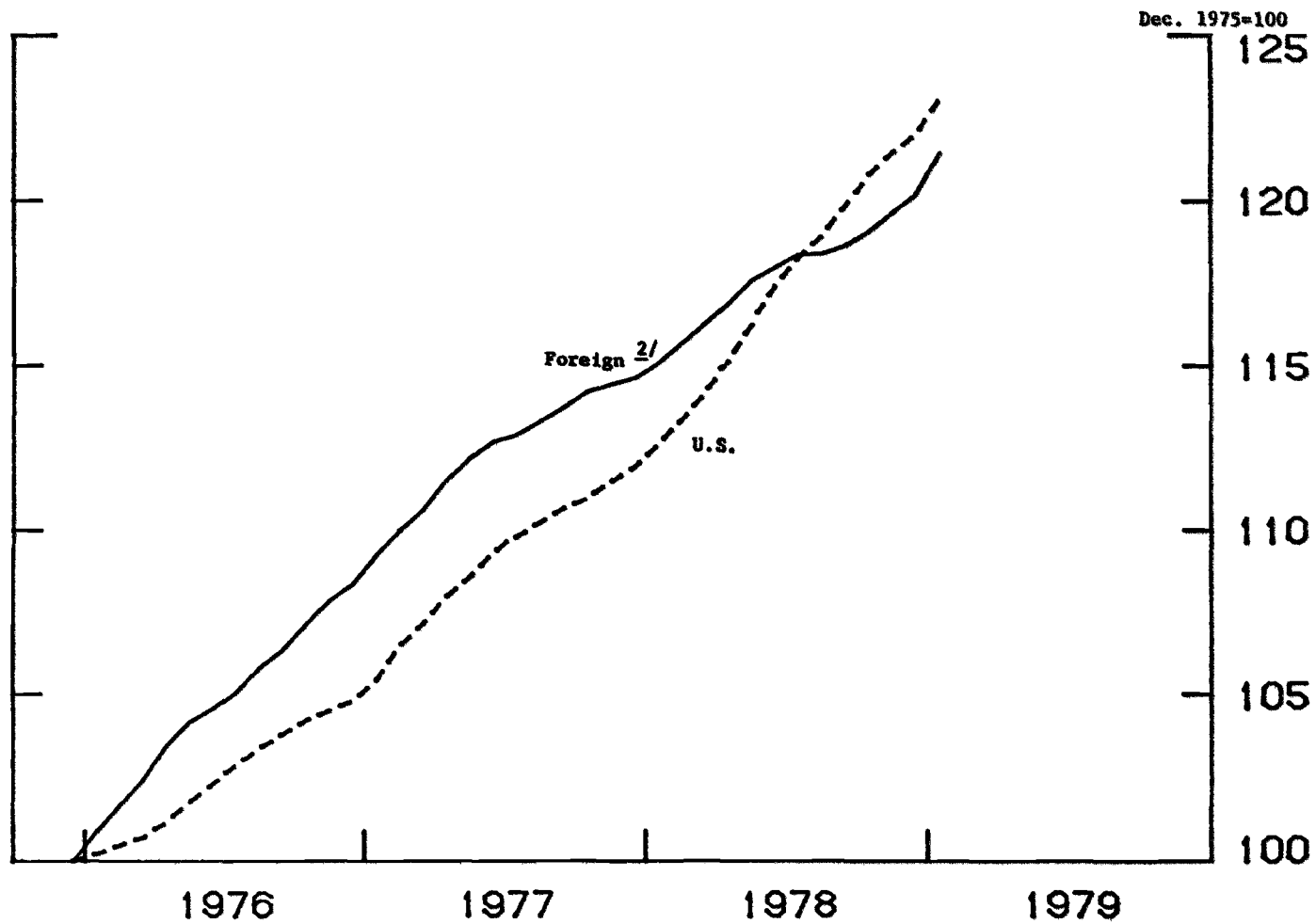
\*/ Less than \$50 million.

e/ Estimated - includes revised trade data. See the description in the merchandise trade section above of the changes that were made.

Foreign Economic Developments. The major development which has become evident since the previous greenbook is the increase in the rate of inflation in several industrial economies (see Chart). In France, Italy, and the United Kingdom the rate of inflation rose noticeably in January, while in Germany, Japan, and Switzerland -- the only countries which have released February price data -- inflation increased during the first two months of the year. In several countries the increase was reflected in both consumer and wholesale prices. Part of the acceleration is related to seasonal factors, especially in the case of Germany and France. Although the staff expected a pickup in inflation in each of these countries during 1979, the acceleration thus far has been more pronounced than had been anticipated. Except in the case of Switzerland (see below), it is unlikely that much of the pickup in inflation rates can be explained by recent oil price increases.

Prospects for a continuation of moderate GNP growth abroad during 1979 have remained essentially unchanged during the past month. In Japan, industrial production continued to expand through January and GNP in the fourth quarter of 1978 grew at about 7 per cent (s.a.a.r.). During the same quarter, German GNP grew at a rate of about 6 per cent (s.a.a.r.) and an expansionary outlook has been noted in recent investment surveys. Thus, although the latest industrial production data are weak, the outlook for German economic activity remains favorable.

Foreign and Domestic Consumer Prices <sup>1/</sup>



Latest data shown: January 1979.

<sup>1/</sup> Wholesale prices for Japan.

<sup>2/</sup> Weighted averages of six major foreign countries, using 1977 GNP as weights.

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

									Latest 3 Months from:		
	1976	1977	1978	1977	1978				Previous 3 Months (at Ann. Rate)	Year Ago	Latest Month
				Q4	Q1	Q2	Q3	Q4			
Canada: CPI	7.5	8.0	8.9	2.2	1.8	2.4	2.5	1.6	7.9	8.7	January
WPI	4.3	9.1	9.1	1.0	2.7	3.0	1.5	4.5	19.4	12.1	December
France: CPI	9.6	9.5	9.2	1.9	1.6	2.9	2.7	2.1	8.3	10.2	January
WPI	7.4	5.6	4.3	0.0	1.4	1.9	1.9	2.9	12.3	8.8	December
Germany: CPI	4.6	3.9	2.6	0.2	1.3	0.9	0.0	0.1	6.3	2.8	February
WPI	5.8	1.8	-0.3	-0.9	1.0	0.3	-0.6	0.0	9.7	2.0	February
Italy: CPI	16.8	18.4	12.1	3.3	2.6	3.0	2.4	3.0	13.2	12.0	January
WPI	22.9	17.4	8.4	2.0	2.1	2.3	1.8	2.3	11.4	9.4	January
Japan: CPI	9.7	8.3	4.3	0.8	0.9	2.0	0.8	0.2	-2.9	3.3	February
WPI	5.0	1.9	-2.5	-0.7	-0.5	-0.3	-1.7	-0.6	4.9	-1.6	February
United Kingdom: CPI	16.6	15.8	8.3	1.5	1.7	2.7	1.7	1.7	9.1	8.6	January
WPI	17.3	19.8	9.1	1.4	2.3	1.8	1.9	1.7	9.0	8.1	February
United States: CPI	5.7	6.5	7.6	1.1	1.7	2.6	2.4	2.8	8.0	9.1	January
WPI	4.6	6.1	7.8	1.1	2.4	3.0	1.5	2.3	12.4	10.3	February

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

	1976	1977	1978	1978				1978			1979
				Q1	Q2	Q3	Q4	October	November	December	January
Canada: GNP	5.5	2.7	3.4	0.7	1.0	0.8	0.5	*	*	*	*
IP	5.1	4.0	5.3	1.3	1.3	1.8	2.7	-0.4	0.3	2.0	n.a.
France: GDP	5.8	2.0	n.a.	1.8	0.3	n.a.	n.a.	*	*	*	*
IP	9.4	1.7	1.9	1.9	1.9	-0.3	2.1	0.0	0.8	1.5	n.a.
Germany: GNP	5.7	2.6	3.4	-0.1	2.1	0.6	1.5	*	*	*	*
IP	7.9	2.7	2.0	0.0	-0.6	3.2	0.8	0.0	0.0	0.0	0.0
Italy: GDP	5.7	1.7	n.a.	2.0	0.0	0.7	n.a.	*	*	*	*
IP	12.4	1.1	1.7	5.5	-2.2	1.0	5.7	5.0	0.4	-1.5	-0.8
Japan: GNP	6.4	5.4	5.6	2.3	1.0	0.8	1.7	*	*	*	*
IP	11.0	4.2	6.1	2.9	1.7	0.5	2.3	-0.2	1.3	1.4	0.1
United Kingdom: GDP	2.9	1.9	n.a.	0.2	1.8	0.9	n.a.	*	*	*	*
IP	1.9	3.8	3.6	1.0	3.7	0.3	-1.1	-1.5	0.6	1.6	n.a.
United States: GNP	5.7	4.9	3.9	0.0	2.1	0.6	1.6	*	*	*	*
IP	10.1	5.6	5.8	0.2	3.1	2.1	1.7	0.6	0.5	0.7	0.1

\* GNP data are not published on monthly basis.

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

	1977	1978	1977		1978				1978			1979
			Q3	Q4	Q1	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Canada: Trade	2.7	3.1	0.5	1.0	1.2	0.6	0.6	0.6	0.1	0.4	0.1	0.3
Current Account	-3.9	-4.6	-1.2	-0.7	-0.6	-1.0	-1.2	-1.8	*	*	*	*
France: Trade	-2.2	0.4	-0.5	0.1	-0.1	0.3	0.2	0.0	0.2	0.1	-0.2	0.0
Current Account	-3.3	n.a.	-0.8	-0.4	0.0	1.4	0.9	n.a.	*	*	*	*
Germany: Trade	16.5	20.4	3.7	4.8	4.3	5.0	5.5	5.7	2.2	1.9	1.6	1.5
Current Account <sup>b/</sup>	3.8	8.3	-2.0	3.8	1.6	2.0	-0.8	5.5	1.9	2.0	1.6	0.1
Italy: Trade	-2.8	-0.2	-0.1	-0.4	-0.1	0.4	-0.7	0.2	0.3	-0.1	-0.1	n.a.
Current Account <sup>b/</sup>	2.3	n.a.	2.3	0.7	0.3	1.8	2.6	n.a.	*	*	*	*
Japan: Trade	17.3	24.7	4.2	4.6	7.4	6.8	6.7	3.9	0.8	1.6	1.4	0.9
Current Account	10.9	16.5	2.7	3.1	5.5	4.8	4.5	1.7	0.2	0.8	0.7	0.3
United Kingdom: Trade	-2.9	-2.1	-0.1	0.1	-1.1	-0.3	-0.7	0.0	0.1	-0.2	0.1	-0.2
Current Account	0.5	0.5	0.9	1.1	-0.7	0.3	0.1	0.8	0.3	0.0	0.4	0.0
United States: Trade	-31.1	-34.1	-7.4	-9.4	-11.9	-7.9	-8.0	-6.3	-2.3	-1.9	-2.1	-3.4
Current Account	-15.3	n.a.	-2.9	-7.0	-6.9	-3.1	-3.8	n.a.	*	*	*	*

<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.

In terms of external balances, perhaps the most notable statistic, reflecting primarily the international adjustment process at work, is the continued decline in the Japanese current-account surplus to a seasonally-adjusted annual rate of less than \$4 billion in January. In most other countries, external positions have changed little in recent months. Although the German current-account surplus (n.s.a.) declined in January, it is possible that most of this decrease was due to seasonal factors.

Individual country notes. In Japan, stronger domestic demand continues to be offset by a weakening external sector, while increased upward pressure on prices has emerged as a potentially important constraint on expansionary policy in 1979.

Activity in Japan has strengthened somewhat in recent months; in the three months ending in January, industrial production increased over its level in the preceding three months at a rate exceeding 10 per cent (s.a.a.r.). Nevertheless, no significant inroads appear to have been made in unemployment, which persists at a level that is historically high for Japan. Moreover, the authorities are now expressing increased concern over possible increases in inflationary pressure in coming months from a build-up of liquidity in the private sector, increased government expenditure in FY 1979, higher overseas commodity prices, and the absence of beneficial effects from appreciation of the yen. Wholesale prices, which declined by 2.5 per cent during 1978, increased in the three months ending in February over their average level of the previous three months at an annual rate of about 5 per cent.



Recent trade data show that adjustment to past exchange rate changes is continuing strongly. In January, when emergency imports were only about \$200 million, the current-account surplus (s.a.) narrowed to \$340 million, while the trade surplus (s.a.) was \$940 million -- levels which are both about \$1 billion below corresponding monthly average levels in 1978. In view of the more stable condition of the yen in foreign exchange markets in recent months, in February the Ministry of Finance eliminated both the 50 per cent marginal reserve requirement on free yen deposits and the remaining restrictions on foreigners' purchases of Japanese securities.

In spite of an extremely severe winter and a hard fought steelworker's strike, the German economic climate remains favorable. Growth of real GNP in 1978, at 3.4 per cent, was quite close to the original official projection and much higher than widely predicted as late as September 1978. Real GNP in the fourth quarter grew at an annualized rate of 6 per cent. Domestic demand, both public and private, has been a source of strength. The construction industry in particular has been running into capacity constraints. Recent surveys on investment plans have found a predominance of expansionary sentiment. While recent industrial production data show a less buoyant economy, with the index having remained unchanged since September, it is possible that the index may be overstating the effects of a harsh winter.

The seasonally-adjusted rate of unemployment has remained at 4.2 per cent for the past three-months (ending in January), in spite of considerable weather-related unemployment this winter. Consumer prices, having decelerated throughout 1978 and having reached a rate of 2.6 per cent for the year, recorded sharp increases early this year. The average annualized rate for January and February of the seasonally-unadjusted consumer price index was somewhat above 10 per cent. However, most of this increase may be due to seasonal factors. Wholesale and producer prices also have accelerated strongly in these two months.

In February the Swiss consumer price index rose 1.1 per cent (n.s.a.), which is the largest monthly increase since 1974 and follows an increase in January of 0.4 per cent. Both of these rates are high compared with the average annual inflation rate in 1978 of 1 per cent. Wholesale prices also increased rapidly in the first two months of the year. The rise in both indices during February was mostly due to a 26 per cent jump in the price of fuel oil. Switzerland purchases a substantial amount on the spot market and hence has felt the impact of oil price hikes earlier and to a larger extent than other countries. Import prices are no longer exerting downward pressure on inflation as a result of the success of exchange-rate stabilization policy, and the increased liquidity in the Swiss money market also may be beginning to have an expansionary effect on economic activity and prices. Although some increase in the inflation rate was anticipated, a shift to contractionary monetary policy is likely if the inflation rate does not subside in the next few months.

The pace of economic activity in the United Kingdom weakened in the fourth quarter of 1978. Between the third and fourth quarters of last year, real private consumption expenditures -- particularly on automobiles -- fell and industrial production declined by some 4-1/2 per cent (s.a.a.r.). One preliminary measure of GDP indicates a fall of about 1/2 per cent (s.a.a.r.) in the fourth quarter. Industrial disputes were partly responsible for the weakness in activity toward the end of 1978, and may have adverse effects on output in the first half of this year as well.

British inflation appears to be accelerating. Monthly rates of change of both wholesale and consumer prices have been increasing in recent months. Further evidence of an upward trend in inflation rates is provided by a consumer-price index published by the U.K.'s Price Commission, which showed a fairly sharp rise in January. (This index is based on price changes which have been proposed to the Commission by large companies but not yet put into effect).

Concern about the rate of growth of the money supply and general upward pressure on market interest rates led the Bank of England to increase its Minimum Lending Rate (MLR) from 12-1/2 to 14 per cent on February 8. Subsequently, market rates subsided somewhat and the Bank lowered the MLR by 1 percentage point (to 13 per cent) on March 1.

During the past month there has been little change in the French economic situation, and no change in basic policy. The major weak spot in the present picture is the unemployment situation, which

is still worsening slowly. Between January 1978 and January 1979 the unemployment rate rose from 4.8 per cent to 5.9 per cent (1.3 million people) and further increases seem likely. The government's steel-sector program, for instance, is scheduled to produce more than 20,000 layoffs within a few months. In areas such as Lorraine, which depends heavily on steel, there were signs of labor unrest (including some violence) during February, and government officials have been trying to work out adjustment programs acceptable to the labor unions. The French inflation rate increased somewhat in January, though most of the rise is believed to be attributable to seasonal factors. The rate of inflation remains high relative to most participants in the European Monetary System.

In Italy the inflation rate jumped sharply in January after a period of stable price increases. Consumer prices rose 1.9 per cent (n.s.a.) compared with the 11.6 per cent increase in the 12 months ending December 1978, while wholesale prices in January increased (1.7) per cent (n.s.a.) after two years in which the annual rate of increase was in the 8-9 per cent range. An important element in the cost of living jump was the sharp rent increases permitted under the new "fair rent" law; additional substantial rent increases are expected throughout the year. Further inflationary pressure also can be expected from wage increases due both to index-linked wage adjustments and higher labor costs following the completion of the current round of contract negotiations. After a three-month period of significant growth in economic activity, the industrial production index declined in December and January.

The fall of the Italian government and the likelihood of parliamentary elections this year (two years ahead of schedule) have considerably clouded the general outline of economic policy. The outgoing government had proposed a three-year plan for redirecting resources from public and private consumption to investment and the expansion of employment; the status of the three-year plan is now uncertain.

Real GDP in Canada rose by 4.2 per cent (s.a.a.r.) during the fourth quarter, while real GNP grew at an annual rate of only 2 per cent. The difference between these growth rates was primarily due to an exceptionally large outflow of dividends during the fourth quarter, following the lifting of wage and price (and dividend) controls. The real output gain was confined to a \$C 1.8 billion accumulation of inventories and a sharp increase of export volumes. Real personal consumption on goods and services dropped moderately while real levels of capital investment and government spending on goods and services were virtually unchanged from the third quarter. Canada had a 3.4 per cent gain in real GNP during 1978 after a 2.7 per cent rise in 1977.

The current-account balance in the Netherlands swung sharply into deficit in 1978. On a transactions basis, the deficit for the first 10 months of 1978 was \$1.5 billion, compared with a \$500 million surplus in 1977, and an average annual surplus in the 1972-76 period of over \$2 billion. Both trade and invisibles contributed to the 1978

deterioration. The concentration of industries with structural problems (steel, textiles, and chemicals) in the Netherlands, declining natural gas export volumes, and the appreciation of the guilder are the underlying causes. The current-account in Belgium shifted into deficit in 1976 and this deficit has been growing fairly steadily through the end of 1978.

Trade balances in the six major foreign industrial countries in 1978. The trade surplus of the six major foreign countries in 1978 was about \$47 billion, compared to about \$29 billion in the previous year. For the year, the trade deficits of Italy and the United Kingdom decreased and that of France turned to a slight surplus, while the trade surpluses of Canada, Germany and Japan rose. However, as the year progressed the move toward surplus decreased or changed direction for each of the six countries except Germany. By the fourth quarter of 1978 the trade surplus of the six countries was reduced to about \$38 billion (s.a.a.r.).

Unlike the pattern in 1977, when for the six countries combined export volumes increased by substantially more than import volumes, most of the changes in these countries trade balances during 1978 resulted from a rise in the terms of trade (see table). The improvement reflected the weakness of commodity prices. Moreover, especially for Japan and Germany it also reflected an appreciation of their weighted-average exchange rates.

The improvement in the terms of trade was offset by rapid increases in import volumes in each of the six countries as real GNP expanded. Despite rapidly expanding exports from industrial to the non-oil developing countries in 1978, the rise of export volumes slowed in Germany, and there was an actual decline in Japan, reflecting the exchange

rate changes. In Japan this resulted in a steady decline of the trade surplus throughout the year, whereas in Germany the shift in trade volumes was about offset by the rise in its terms of trade.



Trade Volume and Unit Value Indices for Major Industrial Countries  
(Percentage change)

	Volume (SA)			Unit Value (domestic currency)		
	<u>1976 QIV</u>	<u>1977 QIV</u>	<u>Latest 3 months</u>	<u>1976 QIV</u>	<u>1977 QIV</u>	<u>Latest 3 months</u>
	<u>1975 QIV</u>	<u>1976 QIV</u>	<u>Same period previous year</u>	<u>1975 QIV</u>	<u>1976 QIV</u>	<u>Same period previous year</u>
Canada						
Export	8.4	12.2	13.4 <sup>1/</sup>	0.9	8.5	10.0 <sup>1/</sup>
Import	5.9	- 1.8	14.2	1.1	16.4	12.9
France						
Export	12.3	6.1	6.1 <sup>2/</sup>	14.2	6.1	4.0 <sup>2/</sup>
Import	21.3	- 1.7	7.3	19.1	4.7	- 0.7
Germany						
Export	10.4	6.9	6.3 <sup>1/</sup>	3.0	0.8	- 0.3 <sup>2/</sup>
Import	14.4	5.2	10.3	0.8	0.1	- 3.6
Italy						
Export	12.8	8.3	12.2 <sup>3/</sup>	27.4	12.6	6.1 <sup>3/</sup>
Import	12.5	- 3.1	7.1	32.0	10.2	2.2
Japan						
Export	19.1	7.7	- 3.9 <sup>1/</sup>	6.7	- 5.0	- 5.9 <sup>1/</sup>
Import	10.6	0.0	12.5	3.7	-10.5	-17.6
United Kingdom						
Export	8.9	3.4	5.0 <sup>4/</sup>	24.0	12.3	9.3 <sup>4/</sup>
Import	7.1	- 4.4	4.2	25.4	7.6	5.6
United States						
Export	1.4	- 2.8	15.5 <sup>1/</sup>	6.0	2.6	15.2 <sup>1/</sup>
Import	22.7	9.2	6.3	6.6	7.4	10.0

<sup>1/</sup> Latest month available is December.  
<sup>2/</sup> Latest month available is November.

<sup>3/</sup> Latest month available is October.  
<sup>4/</sup> Latest month available is January.

APPENDIX  
SENIOR LOAN OFFICER OPINION SURVEY  
ON BANK LENDING PRACTICES\*

Responses to the February Senior Loan Officer Opinion Survey indicate some moderation on balance of the trend toward tightening of non-price lending terms which had been reported over the last two years. In contrast to the strengthening this year of estimated business loans by all commercial banks and the continued sizable increases in loan commitments through January, a majority of the 121 respondents to the survey perceived that their business loan demand was unchanged or weaker in the three months ending in mid-February.

The number of respondents to the Survey reporting that the demand for business loans had weakened from 3 months earlier rose sharply from the November survey and actually exceeded--for the first time since May 1976--the number of banks reporting stronger loan demand. Just under a third of respondents anticipate that stronger loan demand will resume in the 3 months following the February survey, considerably more than the number expecting further weakness but well below the fifty per cent of respondents who anticipated stronger growth at the time of the previous survey. The weakening of perceived loan demand was apparent at both large banks (with assets exceeding \$5 billion) and medium size banks (with assets of \$1-5 billion).

At the time of the February survey, the prime rate at the majority of banks had been unchanged since late December but had risen by over one percentage point since the November survey. By contrast, downward pressure since year end had driven commercial paper rates below their level at the time of the previous survey. Consequently, the typical cost of bank credit had become unusually high relative to the cost of alternative forms of short term credit. To some degree, large banks appeared to have offset these costs by easing their compensating balance requirements and by relaxing somewhat their standards of creditworthiness to qualify for the prime rate. Medium size banks left compensating balance requirements about unchanged in the November-February period while tightening somewhat their standards of creditworthiness. At the time of the previous survey, respondents at both large and medium size banks reported that these non-price terms had been tightened considerably.

Criteria used to review credit lines for established and local service area customers, which were reported to have been appreciably tightened at the time of the previous survey, were unchanged in the 3

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\* Prepared by Thomas F. Brady, Economist, Banking Section, Division of Research and Statistics.

months ending in February. Criteria for new and non-local service area customers were reported to be tightened in the February survey but by fewer banks than had been the case in November.

As they have in recent surveys, respondents reported another decline in their overall willingness to make fixed-rate loans. However, the number of banks reporting less willingness to extend this type of credit--which had been rising throughout 1978--declined in February. The emergence of some slowing in the recent trend toward increasing reluctance to extend credit is also evident for several other loan categories, including secured construction and single and multifamily real estate loans. Respondents' willingness to make consumer loans, which had turned toward restriction for the first time in over 2 years at the time of the previous survey, was essentially unchanged in the November-February period.

There was actually an increased willingness at medium-size banks to make 1-5 year commercial and industrial loans in the 3 months ending in February. Although respondents continued to indicate growing unwillingness to make longer-term commercial and industrial loans, this attitude has become considerably less pronounced in both large and medium size banks since November. There was also an increased willingness to make participation loans with correspondents in the November-February period, particularly at large banks.

TABLE 1

SENIOR LOAN OFFICER OPINION SURVEY ON BANK LENDING PRACTICES  
AT SELECTED LARGE BANKS IN THE U.S.  
(STATUS OF POLICY ON FEBRUARY 15, 1979 COMPARED TO THREE MONTHS EARLIER)  
(NUMBER OF BANKS & PERCENT OF TOTAL BANKS ANSWERING QUESTION)

L O A N D E M A N D											
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANKS USUAL SEASONAL VARIATION):	MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		TOTAL BANKS ANSWERING
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
1. COMPARED TO THREE MONTHS EARLIER	1	0.9	20	16.6	75	62.0	23	19.1	2	1.7	121
2. ANTICIPATED DEMAND IN NEXT 3 MONTHS	1	0.9	33	27.3	74	61.2	13	10.8	0	0.0	121
I N T E R E S T R A T E P O L I C Y											
STANDARDS OF CREDIT WORTHINESS:	MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH FASTER		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
3. TO QUALIFY FOR PRIME RATE	0	0.0	15	12.4	97	80.2	9	7.5	0	0.0	121
4. TO QUALIFY FOR SPREAD ABOVE PRIME	1	0.9	19	15.8	87	72.0	14	11.6	0	0.0	121
WILLINGNESS TO MAKE FIXED RATE LOANS:	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		MUCH LESS		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
5. SHORT-TERM (UNDER ONE YEAR)	1	0.9	10	8.3	94	77.7	15	12.4	1	0.9	121
6. LONG-TERM (ONE YEAR OR LONGER)	1	0.9	17	14.1	81	67.0	15	12.4	7	5.8	121
C R E D I T A V A I L A B I L I T Y A N D N O N P R I C E T E R M S											
REVIEWING CREDIT LINES OR LOAN APPLICATIONS FOR:	MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
7. ESTABLISHED CUSTOMERS	0	0.0	1	0.9	117	96.7	3	2.5	0	0.0	121
8. NEW CUSTOMERS	1	0.9	16	13.3	99	81.9	5	4.2	0	0.0	121
9. LOCAL SERVICE AREA CUSTOMERS	0	0.0	2	1.7	116	95.9	3	2.5	0	0.0	121
10. NONLOCAL SERVICE AREA CUSTOMERS	3	2.5	20	16.6	97	80.2	1	0.9	0	0.0	121
COMPENSATING BALANCE REQUIREMENTS FOR:	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		MUCH LESS		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
11. COMMERCIAL & INDUSTRIAL LOANS	0	0.0	14	11.6	91	75.3	16	13.3	0	0.0	121
12. LOANS TO FINANCE COMPANIES	0	0.0	8	6.7	103	85.2	10	8.3	0	0.0	121
WILLINGNESS TO MAKE OTHER TYPES OF LOANS:	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		MUCH LESS		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
13. SECURED CONSTRUCTION & LAND DVLPMT SECURED REAL ESTATE LOANS:	1	0.9	7	5.8	91	75.3	21	17.4	1	0.9	121
14. 1-4 FAMILY RESIDENTIAL PROPERTIES	0	0.0	4	3.4	93	77.5	20	16.7	3	2.5	120
15. MULTI-FAMILY RESIDENTIAL PROPERTY	0	0.0	0	0.0	99	86.1	14	12.2	2	1.8	115
16. COMMERCIAL & INDUSTRIAL PROPERTY	0	0.0	6	5.0	101	83.5	13	10.8	1	0.9	121
17. INSTALLMENT LOANS TO INDIVIDUALS	0	0.0	8	6.7	106	87.7	6	5.0	1	0.9	121
COMMERCIAL AND INDUSTRIAL LOANS OF:	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		MUCH LESS		
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	
18. 1-5 YEARS MATURITY	1	0.9	7	5.8	111	91.8	2	1.7	0	0.0	121
19. OVER 5 YEARS MATURITY	0	0.0	3	2.5	106	87.7	11	9.1	1	0.9	121
20. LOANS TO FINANCE COMPANIES	0	0.0	1	0.9	109	90.1	11	9.1	0	0.0	121
21. LOANS TO SECURITIES BROKERS & DEALERS	1	0.9	4	3.4	104	86.0	10	8.3	2	1.7	121
22. PARTICIPATION LOANS WITH CORRESPONDENT BANKS	0	0.0	12	10.0	102	84.3	6	5.0	1	0.9	121

TABLE 2

COMPARISON OF QUARTERLY CHANGES IN BANK LENDING PRACTICES AT BANKS GROUPED BY SIZE OF TOTAL DOMESTIC ASSETS  
(STATUS OF POLICY ON FEBRUARY 15, 1979 COMPARED TO THREE MONTHS EARLIER)  
(NUMBER OF BANKS ANSWERING EACH QUESTION AS PERCENT OF TOTAL NUMBER OF BANKS ANSWERING QUESTION)

SIZE OF BANK -- TOTAL DOMESTIC ASSETS IN BILLIONS													
L O A N D E M A N D	MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER		TOTAL		
	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANKS USUAL SEASONAL VARIATION):													
1. COMPARED TO THREE MONTHS EARLIER	0	1	19	16	67	61	14	20	0	2	100	100	
2. ANTICIPATED DEMAND IN NEXT 3 MONTHS	0	1	29	27	67	60	5	12	0	0	100	100	
I N T E R E S T R A T E P O L I C Y	MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		TOTAL		
	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	
STANDARDS OF CREDIT WORTHINESS:													
3. TO QUALIFY FOR PRIME RATE	0	0	10	13	76	81	14	6	0	0	100	100	
4. TO QUALIFY FOR SPREAD ABOVE PRIME	5	0	14	16	71	72	10	12	0	0	100	100	
W I L L I N G N E S S T O M A K E F I X E D R A T E L O A N S :	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		CONSIDERABLY LESS		TOTAL		
	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	
5. SHORT-TERM (UNDER ONE YEAR)	0	1	5	9	81	77	14	12	0	1	100	100	
6. LONG-TERM (ONE YEAR OR LONGER)	0	1	10	15	67	67	19	11	5	6	100	100	
C R E D I T A V A I L A B I L I T Y A N D N O N P R I C E T E R M S	MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY EASIER		MUCH EASIER		TOTAL		
	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	
REVIEWING CREDIT LINES OR LOAN APPLICATIONS FOR:													
7. ESTABLISHED CUSTOMERS	0	0	5	0	95	97	0	3	0	0	100	100	
8. NEW CUSTOMERS	5	0	0	16	95	79	0	5	0	0	100	100	
9. LOCAL SERVICE AREA CUSTOMERS	0	0	5	1	95	96	0	3	0	0	100	100	
10. NONLOCAL SERVICE AREA CUSTOMERS	5	2	0	20	95	77	0	1	0	0	100	100	
COMPENSATING BALANCE REQUIREMENTS FOR:													
11. COMMERCIAL & INDUSTRIAL LOANS	0	0	0	14	81	74	19	12	0	0	100	100	
12. LOANS TO FINANCE COMPANIES	0	0	0	8	86	85	14	7	0	0	100	100	
W I L L I N G N E S S T O M A K E O T H E R T Y P E S O F L O A N S :	CONSIDERABLY GREATER		MODERATELY GREATER		ESSENTIALLY UNCHANGED		MODERATELY LESS		CONSIDERABLY LESS		TOTAL		
	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	\$5 & OVER	UNDER \$5	
13. SECURED CONSTRUCTION & LAND DEVELOPMENT SECURED REAL ESTATE LOANS:	0	1	5	6	86	73	10	19	0	1	100	100	
14. 1-4 FAMILY RESIDENTIAL PROPERTIES	0	0	0	4	90	75	10	18	0	3	100	100	
15. MULTI-FAMILY RESIDENTIAL PROPERTY	0	0	0	0	94	85	0	14	6	1	100	100	
16. COMMERCIAL & INDUSTRIAL PROPERTY	0	0	5	5	90	82	0	13	5	0	100	100	
17. INSTALLMENT LOANS TO INDIVIDUALS	0	0	0	8	100	85	0	6	0	1	100	100	
COMMERCIAL AND INDUSTRIAL LOANS OF:													
18. 1-5 YEARS MATURITY	0	1	0	7	95	91	5	1	0	0	100	100	
19. OVER 5 YEARS MATURITY	0	0	0	3	95	86	5	10	0	1	100	100	
20. LOANS TO FINANCE COMPANIES	0	0	5	0	90	90	5	10	0	0	100	100	
21. LOANS TO SECURITIES BROKERS & DEALERS	0	1	5	3	86	86	5	9	5	1	100	100	
22. PARTICIPATION LOANS WITH CORRESPONDENT BANKS	0	0	19	8	76	86	0	6	5	0	100	100	