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CONFIDENTIAL (FR)

April 11, 1979

# CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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

| | Latest Data | | | Per Cent Change from | | |
|---|---|---|---|---|---|---|
| | Period | Release Date | Data | Preceding Period | Three Periods Earlier | Year earlier |
| | | | | (At annual rate) | | |
| Civilian labor force | Mar. | 4-6-79 | 102.7 | 2.2 | 3.3 | 3.3 |
| Unemployment rate (%) 1/ | Mar. | 4-6-79 | 5.7 | 5.7 | 5.9 | 6.2 |
| Insured unemployment rate (%) 1/ | Mar. | 4-6-79 | 3.0 | 3.0 | 3.1 | 3.5 |
| Nonfarm employment, payroll (mil.) | Mar. | 4-6-79 | 88.2 | 4.4 | 4.0 | 4.0 |
| Manufacturing | Mar. | 4-6-79 | 21.0 | 4.0 | 4.7 | 3.7 |
| Nonmanufacturing | Mar. | 4-6-79 | 67.2 | 4.6 | 3.8 | 4.2 |
| Private nonfarm: | | | | | | |
| Average weekly hours (hr.) 1/ | Mar. | 4-6-79 | 35.9 | 35.8 | 35.9 | 36.0 |
| Hourly earnings ($) 1/ | Mar. | 4-6-79 | 6.04 | 5.99 | 5.91 | 5.54 |
| Manufacturing: | | | | | | |
| Average weekly hours (hr.) 1/ | Mar. | 4-6-79 | 40.8 | 40.7 | 40.7 | 40.6 |
| Unit labor cost (1967=100) | Feb. | 3-30-79 | 172.8 | 8.4 | 8.5 | 4.0 |
| Industrial production (1967=100) | Feb. | 3-16-79 | 151.2 | 3.2 | 4.3 | 8.6 |
| Consumer goods | Feb. | 3-16-79 | 150.5 | .0 | 2.1 | 4.7 |
| Business equipment | Feb. | 3-16-79 | 169.7 | 5.7 | 6.0 | 10.1 |
| Defense & space equipment | Feb. | 3-16-79 | 89.5 | 12.2 | 10.6 | 13.0 |
| Materials | Feb. | 3-16-79 | 153.8 | 3.1 | 2.9 | 11.0 |
| Consumer prices all items (1967=100) | Feb. | 3-23-79 | 207.5 | 14.0 | 10.9 | 9.9 |
| All items, excluding food & energy | Feb. | 3-23-79 | 198.8 | 11.0 | 7.2 | 9.1 |
| Food | Feb. | 3-23-79 | 228.1 | 19.2 | 16.2 | 12.8 |
| Producer prices: (1967=100) | | | | | | |
| Finished goods | Mar. | 4-5-79 | 209.3 | 11.6 | 13.4 | 10.4 |
| Intermediate materials, nonfood | Mar. | 4-5-79 | 232.1 | 13.1 | 13.0 | 9.6 |
| Crude foodstuffs & feedstuffs | Mar. | 4-5-79 | 246.2 | 2.9 | 27.8 | 19.8 |
| Personal income ($ bil.) 2/ | Feb. | 3-19-79 | 1829.0 | 7.3 | 9.5 | 12.6 |
| | | | | (Not at annual rates) | | |
| Mfrs. new orders dur. goods ($ bil.) | Feb. | 3-30-79 | 81.6 | 1.2 | 6.5 | 22.4 |
| Capital goods industries | Feb. | 3-30-79 | 27.5 | 10.1 | 8.8 | 33.7 |
| Nondefense | Feb. | 3-30-79 | 23.5 | 5.9 | 14.2 | 31.4 |
| Defense | Feb. | 3-30-79 | 4.0 | 43.8 | -14.7 | 49.5 |
| Inventories to sales ratio: 1/ | | | | | | |
| Manufacturing and trade, total | Jan. | 4-10-79 | 1.40 | 1.39 | 1.40 | 1.47 |
| Manufacturing | Feb. | 3-30-79 | 1.49 | 1.48 | 1.49 | 1.53 |
| Trade | Jan. | 4-10-79 | 1.33 | 1.31 | 1.31 | 1.36 |
| Ratio: Mfrs.' durable goods inventories to unfilled orders 1/ | Feb. | 3-30-79 | .544 | .553 | .570 | .613 |
| Retail sales, total ($ bil.) | Mar. | 4-10-79 | 71.8 | 1.0 | 1.3 | 12.1 |
| GAF 3/ | Mar. | 4-10-79 | 15.2 | 2.3 | -1.1 | 9.9 |
| Auto sales, total (mil. units.) 2/ | Mar. | 4-4-79 | 12.3 | 8.3 | 10.6 | 2.9 |
| Domestic models | Mar. | 4-4-79 | 9.5 | 4.9 | 2.9 | -4.3 |
| Foreign models | Mar. | 4-4-79 | 2.8 | 21.7 | 47.5 | 36.9 |
| Housing starts, private (thous.) 2/ | Feb. | 3-16-79 | 1,411 | -15.5 | -33.0 | -14.9 |
| Leading indicators (1967=100) | Feb. | 3-30-79 | 142.3 | -.9 | -.8 | 1.4 |

1/ Actual data used in lieu of per cent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.

## DOMESTIC NONFINANCIAL DEVELOPMENTS

It is clear that economic activity in the first quarter slowed from the brisk pace of late 1978, although strong employment growth continued in March and industrial production rebounded from the weather-related sluggish performance in January and February. In the business sector capital spending indicators also continue to suggest near-term strength, and there were sizable increases in the book values of manufacturers' and wholesalers' inventories in February. Total retail sales increased moderately in March after two months of near stagnation; however, excluding autos and nonconsumer items, sales rose only a little. In addition, housing starts fell sharply further in February, apparently reflecting both severe weather and some weakening of underlying demand. The pace of inflation has intensified, led by rapid increases in food and energy items. The rates of increase of producer and consumer prices so far this year have been the highest since 1974.

### Employment and Production

Labor demand was strong again last month as total employment (household survey) advanced by nearly 200,000. The labor force grew by a similar amount, and the unemployment rate was unchanged at 5.7 per cent, remaining in the 5-3/4 to 6 per cent range that has prevailed since last August. Nonfarm payroll employment (establishment survey) rose by 325,000 following an increase of 300,000 in February. A substantial share of the March advance was in the service-producing sector where

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

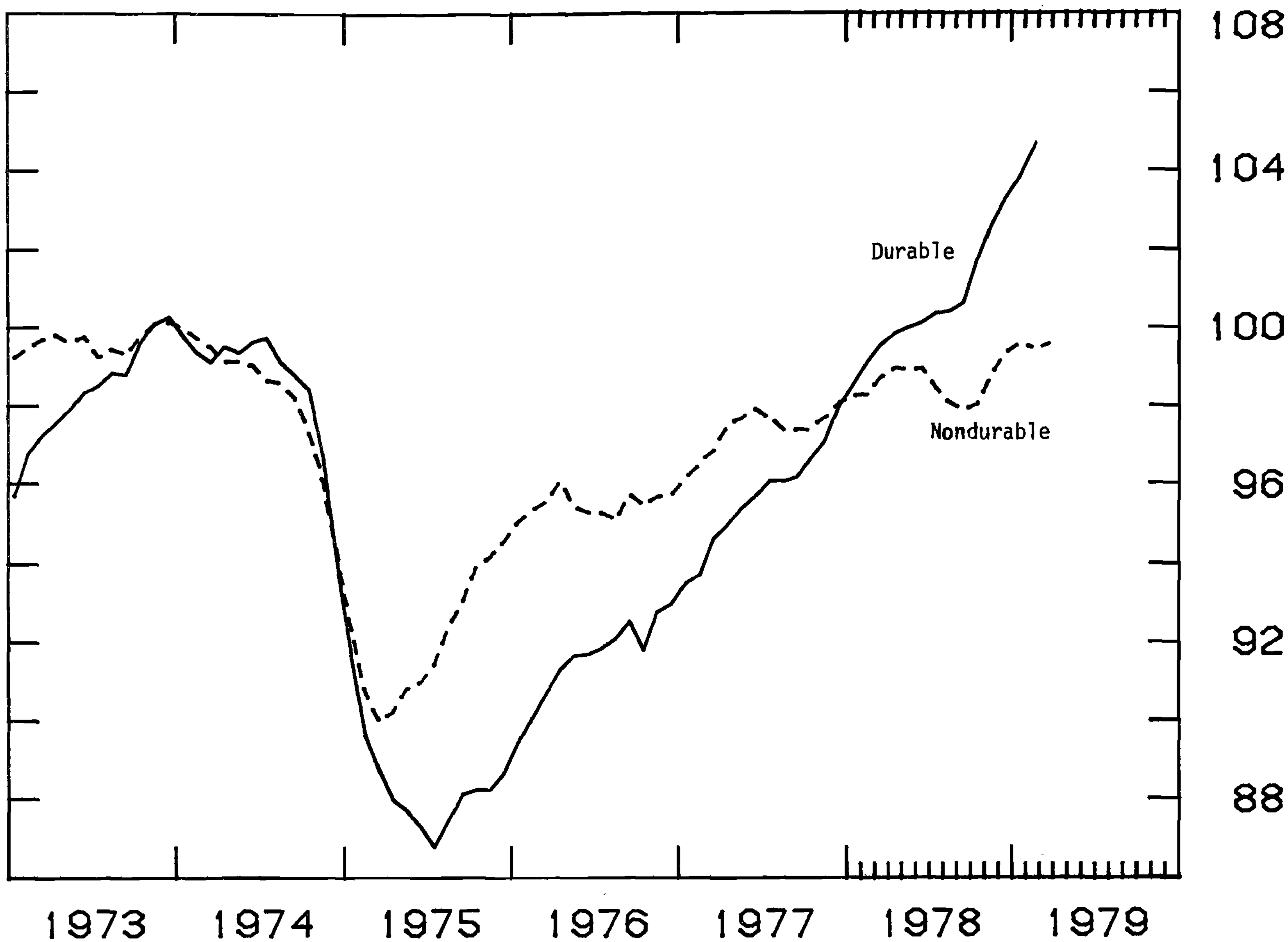
| | 1977 | 1978 | 1978 H1 | 1978 QIII | 1978 QIV | 1979 QI | 1979 Mar. |
|---|---|---|---|---|---|---|---|
| | - - - Average monthly changes - - - | | | | | | |
| Nonfarm payroll employment 2/ | 284 | 297 | 380 | 56 | 373 | 292 | 324 |
| Manufacturing | 66 | 62 | 55 | -10 | 148 | 81 | 70 |
| Durable | 50 | 53 | 43 | 19 | 108 | 74 | 56 |
| Nondurable | 16 | 9 | 12 | -29 | 39 | 7 | 14 |
| Construction | 30 | 37 | 54 | 7 | 33 | 18 | 71 |
| Trade | 79 | 66 | 84 | 45 | 50 | 101 | 89 |
| Services and finance | 82 | 79 | 78 | 71 | 90 | 57 | 33 |
| State and local government | 28 | 16 | 47 | -44 | 15 | 4 | 33 |
| Private nonfarm production workers | 215 | 224 | 260 | 69 | 306 | 222 | 260 |
| Manufacturing production workers | 52 | 45 | 37 | -20 | 128 | 69 | 65 |
| Total employment 3/ | 343 | 275 | 347 | 123 | 282 | 329 | 195 |
| Nonagricultural | 338 | 268 | 327 | 129 | 288 | 344 | 164 |

1/ Changes are from final month of preceding period to final month of period indicated.
2/ Survey of establishments. Not strike adjusted.
3/ Survey of households.

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

| | 1973 Annual average | 1978 QI | 1978 QII | 1978 QIII | 1978 QIV | 1979 QI | 1979 Mar. |
|---|---|---|---|---|---|---|---|
| Total, 16 years and older | 4.9 | 6.2 | 6.0 | 6.0 | 5.8 | 5.7 | 5.7 |
| Teenagers | 14.5 | 16.9 | 16.1 | 16.1 | 16.3 | 15.8 | 15.5 |
| 20-24 years old | 7.8 | 10.2 | 9.5 | 9.4 | 9.0 | 8.7 | 8.8 |
| 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 | 4.9 | 4.8 |
| White | 4.3 | 5.4 | 5.2 | 5.2 | 5.1 | 5.0 | 5.0 |
| Black and other | 8.9 | 12.4 | 12.1 | 11.7 | 11.5 | 11.4 | 11.2 |
| Fulltime workers | 4.3 | 5.7 | 5.5 | 5.5 | 5.2 | 5.2 | 5.1 |
| White collar | 2.9 | 3.6 | 3.6 | 3.6 | 3.3 | 3.4 | 3.4 |
| Blue collar | 5.3 | 7.2 | 6.7 | 6.8 | 6.7 | 6.5 | 6.6 |
| Craft and kindred | 3.7 | 5.1 | 4.4 | 4.4 | 4.6 | 4.6 | 4.6 |
| Operatives, ex. transport | 6.1 | 8.3 | 8.2 | 8.4 | 7.6 | 7.6 | 7.7 |

INDEXES OF EMPLOYMENT IN MANUFACTURING
(1973:QIV=100)



increases in employment at retail establishments were sizable for the third consecutive month. Among goods-producing industries, contract construction employment rebounded 70,000 during the month after a slight decline in the two preceding months. In manufacturing, employment again grew 70,000--about the same as the average monthly gain in 1977 and 1978--and the workweek edged up 0.1 hour to 40.8 hours. Hiring advances continued to be concentrated in the durable goods sector, especially in the machinery and the electrical and transportation equipment industries. Rapid growth in durable goods output since last fall has pushed employment in those industries more than 4-3/4 per cent above the 1973 pre-recession peak. In contrast, employment in soft goods industries has been on a plateau the past four months and remains a bit short of its previous high. (Chart, p. II-3).

Approximately 300,000 unionized truck drivers and warehouse workers were idled on April 2 following a breakdown in collective bargaining between the International Brotherhood of Teamsters and the industry's employer association. A tentative agreement was reached on wage and benefit issues on April 10, and truckers are expected to begin returning to work shortly. The work stoppage caused some cutbacks in factory production schedules, particularly in the auto industry.

It is expected that industrial production increased about three-quarters per cent in March, following slow growth over the two preceding months. In the materials sector, significant gains apparently occurred for steel and for other metals, paper, and coal. Renewed strength was evident in automotive production as auto assemblies increased almost 7 per cent in March to a seasonally adjusted annual rate of 9.4 million units. Preliminary production plans for the second quarter, announced before the work stoppage in trucking, indicated schedules for a slightly lower assembly rate of 9.2 million units per year.

The rise in industrial production as estimated boosted the manufacturing capacity utilization rate to around 86-1/2 per cent. This is only 1-1/2 percentage points below the 1973 high, and for the advanced processing group the rate is now close to its prerecession peak. In contrast, the operating rate for materials, at 88 per cent, is 5 percentage points below the 1973 peak. However, capacity pressures are developing in some areas such as aluminum mill products, cement, plastics, and some machinery components.

Personal Income and Consumer Spending

Total personal income over the January-February period rose at an annual rate of only 5-3/4 per cent; in contrast, the rate of increase over the fourth quarter of 1970 was at a 16-1/4 per cent rate. The slowdown--most marked in January--partly reflects special factors. A large volume of Federal prices-deficiency payments to farmers had been made in December and personal income social insurance deductions increased sharply in January. (Although all of the increase in the payroll tax deductions will not be reflected in paychecks until later in the year.) Partially offsetting

PERSONAL INCOME
(Based on seasonally adjusted annual rate data)

| | 1977 | 1978 HI | 1978 QIII | 1978 QIV | 1979 Jan. | 1979 Feb. |
|---|---|---|---|---|---|---|
| | - - Average monthly change, in billions of dollars - - | | | | | |
| Total personal income | $12.3 | $14.4 | $16.3 | $22.3 | $ 6.2 | $11.2 |
| Nonagricultural income | 12.1 | 14.9 | 16.0 | 19.2 | 10.9 | 11.5 |
| Agricultural income | .3 | -.5 | .4 | 3.1 | -4.7 | -.4 |
| Wage and salary disbursements | 7.8 | 11.9 | 7.2 | 13.8 | 11.2 | 7.7 |
| Private | 6.7 | 10.9 | 6.4 | 11.8 | 9.7 | 7.4 |
| Manufacturing | 2.4 | 2.9 | 1.8 | 5.3 | 3.0 | 3.3 |
| Other income | 5.0 | 3.7 | 9.5 | 9.1 | .6 | 3.9 |
| Less: Personal contributions for social insurance | .5 | 1.1 | .4 | .6 | 5.5 | .4 |
| | - - Percentage change, compound annual rates 1/ - - | | | | | |
| Total personal income | | | | | | |
| Current dollars | 11.4 | 11.5 | 12.2 | 13.9 | 4.2 | 7.3 |
| Constant dollars 2/ | 4.4 | 2.3 | 3.1 | 4.4 | -6.4 | -6.6 |
| Wage and salary disbursements | | | | | | |
| Current dollars | 11.0 | 14.0 | 8.7 | 13.6 | 11.6 | 7.9 |
| Constant dollars 2/ | 4.1 | 4.6 | -.1 | 4.1 | .9 | -6.1 |

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.

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

| | 1978 QIII | 1978 QIV | 1979 QI | 1979 Jan. | 1979 Feb. | 1979 Mar. |
|---|---|---|---|---|---|---|
| Total sales | 2.5 | 4.2 | 1.8 | -.1 | .3 | 1.0 |
| (Real) 1/ | 1.1 | 2.4 | n.a. | -1.4 | -.9 | n.a. |
| Total, less auto and nonconsumption items | 2.6 | 4.0 | 1.6 | -.9 | 1.5 | .3 |
| GAF 2/ | 2.6 | 3.2 | -.9 | -2.5 | -.8 | 2.3 |
| Durable | 3.3 | 5.7 | 1.7 | .3 | -1.2 | 2.7 |
| Auto | 1.8 | 4.6 | 3.6 | 3.1 | -1.7 | 2.5 |
| Furniture & appliances | 2.6 | 3.9 | 2.4 | .9 | -.3 | 3.1 |
| Nondurable | 2.1 | 3.4 | 1.8 | -.3 | 1.2 | .1 |
| Apparel | 4.4 | 4.4 | -2.0 | -3.1 | -2.4 | 5.3 |
| Food | 2.1 | 3.1 | 3.3 | 2.5 | -.2 | -.3 |
| General merchandise 3/ | 1.8 | 2.5 | -1.7 | -3.6 | -.4 | .9 |
| Gasoline | .8 | 4.2 | 3.7 | 1.2 | 4.3 | -2.7 |

1/ BCD series 59.
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
(Millions of units; seasonally adjusted annual rates)

| | 1978 QIII | 1978 QIV | 1979 QI | 1979 Jan. | 1979 Feb. | 1979 Mar. |
|---|---|---|---|---|---|---|
| Total | 11.2 | 11.1 | 11.5 p | 11.0 | 11.4 | 12.3 p |
| Imports | 2.0 | 2.0 | 2.4 p | 2.1 | 2.3 | 2.8 p |
| Domestic | 9.2 | 9.1 | 9.1 | 8.9 | 9.0 | 9.5 |
| Small | 3.5 | 3.4 | 3.8 p | 3.3 | 3.8 | 4.2 p |
| Intermediate & Large | 5.7 | 5.6 | 5.4 p | 5.7 | 5.2 | 5.2 p |

Components may not add to totals due to rounding.
p = Preliminary

these special factors was the effect on salary disbursements of the January boost in the minimum wage. With the large increases in consumer prices in January and February, real personal income fell at a 6-1/2 per cent annual rate during this period; however, the fall in spending power was cushioned somewhat by the Federal income tax cut.

Retail sales excluding autos and nonconsumer items rose only 0.3 per cent in March, following a 1.5 per cent increase in February. For the quarter as a whole, sales for this grouping advanced 1.6 per cent, well below the average pace during the second half of 1978. Purchases of discretionary items at general merchandise, apparel, and furniture stores (GAF) rose briskly in March after declines in the previous two months. Current dollar food store sales declined despite the recent surge in prices.

Total unit auto sales rose sharply, apparently boosted by concerns about the availability and cost of gasoline, and were at a 12.3 million unit annual rate last month--900,000 units more than February and exceeded only by the record rate in March 1973. Sales of domestic units, paced by a large gain for small cars, also rose strongly to a 9.5 million unit rate. Imports sold at a 2.8 million unit pace, up sharply from the 2 million unit plateau of the last two years and a record monthly selling rate. Consumer purchases of trucks fell 200,000 units (annual rate) in February to a level well below the fourth-quarter average. All of this decline occurred in the domestic models, as sales of imported trucks--generally small sized--increased by about 80,000 units (annual rate) in February.

The buoyance of durable goods and especially automobile sales appears consistent with the attitudes of consumers as reported by the Michigan Survey Research Center. The March survey showed that the majority of consumers continued to rate buying conditions as favorable for large household durables and homes. Three-quarters of the respondents cited buy-in-advance rationales for these opinions, a record for the survey and up from the one-in-two reported during the prior two years. In contrast, and apparently because of intense inflationary expectations, the index of consumer sentiment continued the downward trend evident since the fall of 1977.

Business Investment

Investment spending in the first quarter appears to have been characterized by continued momentum of equipment outlays and by weather-related disruptions of building activity. The value of shipments of nondefense capital goods in the first two months of this year was nearly 4 per cent above the fourth quarter average. In contrast, the value of new private nonresidential construction put in place in January and February was down slightly from the average in the fourth quarter.

Business spending commitments continue to suggest sustained strength of capital goods outlays over the near term. New orders for nondefense capital goods rose 5.9 per cent in February. However, this increase was dominated by aircraft orders, which tend to have long production lead times; because of the already large backlog of aircraft

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

| | 1978 | | | | 1979 | | Feb. 1978 to Feb. 1979 |
|---|---|---|---|---|---|---|---|
| | QI | QII | QIII | QIV | Jan. | Feb. | |
| Total | 13.4 | -6.1 | 11.6 | 11.0 | 5.3 | 3.2 | 16.9 |
| Nondefense capital goods orders | 5.6 | 3.5 | 5.3 | 12.5 | 6.7 | 5.9 | 31.4 |
| Machinery | 3.4 | 1.4 | 4.2 | 8.8 | 4.4 | -1.8 | 16.0 |
| Nonmachinery | 12.1 | 9.2 | 8.3 | 21.4 | 12.3 | 22.8 | 71.9 |
| Construction contracts 2/ | 61.6 | -44.1 | 57.9 | 4.2 | -2.7 | -13.3 | -36.3 |

1/ 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.).
2/ FRB staff estimate. Derived by subtracting new orders for nondefense capital goods from the published total for contracts and orders.

orders, production of the recent ones will spread into the 1980's. Excluding aircraft, new orders for nondefense capital goods in February declined 2.5 per cent. New bookings for machinery--generally indicative of the underlying demand for equipment--fell somewhat in February, but remained 2.7 per cent above the fourth quarter monthly average. Export orders for machinery in January, the most recent month for which data are available, were particularly strong. The value of nonresidential construction contracts, which are quite volatile, were well above the fourth quarter average in January and February.

The book value of manufacturers' inventories rose at a seasonally adjusted annual rate of $31 billion in February, following a gain of $34 billion in January. In the face of continuing adverse weather, which probably held down the rise in shipments and swelled the increase in inventories, the ratio of manufacturers' inventory book values to sales edged up further in February; even so, this ratio remained low on an historical basis.

Accumulation at manufacturing continued to be concentrated among durable goods with producers of transportation equipment, nonelectrical machinery, and fabricated metal products reporting the largest increases. Accumulation of nondurables proceeded at about the same relatively moderate pace as in January, with the largest increase in stocks of food products.

BUSINESS INVENTORIES
(Billions of dollars; annual rate of change
in seasonally adjusted book values)

| | 1977 | | 1978 | | | | 1979 | |
|---|---|---|---|---|---|---|---|---|
| | QIII | QIV | QI | QII | QIII | QIV | Jan.(r) | Feb.(p) |
| Manufacturing and trade | 27.2 | 19.2 | 45.5 | 44.6 | 36.7 | 39.5 | 53.9 | n.a. |
| Manufacturing | 10.2 | 2.8 | 16.6 | 22.8 | 18.0 | 15.0 | 34.3 | 31.2 |
| Durable | 7.7 | 3.8 | 13.2 | 15.9 | 14.0 | 11.9 | 28.8 | 27.0 |
| Nondurable | 2.4 | -1.0 | 3.4 | 6.9 | 4.1 | 3.1 | 5.5 | 4.2 |
| Trade, total | 17.0 | 16.4 | 28.9 | 21.8 | 18.7 | 24.5 | 19.6 | n.a. |
| Wholesale | 4.7 | 7.5 | 18.5 | 10.2 | 7.7 | 14.6 | 9.3 | 19.7 |
| Retail | 12.3 | 8.9 | 10.4 | 11.6 | 11.0 | 9.9 | 10.3 | n.a. |

r = Revised.
p = Preliminary.

INVENTORY TO SALES RATIOS

| | 1977 | | 1978 | | | | 1979 | |
|---|---|---|---|---|---|---|---|---|
| | QIII | QIV | QI | QII | QIII | QIV | Jan.(r) | Feb.(p) |
| Manufacturing and trade | 1.48 | 1.45 | 1.46 | 1.43 | 1.43 | 1.40 | 1.41 | n.a. |
| Manufacturing | 1.61 | 1.56 | 1.56 | 1.52 | 1.54 | 1.49 | 1.48 | 1.49 |
| Durable | 1.96 | 1.90 | 1.90 | 1.86 | 1.87 | 1.80 | 1.80 | 1.81 |
| Nondurable | 1.22 | 1.18 | 1.17 | 1.15 | 1.16 | 1.13 | 1.11 | 1.11 |
| Trade, total | 1.35 | 1.34 | 1.37 | 1.33 | 1.33 | 1.32 | 1.33 | n.a. |
| Wholesale | 1.24 | 1.23 | 1.26 | 1.20 | 1.20 | 1.20 | 1.21 | 1.24 |
| Retail | 1.45 | 1.44 | 1.47 | 1.46 | 1.46 | 1.44 | 1.43 | n.a. |

r = Revised.
p = Preliminary.

The rapid rate of inventory investment in manufacturing in January and February appears to reflect a number of factors. The large recent increases in the prices of food, oil, and crude industrial materials appear to have swelled book values. In addition, producers may be building stocks following the sales surge in the fourth quarter. At the same time, however, the slow growth of shipments early this year has probably resulted in some involuntary stock building. Finally, the recent acceleration in inventory investment may reflect scattered attempts at hedging in anticipation of potential strikes in the trucking and rubber industries as well as some heightened concern in the petrochemical area about energy availability. On balance, however, inventory data by state of processing do not suggest any unusual build-up of materials stocks that would be indicative of speculative activity.

The book value of wholesale trade inventories rose at a seasonally adjusted annual rate of $20 billion in February, up from the downward-revised $9 billion January rate. The January-February average gain is about the same as the fourth quarter pace. The February increase in these stocks was concentrated in the durable sector, with motor vehicles and parts, machinery, and hardware registering large gains.

Residential Construction

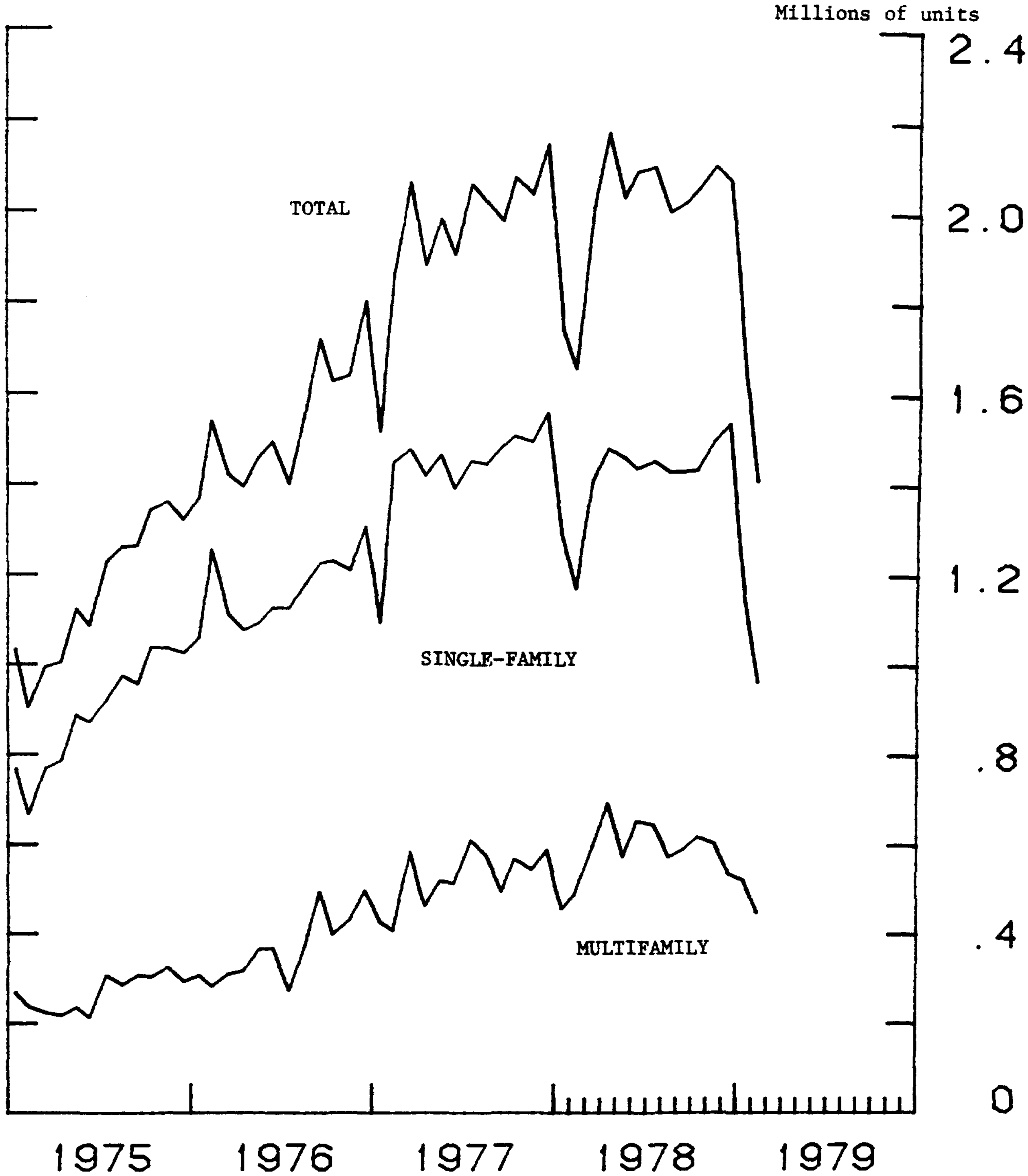
Housing construction slowed further in February as weather conditions disrupted markets for the second month in a row. Total private housing starts fell to a 1.4 million unit annual rate--30 per

NEW PRIVATE HOUSING ACTIVITY
(Millions of units; seasonally adjusted annual rates)

| | 1978 | | | | 1979 | |
|---|---|---|---|---|---|---|
| | Annual | QIII | QIV | Dec. 1/ | Jan. 1/ | Feb. 2/ |
| Total | | | | | | |
| Permits | 1.66 | 1.64 | 1.71 | 1.66 | 1.32 | 1.32 |
| Starts | 2.02 | 2.04 | 2.08 | 2.07 | 1.67 | 1.41 |
| Single-family | | | | | | |
| Permits | 1.08 | 1.05 | 1.13 | 1.15 | .84 | .79 |
| Starts | 1.43 | 1.44 | 1.49 | 1.54 | 1.15 | .96 |
| Sales | | | | | | |
| New homes | .82 | .80 | .83 | .79 | .75 | .66 |
| Existing homes | 3.91 | 3.97 | 4.27 | 4.16 | 3.71 | 3.62 |
| Multifamily | | | | | | |
| Permits | .58 | .59 | .57 | .52 | .48 | .53 |
| Starts | .59 | .60 | .59 | .54 | .52 | .45 |
| Mobile home shipments | .28 | .26 | .29 | .30 | .31 | .26 |

1/ Regular monthly revision.
2/ Preliminary estimates except permits which reflect first monthly revision.

NEW PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



cent below the average level on 1978--as starts declined in all areas of the country but the West. Moreover, other data suggest an underlying weakening of housing activity in the face of continued increases in housing costs, high interest rates, and tighter nonrate terms.

In the single-family sector, starts fell almost 16 per cent in February following a 25 per cent decline in the previous month. (Chart) Total single-family home sales fell in February for the fourth month in a row. S les of both new and existing houses also fell in February, the fourth consecutive month of decline. While the number of unsold new units has been virtually unchanged since December, the inventory at February's sales pace represented 7.6 months' supply--the highest in four years. In the multifamily area, starts fell 15 per cent in February and were about 30 per cent below the peak reached in the second quarter of last year.

Government Sector

Preliminary Treasury data suggest that Federal receipts in the first quarter, on a unified budget basis, were 20 per cent above year-earlier levels. This gain was due in part to a 23 per cent increase in final payments on corporate tax liabilities. Outlays are estimated to have increased 9 per cent over the same period, about in line with staff expectations.

Recent data indicate considerable weakness in State and local spending. Construction outlays in this sector fell by $4.6 billion in

February--the fourth consecutive decline and the largest drop since the inception of this series in 1965; in real terms these expenditures were about even with year-earlier levels. In addition to the influence of adverse weather conditions, this trend in construction activity appears to reflect the winding-down of Federal funding of local public works projects as well as attitudes of fiscal conservatism at all levels of government.

State and local employment, however, rose by 33,000 in March, reversing two quarters of declines and putting payrolls fractionally above their year-earlier levels. Employment was boosted by the hiring of 12,000 persons for Federally-supported public service programs in February; the Administration's targets call for the addition of another 100,000 persons by June.

Prices and Wages

Inflation has accelerated significantly in recent months to a pace not seen since 1974. Consumer prices rose at about a 12 per cent annual rate in the first two months of the year, compared with an 8-1/2 per cent rise over the second half of 1978. Moreover, producer finished goods prices rose 1 per cent in March, bringing their first quarter increase to a 14 per cent annual rate--almost 5-1/2 percentage points higher than the rise in the previous 6 months.

As has often been the case in recent years, food and energy prices have been major contributors to the recent high inflation rates. Food price increases have accelerated markedly, reflecting not only a further

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

| | Relative importance Dec. 1978 | 1977 | 1978 | 1978 H2 | 1979 Jan. | 1979 Feb. | 1979 Mar. |
|---|---|---|---|---|---|---|---|
| Finished goods | 41.0 | 6.6 | 9.1 | 8.7 | 16.0 | 12.3 | 11.6 |
| Consumer foods | 10.4 | 6.6 | 11.9 | 10.0 | 21.5 | 19.0 | 15.0 |
| Consumer nonfoods | 18.6 | 6.1 | 8.3 | 8.6 | 14.5 | 10.6 | 12.9 |
| Capital equipment | 12.1 | 7.2 | 8.0 | 7.9 | 11.6 | 9.8 | 6.9 |
| Materials: | | | | | | | |
| Intermediate 2/ | 44.8 | 6.4 | 8.2 | 8.8 | 14.4 | 11.1 | 13.1 |
| Construction | 8.3 | 8.2 | 11.0 | 9.4 | 12.3 | 11.7 | 9.0 |
| Crude nonfood | 4.8 | 6.8 | 15.5 | 18.2 | 19.8 | 33.3 | 25.7 |
| Crude food | 6.8 | 1.4 | 18.3 | 11.5 | 33.9 | 45.1 | 2.9 |

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 2/ | 1977 | 1978 | 1978 H2 | 1979 Jan. | 1979 Feb. |
|---|---|---|---|---|---|---|
| All items | 100.0 | 6.8 | 9.0 | 8.5 | 10.0 | 14.0 |
| Food | 18.2 | 8.0 | 11.8 | 7.4 | 17.4 | 19.2 |
| Commodities (nonfood) | 41.1 | 4.9 | 7.7 | 8.9 | 10.6 | 12.5 |
| Services | 40.8 | 7.9 | 9.3 | 8.7 | 6.6 | 13.0 |
| Memoranda: | | | | | | |
| All items less food and energy 3/ | 73.3 | 6.4 | 8.5 | 8.7 | 6.1 | 11.0 |
| Gas and electricity | 3.4 | 8.7 | 7.9 | .8 | 10.6 | 10.0 |
| Gasoline | 4.2 | 4.9 | 8.5 | 15.6 | 23.7 | 23.8 |
| Homeownership | 23.6 | 9.2 | 12.4 | 12.7 | 9.5 | 21.9 |

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.

tightening of meat supplies but also widespread price increases for most other food items. As a result, the producer price index for consumer finished foods rose 20 per cent (annual rate) in the first quarter. However, food prices eased at the farm level in March, a development suggesting that there may be some relief in the increase in retail food prices in coming months. Prices for live cattle continued to rise substantially in March, but the increase was smaller than in the first two months of the year and was largely offset by price declines for hogs, wheat, and fresh vegetables.

Energy prices also have continued to exert an upward influence on consumer and producer prices so far in 1979. Gasoline prices have risen at nearly a 25 per cent annual rate since the beginning of the year. Moreover, recently announced price hikes by OPEC effective April 1 and the President's plans to gradually phase out price controls on domestically-produced crude oil starting June 1 will add to energy price increases.

Outside of the food and energy sectors, the consumer price index is still being pushed up by rapid increases in homeownership costs--reflecting higher mortgage interest rates and rising house purchase prices--as well as continuing large increases in the prices of many other retail services and commodities. In addition, prices of most nonfood materials--both unprocessed and semiprocessed--continued to rise quite rapidly throughout the first quarter of the year.

Wage rates, as measured by the index of average hourly earnings, rose at a 9 per cent annual rate in March, following an upward-revised 6 per cent rate of increase a month earlier. For the first quarter as a whole, wages were up at an 8-3/4 per cent annual rate. Reflecting January's minimum wage hike, wage rate increases during the quarter were largest in the trade sector.

Early reports on the agreement being negotiated by the Teamsters union and the trucking industry representatives indicate a settlement increasing wages and benefits by about 30 per cent over the three years of the contract (assuming a 7-1/2 per cent inflation rate). The settlement appears to be within the Administration's modified pay standard, which allows exemptions for maintaining the costs of existing pension and health benefits as well as for a portion of retroactive cost-of-living increases.

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

| | 1977 | 1978 | 1978 H1 | 1978 QIII | 1978 QIV | 1979 QI | 1979 Mar. |
|---|---|---|---|---|---|---|---|
| Total private nonfarm | 7.5 | 8.3 | 8.8 | 7.3 | 8.2 | 8.7 | 9.1 |
| Manufacturing | 8.3 | 8.4 | 8.2 | 8.1 | 9.0 | 8.9 | 10.9 |
| Contract construction | 4.0 | 7.5 | 10.6 | 6.6 | 4.9 | 8.0 | 6.3 |
| Transportation and public utilities | 9.1 | 6.9 | 6.8 | 4.5 | 7.2 | 6.7 | 8.0 |
| Total trade | 7.4 | 9.5 | 9.7 | 8.8 | 8.9 | 11.0 | 8.7 |
| Services | 7.1 | 7.6 | 8.0 | 5.5 | 8.6 | 8.4 | 10.1 |

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.

SELECTED DOMESTIC FINANCIAL DATA

| Indicator | Period | Level | Net Change from: Month ago | Three months ago | Year ago |
|---|---|---|---|---|---|
| | | $ billions | Per cent at annual rates | | |
| Monetary and credit aggregates[1] | | | | | |
| Total reserves | MARCH | 40.8 | 2.3 | -4.3 | 3.2 |
| Nonborrowed reserves | MARCH | 39.8 | 1.8 | -5.6 | 1.5 |
| Money supply | | | | | |
| M1 | MARCH | 359.3 | 1.7 | -2.4 | 4.7 |
| M2 | MARCH | 879.8 | 3.8 | 1.6 | 7.0 |
| M3 | MARCH | 1517.6 | 6.0 | 4.5 | 8.4 |
| Time and savings deposits (less CDs) | MARCH | 520.5 | 5.1 | 4.4 | 8.6 |
| CDs[2] | MARCH | 99.1 | -3.0 | 2.5 | 17.6 |
| Thrift deposits (S&Ls + MSBs + Credit Unions) | MARCH | 637.7 | 9.1 | 8.6 | 10.4 |
| Bank credit (end of month) | MARCH | 998.2 | 2.9 | 11.2 | 11.1 |

| Indicator | | Latest data: Period | Per cent or index | Net Change from: Month ago | Three months ago | Year ago |
|---|---|---|---|---|---|---|
| Market yields and stock prices | | | | | | |
| Federal funds | wk. endg. | 4/4/79 | 9.95 | -.12 | -.64 | 3.09 |
| Treasury bill (90 day) | " | 4/4/79 | 9.48 | .07 | .18 | 3.09 |
| Commercial paper (90-119 day) | " | 4/4/79 | 9.76 | -.20 | -.81 | 3.00 |
| New utility issue Aaa | " | 4/6/79 | 9.59 | .02 | -- | .71 |
| Municipal bonds (Bond Buyer) | 1 day | 4/5/79 | 6.25 | -.10 | -.33 | .49 |
| FNMA auction yield (FHA/VA) | | 4/3/79 | 10.44 | .01 | -.24 | 1.00 |
| Dividend price ratio (common stocks) | wk endg. | 4/4/79 | 5.26 | -.18 | -.07 | -.16 |
| NYSE index (12/31/65=50) | end of day | 3/9/79 | 57.88 | 2.07 | 2.35 | 7.30 |

| | Period | Net Change or Gross Offerings: Latest Data | Year ago | Year to Date: 1979 | 1978 |
|---|---|---|---|---|---|
| Credit demands | | | | | |
| Business loans at commercial banks[1] | MARCH | 1.9 | 3.9 | 10.2 | 7.8 |
| Consumer instalment credit outstanding[1] | FEBRUARY | 3.3 | 2.9 | 6.4 | 5.3 |
| Mortgage debt outstanding (major holders)[1/3] | JANUARY | 8.9 | 7.8 | 8.9 | 7.8 |
| Corporate bonds (public offerings) | MARCH | 1.8e | 1.9 | 4.3e | 4.7 |
| Municipal long-term bonds (gross offerings) | MARCH | 4.4e | 4.8 | 9.7e | 10.9 |
| Federally sponsored agcy. (net borrowing) | MARCH | 2.8e | 1.9 | 5.8e | 4.5 |
| U.S. Treasury (net cash borrowing) | MARCH | 8.0[4]e | 9.7 | 10.6e | 20.8 |

1/ Seasonally adjusted.
2/ $ billions, not at annual rates
3/ Includes comm'l banks, S&Ls, MSBs, life ins. cos, FNMA, and GNMA.
4/ Includes $2.6 billion special certificate issued to the Fed on 3/31.
e - Estimated

## DOMESTIC FINANCIAL DEVELOPMENTS

Aggregate credit flows to domestic nonfinancial sectors in March continued at the slightly reduced pace established earlier in the year. Business borrowing at banks tapered off after expanding rapidly in January and February, but a surge in commercial paper issuance offset the weakness in bank loans. In long-term markets, public offerings of bonds by nonfinancial firms increased only slightly, and the quarterly total of such issues was one of the smallest since 1973. These borrowing patterns have raised the ratio of short- to long-term debt outstanding for nonfinancial corporations almost to its 1974 peak.

Net mortgage lending at S&Ls and banks declined in February and, at banks, appears to have weakened further in March. State and local governments increased their gross borrowing in March, channeling much of the proceeds into the home mortgage market. Congressional delay in raising the Federal debt ceiling forced the Treasury to postpone until early April a large volume of offerings originally planned for March. On average for the two months, Treasury marketable borrowing is likely to be about the same as in January and February after seasonal adjustment.

Growth in the major monetary aggregates picked up somewhat in March, but the rates of expansion remained weak. For the quarter, measured M-1 declined--the first such quarterly contraction since 1966--and the broader aggregates increased at rates well below those in the fourth quarter. In March, inflows into MMCs apparently continued to support small time deposit growth at banks and thrifts. Although outflows of savings deposits continued, the pace of withdrawals at commercial banks slowed in March.

SELECTED FINANCIAL MARKET QUOTATIONS
(per cent)

| | 1978 1/ | | 1978 - 1979 2/ | | | | | Change from: | |
|---|---|---|---|---|---|---|---|---|---|
| | High* | Low | End of 1978 | FOMC Feb. 6 | FOMC Mar. 20 | Apr. 3 | Apr. 10 | End of 1978 | Mar. FOMC |
| **Short-term rates** | | | | | | | | | |
| Federal funds 1/ | 10.25 | 6.58 | 10.25 | 10.06 | 10.09 | 9.95 | 10.02 3/ | -.23 | -.07 |
| Treasury bills | | | | | | | | | |
| 3-month | 9.30 | 6.16 | 9.26 | 9.21 | 9.52 | 9.52 | 9.75 | +.49 | +.23 |
| 6-month | 9.51 | 6.45 | 9.48 | 9.34 | 9.47 | 9.49 | 9.66 | +.18 | +.19 |
| 1-year | 9.62 | 6.55 | 9.69 | 9.30 | 9.38 | 9.30 | 9.38 | -.31 | 0 |
| Commercial paper | | | | | | | | | |
| 1-month | 10.29 | 6.48 | 10.32 | 9.75 | 9.78 | 9.65 | 10.00 | -.32 | +.22 |
| 3-month | 10.52 | 6.68 | 10.55 | 9.92 | 9.93 | 9.76 | 10.02 | -.53 | +.09 |
| 6-month | 10.56 | 6.70 | 10.61 | 9.97 | 9.98 | 9.79 | 10.04 | -.57 | +.06 |
| Large negotiable CDs 4/ | | | | | | | | | |
| 1-month | 10.36 | n.a. | 10.29 | 9.86 | 9.96 | 9.87 | 9.98 | -.31 | +.02 |
| 3-month | 10.96 | 6.77 | 10.83 | 10.14 | 10.22 | 10.11 | 10.15 | -.68 | -.07 |
| 6-month | 11.52 | 6.97p | 11.44 | 10.50 | 10.51 | 10.39 | 10.44 | -1.00 | -.07 |
| Euro-dollars | | | | | | | | | |
| 3-month | 11.95 | 7.20 | 11.69 | 10.81 | 10.94 | 10.56 | 10.56 | -1.13 | -.38 |
| Bank prime rate | 11.57 | 7.75 | 11.75 | 11.75 | 11.75 | 11.75 | 11.75 | 0 | 0 |
| **ermediate- and long-rm rates** | | | | | | | | | |
| U.S. Treasury (constant maturity) | | | | | | | | | |
| 3-year | 9.59 | 7.40 | 9.59 | 9.13 | 9.39 | 9.35 | 9.45 | -.14 | +.06 |
| 7-year | 9.22 | 7.72 | 9.23 | 9.01 | 9.15 | 9.13 | 9.23 | 0 | +.08 |
| 20-year | 9.00 | 8.01 | 8.99 | 8.94 | 9.09 | 9.05 | 9.07 | +.08 | -.02 |
| Municipal (Bond Buyer) 5/ | 6.67 | 5.58 | 6.61 | 6.22 | 6.30 | 6.28 | 6.25 | -.36 | -.05 |
| Corporate Aaa | | | | | | | | | |
| New issue 6/ | 9.30 | 8.61 | -- | -- | -- | 9.60 | 9.59p | 0 | 0 |
| Recently offered 7/ | 9.54 | 8.48 | 9.51 | 9.40 | 9.65 | 9.59 | 9.59p | +.08 | -.06 |
| Primary conventional mortgage 7/ | 10.38 | 8.98 | 10.38 | 10.40 | 10.40 | 10.45 | 10.48 | +.10 | +.08 |

| | Low 8/ | High 8/ | End of 1978 | FOMC Feb. 6 | FOMC Mar. 20 | Apr. 3 | Apr. 10 | End of 1978 | Mar. FOMC |
|---|---|---|---|---|---|---|---|---|---|
| **Stock prices** | | | | | | | | | |
| Dow-Jones Industrial | 742.12 | 907.74 | 805.01 | 822.85 | 850.31 | 868.33 | 878.72 | +73.71 | +28.41 |
| NYSE Composite | 48.43 | 60.38 | 53.62 | 54.99 | 56.45 | 57.55 | 58.18 | +4.56 | +1.73 |
| AMEX Composite | 119.73 | 176.87 | 150.56 | 158.16 | 173.02 | 179.85 | 181.53 | +30.97 | +8.51 |
| NASDAQ (OTC) | 102.66 | 149.53 | 117.98 | 124.31 | 128.79 | 132.33 | 134.22 | +16.24 | +5.43 |

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 April 11.
4/ Secondary market.
ne-day quotes for preceding Thursday.
Averages for preceding week.
7/ One-day quotes for preceding Friday.
8/ Calendar week averages.
* All highs were reached at or close to the end of 1978.

Private short-term market interest rates generally are little changed on balance from their levels at the time of the March FOMC meeting. Yields on 3- and 6-month Treasury bills have risen noticeably, however, as supplies of these instruments have been augmented by foreign central bank sales and issuance of cash management bills by the Treasury. Long-term bond rates have registered mixed changes in the intermeeting period, with yields on Treasury and corporate issues edging down, while primary mortgage rates at S&Ls increased.

## Monetary Aggregates and Bank Credit

M-1 grew at only a 1-3/4 per cent annual rate in March. This small increase was not enough to offset declines in January and February, and for the first quarter as a whole, the narrow money stock contracted at a 2-1/4 per cent annual rate--the first quarterly decline since 1966. Shifts of funds from demand deposits into ATS deposits and New York NOW accounts are estimated to have reduced measured M-1 growth by about 2-3/4 percentage points in the first quarter.

M-2 growth picked up slightly in March, as a result of the M-1 increase and a reduction in the rate of outflow from commercial bank savings deposits. Over the first quarter, however, M-2 growth was quite slow, primarily reflecting the decline in M-1 and a contraction of bank savings deposits at an unprecedented 10 percent annual rate despite inflows into ATS and NOW accounts.

Growth of small time deposits at commercial banks continued at a strong pace in March for the second consecutive month. All the recent growth in such deposits has been attributable to inflows to money market certificates (MMCs). Following the March 15 regulatory change, which

MONETARY AGGREGATES
(Seasonally adjusted)1/

| | 1978 H1 | 1978 QIII | 1978 QIV | 1979 Q1 | 1979 Feb. | 1979 Mar.e/ | Mar. '78 to Mar. '79e/ |
|---|---|---|---|---|---|---|---|
| **Major monetary aggregates** | | | | | | | |
| 1. M-1 (currency plus demand deposits) | 8.0 | 8.1 | 4.4 | -2.3 | -3.7 | 1.7 | 4.7 |
| 2. M-2 (M-1 plus time & savings deposits at CBs, other than large CDs) | 7.7 | 9.9 | 7.7 | 1.6 | 2.2 | 3.8 | 7.0 |
| 3. M-3 (M-2 plus all deposits at thrift institutions) | 8.3 | 10.4 | 9.3 | 4.6 | 4.7 | 6.0 | 8.4 |
| **Bank time and savings deposits** | | | | | | | |
| 4. Total | 12.2 | 11.3 | 12.4 | 8.4 | 8.6 | -1.5 | 10.5 |
| 5. Other than large negotiable CDs at weekly reporting banks (interest bearing component of M-2) | 7.6 | 11.1 | 10.2 | 4.4 | 6.5 | 5.1 | 8.6 |
| 6. Savings deposits | 2.9 | 2.3 | -0.9 | -10.2 | -12.0 | -6.1 | -2.1 |
| 7. Individuals 2/ | 2.7 | 3.5 | -0.8 | -10.2 | -10.6 | -5.9 | -1.8 |
| 8. Other 3/ | 5.2 | -12.7 | -2.6 | -10.5 | -31.8 | -16.3 | -7.1 |
| 9. Time deposits | 11.7 | 18.5 | 19.2 | 15.8 | 20.3 | 13.2 | 17.7 |
| 10. Small time 4/ | 6.8 | 12.0 | 15.1 | 17.0 | 22.6 | 24.7 | 15.8 |
| 11. Large time 4/ | 21.5 | 30.3 | 26.2 | 13.4 | 16.3 | -6.4 | 21.3 |
| 12. Time and savings deposits subject to rate ceilings (6+10) | 4.7 | 6.3 | 6.1 | 2.0 | 3.8 | 8.3 | 5.6 |
| **Deposits at nonbank thrift institutions 5/** | | | | | | | |
| 13. Total | 10.4 | 11.3 | 11.6 | 8.8 | 8.0 | 9.1 | 10.4 |
| 14. Savings and loan associations | 10.7 | 12.3 | 13.1 | 11.3 | 11.0 | 10.1 | 12.0 |
| 15. Mutual savings banks | 6.6 | 6.9 | 7.8 | 4.6 | 4.2 | 5.9 | 6.2 |
| 16. Credit unions | 17.0 | 13.7 | 10.1 | 0.0 | -6.8 | 11.4 | 9.0 |
| **MEMORANDA:** | Average monthly changes, billions of dollars | | | | | | |
| 17. Total U.S. Govt. deposits 6/ | 0.3 | 1.1 | -0.5 | -2.0 | -4.6 | -0.8 | 0.0 |
| 18. Total large time deposits 7/ | 3.6 | 3.3 | 4.9 | 1.4 | 3.1 | -3.6 | 3.1 |
| 19. Nondeposit sources of funds 8/ | 0.7 | 1.1 | 2.4 | 4.5 | 2.9 | 5.8 | 2.1 |

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 are 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.

eliminated the ceiling rate differential between commercial banks and thrift institutions at current levels of bill rates,[1/] commercial banks reportedly stepped up advertising in an effort to expand their shares of the MMC market. The ultimate effect of the regulatory change on bank MMC sales is uncertain. The removal of the ceiling differential may allow banks to attract a greater share of MMC funds at the expense of thrift institutions; however, the elimination of interest compounding on such deposits may reduce combined sales of the certificates at the two types of institutions as some funds are diverted to alternative market instruments. Bank data on MMCs for March are not yet available, but unusually strong increases in small time deposits in the last half of the month suggest that bank sales of MMCs may have picked up. However, S&Ls reported fairly strong inflows of MMC funds throughout the month, with the overall volume of almost $8 billion exceeding net sales in February.

While overall growth of S&L and MSB deposits slowed in the first quarter, the weakening of flows at credit unions has been much sharper. In previous periods of high interest rates, CUs were able to offer the highest rates of any insured depositary institution for accounts of less than 4-year maturity. This advantage was lost with the introduction of the MMC in June 1978. Although CUs received authorization to issue MMCs in November 1978, they have not heavily utilized this instrument, and at the end of February MMC balances accounted for only 1.8 per cent of their deposits outstanding. On a month-end basis, CU deposits fell at a 20 per cent annual rate in January, followed by a 10 per cent rise in February (latest data available).

1/ The regulatory change eliminates the differential when yields on 6-month Treasury bills are 9 percent or more. The effective rate that may be paid by banks and thrifts also was lowered by a prohibition of interest compounding.

Although market interest rates on private short-term securities have moved down since the beginning of the year, money market mutual funds continue to attract a large volume of funds (see chart on III-7). The growth in assets of money market mutual funds averaged about $500 million a week during March, only slightly less than in January and February. Industry reports suggest that major sources of funds for money market mutuals have been interest bearing deposits at banks and thrifts and, particularly for funds sponsored by brokerage firms, the stock market.

Bank credit expansion slowed to a 3 per cent annual rate of growth in March, about one-fifth of the average pace of the first two months of the year. The moderation in March reflected both a sizable reduction in bank holdings of Treasury securities--perhaps related in part to the delay in Treasury auctions--and less rapid loan growth. Both real estate and business loans expanded at sharply reduced rates during the month.

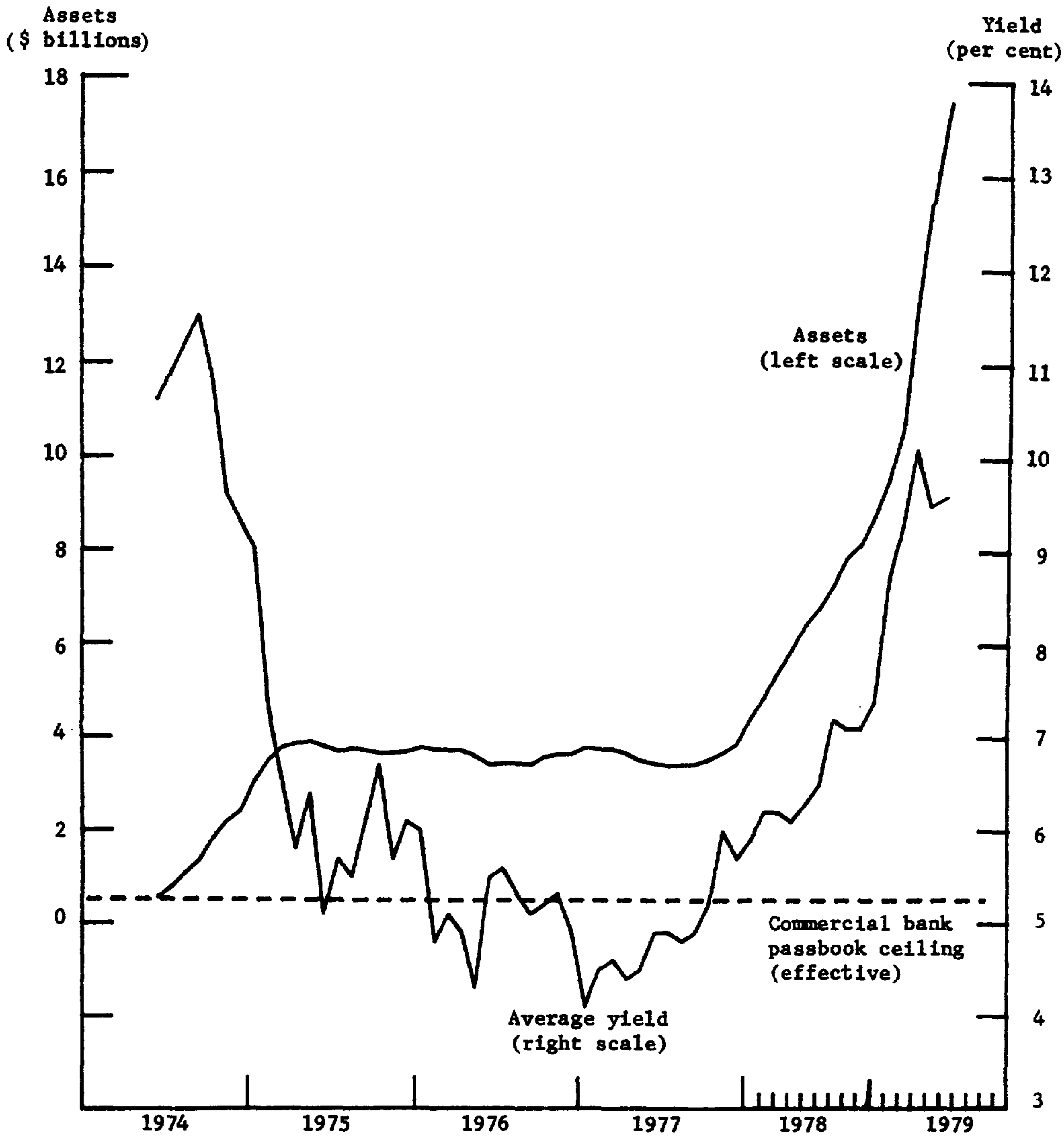
Banks allowed a sizable volume of large time deposits to run off in March, relying heavily on other managed liabilities to finance credit growth. Nondeposit funds, including gross Eurodollar borrowings, are estimated to have increased almost $6 billion in March, bringing the estimated first quarter increase to $13-1/2 billion. The ratio of large time deposits and selected nondeposit sources of funds to adjusted total assets[1/] for large commercial banks rose from 35-1/2 per cent at year-end, 1978, to an historic high of almost 38 per cent at the end of the first quarter.

In addition, large banks are estimated to have raised more than $4 billion (monthly average basis) in the first quarter, that was not

1/ Adjusted total assets are total assets less Federal funds sold and cash items in process of collection.

Money Market Mutual Funds

Total Month-End Assets and Average Monthly Yield




Sources: Donoghue's Money Fund Report and FRB staff estimates.

Note: Last plot (March) is preliminary.

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

| | | 1978 H1 | 1978 QIII | 1978 QIV | 1979 Q1 e/ | 1979 Feb. e/ | 1979 Mar. e/ | 12 months ending Mar. e/ |
|---|---|---|---|---|---|---|---|---|
| 1. | Total loans and investments 2/ | 14.0 | 8.7 | 5.9 | 11.2 | 11.3 | 2.9 | 11.1 |
| 2. | Investments | 8.5 | 1.1 | -10.3 | 10.6 | 15.9 | -1.3 | 3.2 |
| 3. | Treasury securities | 9.6 | -12.0 | -36.2 | 7.2 | 32.2 | -23.5 | -6.3 |
| 4. | Other securities | 7.8 | 9.0 | 4.8 | 12.4 | 7.6 | 10.3 | 8.9 |
| 5. | Total loans 2/ | 16.2 | 11.7 | 12.1 | 11.4 | 9.8 | 4.4 | 14.0 |
| 6. | Business loans | 16.7 | 10.3 | 6.7 | 17.6 | 14.7 | 9.5 | 13.9 |
| 7. | Security loans | 23.5 | -26.8 | -43.1 | 43.7 | -57.4 | -36.2 | 12.9 |
| 8. | Real estate loans | 18.7 | 17.6 | 17.5 | 15.6 | 15.2 | 11.6 | 18.7 |
| 9. | Consumer loans | 20.5 | 15.6 | 16.1 | n.a. | 15.7 | n.a. | n.a. |
| | MEMORANDA: | | | | | | | |
| 10. | Commercial paper issued by nonfinancial firms 3/ | 11.5 | 28.9 | 42.7 | 24.4 | -- | 92.8 | 32.3 |
| 11. | Business loans at banks net of bank holdings of bankers acceptances | 17.7 | 10.3 | 8.6 | 16.8 | 13.4 | 10.7 | 14.0 |
| 12. | Sum of items 10 & 11 | 17.2 | 11.4 | 11.3 | 17.2 | 11.9 | 16.9 | 15.4 |
| 13. | Memo item 12 plus business loans from finance companies | 16.2 | 9.7 | 15.1 | n.a. | 13.6 | n.a. | n.a. |

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

1/ Last-Wednesday-of-month series except for June and December, which are based on the last business day of the month.

2/ Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.

3/ Measured on an end-of-month basis.

reflected in the borrowing ratio or other common measures of managed liabilities, by liquidating claims on their foreign branches. Some of these transfers, along with Eurodollar borrowings, reportedly were financed by an increase in U.S. residents' deposits at offshore branches.

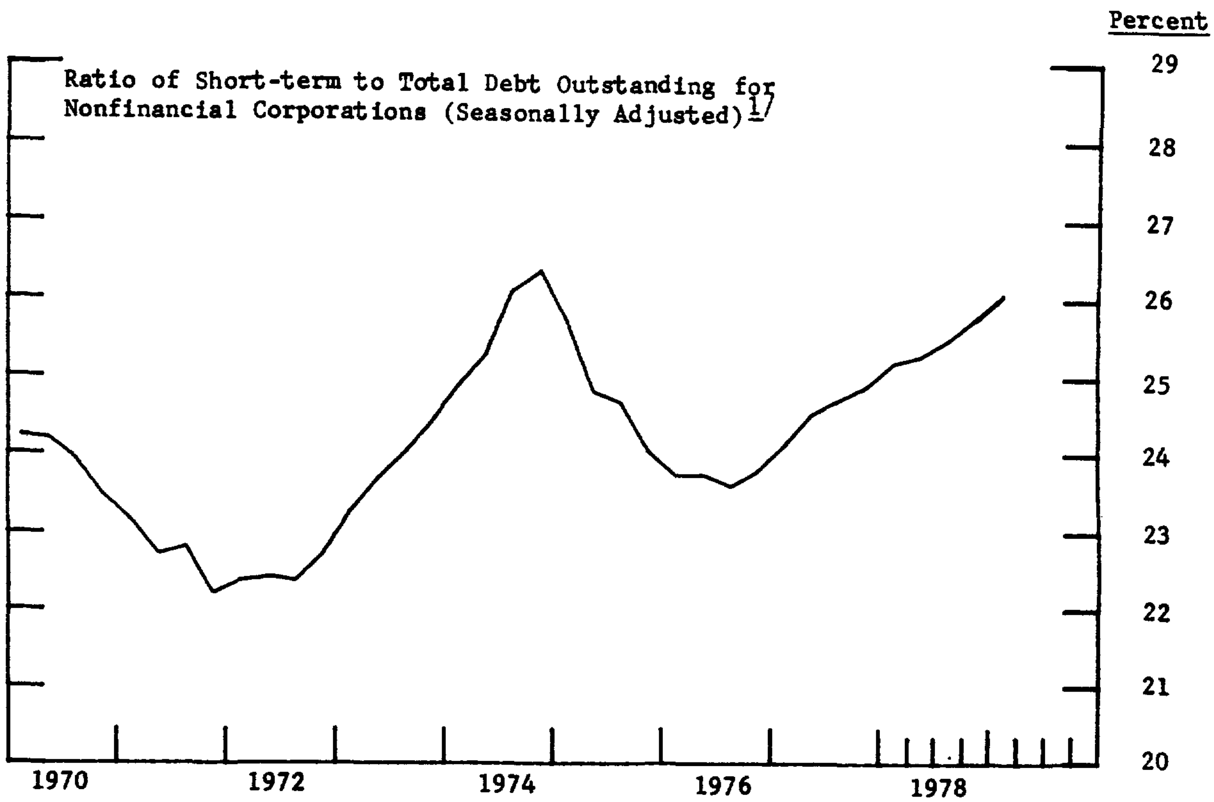
Business Finance

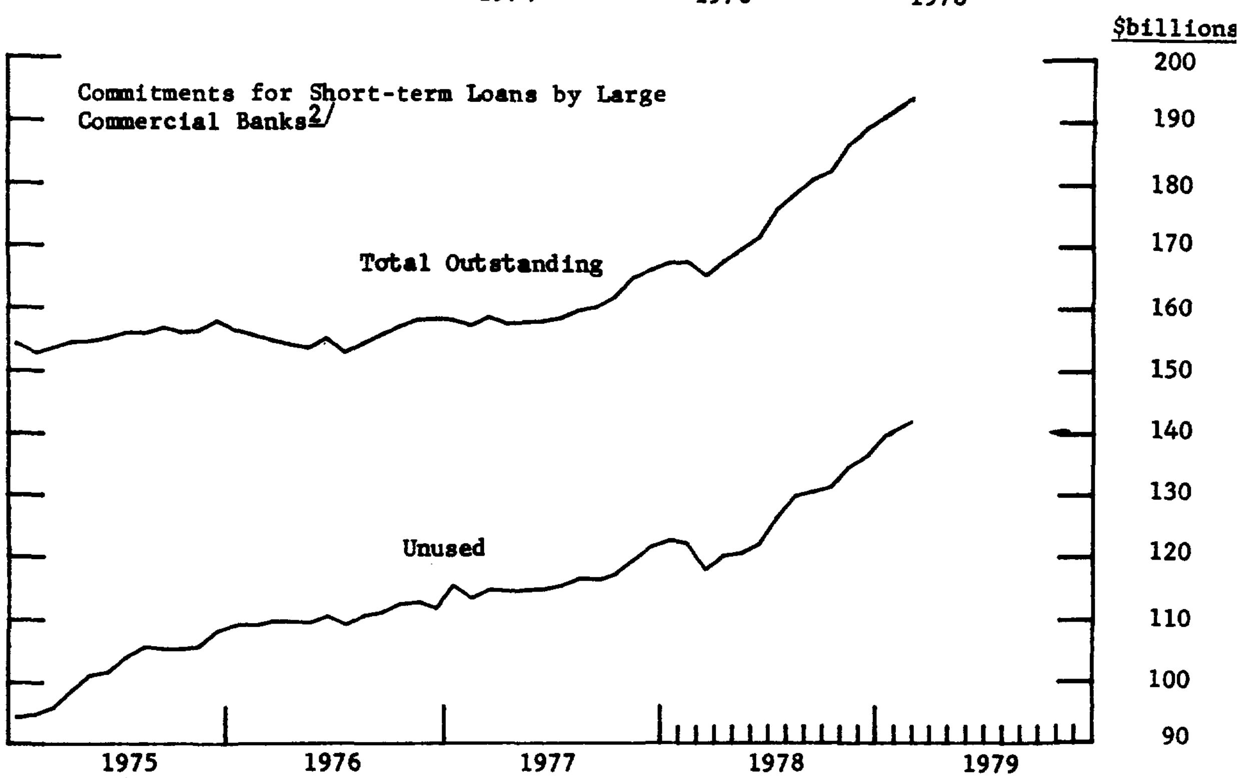
Despite the slower growth of business loans at commercial banks, the expansion of total short- and intermediate-term business credit remained brisk in March, bolstered by a $1.5 billion increase in commercial paper issued by nonfinancial firms. The surge in paper issuance was entirely attributable to industrial firms; utilities continued to tap alternative sources of funds, including reportedly strong cash flows and long-term debt issuance, to pay down outstanding paper in March, as they had in the first two months of 1979. In February, business loans at finance companies increased $1.1 billion, most of which was automobile-related credit.

Since mid-1978, nonfinancial corporations have greatly increased their use of short-term credit while long-term bond issuance has remained relatively moderate. This pattern is reflected in the rapid rise in the ratio of short-term to long-term debt outstanding of nonfinancial corporations to only marginally below its 1974 peak[1/] (see chart on III-10). Moreover, rapid growth of outstanding business loan commitments at commercial banks in late 1978 and early 1979 suggests that substantial use of this credit source could continue. Reports from a sample of large banks asso-

1/ The short-to-long debt ratio typically rises rapidly during the latter stages of a business upswing. In 1973-74 this tendency was accentuated as businesses borrowed exceptionally large amounts from banks at interest rates held below market rates by the policy of the Committee on Interest and Dividends. Appendix A, located at the end of this section, discusses the profit guidelines recently announced for depositary institutions by the Council on Wage and Price Stability.

Business Finance




1/ Based on Flow of Funds data. Last plot, for 1979Q1, is estimated.

2/ Unused revolving credit and confirmed lines of credit commitments outstanding at a constant sample of 134 large commercial banks participating in the Monthly Survey of Loan Commitments.

Last date plotted: February 1979.

ciate the recent growth in loan commitments primarily with larger external financing needs of businesses and desires by firms to assure continued credit availability.[1/]

Some relaxation in short-term business loan pricing at the largest banks appears to have occurred during February, according to the Survey of the Terms of Bank Lending. More than one-fourth of the large business loans made by thirteen money center banks carried below-prime interest rates (see table on III-12). This is consistent with reports of big firms being given the option to peg the interest rate on their bank borrowings either to the domestic prime rate or to LIBOR--or more recently to other domestic money market rates. The increased below-prime pricing for large loans at money center banks, which may reflect stiffened competition from foreign banks and the commercial paper market, was not matched at the large nonmoney center banks or the other banks participating in the survey. Loan customers of those banks typically do not have as wide access to alternative sources of short-term credit as do those of the money center banks. In addition, lower liquidity of the smaller and regional banks--as evidenced by their high loan-to-deposit ratios--may have made them less eager to increase their loans.

In long-term markets, gross public offerings of bonds by nonfinancial corporations increased somewhat in March over the previous month's total, as a smaller volume of issues by public utilities was more than offset by an increase in offerings by industrial concerns. Despite the increase, public offerings of bonds by nonfinancial corporations in the first quarter of 1979 were the smallest quarterly total in current dollars since mid-1973.

1/ Additional information regarding businesses' expected use of these commitments, sources of the strength in their volume, and commitment terms, based on a survey by the bank contact group, is discussed in Appendix B of the this section.

Terms of Commercial Bank Short-Term Business Loans Extended

| | All loans | | | Loans $1 million or more | | |
|---|---|---|---|---|---|---|
| | Money center banks | Other large banks | Other banks | Money center banks | Other large banks | Other banks |
| | | | $ millions | | | |
| Amount Acquired | | | | | | |
| 1978 - February | 1339 | 1013 | 4073 | 1007 | 562 | 782 |
| May | 2336 | 1599 | 4311 | 1866 | 925 | 845 |
| August | 1428 | 1186 | 3752 | 1066 | 634 | 799 |
| November | 1592 | 1194 | 6739 | 1269 | 656 | 3236 |
| 1979 - February | 1583 | 1265 | 3996 | 1180 | 711 | 827 |
| | | | Per Cent | | | |
| Acquired Below Prime | | | | | | |
| 1978 - February | 15 | 10 | 2 | 19 | 15 | 5 |
| May | 17 | 16 | 2 | 20 | 25 | 5 |
| August | 20 | 10 | 5 | 27 | 16 | 6 |
| November | 15 | 17 | 11 | 15 | 23 | 3 |
| 1979 - February | 21 | 7 | 8 | 26 | 11 | 5 |

Source: Survey of the Terms of Bank Lending. Data are for the first part of the month.

Corporate bond offerings by financial concerns grew sharply in March. Most of these issues were intermediate- and longer-term issues by finance companies, the proceeds of which were used in part to reduce outstanding commercial paper and other short-term indebtedness.

Stock offerings contracted in March to their smallest monthly total in almost 5 years. As in other recent months, public utilities accounted for most of the new issues. Stock prices of NYSE-listed issues have increased approximately 3 per cent since the March FOMC meeting, while issues listed on the AMEX and traded in the over-the-counter market have climbed about 5 and 4 percent, respectively. The strong showing of AMEX-listed stocks--which raised the AMEX Composite index to a record level--reflects in part the relatively high proportion of smaller domestic and Canadian oil and gas exploration companies listed on this exchange, as well as companies engaged in the extraction of primary metals. The recent sharp increase in energy and raw materials prices appears to have improved investor expectations of the earnings prospects for these companies.

Government Securities Markets

State and local governments sold $4.2 billion (SA) of long-term debt obligations in March, an increase of $1.6 billion from January and February, but close to the average monthly volume in 1978. Revenue bonds--approximately half of which were tax-exempt mortgage bonds issued by cities, counties, and State housing agencies[1/]--accounted for three-quarters of the March total. Approximately two-thirds of funds raised by State housing agencies and all of the funds raised by cities and counties through sales

1/ A discussion of the increased use of mortgage bonds by State and local units is contained in Appendix C to this section.

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

| | 1978 | | 1979 | | | | |
|---|---|---|---|---|---|---|---|
| | Year | QIV e/ | QI e/ | Feb. e/ | Mar. e/ | Apr. f/ | May f/ |
| | | | Seasonally adjusted | | | | |
| Corporate securities--total | 3,755 | 3,405 | 3,050 | 3,400 | 2,920 | 3,750 | 3,325 |
| Publicly offered bonds | 1,659 | 1,519 | 1,325 | 1,325 | 1,400 | 1,950 | 1,775 |
| Privately placed bonds | 1,307 | 1,130 | 1,200 | 1,200 | 1,200 | 1,200 | 1,200 |
| Stocks | 789 | 756 | 525 | 875 | 320 | 600 | 350 |
| | | | Not seasonally adjusted | | | | |
| Publicly offered bonds | 1,659 | 1,486 | 1,442 | 1,250 | 1,800 | 2,000 | 1,600 |
| By quality 1/ | | | | | | | |
| Aaa and Aa | 853 | 885 | 950 | 650 | 1,175 | -- | -- |
| Less than Aa 2/ | 806 | 601 | 492 | 600 | 625 | -- | -- |
| By type of borrower | | | | | | | |
| Utility | 611 | 625 | 605 | 825 | 590 | -- | -- |
| Industrial | 532 | 411 | 347 | 175 | 485 | -- | -- |
| Financial | 516 | 450 | 490 | 250 | 725 | -- | -- |
| Foreign securities--total | 504 | 479 | 489 | 617 | 20 | -- | -- |
| Publicly offered 4/ | 362 | 333 | 428 | 610 | 0 | 150 | 300 |
| Privately placed | 142 | 146 | 61 | 7 | 20 | -- | -- |

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.

of mortgage bonds in March was intended for single-family mortgage financing. Net of bonds issued for mortgage financing and advance refunding purposes--proceeds from which are channeled to financial markets rather than used for capital outlays--tax-exempt bond volume in the first quarter was somewhat below the pace of last year.

In part because of the heavy volume, yields on mortgage revenue bonds increased approximately 20 basis points during March. In contrast, the Bond Buyer index of yields on general obligation bonds declined from 6.42 to 6.28 per cent, with demand for tax-exempt issues by property and casualty insurance companies reported to be very strong.

Treasury debt operations after mid-March were disrupted by the failure of Congress to act on the national debt ceiling. Six offerings of Treasury securities, involving a total volume of more than $16 billion, were postponed after March 20. To meet impending cash needs, the Treasury took several emergency steps in late March that included selling $2.6 billion of special nonmarketable certificates to the Federal Reserve on March 31--the maximum amount possible without exceeding the ceiling--and requesting that the Federal Reserve advance by one day its monthly payment of earnings to the Treasury.

The cancellation of Treasury auctions in late March resulted in some downward pressures on short-term Treasury yields, but the situation was quickly reversed after the debt ceiling legislation was passed on April 2. The Treasury auctioned $25.2 billion in new securities in the first week of April (of which $13 billion were short-dated cash management bills)

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

| | 1978 | | 197 | | | | |
|---|---|---|---|---|---|---|---|
| | Year | QIV | Q1e/ | Feb. | Mar.e/ | Apr.f/ | Mayf/ |
| | | | Seasonally adjusted | | | | |
| State and local government securities, gross offerings | | | | | | | |
| Total | 5,851 | 5,813 | 4,906 | 4,181 | 5,691 | 8,100 | 4,100 |
| Long-term | 4,042 | 4,018 | 3,120 | 2,425 | 4,211 | 3,900 | 3,000 |
| Short-term | 1,809 | 1,795 | 1,786 | 1,756 | 1,480 | 4,200 | 1,100 |
| U.S. Government securities, net offerings | | | | | | | |
| U.S. Treasury1/ | 2,337 | -945 | 1,800 | 4,392 | -2,206 | 7,828 | 6,800 |
| Sponsored agencies | 1,930 | 1,788 | 2,942 | 4,349 | 2,568 | 994 | 3,005 |
| | | | Not seasonally adjusted | | | | |
| State and local government securities, gross offerings | | | | | | | |
| Total | 5,851 | 5,187 | 4,825 | 4,104 | 6,000 | 6,400 | 5,000 |
| Long-term | 4,042 | 3,747 | 3,249 | 2,571 | 4,400 | 3,400 | 3,600 |
| Short-term | 1,809 | 1,440 | 1,576 | 1,533 | 1,600 | 3,000 | 1,400 |
| U.S. Government securities, net offerings | | | | | | | |
| U.S. Treasury1/ | 2,337 | 1,152 | 3,067 | 7,865 | -977 | 1,400 | 5,000 |
| Sponsored agencies | 1,930 | 1,635 | 2,453 | 3,359 | 2,412 | 1,230 | 3,250 |

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

and sold $1.5 billion of reopened 15-year bonds the following week. The proceeds of these auctions were used to roll over several outstanding issues maturing in early April, to repay the special borrowing from the Federal Reserve, and to meet expenditures prior to the April tax date.

In March, Federally-sponsored credit agencies borrowed $2.6 billion, which lifted borrowing for the quarter to a record $8.8 billion. The high volume in agency borrowing was accounted for by large financings by both the Farm Credit Agencies and the housing agencies. While new mortgage commitments at FNMA are down sharply from the pace set in 1978, the agency still has a high volume of outstanding commitments and made sizable net purchases of mortgages during the first quarter. The increase in borrowing by the FHL Banks has been directed toward improving their liquidity, as advances to S&Ls for the first quarter have continued at about the pace of the second half of last year, on a seasonally adjusted basis.

Mortgage and Consumer Credit

Net mortgage lending by banks and S&Ls declined in February to a level approximately 30 per cent below the November peak. In March, bank lending slowed further, and at S&Ls, any rebound in mortgage lending in March likely was small, following sizable cutbacks in commitment activity at these institutions in January and February. New commitments in February were 10 to 30 percent below their volume a year earlier in all areas of the country except the West, where the current dollar pace was about the same as last year. Ceiling rates on government underwritten loans have constrained the origination of FHA/VA mortgages by mortgage companies, and this has reduced the volume of new GNMA securities entering secondary markets. Under current market conditions, borrowers or home sellers must absorb about 5 or more discount points on such government-underwritten loans.[1/]

As in past periods of reduced mortgage activity, the recent decline in net mortgage acquisitions and commitments at S&Ls was preceded by a decline in deposit growth at these institutions (see chart on III-19). Accumulation of liquid assets by S&Ls has tended to moderate since the third quarter, but the liquidity ratio has been maintained at around 9.0 percent (SA) since the fall. In past periods, however, this ratio often had been reduced in order to sustain mortgage lending. Its failure to decline in recent months may reflect some reluctance on the part of S&Ls to commit to future mortgage lending in the face of substantial uncertainty about the cost and volume of deposit flows. In addition to supply side pressures, it is also possible that S&Ls may have experienced some decline in the demand for mortgage credit, accentuated by the unusually severe winter weather.

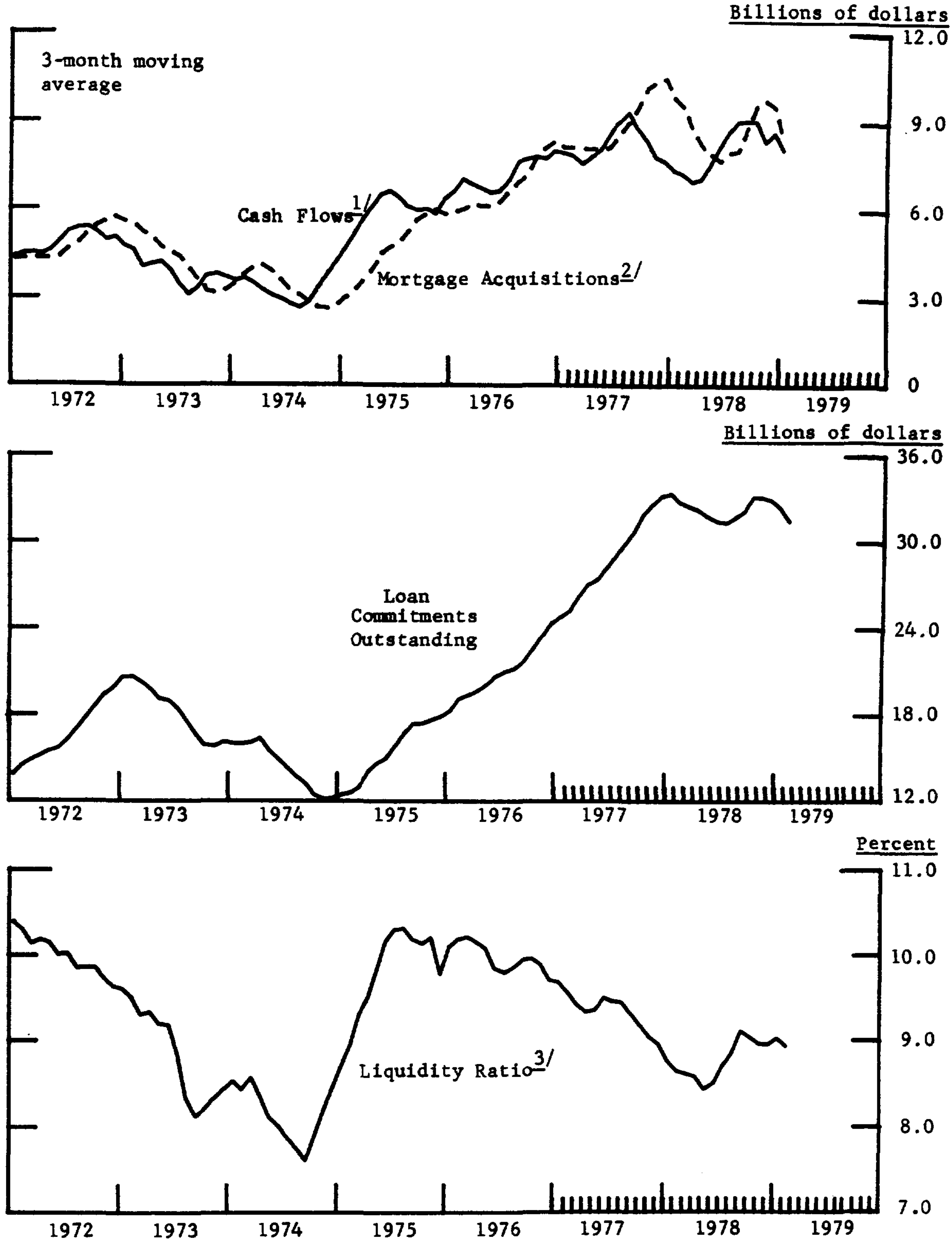
Interest rates on new commitments for 80 per cent 30-year conventional home mortgages at S&Ls have increased 8 basis points since the March FOMC meeting to a record 10.48 per cent.[2/] Average yields in the national secondary mortgage markets have changed little, on balance, during the intermeeting period, reflecting relatively stable conditions in the bond markets.

1/ Although borrowers are legally limited to the direct payment of 1 point fees on government-underwritten loans, a portion of the higher point payments may be shifted to borrowers by indirect means, such as variations in purchase price.

2/ Conventional home mortgage lending apparently was constrained in many areas during the first quarter as yields required by lenders exceeded usury ceilings in about a third of the states. However, restrictive rate ceilings were removed during February in Maryland and South Carolina, and a court ruling, in effect, has exempted most originators from the 10 percent ceiling in Florida. At the end of March, ceilings in Idaho, Georgia, and Vermont were raised above prevailing market rates.

III-19

Cash Flows, Mortgage Lending and Liquidity Positions at Savings & Loan Associations (seasonally adjusted)




1/ Cash flows includes net change in deposits plus mortgage repayments.
2/ Mortgage acquisitions include originations plus purchases less sales.
3/ Cash and liquid assets as a percent of savings plus borrowings payable in 1 year or less at end of month.

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

| Period | Conventional home mortgages: Average rate on new commitments for 80% loans (Per cent) | Basis point change from month or week earlier | Spread[1/] (basis points) | Per cent of S&Ls[2/] with mortgage funds in short supply |
|---|---|---|---|---|
| 1978--High | 10.38 | -- | +104 | 69 |
| Low | 8.98 | -- | +33 | 17 |
| 1978--Sep | 9.78 | +3 | +78 | 60 |
| Oct | 9.88 | +10 | +64 | 59 |
| Nov | 10.28 | +40 | +103 | 59 |
| Dec | 10.38 | +10 | +87 | 58 |
| 1979--Jan | 10.40 | +2 | +95 | 61 |
| Feb | 10.40 | 0 | +77 | 57 |
| Mar 2 | 10.43 | +3 | +76 | 56 |
| 9 | 10.40 | -3 | +79 | 58 |
| 16 | 10.40 | 0 | +75 | 58 |
| 23 | 10.45 | +5 | +82 | 59 |
| 30 | 10.45 | 0 | +86 | 54 |
| Apr 6 | 10.48 | +3 | +89 | 57 |

1/ Average mortgage rate minus average yield on recently offered Aaa utility bonds.
2/ Per cent reporting supply of funds slightly or substantially below normal seasonal patterns.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

| | FNMA auctions of forward purchase commitments | | | | | | Yields on GNMA guaranteed mortgage backed securities for immediate delivery[2/] |
|---|---|---|---|---|---|---|---|
| | Conventional | | | Govt.-underwritten | | | |
| | Amount ($ millions) | | Yield to FNMA[1/] | Amount ($ millions) | | Yield to FNMA[1/] | |
| | Offered | Accepted | | Offered | Accepted | | |
| 1978--High | 716 | 363 | 10.92 | 1249 | 605 | 10.60 | 9.68 |
| Low | 75 | 48 | 9.28 | 130 | 80 | 9.13 | 8.43 |
| 1979--Mar 5 | 47 | 34 | 10.96 | 265 | 142 | 10.43 | 9.69 |
| 12 | | | | | | | 9.70 |
| 19 | 98 | 80 | 10.92 | 243 | 143 | 10.42 | 9.72 |
| 26 | | | | | | | 9.69 |
| Apr 2 | 168 | 99 | 10.92 | 261 | 139 | 10.44 | 9.72 |
| 9 | | | | | | | 9.72 |

1/ 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.
2/ 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.

The growth of consumer instalment credit outstanding increased slightly in February from the reduced January pace. Harsh weather conditions and related flatness in retail sales likely contributed to weaker credit growth during these months. Consumer debt burdens--as measured by the ratio of repayments to disposable income--edged up in February.

Consumer finance rates have risen noticeably since the first half of 1978, following three years of stability or decline. The higher quotations may signal a general tightening of consumer lending standards, although limited evidence from measures of non-rate terms provide only weak confirmation of restricted credit availability to consumers.

CONSUMER INSTALMENT CREDIT[1/]

| | 1976 | 1977 | 1978 | 1978 QIII | 1978 QIV | 1979 Jan. | 1979 Feb. |
|---|---|---|---|---|---|---|---|
| Total | | | | | | | |
| Change in outstandings | | | | | | | |
| Billions of dollars | 21.1 | 35.0 | 45.1 | 43.1 | 47.5 | 36.7 | 39.7 |
| Percent | 12.4 | 18.3 | 19.7 | 17.3 | 18.3 | 13.4 | 14.3 |
| Bank share (percent) | 50.2 | 52.7 | 53.4 | 51.9 | 47.4 | 43.4 | 49.3 |
| Extensions | | | | | | | |
| Billions of dollars | 210.0 | 254.1 | 298.6 | 304.9 | 313.9 | 306.5 | 314.4 |
| Bank share (percent) | 46.2 | 46.4 | 47.9 | 48.0 | 47.4 | 47.6 | 47.4 |
| Liquidations | | | | | | | |
| Billions of dollars | 188.9 | 219.2 | 253.5 | 261.8 | 266.4 | 269.8 | 274.7 |
| Ratio to disposable income | 15.9 | 16.8 | 17.5 | 17.8 | 17.6 | 17.5 | 17.6 |
| Automobile Credit | | | | | | | |
| Change in outstandings | | | | | | | |
| Billions of dollars | 10.4 | 15.3 | 19.6 | 19.4 | 19.6 | 20.2 | 18.8 |
| Percent | 18.2 | 22.6 | 23.4 | 20.9 | 19.8 | 19.7 | 18.3 |
| Extensions | | | | | | | |
| Billions of dollars | 63.6 | 75.8 | 89.0 | 91.8 | 92.5 | 90.5 | 93.1 |

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

# APPENDIX A
## COWPS Bank Profit Margin Standard*

The Council on Wage and Price Stability (COWPS) released on March 19 its profit standard for commercial banks, savings and loan associations, mutual savings banks, and credit unions. Under the standard, commercial banks and bank holding companies are requested to limit the rate of return on adjusted total average assets (ROA) or the rate of return on average equity (ROE) in 1979 to no more than the average of the best 3 of the 5 preceding calendar years. 1/ If a bank or bank holding company cannot meet either the ROA or ROE standard for 1979 then it is requested to both (a) limit per-share cash dividends during the year beginning March 15, 1979 to no more than 107 per cent of the per-share dividends during the preceding 12 months, and (b) hold constant service charges and fees (other than interest and related charges) over the same period.

The Board staff estimates that approximately 37 per cent of banks with less than $1 billion in assets, and 28 per cent of banks with $1 billion or more in assets, would have to achieve a decline in their 1979 ratios (below that of 1978) in order to bring them down to the best 3 out of 5 year average. Also, the smaller banks are likely to need larger percentage declines in their 1979 ratios than the larger banks. Compliance with the profit standard may be rendered somewhat more difficult by continuing high market rates during 1979, which will tend to maintain or improve profit margins. 2/ Nevertheless, many of the affected institutions will be able to comply with the ROA or ROE standard by slightly adjusting portfolios toward safer, lower-yielding instruments or by adding to retained earnings so as to drive down ROE. Others probably will choose to comply instead with the dividend restriction and fee restriction guidelines.

1/ Rate of return is defined as taxable equivalent profits before tax plus provisions for loan losses and interest lost on nonperforming loans, excluding currency translation gain or loss net of hedging. Adjusted total assets equals total assets minus the lesser of (a) Federal funds sold and reverse-RPs, plus due from banks or (b) Federal funds purchased and RPs, plus due to banks. Equity is defined as common and preferred stock, surplus, and retained earnings. The standard applies to the highest level of consolidation; e.g., to the consolidated holding company including all domestic and foreign operations.

2/ For smaller banks, high rate periods imply higher returns on assets while costs of interest-inelastic deposit funds remain relatively low. For the larger, money-market institutions, returns on both assets and liabilities tend to rise with market rates; nevertheless, net interest spreads for these banks typically widen with rising rates. Thus, if market rates in 1979 remain, on average, above those of 1978, ROAs for both large and small institutions may rise somewhat above last year's levels.

*Prepared by John J. Mingo, Senior Research Division Officer.

Under the fee guideline, a bank is requested to hold constant the (non-interest-related) charges and fees on each service it offers its customers (excluding correspondent banking customers). However, for a particular service a bank would be permitted to alter the mix of the explicit fee versus implicit fee (i.e., compensating balance requirement) that it charges, so long as the "average cost" to the customer is unaltered. This would allow institutions complying with the fee guideline some leeway in altering their pricing schemes for newly introduced services such as ATS accounts. In complying with the dividend guideline, banks may issue (under COWPS staff interpretations) stock dividends in addition to the allowable 7 per cent increase in cash dividends. 1/ Thus, even for those institutions out of compliance with both the ROA and ROE standards, satisfying the dividend and fee guidelines is not likely to prove burdensome or to produce significant changes in operations.

Savings and loan institutions (and their holding companies) and mutual savings banks also are unlikely to be significantly affected by the COWPS standard, which is similar to the standard for commercial banks. If market interest rates remain at high levels during the remainder of 1979, the resulting high cost of thrifts' funds (due mainly to MMCs) will likely contribute to a substantial decline in ROA below 1978 levels --thus, compliance with the COWPS standard will be largely a moot issue. The Board staff estimates that, even in the absence of any further liberalization of deposit rate ceilings, the ROAs of S&Ls and MSBs will be significantly below their best 3 out of 5 year industry average. Finally, credit unions are not likely to be significantly affected by the profit margin guidelines, because their average ROA (as defined by COWPS) in 1978 was substantially below previous years and could rise by as much as 32 per cent in 1979 without violating the profit margin standard.

1/ Many stock analysts believe that steady growth in dividends per share is necessary to maintain P/E ratios. Apparently, stock and cash dividends are substitutes for such purposes. There is, however, no empirical evidence linking pay-out (or stock dividend) policies to movements in P/E ratios.

# APPENDIX B

## Survey of Business Loan Commitment Growth at Commercial Banks*

The volume of business revolving credit and confirmed lines of credit commitments outstanding at large commercial banks increased sharply from mid-1978 to February 1979. Since last June, the Federal Reserve survey of 134 large commercial banks has indicated that unused revolving credit commitments have grown by over one-fourth and unused confirmed lines by over one-tenth.

The large volume of unused business commitments outstanding, along with already extensive use of managed liabilities by large commercial banks, implies that an increase in the rate of business loan takedowns might be associated with additional pressures on bank liquidity. In the past, non-financial corporations' use of commercial bank loans has tended to increase in cyclical upturns; at those times, businesses' need for external capital grew concurrently as they attempted to postpone long-term borrowing until interest rates receded and as they found funds less readily available from their open market sources of short-term credit.

This appendix reports the results of a survey conducted by the Federal Reserve Banks. In each district, four large banks with rapid growth in outstanding revolving credit and confirmed lines of credit commitments were asked about the sources of borrower demands and about any changes in their own lending posture that might help account for the observed increase.

In general, the business loan commitment growth appears to have resulted primarily from enlarged borrower demands, rather than from increased aggressiveness by banks in marketing commitments. In most districts, however, the effects of stronger demand were reinforced by bank efforts to expand business loan portfolios. Borrower demand generally reflected businesses' increased need for external funds, which was related frequently to the expansion in their working capital requirements caused by recent sharp price inflation. A second impetus came from businesses' use of commitments to assure continued availability of short-term credit. In some cases, firms perceived terms--presumably nonrate loan terms as well as commitment fee and balance arrangements--to be more favorable now than they are likely to be in the near future; in others, possible imposition of credit controls was cited.

There were some differences among groups of respondents. For instance, in the Kansas City and Dallas districts strong local economies and the related expansion of local business activity had an important influence on loan demand. In Kansas City and Boston, no use of commitments to assure future credit availability was seen, while in Philadelphia this was the most frequently mentioned factor and in Cleveland it was judged to have become more prevalent in the fourth quarter of 1978. One of the more striking differences arose in comparing the response of money center banks with those of other large banks. (The recent rapid growth in total unused commitments largely reflects the experience of the money center banks,

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*Prepared by Barbara N. Opper, Economist, Banking Section, Division of Research and Statistics.

as shown in the chart on III-B-3. The level of commitments at those banks was virtually unchanged from late 1976 to the middle of 1978; since then, it has grown far more rapidly than at other banks.) For example, while most respondents did not attribute much of the increase in businesses' demand for loan commitments to shifting from longer-term financing sources, major New York banks cited this adjustment frequently, and especially as characteristic of utilities' behavior. Another distinction of the money center institutions was that increased commitment demand from their customers associated with mergers and acquisitions. Finally, a number of respondents indicated that increased borrower needs for confirmed lines commitments were associated with commercial paper sales.

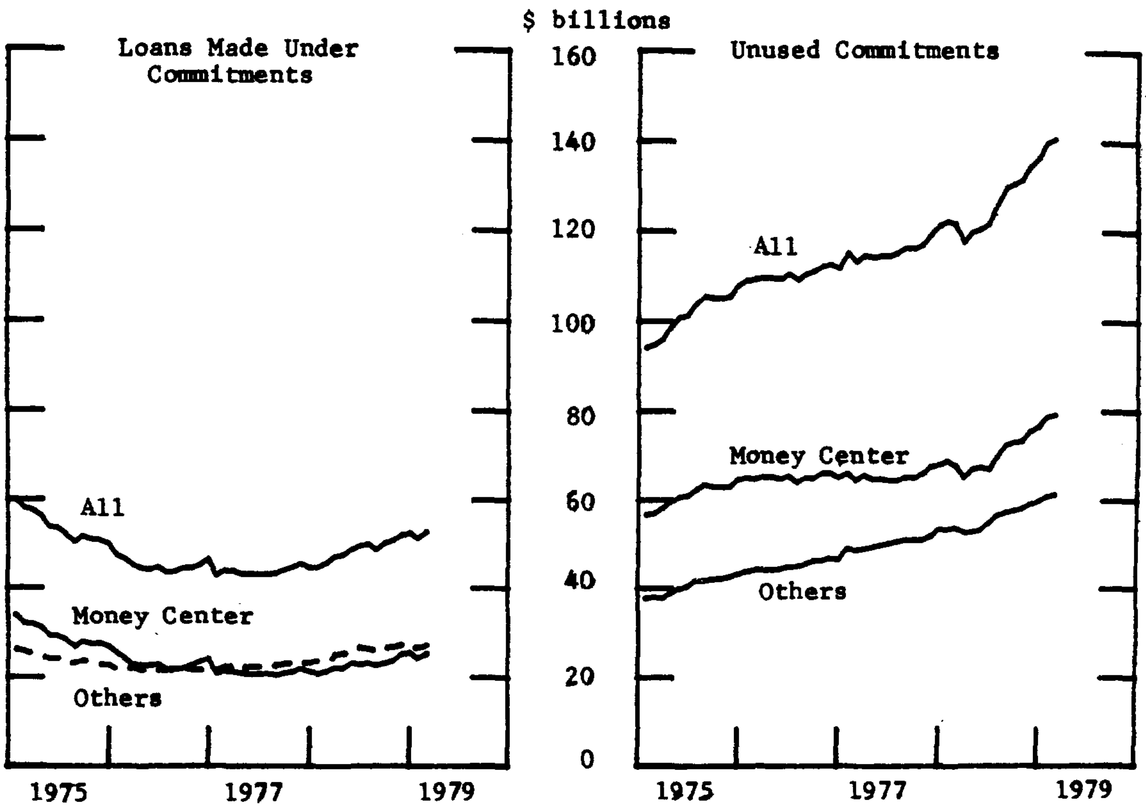
Larger demand for loan commitments generally was attributed to expanded loan requirements of existing customers, although in most districts the emergence of new bank customers also added to commitment strength. No pattern was apparent with respect to a dominant size or industry of loan customers except that utilities and energy-related firms increased their loan commitments from banks in a number of districts.

In most districts more aggressive bank business loan marketing was believed only to have supplemented the growth caused by the shift in borrower demands. Banks in Oklahoma and New England, however, believed their commitment growth had resulted mainly from their stepped up marketing efforts. Most respondents had moved to more aggressive loan marketing, either through larger or more sophisticated staffing or in some cases by lowering commitment fees or balance requirements. Only in the Atlanta district was there no move toward more intensive marketing efforts by any respondents. Kansas City district respondents referred to the need to meet vigorous competition from New York, Chicago, and Dallas banks. Most money center banks reported some changes in their marketing, either in terms of responding to competitive pressures or taking steps to expand market shares; some examples of the latter include a competitive pricing program and small business base rate, shading of the prime rate, and improving staffing or organization. 1/

Most respondents expected the proportion of loans acquired from outstanding unused commitments to remain about unchanged from current levels. Most of those expecting variations from the current rate neither anticipated those differences to be large nor uniformly above or below the present rate, but some respondents stressed that the course of the economy was an important determinant of commitment utilization.

1/ Over the past year, the Senior Loan Officer Opinion Survey on Bank Lending Practices has indicated a progressive tightening in lending policies, but this trend has been less prevalent at major money center banks than at other banks. Moreover, the appearance that loan marketing among the banks recently contacted informally by the Federal Reserve Banks was more aggressive than the posture suggested by the Senior Loan Officer Survey can be attributed in part to a bias introduced by the fact that Federal Reserve Staff questioned only those banks with rapid loan commitment growth.

COMMERCIAL BANK BUSINESS LOAN COMMITMENTS
REVOLVING CREDIT AND CONFIRMED LINES OF CREDIT




SOURCE: Monthly Survey of Loan Commitments, constant sample of 134 large banks.

Latest Plot: February 1979.

## APPENDIX C

## Revenue Bond Financing of Single-Family Mortgages*

The volume of tax-exempt bonds issued for mortgage financing purposes in March was $1.5 billion, bringing the monthly average for the first quarter to $850 million, a substantial increase from averages of $570 million in the second half of 1978 and $380 million in the first half of last year (see table III-C-1). Forty percent of the first quarter total represented bonds issued by cities and counties to finance single-family mortgages for low- and middle-income households; prior to July 1978 these entities did not issue any mortgage revenue bonds. State housing finance agencies (HFAs), too, have stepped up their support of mortgage markets over the past year. Moreover, these agencies, which since their inception in the late 1960's have concentrated on providing government-subsidized multi-family housing for low-income households, have shifted emphasis recently toward single-family mortgage financing programs aimed more at middle-income households. Thus, there has been a marked increase in the quantity of funds being raised in tax-exempt markets and channeled to single-family mortgages.

In large measure, this trend began in July 1978, when Chicago became the first city to issue tax-exempt bonds for the purpose of financing single-family mortgage loans--an activity exempt from the restrictions placed on industrial development bonds by the Revenue and Expenditure Control Act of 1968 The success of the Chicago issue and the subsequent tightening of mortgage markets have induced many other cities and counties to follow suit--with the encouragement of securities underwriters.

Typically, under a local government mortgage program, the bond proceeds are distributed by a trustee--to date only banks have performed this role--to selected financial institutions, which originate mortgages that meet the program's constraints. (These programs are often called "pass-throughs.") The mortgages are then held by the trustee, but the originating financial institutions continue to service them, remitting principal and interest payments to the trustee, which then makes principal and interest payments to the bondholders. Because the mortgages are held in trust, they do not show up on the balance sheets of the private financial institutions, but rather on that of the bond issuer. However, local jurisdictions incur no liability on the bonds, which are secured by the mortgages, insurance on the mortgage pool as well as the homeowners' policies, and reserve funds equaling about 15 percent of the bond issue--rather than by the "full faith and credit" of the issuer.

Such local tax-exempt bonds were sold at a net interest cost of around 7 percent in the first quarter, and mortgages have been extended at rates ranging from 7-7/8 percent to 8-1/2 percent, or more than 200 basis points less than prevailing conventional mortgage rates. The mortgage rates under tax-exempt programs are set a given number of basis points over the borrowing rate to allow for custodial and servicing fees paid to the financial institutions, but under Internal Revenue Service arbitrage regulations

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Mortgage Revenue Bonds
(millions of dollars, monthly average)

| | 1972-73 | 1974-75 | 1976-77 | 1978 H1 | 1978 H2 | 1979 Jan. | 1979 Feb. | 1979 Mar. | 1979 Q1 |
|---|---|---|---|---|---|---|---|---|---|
| Total | 190 | 70 | 270 | 380 | 570 | 502 | 512 | 1,531 | 848 |
| State HFAs: total | 190 | 70 | 270 | 380 | 475 | 476 | 271 | 759 | 502 |
| Single-family[a/] | n.a. | n.a. | n.a. | n.a. | n.a. | 377 | 150 | 514 | 347 |
| Multi-family | n.a. | n.a. | n.a. | n.a. | n.a. | 99 | 121 | 245 | 155 |
| Cities and Counties (Single-family)[a/] | 0 | 0 | 0 | 0 | 95 | 26 | 241 | 772 | 346 |

a/ The data do not permit determination of the exact volume of bond proceeds used in "loan-to-lender" programs. Nevertheless, it appears that HFAs have used "mortgage purchase" programs slightly more than "loan-to-lender" programs; cities and counties have used "pass-through" programs exclusively.

the spread can not exceed 150 basis points. Mortgage borrowers also pay lump sum origination and participation fees at closing, which often have exceeded those associated with conventional mortgages.

State HFAs usually make forward commitments to private lenders for the financing of single-family mortgages that conform to terms established by the HFA. Once the mortgages are originated, they are either sold to the HFA in mortgage-purchase programs, or are retained by the lender in loan-to-lender programs. In the latter case, the loans would remain on the balance sheets of the originating financial institutions.

Bonds issued by a state HFA are serviced from revenues derived from the entire mortgage portfolio of the agency, and in addition, usually represent a "moral obligation" of the housing agency. The bonds do not, however, constitute a liability of the state or a pledge of its full faith and credit or taxing power.

Proponents assert that the tax-exempt mortgage bond programs benefit the home buyer, the locality, and the housing industry. It is claimed that low down-payments and low interest rates make home ownership affordable to more people. As a result, local neighborhoods are stabilized and, with demand pushing house prices higher, the tax base of the locality is enhanced.

In general it would appear that these programs should increase the overall supply of mortgage credit and thereby strengthen the demand for housing. To the extent that the low-cost mortgages are extended to borrowers who otherwise would not be able to obtain mortgage financing, the demand for single-family residences would be increased directly. For the most part, however--with the programs having involved many middle-income households--loans made with bond proceeds probably have substituted to a considerable extent for conventional financing that otherwise would have occurred.[1] This substitution would increase the availability of credit to other borrowers, putting downward pressures on mortgage rates. The lower mortgage rates, in turn, would also stimulate the demand for housing. Of course, the additional savings allocated to the mortgage markets through this device are unavailable for use elsewhere, and yields on other assets would likely rise.

Much of the concern expressed about the use of tax-exempt bonds to finance housing revolves around their impact on borrowing costs to State and local governments for other purposes, the revenue loss to the Treasury, and the appropriateness of tax-exempt borrowing for this purpose.

An increase in the supply of mortgage revenue bonds could raise interest costs on other tax-exempt issues. This would occur because the demand for tax-exempt securities is derived from desires to reduce taxable income, and yields must rise to attract investors in lower marginal tax

1/ Such borrowers, who would have had access to conventional credit, may however have purchased more expensive homes or assumed larger mortgages than they otherwise would have.

brackets to purchase a greater supply. With the use of mortgage revenue bonds putting downward pressures on conventional mortgage yields, an increase in the supply of these bonds would cause the ratio of tax-exempt yields to conventional mortgage rates to increase. Although a rise in this ratio might reduce to some degree the attractiveness to cities and counties of issuing bonds for mortgage financing purposes, it seems likely that an extraordinarily large volume of these bonds would be necessary to eliminate the incentive to issue them. And thus, their volume may well continue to grow. However, the pace of expansion may moderate from the very high March level, since March's volume appeared to reflect in part the initial response of local governments to changes in state laws permitting them to issue mortgage revenue bonds and the increasing likelihood that Federal regulatory restrictions soon will be placed on the issuance of these bonds.

Much of the discussion about potential restrictions involves the question of whether state and local bonds issued to provide low-interest mortgage financing for middle-income households abuse the Federal tax-exemption feature. This exemption is tantamount to a Federal subsidy, and custom and legal precedent prescribe that governmental expenditures be for public purposes. It is argued that a subsidy to middle-income households for home purchases yielding only private benefits does not meet this test. Moreover, the net benefits of these programs appear to be heavily weighted toward the middle and upper ends of the income scale. The mortgage loans are reported to have gone mostly to middle-income households, and net gains to investors from the rise in the volume of tax-exempt borrowing and yields on tax-exempt bonds accrue mostly to upper-income taxpayers.

A number of recommendations have been made as to how Congress could limit the issuance of mortgage revenue bonds by restricting the use of the bond proceeds to a narrower purpose, such as lending only to low- and moderate-income households or in depressed areas. In these instances the program presumably would be overcoming allocative inefficiencies or yielding other social benefits. An indirect method of limiting the bond programs to accommodate low- to moderate-income households is to require home buyers to choose between participating in a state or local mortgage bond program and taking the current mortgage interest tax-deduction. Alternatively, the issuance of tax-exempt mortgage bonds could be permitted only for state and local housing agencies established by state legislation. In this way, state legislatures would be left to correct abuses and to impose reasonable restraints on the programs. The Administration has expressed concern about the potential proliferation of mortgage revenue bonds and recommended in the President's recent budget message that their issuance be limited; a specific proposal has not yet been offered.

RESTRICTED

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

April 10, 1979

| | | 1977 Year | 1978 Year | 1978 Q1 | Q2 | Q3 | Q4 | Dec. | Jan. | Feb. |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. | Trade balance 1/ | -31,059 | -34,144 | -11,920 | -7,869 | -7,992 | -6,363 | -2,144 | -3,240 | -1,712 |
| 2. | Merchandise exports | 120,585 | 141,844 | 30,787 | 35,256 | 36,486 | 39,315 | 13,101 | 13,340 | 13,315 |
| 3. | Merchandise imports | -151,644 | -175,988 | -42,707 | -43,125 | -44,478 | -45,678 | 15,245 | -16,580 | -15,027 |
| 4. | Change in net foreign positions of banking offices in U.S. (excl. liab. to foreign official inst.) | -3,907 | -14,255 | -6,117 | 2,700 | 2,030 | -12,868 | -7,815 | 6,133 | 3,563 |
| | Through interbank transactions with | | | | | | | | | |
| 5. | a) Own offices in foreign countries | -2,717 | 5,492 | -3,435 | 5,107 | 5,553 | -1,733 | 473 | 1,079 | 5,297 |
| 6. | b) Unaffiliated banking offices in foreign countries | -2,203 | -11,418 | -2,368 | -981 | -1,342 | -6,727 | -6,202 | 4,994 | -1,459 |
| | Through nonbank transactions | | | | | | | | | |
| 7. | a) Claims on nonbanks in foreign countries (increase, -) | -423 | -9,831 | -179 | -1,818 | -2,660 | -5,174 | -1,881 | 373 | -599 |
| 8. | b) Liabilities to private nonbanks in foreign countries (inc. custody liab.) | 1,436 | 1,501 | -135 | 392 | 479 | 765 | -205 | -314 | 324 |
| 9. | Private securities transactions, net (excl. U.S. Treas. Oblig.) | -3,050 | -636 | -585 | 126 | -114 | -63 | 721 | -484 | -331 |
| 10. | Foreign net purchases of U.S. corp. bonds | 1,130 | 1,180 | 73 | 159 | 378 | 570 | 320 | -25 | -59 |
| 11. | Foreign net purchases of U.S. corp. stocks | 1,325 | 1,674 | 341 | 1,065 | -17 | 285 | 340 | 81 | 77 |
| 12. | U.S. net purchases (-) of foreign securities | -5,505 | -3,490 | -999 | -1,098 | -475 | -918 | 61 | -540 | -349 |
| 13. | Foreign net purchases of U.S. Treasury obligations 2/ | 543 | 2,278 | 882 | 902 | -1,054 | 1,548 | 1,410 | 1,109 | 154 |
| 14. | Change in foreign official reserve assets in U.S. (increase +) | 35,463 | 31,206 | 14,969 | -5,414 | 4,641 | 17,010 | 6,043 | 300 | -2,672 |
| | By Area | | | | | | | | | |
| 15. | G-10 countries and Switzerland | 29,414 | 30,101 | 12,329 | -3,201 | 5,248 | 15,725 | 4,390 | 979 | -2,812 |
| 16. | OPEC | 5,758 | -1,700 | 1,276 | -2,553 | -1,556 | 1,133 | 1,111 | -294 | -530 |
| 17. | All other countries | 291 | 2,805 | 1,364 | 340 | 949 | 152 | 542 | -385 | 670 |
| | By Type | | | | | | | | | |
| 18. | U.S. Treasury securities | 30,266 | 24,068 | 12,984 | -5,685 | 3,167 | 13,602 | 4,648 | 858 | -3,260 |
| 19. | Other 3/ | 5,197 | 7,138 | 1,985 | 271 | 1,474 | 3,408 | 1,395 | -558 | 588 |
| 20. | Change in U.S. reserve assets (increase -) | -237 | 662 | 246 | 328 | 14 | 200 | -683 | -1,818 4/ | 179 |
| 21. | All other transactions and statistical discrepancy | 2,247 | 14,889 | 2,525 | 9,227 | 2,475 | 536 | 2,468 | -2,000 | 819 |
| MEMO: | Current account (bil.$, seasonally adj., annual rates) | -15.3 | -16.0 | -30.3 | -13.3 | -14.8 | -5.3 | 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/ Includes $1,103 million of newly allocated SDR's.

RESTRICTED

# INTERNATIONAL DEVELOPMENTS

<u>Foreign exchange markets</u>. During the last half of March, the dollar's weighted-average value fluctuated only slightly and on balance experienced almost no change. There was, however, strong underlying upward pressure on the dollar's value,

. At the beginning of April the upward pressure intensified, and the dollar's value rose to a new level about 3/4 of a per cent above the old one, where it has remained to date

. The reasons for the increase in market demand for dollars are difficult to pinpoint, but persistent slow growth in U.S. monetary aggregates and the OPEC ministers' oil-price increase at the end of March may have caused market participants to revise their outlook. The dollar's value increased against most currencies by much more than its average rise, but increases in the value of sterling and the Canadian dollar, whose relative prospects were brightened by the OPEC announcement, held down the increase in the dollar's average value.

The upward trends in the values of sterling and the Canadian dollar have been apparent for several weeks, and they have accelerated since the oil-price increase in late March.

. In addition, the Bank of England lowered its minimum lending rate from 13 per cent to 12 per cent on April 5 in an effort to relieve upward pressure on sterling.

The yen has been under downward pressure at least since the collapse of the Iranian government and has declined about 2-3/4 per cent against the dollar the last four weeks. The pressure has developed not only because of Japan's dependence on imported energy supplies, but also because the country's trade surplus has shrunk more rapidly than was expected and price increases in Japan in recent months have been larger than were anticipated.

. The Swiss franc has also moved downward against the dollar, for similar reasons as, but by a lesser amount than the yen. Switzerland is particularly dependent on the exceptionally high-priced oil sold on the spot market.

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U.S. intervention since mid-March has been almost entirely in marks and Swiss francs.

Those proceeds were used to accelerate the repayment schedule for Swiss-franc-denominated debt (System swap drawings and Treasury securities) incurred before August 15, 1971. The final payments on each debt were made March 30. Losses associated with the operation since August 1971 amounted to $840 million for the System and about $1-1/4 billion for the Treasury.

The Desk has purchased $2.8 billion marks

since mid-March and the funds have been used to reduce outstanding System swap commitments to $624 million.

U.S. bank lending abroad. In the second half of 1978 U.S. bank (domestic and foreign office) claims on countries other than international financial centers continued to increase more slowly than in the preceding year. Claims on financial centers, however, again rose more than in the comparable period of 1977. For 1978 as a whole, total claims rose about $36 billion (adjusted to the extent possible for reporting changes in the spring of last year), compared with about $32 billion in 1977. This relatively moderate step-up in U.S. banks' international lending contrasted with the surge in lending by non-U.S. banks, whose claims on foreign countries (excluding the United States) rose six times more in the first nine months of 1978 than in the year-earlier period.

U.S. banks' net new lending to countries other than international financial centers -- where borrowers generally employ the funds internally rather than relend them abroad -- increased $7.4 billion in the second half of 1978, compared with $9.8 billion a year earlier. Claims on the smaller developed countries, the non-oil developing countries and Eastern Europe all rose more slowly while there was some acceleration in lending to oil-exporting countries. There was a leveling or actual decrease in claims on a number of important borrowers, including a further drop in claims on Mexico. The indebtedness of Mexican borrowers to U.S. banks at the end of 1978 was down about $1.1 billion (adjusted) from the level of June 1977, whereas non-U.S. banks increased their claims on Mexico by $5 billion between June 1977 and September 1978. The year-over-year deceleration in lending to countries other international financial centers in the second half of 1978 approximated that of the

## U.S. Bank Claims on Foreigners[1/]
(in billions of dollars)

| | Outstanding[2/] 1976 Dec. | Outstanding 1978 Dec. | Increase 1977 1st H | Increase 1977 2nd H | Increase 1978 1st H[3/] | Increase 1978 2nd H |
|---|---|---|---|---|---|---|
| I. Countries Other Than International Financial Centers | 76.2 | 100.4 | 6.7 | 9.8 | 4.6 | 7.4 |
| Smaller developed countries | 15.1 | 19.4 | 1.8 | 1.7 | 1.5 | .1 |
| Denmark | 1.0 | 2.0 | .4 | .2 | .1 | .3 |
| Greece | 1.7 | 2.3 | .1 | .4 | .1 | 0 |
| Norway | 1.5 | 2.1 | .2 | .2 | .2 | 0 |
| Spain | 2.8 | 3.4 | .4 | .4 | .3 | -.2 |
| South Africa | 2.2 | 2.0 | .1 | .1 | .2 | -.4 |
| Other | 5.9 | 7.6 | .6 | .4 | .5 | .4 |
| Oil-exporting countries | 12.6 | 22.7 | 2.4 | 2.6 | 2.3 | 3.9 |
| Ecuador | .7 | 1.6 | .2 | .2 | .3 | .2 |
| Venezuela | 4.1 | 7.2 | .5 | .9 | .5 | 1.5 |
| Indonesia | 2.2 | 2.0 | 0 | 0 | -.2 | .1 |
| Middle East countries | 4.2 | 9.4 | 1.3 | 1.4 | 1.3 | 1.5 |
| African countries | 1.4 | 2.5 | .4 | .1 | .1 | .6 |
| Non-oil developing countries | 43.3 | 51.4 | 2.5 | 4.2 | .6 | 3.0 |
| Argentina | 1.9 | 3.0 | .2 | .8 | .2 | 0 |
| Brazil | 11.1 | 14.3 | .7 | .9 | 1.0 | 1.0 |
| Mexico | 11.7 | 10.7 | .5 | -.3 | -.6 | -.2 |
| Other Latin America | 6.6 | 7.9 | -.3 | .5 | .8 | .5 |
| Korea | 3.1 | 3.9 | .3 | .5 | -.3 | .3 |
| Philippines | 2.2 | 2.8 | .1 | .2 | .2 | .1 |
| Taiwan | 2.3 | 2.8 | .4 | .4 | -.3 | .2 |
| Other Asia, Africa | 4.3 | 5.9 | .6 | 1.3 | 0 | .8 |
| Eastern Europe | 5.2 | 6.9 | 0 | 1.5 | .3 | .4 |
| U.S.S.R. | 1.5 | 1.3 | 0 | .1 | -.1 | -.1 |
| Yugoslavia | .8 | 1.5 | .1 | .2 | .3 | .2 |
| Other | 2.8 | 4.1 | -.1 | 1.1 | 0 | .3 |
| II. International Financial Centers[4/] | 126.3 | 153.8 | 3.2 | 11.9 | 6.8 | 13.8 |
| III. Miscellaneous & Unallocated | 5.4 | 8.9 | -.3 | .2 | 2.8 | .8 |
| IV. Total Claims | 207.8 | 263.1 | 9.7 | 21.9 | 14.3 | 22.0 |

1/ Including both domestic offices and foreign branches; excluding U.S. agencies and branches of foreign banks and intrabank claims.
2/ Data for these two dates differ because of the following reporting changes in 1978-II: 1) exclusion of customer claims and foreign-currency claims from claims reported by domestic offices (amounting to $9.1 billion in June 1978); 2) reduction in number of reporting foreign branches; 3) new reporting instructions for foreign branches which shifted more claims into the "unallocated" category.
3/ Adjusted for the first and, to the extent possible, the second of the reporting changes in footnote 2.
4/ G-10 countries, Switzerland, and offshore banking centers.

first half. For all of 1978, claims on this group of countries appear to have risen about $12 billion adjusted for reporting changes (see footnote 2 to table) compared with $16.5 billion in 1977.

In contrast to the foregoing, the increases in claims on international financial centers were larger in both halves of 1978 than in the respective year-earlier periods, and for 1978 as a whole these claims and miscellaneous claims rose an estimated $24 billion (adjusted) compared with $15 billion in 1977. International bank lending data compiled by the BIS show that the redirection of U.S. bank lending in 1978 -- i.e., the increase in net new lending to financial centers and the decline in lending to the other areas -- was basically consistent with the international lending behavior of non-U.S. banks which, although they did not slow down their new lending to countries other than international financial centers, nevertheless increased it less rapidly than their lending to international financial centers (on the basis of nine months' data).

The 1978 increase in total foreign claims of U.S. banks was only about $5 billion, or 15 per cent, more than the increase occuring in 1977. The modest dimensions of this rise contrast with the several-fold step-up in the dollar value of net new lending to foreigners by non-U.S. banks, as shown by data covering the first nine months of 1978. The external claims of non-U.S. banks in the G-10 countries, Switzerland, Austria, Denmark, and Ireland increased $89 billion in the first three quarters of 1978 compared with $14 billion in the same period of 1977. (These figures exclude increases of $9 billion and $7 billion, respectively, in those banks' claims on the United States.) The following figures compare these increases, and the September 1978 outstandings, with those for U.S. banks for the same periods adjusted to a BIS basis (in billions of dollars):

| | Increase Jan.-Sept. 1977 | Increase Jan.-Sept. 1978 | Outstanding September 30, 1978 |
|---|---|---|---|
| Claims on countries other than int'l. financial centers: | | | |
| U.S. banks 1/ | 13.2 | 8.8 | 109.0 |
| Non-U.S. banks | 13.0 | 31.5 | 181.6 |
| All reporting banks | 26.2 | 40.3 | 290.6 |
| Claims on int'l. financial centers and misc. 2/ | | | |
| U.S. banks 1/ | 11.5 | 6.0 | 149.2 |
| Non-U.S. banks | .8 | 57.1 | 313.5 |
| All reporting banks | 12.3 | 63.1 | 462.7 |
| Total claims: 2/ | | | |
| U.S. banks 1/ | 24.7 | 14.7 | 258.1 |
| Non-U.S. banks | 13.8 | 88.7 | 495.2 |
| All reporting banks | 38.5 | 103.4 | 753.3 |

1/ BIS basis: includes intrabank claims, includes customer and foreign-currency claims of domestic offices, and excludes claims on domestic residents of foreign branches in BIS reporting area.
2/ Excluding claims on the United States.

In part the much greater increase by the non-U.S. banks reflects the larger share in their assets of claims denominated in non-dollar currencies, which increased in value relative to the dollar, but this would not appear to be the major explanation. The disparity between the U.S. and non-U.S. banks' lending experiences is consistent with reports that U.S. banks have become less aggressive, especially relative to German and Japanese banks, in seeking international business.

U.S. International Transactions. The merchandise trade deficit in February was $20.5 billion at an annual rate (international accounts basis), about half the size of the large January deficit. Exports were about unchanged, but both oil and nonoil imports declined sharply. The deficit for January-February combined was $29.7 billion, somewhat larger than the annual rate of deficit in the fourth quarter of 1978.

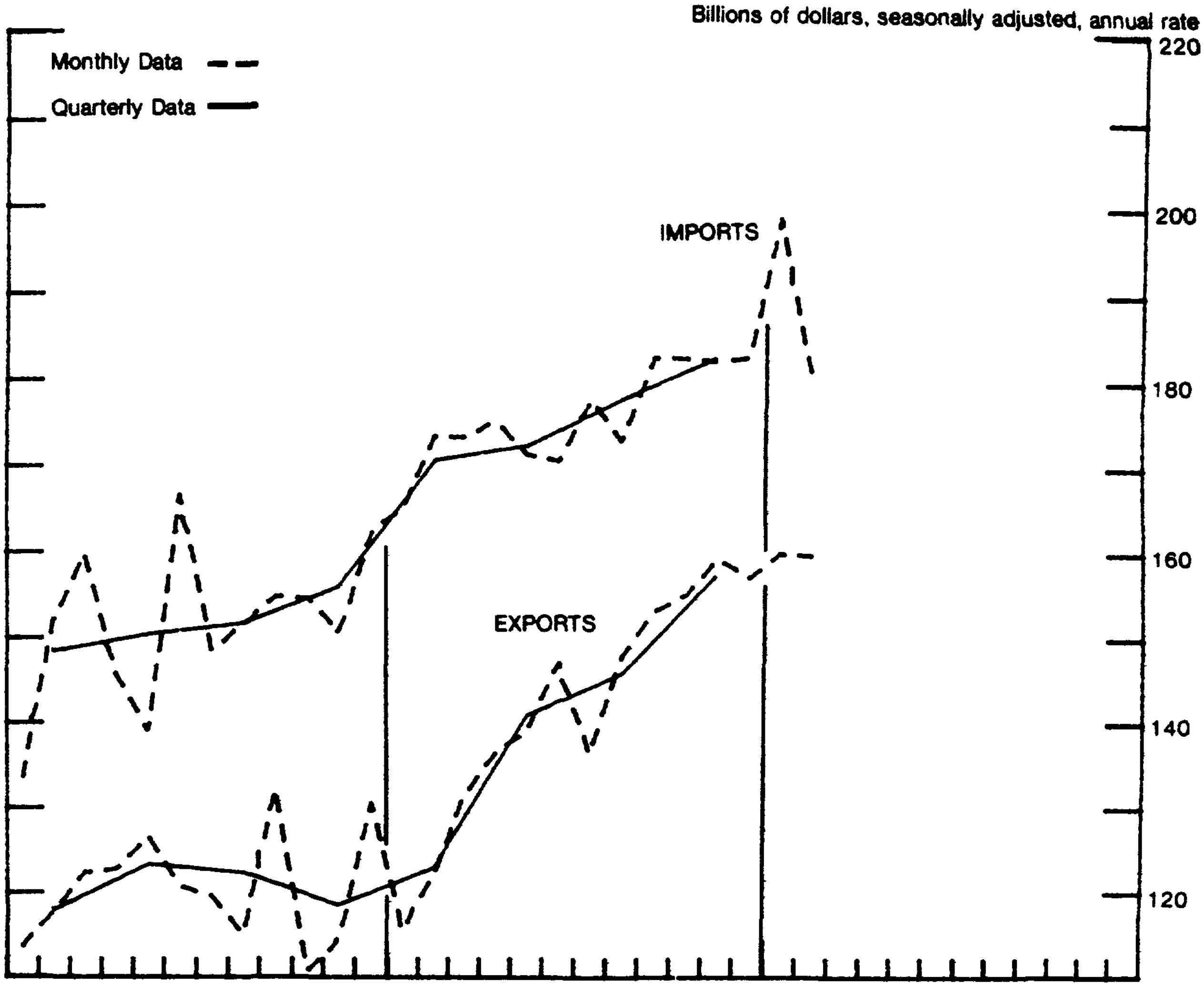
Total exports in January-February rose by about 2 per cent from the fourth-quarter rate. Agricultural exports fell as expected, with a drop in grain shipments. Poor harvests in the Southern Hemisphere that had boosted U.S. agricultural exports during 1978 were, with the exception of the Brazilian soybean crop, much improved this year. Nonagricultural exports in January-February rose on the strength of increased shipments of automotive equipment, chemicals, and aircraft. Machinery exports, which had risen steadily through 1978, were virtually flat.

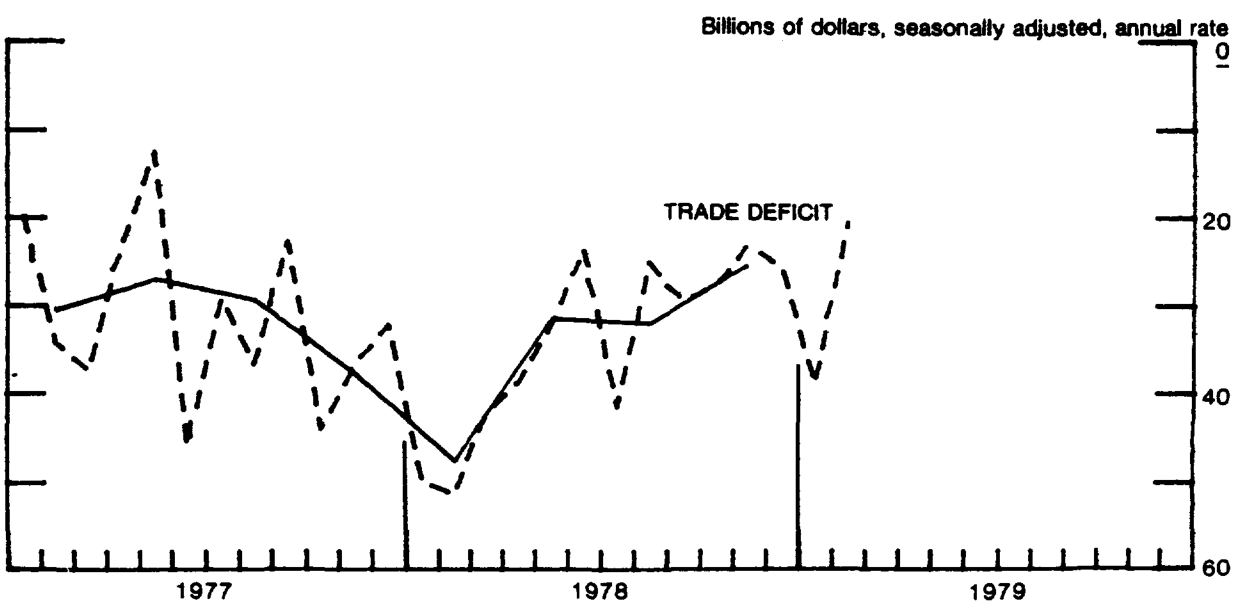
Total imports in January-February increased by about 4 per cent from the fourth-quarter rate. Over half of the increase was in non-oil imports. Increases in capital goods, consumer goods, and Canadian automotive products were partly offset by declines in foods, industrial supplies, and automotive products from Europe and Japan.

Oil imports remained high in February, although down from the January rate. For January-February, oil imports averaged 9.5 million barrels per day (mbd), compared with an average of 8.7 mbd for 1978. Oil

## U.S. Merchandise Trade

**International Accounts Basis**



imports from Iran fell by one-half in January-February, but this was more than offset by increased imports from other countries, primarily Venezuela, Saudi Arabia, Nigeria, and Mexico. Given the normal shipping lag, imports from Iran are likely to have fallen to near zero in March and are likely to remain at that level through April. However, at the end of March U.S. petroleum stocks were about normal for this time of year. The average price of a barrel of imported oil rose to $13.77 in February from an average of $13.35 in the fourth quarter of 1978. Again because of shipping lags, this price rise only partially reflects the 5 per cent price increase imposed by OPEC on January 1 and was influenced little if at all by the rash of surcharges imposed during the Iranian revolution.

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

| | 1978 | | | | | 1979 | | |
|---|---|---|---|---|---|---|---|---|
| | Year | 1Q | 2Q | 3Q | 4Q | Jan.& Feb. | Jan. | Feb. |
| EXPORTS | 141.8 | 123.1 | 141.0 | 145.9 | 157.3 | 159.9 | 160.1 | 159.8 |
| Agric. | 29.9 | 26.0 | 30.7 | 31.7 | 31.3 | 29.7 | 29.9 | 29.4 |
| Nonagric. | 119.9 | 97.1 | 110.4 | 114.2 | 126.0 | 130.3 | 130.1 | 130.4 |
| IMPORTS | 176.0 | 170.8 | 172.5 | 177.9 | 182.7 | 189.6 | 199.0 | 180.3 |
| Petroleum | 42.3 | 42.5 | 40.0 | 43.5 | 43.2 | 46.1 | 50.2 | 41.9 |
| Nonpetroleum | 133.7 | 128.4 | 132.5 | 134.4 | 139.5 | 143.6 | 148.8 | 138.4 |
| BALANCE | -34.1 | -47.7 | -31.5 | -32.0 | -25.5 | -29.7 | -38.9 | -20.5 |

NOTE: Details may not add to totals because of rounding.
r/ Revised
*/ The monthly International Accounts figures are only rough estimates and are subject to considerable revision.

On March 27, OPEC announced a 9 per cent increase in oil prices as of April 1 to $14.54 per barrel, the level previously planned for October 1. In addition, OPEC agreed that members could impose additional surcharges. Since then, several OPEC countries have announced surcharges ranging from $1.20 to $4.00 per barrel. The average surcharge imposed on a barrel of oil imported into the United States is likely to be about 80 cents above the normal average premium of 60 cents per barrel. (The United States imports oil of a higher average quality than the OPEC marker crude.) These increases will not be reflected fully in U.S. import unit values until June at the earliest, when the oil import unit value is expected to reach $16 per barrel.

The United States promised early in March at a meeting of the International Energy Association to cut oil imports by 5 per cent from what they otherwise would have been by the end of 1979. President Carter, in his energy message on April 5, outlined how this might be accomplished. He announced that oil prices would be decontrolled gradually between June 1 of this year and September 30, 1981. Decontrol, besides providing an incentive for increased domestic production, will encourage energy conservation by gradually ending the subsidy on oil imports, thereby bringing the U.S. price up to the world level. This subsidy averaged $1.60 per barrel in 1978 and would have risen to about $3.00 in 1979. The subsidy arises from the entitlements scheme whereby refiners with greater than average access to price-controlled U.S. crude oil make payments to those with greater than average dependence on imported crude oil.

The offset to the official capital outflow, as well as the current account deficit (which is estimated at about $3 billion in the first quarter), has been a large private capital inflow. The data now available show sizeable net inflows through U.S. banks -- about $10 billion in January-February -- but there is also evidence that there have been some outflows of funds by non-banks to acquire Eurodollar deposits.

Hence, there may have been a substantial inflow through the non-bank sector -- very likely reflecting a shift in financing that reversed the outflow in the last half of 1978 when the dollar was weak. These inflows are likely to have occurred largely through inter-company accounts and through an increase in outstanding loans by foreign institutions to U.S. corporations. These shifts substitute foreign credit or reduced claims on foreigners for domestic credit to U.S. companies.

The sizable increase in Eurodollar deposits by U.S. non-banks that occurred in January and apparently continued in February represents both an increase in direct deposits placed by U.S. investors and growth in the marketing of Eurodollar CDs by money market funds. In January-February foreign branches of U.S. banks reported a $4 billion increase in their liabilities to U.S. residents other than banks. It is likely that additional liabilities to U.S. residents were sold through foreign brokers and went unreported. In addition, first-quarter data are not yet available on dollar deposits of U.S. nonbank residents at the offices abroad of foreign-owned banks.

In recent months, U.S. residents have also increased their offshore dollar deposits through the investments of money market mutual funds. At the end of October, Eurodollar CDs represented only 3.7 per cent of the total assets of money market funds; by the end of March this share had increased to 6-1/2 per cent, about $1.1 billion. Over the same period, the per cent of total money market mutual fund assets invested in domestic CDs fell from 43.4 to 36 per cent. The reduced attractiveness of domestic CDs to money market funds is attributable, in part, to the increased return differential brought about by the two per cent supplementary reserve requirement on large-denomination time deposits at the domestic offices of member banks imposed on November 1.

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

| | 1978 Year | 1978 Q-2 | 1978 Q-3 | 1978 Q-4 | 1978 Dec. | 1979 Jan. | 1979 Feb. |
|---|---|---|---|---|---|---|---|
| 1. Private capital trans. adj. 1/ | -12.6 | 4.2 | 1.2 | -10.4 | -5.7 | 6.8 | 3.4 |
| 2. Private capital as rept. net | -12.6 | 3.7 | .9 | -11.4 | -5.7 | 6.8 | 3.4 |
| 3. Reporting bias 2/ | -- | .5 | .3 | 1.0 | -- | -- | -- |
| 4. OPEC official net investments | -1.7 | -2.6 | -1.6 | 1.1 | 1.1 | -.3 | -.5 |
| 5. Other foreign official assets | 32.9 | -2.9 | 6.2 | 15.9 | 4.9 | .6 | -2.1 |
| 6. U.S. reserve assets | .7 | .3 | * | .2 | -.7 | -1.8 5/ | .2 |
| 7. Trade balance, n.s.a. 3/ | -34.1 | -7.3 | -9.6 | -6.1 | -1.8 | -3.4 | -1.3 |
| 8. All Other 4/ | 14.8 | 8.3 | 3.8 | -.7 | 2.2 | -1.9 | .3 |
| Memoranda: (seasonally adjusted annual rates) | | | | | | | |
| 9. Trade balance | -34.1 | -31.5 | -32.0 | -25.5 | -25.7 | -38.9 | -20.5 |
| 10. GNP net exports of goods and services | -12.0 | -5.5 | -10.7 | -7.6 | n.a. | n.a. | n.a. |
| 11. Current account balance | -13.3 | -14.8 | -5.3 | 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 $1,103 million of newly allocated SDR's.
*/ Less than $50 million.

Foreign Economic Developments. The intensification of inflation rates continues to dominate economic developments in most major industrial countries. Wholesale price inflation is at a high level in the six major foreign industrial countries. An important element in this widespread acceleration of wholesale prices is the sharp rise in international commodity prices, especially metal prices. As measured by the *Economist* index, which weights commodity prices by developed-country imports, metal prices, measured in dollars, jumped 27 per cent (not seasonally adjusted) between November 1978 and the middle of March 1979. In addition, food-price increases, due to severe weather in Europe, contributed to the acceleration in inflation.

Consumer price inflation has also generally intensified this year. The weighted-average price increase for ten foreign industrial countries between the fourth quarter of 1978 and the first two months of 1979 was about 8-1/2 per cent (annual rate), more than double the increase between the third and fourth quarters of 1978.

A moderate expansion in output in 1979 is still expected even though seasonally-adjusted industrial production indexes show weakness. In Japan, industrial production dropped in February (to slightly below its December level), but labor market conditions appear to be improving significantly. In Germany industrial production fell by about 1.7 per cent between December and February after being flat for three consecutive months. However, other indicators point to stronger German activity: the unemployment rate has been steadily declining since last summer and in March was at its lowest level since early 1975, and capacity utilization has steadily increased over the same period.

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

| | | 1976 | 1977 | 1978 | 1978 Q1 | 1978 Q2 | 1978 Q3 | 1978 Q4 | 1979 Q1 | Latest 3 Months from: Previous 3 Months (at Ann. Rate) | Latest 3 Months from: Year Ago | Latest Month |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Canada: | CPI | 7.5 | 8.0 | 8.9 | 1.8 | 2.4 | 2.5 | 1.6 | n.a. | 8.2 | 8.8 | February |
| | WPI | 5.1 | 7.7 | 8.7 | 2.6 | 2.4 | 2.8 | 2.1 | n.a. | 14.6 | 12.1 | February |
| France: | CPI | 9.6 | 9.5 | 9.2 | 1.6 | 2.9 | 2.7 | 2.1 | n.a. | 8.3 | 10.0 | February |
| | WPI | 7.4 | 5.6 | 4.3 | 1.4 | 1.9 | 1.9 | 2.9 | n.a. | 11.2 | 9.0 | January |
| Germany: | CPI | 4.6 | 3.9 | 2.6 | 1.3 | 0.9 | 0.0 | 0.1 | 2.1 | 8.5 | 3.1 | March |
| | WPI | 5.8 | 1.8 | -0.3 | 1.0 | 0.3 | -0.6 | 0.0 | n.a. | 9.7 | 2.0 | February |
| Italy: | CPI | 16.8 | 18.4 | 12.1 | 2.6 | 3.0 | 2.4 | 3.0 | n.a. | 13.8 | 12.6 | February |
| | WPI | 22.9 | 17.4 | 8.4 | 2.1 | 2.3 | 1.8 | 2.3 | n.a. | 14.7 | 10.2 | February |
| Japan: | CPI | 9.7 | 8.3 | 4.3 | 0.9 | 2.0 | 0.8 | 0.2 | -0.2 | -0.9 | 2.8 | March |
| | WPI | 5.0 | 1.9 | -2.5 | -0.5 | -0.3 | -1.7 | -0.6 | 1.9 | 7.9 | -0.8 | March |
| United Kingdom: | CPI | 16.6 | 15.8 | 8.3 | 1.7 | 2.7 | 1.7 | 1.7 | n.a. | 11.4 | 9.1 | February |
| | WPI | 17.3 | 19.8 | 9.1 | 2.3 | 1.8 | 1.9 | 1.7 | 2.6 | 10.8 | 8.2 | March |
| United States: | CPI | 5.7 | 6.5 | 7.6 | 1.7 | 2.6 | 2.4 | 2.0 | n.a. | 8.6 | 9.4 | February |
| | WPI | 4.6 | 6.1 | 7.8 | 2.4 | 3.0 | 1.5 | 2.3 | 3.5 | 14.9 | 10.8 | March |

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

| | | 1976 | 1977 | 1978 | 1978 Q1 | 1978 Q2 | 1978 Q3 | 1978 Q4 | 1978 November | 1978 December | 1979 January | 1979 February |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Canada: | GNP | 5.5 | 2.7 | 3.4 | 0.7 | 1.0 | 0.8 | 0.5 | * | * | * | * |
| | IP | 5.1 | 4.0 | 5.4 | 1.3 | 1.3 | 1.8 | 2.8 | 0.7 | 1.7 | 0.6 | n.a. |
| France: | GDP | 5.8 | 1.9 | 3.2 | 1.1 | 1.7 | 0.3 | 1.2 | * | * | * | * |
| | IP | 9.4 | 1.7 | 1.9 | 1.9 | 1.9 | -0.3 | 1.6 | 1.6 | 0.8 | 0.8 | n.a. |
| Germany: | GNP | 5.2 | 2.6 | 3.4 | 0.0 | 2.1 | 0.7 | 0.9 | * | * | * | * |
| | IP | 7.9 | 2.7 | 2.0 | 0.0 | -0.6 | 3.2 | 0.8 | 0.0 | 0.0 | -0.8 | -0.8 |
| 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 | 0.4 | -1.5 | -0.1 | 4.6 |
| 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 | 1.3 | 1.4 | 0.3 | -0.4 |
| United Kingdom: | GDP | 3.0 | 2.0 | 2.9 | -0.6 | 2.4 | 0.7 | -0.4 | * | * | * | * |
| | IP | 1.9 | 3.8 | 3.6 | -2.4 | 3.5 | 0.6 | -1.6 | 0.8 | 1.5 | -6.0 | n.a. |
| United States: | GNP | 5.7 | 4.9 | 4.0 | 0.0 | 2.1 | 0.6 | 1.7 | * | * | * | * |
| | IP | 10.1 | 5.6 | 5.8 | 0.2 | 3.1 | 2.1 | 1.8 | 0.6 | 0.8 | 0.0 | 0.3 |

* GNP data are not published on monthly basis.

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

| | | 1977 | 1978 | 1977 Q3 | 1977 Q4 | 1978 Q1 | 1978 Q2 | 1978 Q3 | 1978 Q4 | 1978 Nov. | 1978 Dec. | 1979 Jan. | 1979 Feb. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Canada: | Trade | 2.7 | 3.1 | 0.5 | 1.0 | 1.2 | 0.6 | 0.6 | 0.6 | 0.3 | 0.1 | 0.3 | 0.1 |
| | Current Account | -3.9 | -4.6 | -1.2 | -0.7 | -0.6 | -1.0 | -1.2 | -1.8 | * | * | * | * |
| France: | Trade | -2.2 | 0.7 | -0.5 | 0.1 | 0.0 | 0.2 | 0.4 | 0.1 | 0.2 | -0.2 | 0.0 | 0.0 |
| | Current Account | -3.3 | 4.2 | -0.8 | -0.4 | 0.1 | 1.4 | 1.2 | 1.5 | * | * | * | * |
| Germany: | Trade | 16.5 | 20.5 | 3.7 | 4.8 | 4.3 | 5.0 | 5.5 | 5.7 | 1.9 | 1.6 | 1.5 | 1.5 |
| | Current Account [b/] | 3.8 | 8.2 | -2.0 | 3.8 | 1.6 | 2.0 | -0.8 | 5.5 | 2.0 | 1.6 | 0.0 | 0.5 |
| Italy: | Trade | -2.8 | -0.2 | -0.2 | -0.2 | -0.2 | 0.3 | -0.8 | 0.5 | 0.1 | 0.2 | -0.4 | n.a. |
| | Current Account [b/] | 2.3 | 6.3 | 2.3 | 0.7 | 0.3 | 1.8 | 2.6 | 1.6 [e] | * | * | * | * |
| Japan: | Trade | 17.4 | 24.7 | 4.2 | 4.6 | 7.4 | 6.8 | 6.7 | 3.9 | 1.6 | 1.4 | 0.9 | 1.0 |
| | Current Account | 10.9 | 16.5 | 2.7 | 3.1 | 5.5 | 4.8 | 4.5 | 1.7 | 0.8 | 0.7 | 0.3 | 0.2 |
| United Kingdom: | Trade | -2.9 | -2.1 | -0.1 | 0.1 | -1.1 | -0.3 | -0.7 | 0.0 | -0.2 | 0.1 | -0.2 | n.a. |
| | Current Account | 0.6 | 0.5 | 0.9 | 0.9 | -0.7 | 0.3 | 0.1 | 0.8 | 0.0 | 0.4 | 0.0 | n.a. |
| United States: | Trade | -31.1 | -34.1 | -7.4 | -9.4 | -11.9 | -7.9 | -8.0 | -6.4 | -1.9 | -2.1 | -3.2 | -1.7 |
| | Current Account | -15.3 | -16.0 | -3.0 | -6.1 | -7.6 | -3.3 | -3.7 | -1.3 | * | * | * | * |

a/ The current account includes goods, services, and private and official transfers.
b/ Not seasonally adjusted.
e/ Estimate.
* Comparable monthly current-account data are not published.

The Japanese current-account surplus in February narrowed further, indicating the continuation of the international adjustment process. The current-account surplus for the first two months of 1979 was at a $3 billion annual rate compared with a $16-1/2 billion surplus in 1978. On the other hand, the German external position has not moved towards balance. The external situation of the other major industrial countries also have not recorded any significant recent changes.

Individual Country Notes. In Japan, the authorities have begun to take steps to control inflationary pressures which have become evident in recent months. For the second quarter in a row the increase in authorized lending limits for large city banks in the April-June quarter will be significantly below (by more than 10 per cent) the increase of the same quarter of the previous year. Wholesale prices in the first quarter of 1979 averaged 1.9 per cent higher than the previous quarter because of stronger domestic demand, higher foreign commodity prices, and the depreciation of the yen. Consumer prices were relatively stable through February, but rose 0.9 per cent in March.

According to recently-released national income data for the fourth quarter, real GNP (s.a.) rose at an annual rate of 6.8 per cent, despite a decline in net exports of 1-1/2 per cent (expressed as a fraction of the previous quarter's GNP). Private plant and equipment expenditures, which rose sharply, and private consumption made particularly strong contributions to the growth of domestic demand in the fourth quarter. There are indications that labor market conditions may be improving significantly with the expansion of the domestic economy. In January, the seasonally-adjusted unemployment rate fell to 2.1 per cent for the first time since last March, and preliminary information suggests that the February unemployment rate was lower still. At the same time, the index of the ratio of job offers to applicants rose 10 per cent in the three months ending in February. The index of industrial production (s.a.), fell sharply in February, however, to slightly below its December level.

Japan continues to make progress in reducing its current-account surplus, which in February was only $305 million (s.a., including about $290 million in emergency imports). In recent months, import volume has been running at levels more than 12 per cent above levels of a year ago. In February the Ministry of International Trade and Industry announced the continuation in FY1979 of its program of administrative guidelines to restrain the level of total exports.

In Germany, the main concern at present is inflation. The consumer price index, not seasonally adjusted, rose at a 8.9 per cent annual rate in the first quarter of 1979. This represents a significant acceleration although seasonal factors account for much of the increase: the seasonally-adjusted CPI rose at a 4.9 per cent annual rate in the first quarter. Wholesale and producers price indices have also recorded sharp accelerations so far this year. Areas of particularly sharp price increases are petroleum products and food. In addition, import prices, which had been falling sharply last year, rose 5 per cent between December and February.

On the activity side, the best news has been the slight decline of the seasonally-adjusted rate of unemployment, to 4.1 per cent in February, from 4.0 in January; on the basis of preliminary indications, the rate is even lower in March. Unemployment is at its lowest level since early 1975. Similarly, a recent survey of capacity utilization shows a steady rate of increase from last summer through January. Order figures (seasonally adjusted) regained their December level in February, after falling in January. Industrial production, on the other hand, fell in both January and February and is now at its level of last summer.

The growth of central bank money slowed in February to a rate which is more in line than previous months with the Bundesbank's target for 1979. But $M_1$, $M_2$ and $M_3$ are all growing once more at rates comparable to the high rates of late last year, and domestic demand for credit is very high. On March 29, the Bundesbank consequently raised the discount and lombard rates each by 1 per cent to 4 and 5 per cent respectively. At the same time rediscount quotas were raised by DM 5 billion in order to enable the banks to reduce their high Lombard indebtedness without excessive strain on their liquidity position. Moreover, the Bundesbank recently has acted to limit the restrictive monetary effect of intervention purchases of marks by engaging in swap operations (selling marks spot and buying forward), and also by switching some of its intervention to the forward market.

The trade current account surpluses, (both not seasonally adjusted), for the first two months of 1979, while significantly lower than November - December of last year, were virtually unchanged compared to the year ago level.

In the United Kingdom, the index of industrial production (s.a.) dropped sharply in January to a level 6 per cent below that prevailing in December. Although the decrease reflects the truckdrivers' strike and unusually adverse weather conditions during the month, it may also indicate a further weakening in economic activity. The volume of retail sales (s.a.) in January dropped sharply as well, but recovered somewhat in February.

On March 28, the U.K.'s Labour government lost a vote of confidence and Parliament was dissolved on April 4. Parliamentary elections are scheduled for May 3. The British budget for fiscal year 1979-80 -- which was to have been announced on April 3 -- has been postponed until after the elections.

Recent French data indicate that output in early 1979 was about 5-1/2 per cent higher than a year earlier, and that inflation was running at a 9-10 per cent annual rate. According to preliminary data, GDP in 1978 rose by 3.2 per cent over 1977. The balance-of-payments data for all of 1978 show a substantial turnaround from 1977. The trade account moved from a deficit of $2.2 billion to a surplus of $0.7 billion, with the current account showing a surplus of $4.2 billion in 1978, compared with a $3.3 billion deficit in 1977. The trade account benefitted, especially, from favorable terms-of-trade developments last year. The government expects another external surplus in 1979, despite the recent additional oil-price increase.

France's unemployment situation, related, in part, to the government's attempts to rationalize the steel industry, has aroused widespread opposition. Unemployment is around 1.3 million and rising slowly. Despite protest demonstrations and setbacks in the nationwide March 25 cantonal elections, however, the government has so far resisted any basic changes in the course of its rationalization programs.

The resurgence of inflation in Italy in January continued into February. The wholesale price index rose for the second consecutive month by 1.7 per cent (not seasonally adjusted) with pressure coming in part from food prices. Although consumer prices increased by less in February than January (1.5 per cent as compared to 1.9 per cent) the absence of rent adjustments in February was responsible for most of the improvement. Because of the intensification of inflation, the Bank of Italy has tightened the limits on the expansion of bank credit.

The strength of the economy in the last quarter of 1978 was reflected in recently-released data which indicate that GDP rose 2.6 per cent in 1978, higher than had been previously expected; household consumption and exports were the main sources of strength. A jump in industrial production of 4-1/2 per cent (s.a.) in February after two months of weakness, and survey data on new orders and inventories, point to strong economic activity in the first part of 1979.

The current-account surplus in 1978 increased to $6.3 billion from $2.3 billion in 1977. Strong performances for exports and tourism account for a good part of the increase.

Industrial production in Canada rose by 0.6 per cent in January and is now 9.8 per cent above that of the same month a year earlier. The strength of activity was reflected in a drop of the unemployment rate to below 8 per cent in February and March for the first time since early 1977. Consumer prices in February were over 9 per cent above the same month a year earlier; the non-food CPI, however, was up by less than 7 per cent. Parliamentary elections are scheduled for May 22 with the Conservatives seriously threatening Trudeau's Liberal government; it is not clear how economic policy would be affected by the outcome, but there are suggestions that the Conservatives would re-institute an incomes policy.

In March, the Swiss National Bank moved cautiously to absorb some of the liquidity in the money market, and interest rates have begun to edge up from their very low levels. The stability of the Swiss franc and low interest rates remain objectives of the Swiss monetary authorities, however, and the shift in monetary policy is not expected to be sharp unless the acceleration of inflation continues. In March, the consumer price index rose by 0.5 per cent after its 1.1 per cent increase in February and wholesale-price increases also decelerated.