Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

Confidential (FR) Class II FOMC

April 16, 1980

RECENT DEVELOPMENTS

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

TABLE OF CONTENTS

TABLE OF CONTENTS (Cont.)

TABLE OF CONTENTS (Cont.)

SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest Data			Percent Change from		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year earlier
				(At annual rate)		
Civilian labor force	Mar.	4-4-80	104.1	-1.9	.4	1.6
Unemployment rate (%) 1/	Mar.	4-4-80	6.2	6.0	5.9	5.7
Insured unemployment rate (%) 1/	Mar.	4-4-80	3.3	3.1	3.1	3.0
Nonfarm employment, payroll (mil.)	Mar.	4-4-80	90.6	-1.9	1.7	1.8
Manufacturing	Mar.	4-4-80	20.8	-2.4	-.6	-1.1
Nonmanufacturing	Mar.	4-4-80	69.8	-1.7	2.5	2.7
Private nonfarm:						
Average weekly hours (hr.) 1/	Mar.	4-4-80	35.4	35.5	35.7	35.9
Hourly earnings ($) 1/	Mar.	4-4-80	6.51	6.45	6.39	6.04
Manufacturing:						
Average weekly hours (hr.) 1/	Mar.	4-4-80	39.8	40.0	40.2	40.6
Unit labor cost (1967=100)	Feb.	3-31-80	183.4	5.3	8.7	6.8
Industrial production (1967=100)	Mar.	4-15-80	151.2	-9.4	-2.6	-1.2
Consumer goods	Mar.	4-15-80	148.1	-9.6	-1.1	-3.1
Business equipment	Mar.	4-15-80	175.8	.0	3.9	2.9
Defense & space equipment	Mar.	4-15-80	95.7	-1.3	-.8	3.0
Materials	Mar.	4-15-80	154.5	-7.7	-4.4	-1.2
Consumer prices all items (1967=100)	Feb.	3-25-80	237.0	16.4	16.2	14.1
All items, excluding food & energy	Feb.	3-25-80	223.5	13.6	14.7	12.1
Food	Feb.	3-25-80	244.7	-.5	5.5	7.1
Producer prices: (1967=100)						
Finished goods	Mar.	4-4-80	238.6	16.8	18.0	13.9
Intermediate materials, nonfood	Mar.	4-4-80	276.0	7.9	21.9	18.7
Crude foodstuffs & feedstuffs	Mar.	4-4-80	244.4	-32.9	-17.8	-.5
Personal income ($ bil.) 2/	Feb.	3-18-80	2051.9	4.0	9.3	10.8
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	Feb.	4-1-80	82.0	-.1	8.7	.8
Capital goods industries	Feb.	4-1-80	25.7	-6.2	.8	-4.0
Nondefense	Feb.	4-1-80	21.9	-8.2	2.3	-4.2
Defense	Feb.	4-1-80	3.7	7.7	-7.0	-3.1
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Feb.	4-11-80	1.40	1.38	1.42	1.42
Manufacturing	Feb.	4-1-80	1.54	1.53	1.57	1.50
Trade	Feb.	4-11-80	1.27	1.24	1.29	1.34
Ratio: Mfrs.' durable goods inventories to unfilled orders 1/	Feb.	4-1-80	.567	.567	.571	.552
Retail sales, total ($ bil.)	Mar.	4-10-80	77.2	-1.3	.1	7.2
GAF 3/	Mar.	4-10-80	16.3	-2.2	-3.0	4.2
Auto sales, total (mil. units.) 2/	Mar.	4-3-80	10.1	-4.2	-4.9	-18.1
Domestic models	Mar.	4-3-80	7.6	-.5	-4.8	-20.9
Foreign models	Mar.	4-3-80	2.5	-14.4	-5.3	-8.4
Housing starts, private (thous.) 2/	Feb.	3-18-80	1,334	-6.3	-12.4	-9.2
Leading indicators (1967=100)	Feb.	3-18-80	134.9	-.2	-.8	-5.2

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

There now is clear evidence that economic activity has weakened perceptibly. Employment dropped in March, and production and consumer spending for goods fell in the past two months. In February, housing activity declined further and growth of business capital spending and inventory accumulation slowed. Rates of inflation remained exceptionally high at both the producer and consumer levels, although there were declines in a number of primary commodity prices.

Employment and Production

Labor demand slackened appreciably in March, as nonfarm payroll employment was reduced 140,000. Payroll losses were concentrated in the construction industry, but, more significantly, employment in the service-producing sector--where the bulk of payroll growth has occurred over the past year--was virtually unchanged. Scattered layoffs also occurred in manufacturing, and the factory workweek was cut 0.2 hour in March to 39.8 hours--down half an hour from January.

Total employment, as measured by the household survey, also declined substantially in March and the jobless rate rose to 6.2 percent, the same as in January. The jobless rate for adult men--a cyclically sensitive indicator--rose 0.3 percentage point to 3.9 percent. In contrast, unemployment rates for adult women and teenagers were little changed, remaining near the levels that have prevailed over the past year.

The index of industrial production declined 0.8 percent in March, after edging down 0.2 percent (revised) in February. Output losses were widespread, with particularly large declines in production

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

	1978	1979 H1	1979 H2	1980 Q1	1980 Feb.	1980 Mar.
	- - - Average monthly changes - - -					
Nonfarm payroll employment[2]	334	249	103	131	122	-140
Strike adjusted	318	254	109	133	181	-141
Manufacturing	69	30	-30	-11	-1	-41
Durable	57	30	-24	0	47	-32
Nondurable	12	1	-6	-11	-48	-9
Construction	39	32	20	-29	-63	-135
Trade, finance and services	169	132	90	156	169	14
Private nonfarm production workers	256	171	58	59	56	-180
Manufacturing production workers	50	13	-39	-24	-27	-29
Total employment[3]	270	137	210	-85	149	-297
Nonagricultural	264	159	191	-85	92	-328

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

SELECTED UNEMPLOYMENT RATES
(Percent; based on seasonally adjusted data)

	1978	1979 H1	1979 H2	1980 Q1	1980 Feb.	1980 Mar.
Total, 16 years and older	6.0	5.8	5.8	6.1	6.0	6.2
Teenagers	16.3	16.0	16.2	16.2	16.5	15.9
20-24 years old	9.5	8.8	9.3	9.8	9.5	9.7
Men, 25 years and older	3.4	3.2	3.4	3.7	3.6	3.9
Women, 25 years and older	5.1	4.9	4.8	4.9	4.9	5.0
White	5.2	5.0	5.1	5.4	5.3	5.4
Black and other	11.9	11.5	11.1	11.7	11.5	11.8
Fulltime workers	5.5	5.2	5.4	5.7	5.6	5.8
White collar	3.5	3.3	3.3	3.4	3.4	3.3
Blue collar	6.8	6.7	7.2	7.9	7.7	8.0

INDUSTRIAL PRODUCTION
(Percent change, seasonally adjusted)[1]

	1979			1980			
	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.
Total	-0.8	1.1	-0.3	-0.3	0.3	-0.2	-0.8
Final products	-0.3	-0.8	0.5	1.9	0.2	0.4	-0.5
Consumer goods	-1.8	-3.7	-1.6	-1.1	0.0	0.5	-0.8
Durables	-11.4	-11.5	-6.9	-15.3	-2.9	1.8	-1.4
Nondurables	2.5	-0.3	0.8	5.2	1.1	0.1	-0.6
Business equipment	2.9	4.0	1.6	6.4	0.7	0.3	0.0
Materials	0.3	2.6	-0.8	-1.8	0.3	-0.8	-0.6
Durable Goods	-1.8	2.6	-5.9	-4.5	0.3	-0.9	-1.0
Nondurable Goods	2.8	5.4	6.1	1.4	0.4	-0.8	-0.7
Energy materials	0.6	0.6	2.5	0.6	0.5	-0.2	0.3

1/ Quarterly changes are at annual rates and are based on averages of monthly indexes; monthly changes are not at annual rates.

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

	1979		1980			
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Total sales	4.0	2.0	2.5	3.0	-1.6	-1.3
(Real)[1]	2.0	-0.4	n.a.	1.8	-2.8	n.a.
Total, less auto and nonconsumption items	4.0	3.5	2.5	1.8	-0.7	0.1
GAF[2]	4.6	1.7	-0.4	2.4	-3.1	-2.2
Durable	4.4	-1.5	2.8	5.1	-2.5	-3.9
Auto	3.7	-3.0	3.0	7.3	-3.5	-7.3
Furniture & appliances	6.5	-1.1	2.2	4.6	-3.0	0.4
Nondurable	3.8	3.9	2.4	1.9	-1.1	0.1
Apparel	4.8	-0.7	1.1	4.5	-4.1	-0.7
Food	2.3	3.3	2.0	0.7	-1.6	2.4
General merchandise[3]	3.8	3.7	-1.8	0.8	-2.8	-3.7
Gasoline	8.2	7.7	7.7	4.5	2.8	-0.4

1. BCD series 59. Data are available approximately 3 weeks following the CPI release.
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)

	1979		1980			
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Total	10.8	9.8	10.6	11.3	10.5	10.1
Foreign-made	2.2	2.4	2.8	3.0	2.9	2.5
U.S.-made	8.6	7.4	7.9	8.3	7.7	7.6
Small	3.6	3.5	4.0	3.7	3.7	4.0
Intermediate & standard	4.9	4.0	3.9	4.6	4.0	3.6

Note: Components may not add to totals due to rounding.

of construction supplies and consumer durable goods--both in the home goods and automotive products. Moreover, automobile manufacturers have announced plans to reduce output about 10 percent further in April. Production of nondurable consumer goods fell after four straight months of growth, and output of business equipment--a source of strength over the past year--was unchanged. Manufacturing capacity utilization declined nearly 1 percentage point in March to a level 4 percentage points less than a year earlier.

Personal Income and Consumer Spending

Consumer spending has weakened considerably in recent months following the substantial growth in the last half of 1979, a development associated with a drop in the saving rate to historically low levels. Nominal retail sales fell 1.3 percent in March following a downward-revised 1.6 percent drop in February. Excluding autos and nonconsumption items, retail spending was little changed in March, as furniture and grocery stores reported advances after registering declines in February; however, sales by general merchandise stores declined substantially for the second straight month.

Sales of domestic model automobiles were down in February and March from January's pace. Sales weakened late in March, apparently in part due to the ending of direct rebates to consumers by Ford and General Motors and further tightening of credit markets, and picked up only moderately early this month. Sales of imported models declined about 1/2 million units (annual rate) in Macch--to some extent because of inventory shortages--but were still at a high 2-1/2 million unit annual rate.

PERSONAL INCOME
(Based on seasonally adjusted annual rate data)

	1978	1979	1979 Q4	1980 Jan.	1980 Feb.
	- - Percentage change, at annual rates[1] - -				
Total personal income	12.9	11.2	12.6	9.9	4.0
Wage and salary disbursements	12.8	10.1	10.9	7.7	7.3
Private	14.1	10.8	11.1	7.4	8.1
Nominal disposable personal income	12.0	10.4	10.9	18.0	4.4
Real disposable personal income	4.2	.5	1.1	5.2	n.a.
	- - Changes in billions of dollars[2] - -				
Total personal income	$17.8	$16.8	$22.7	$16.7	6.9
Wage and salary disbursements	11.5	9.7	11.7	8.2	7.9
Private	10.1	8.4	9.8	6.4	7.1
Manufacturing	3.2	2.0	2.7	2.0	2.3
Other income	7.1	8.1	11.7	11.6	-.9
Transfer payments	1.5	2.9	2.0	6.1	-2.9
Less: Personal contributions for social insurance	.8	.9	.6	3.1	.1
Memorandum:					
Personal savings rate[3]	4.9	4.6	3.5	3.4	n.a.

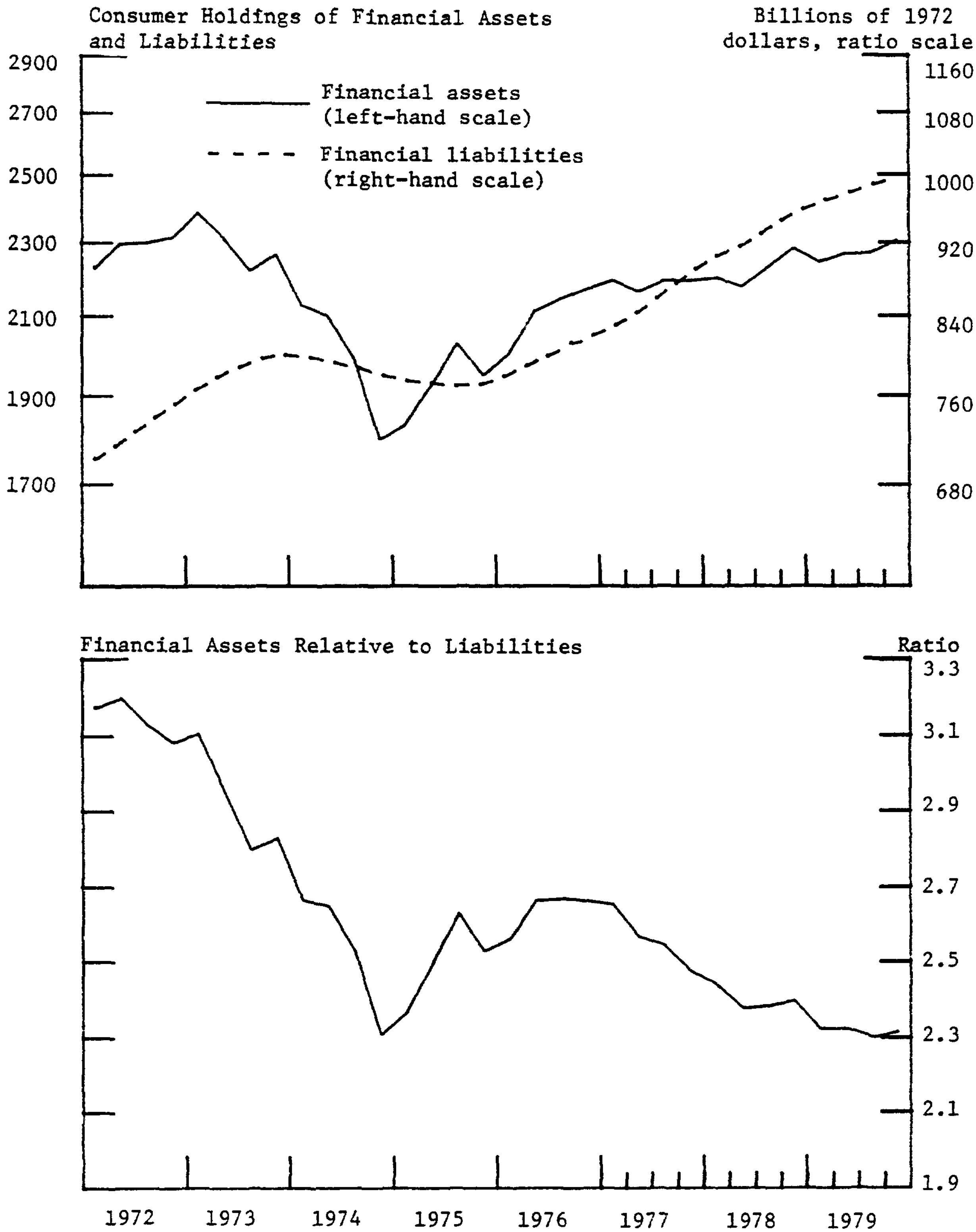
1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Changes for quarterly period are compounded rates of changes.
2. Average monthly change.
3. Equals the centered three-month moving average of personal savings as a percentage of the centered three-month moving average of disposable personal income.

Income growth in the first two months of this year decelerated marked'y from that in the fourth quarter--mainly the result of smaller gains in wages and salaries and a drop in farm proprietors' income. Total personal income rose at a 4 percent annual rate in February--down sharply from the 10 percent rate of growth in January. However, the deceleration in February was due almost entirely to the fact that the special energy allowance paid to low income household in January was not repeated; wage and salary gains were about the same in both months. Despite the slowing of growth in pretax receipts, income after taxes has continued to advance at about its fourth quarter rate because of the extraordinarily large tax refunds this year.

Consumer pessimism increased further in March, according to both the University of Michigan and the Conference Board surveys. The Michigan Index of Sentiment plunged 10 points to the lowest level in its 25-year history. The Conference Board Confidence Index dropped more than 5 points in March and is now in the range reported late last summer and during the 1974-75 recession. The March declines in both indexes reflected growing concern about future economic conditinns, as well as further weakening in the evaluation of current personal financial conditions.

Greater pessimism about personal financial conditions has been emerging in both surveys over the part 2 to 3 years, and may reflect both the slowing in real income growth that has occurred in this period and a deterioration in consumer balance sheet positions which has left households more vulnerable to income disruptions. Constant dollar consumer holdings of financial assets (including corporate equities)

CHANGES IN CONSUMER BALANCE SHEETS

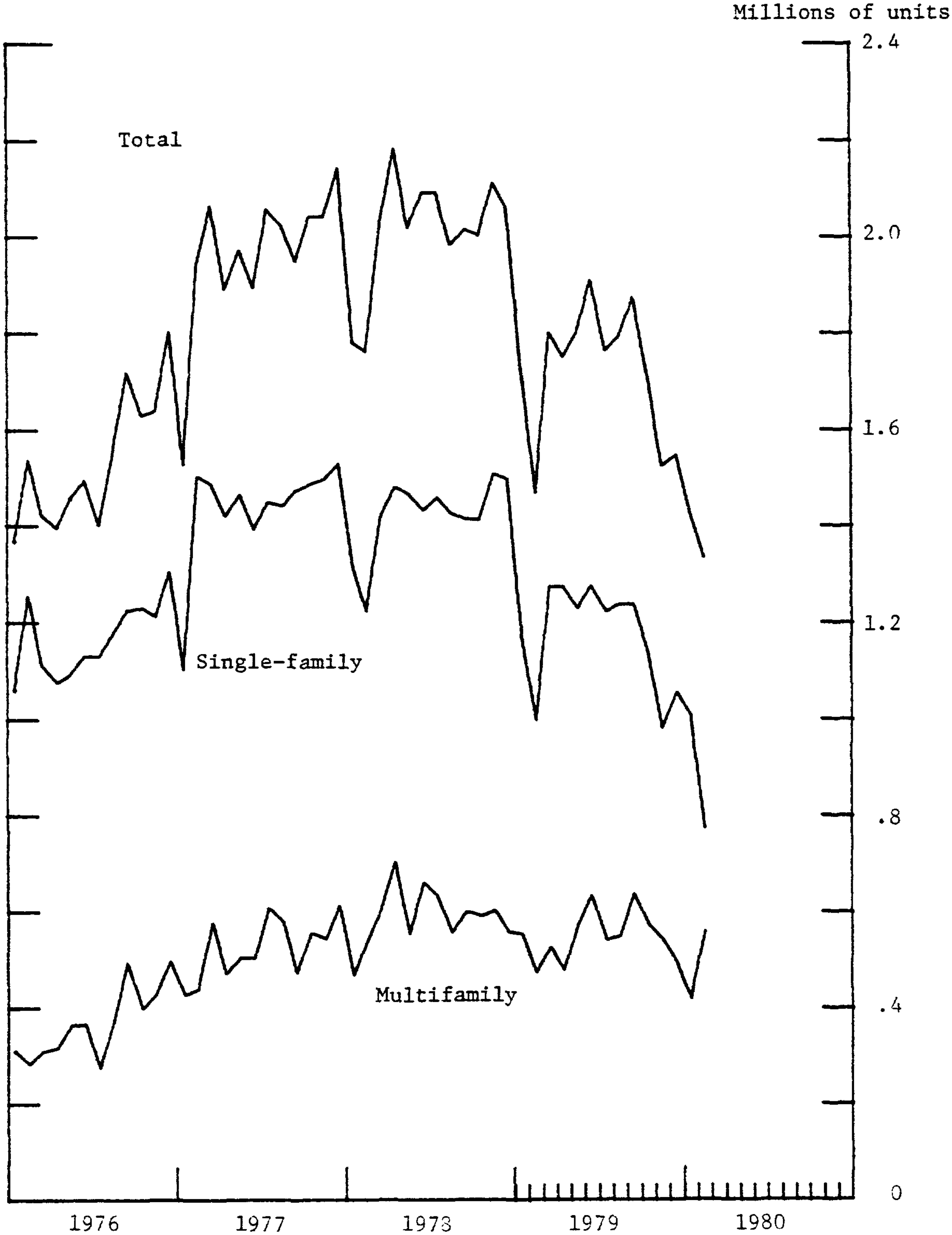


PRIVATE HOUSING ACTIVITY
(Seasonally adjusted annual rates, millions of units)

	1979				1980	
	Annual	Q3	Q4	Dec.	Jan.	Feb.[1]
All units						
Permits	1.54	1.65	1.35	1.24	1.26	1.16
Starts	1.75	1.81	1.59	1.55	1.42	1.33
Single-family units						
Permits	0.97	1.02	.82	.78	.76	.69
Starts	1.19	1.23	1.06	1.06	1.01	.77
Sales						
New homes	.71	.74	.62	.57	.59	.53
Existing homes	3.74	3.81	3.56	3.35	3.21	2.99
Multifamily units						
Permits	.57	.64	.53	.46	.50	.48
Starts	.55	.58	.54	.49	.42	.56
Mobile home shipments	.28	.28	.26	.24	.28	n.a.

1. Preliminary estimates.
n.a.--not available.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



which expanded rapidly in the early part of the cyclical recovery, grew at only a 2 percent rate from the end of 1976 to the end of 1978, while real liabilities rose at a 7 percent rate. Consequently, by 1979 the ratio of financial assets to liabilities was back down to near the low level reached in late 1974, and consumer spending may be more vulnerable to income disruption.

Residential Construction

Housing activity was weakening even before the additional severe tightening in mortgage markets in March and early April. Total private housing starts fell 6 percent in February to an annual rate of 1.3 million units; this was the lowest monthly pace since late 1975. Newly-authorized permits also declined in February to a level 40 percent below the recent quarterly peak in 1978-Q2. The reduction in total starts was concentrated in the Northeast, but the drop in new building permits was more widespread.

The decline in total housing starts in February masked divergent swings in its components. Multifamily starts--which had fallen markedly during the past several months--rose sharply, while single-family starts declined 22 percent. Low rental vacancy rates and strength in the condominium markets continued to support the multifamily sector, but the February pace is unlikely to be sustained in the near term in light of current financing costs. The drop in single-family starts to a rate of 774,000 units brought activity in this sector to its slowest pace since March 1975.

Sales of both new and existing homes also dropped in February. Sales of existing units declined 7 percent in February to their lowest

COMPONENTS OF CURRENT DOLLAR BUSINESS
INVESTMENT SPENDING
(Percentage change from preceding comparable period,
based on seasonally adjusted data in current dollars)

	1979				1980		Feb. 1979 to Feb. 1980
	Q2	Q3	Q4	Dec.	Jan.	Feb.	
Nondefense capital goods shipments	-0.6	5.4	0.8	3.2	4.0	1.5	14.7
Addenda: Ratio of unfilled orders to shipments (months)	6.53	6.37	6.59	6.51	6.39	6.32	n/a
Nonresidential construction put-in-place	8.0	4.8	3.7	3.8	3.4	-2.0	24.5
Building	10.9	5.1	7.0	5.3	5.8	-2.6	38.7
Nonbuilding	4.3	4.4	-0.8	1.6	-0.2	-1.1	7.6

CONSTANT DOLLAR BUSINESS SPENDING COMMITMENTS
(Percentage change from preceding comparable period,
based on seasonally adjusted data in 1972 dollars)

	1979				1980		Feb. 1979 to Feb. 1980
	Q2	Q3	Q4	Dec.	Jan.	Feb.	
Nondefense capital goods orders	-9.8	-4.3	5.2	4.9	0.8	-8.0	-11.6
Contracts for nonresidential plant	-8.6	-8.0	32.4	30.3	-44.5	7.8	-10.1

pace in recent years, while the 10 percent fall in new-home purchases left them about a third below the 1979-Q3 pace.

Business Fixed Investment

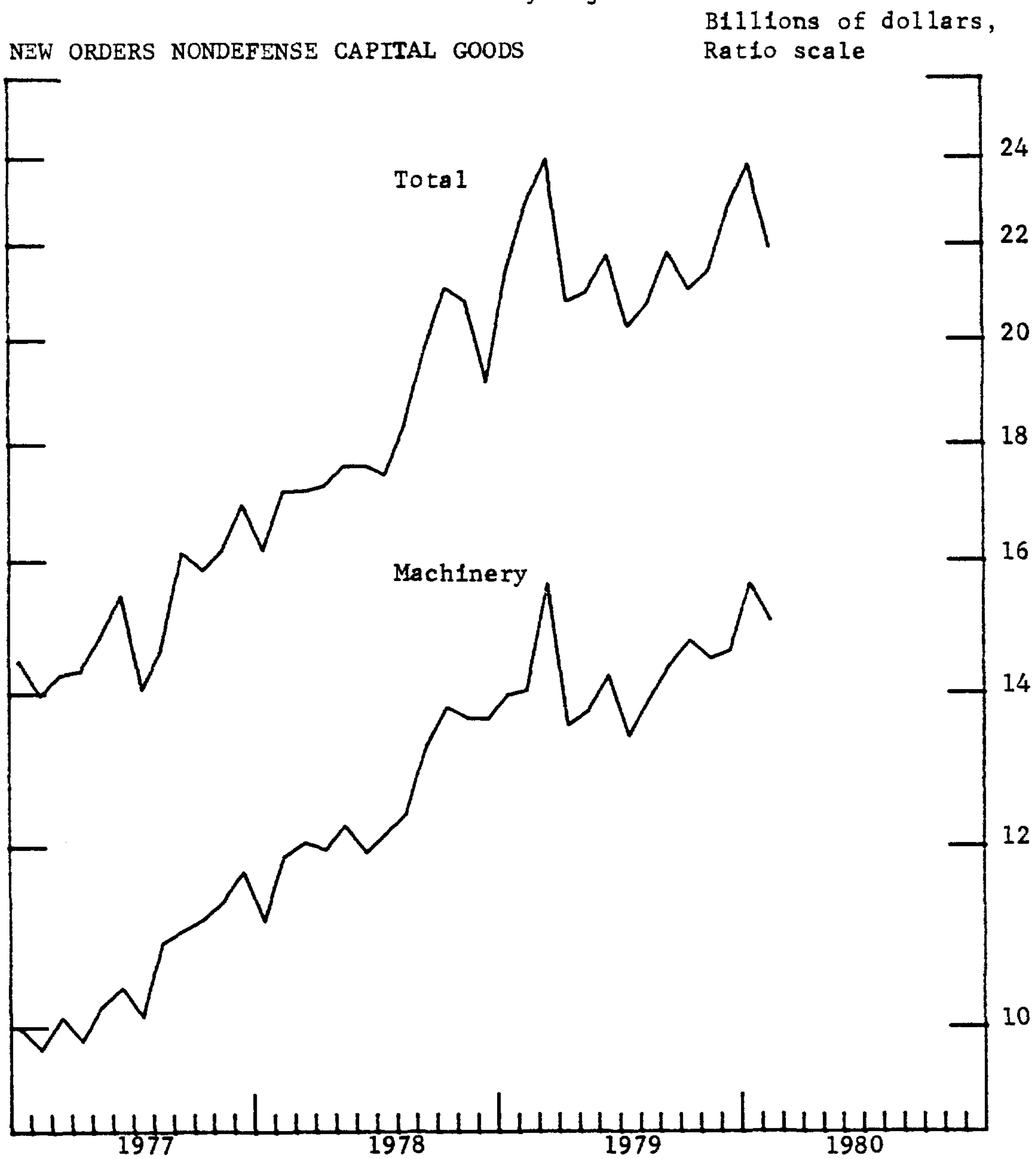
Growth of business fixed capital spending moderated in February from the rapid January pace. Shipments of nondefense capital go ds rose 1-1/2 percent in February--down from the 4 percent rise in January, and sales of heavy trucks, which are normally fairly volatile, fell about 15 percent (50,000 units at an annual rate) in February. The value of nonresidential construction put-in-place declined 2 percent after rising more than 7 percent between November and January.

In addition, near-term commitments for spending on capital equipment eased in February. New orders for nondefense capital goods dropped 8-1/4 percent, after advancing 13-1/2 percent from October to January. Although much of the weakness in bookings was in the non-machinery component--chiefly made up of aircraft and parts--machinery orders fell 4-1/2 percent. Nevertheless, the dollar volume of unfilled orders remains high, and current dollar spending on equipment should be fairly well maintained in the coming months if the backlog is not eroded by heavy cancellations.

Inventory Investment

Inventory investment also moderated in February, as business continued to keep stocks in line with sales. The book value of manufacturing and trade inventories rose at an annual rate of $35.6 billion in February, about $14 billion less than the January rate. Despite the slowing in inventory accumulation, the stock-sales ratio for all business edged up in February as sales declined.

CAPITAL SPENDING COMMITMENTS
Seasonally adjusted



The book value of retail trade inventories was little changed in February, following a substantial liquidation in the preceding two months. Department store inventories, which grew rapidly in the second half of last year, declined for the second straight month. The value of inventories in the automotive group--another area where imbalances emerged last year--increased slightly in February, but the number of cars in stock at auto dealers fell both in February and March to a level more than 1/2 million units less than last summer's reading. Wholesale trade inventories increased at a $3 billion annual rate in February, down sharply from the pace in the previous month, with a large decline in stocks of distributors of motor vehicles and parts mainly responsible. Manufacturers' inventories rose at an annual rate of $30 billion in February, well below January's record increase; stocks of electrical machinery, aircraft, and chemicals continued to increase rapidly. Some of the inventory accumulation in manufacturing probably was related to the strength in orders for defense products and civilian aircraft.

Federal Government Sector

Preliminary data for March indicate that the Federal government budget was $27 billion in deficit (quarterly rate) during the first quarter of 1980. A major portion of the fiscal year deficit usually is recorded during the first calendar quarter because of the payment of tax refunds; this year, refunds during the first quarter totaled $20 billion as compared to $13-1/2 billion in 1979-Q1. Strong growth in defense outlays, increased Commodity Credit Corporation loans (not including direct purchases of grain related to the Soviet embargo), and

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

	1978	1979				1980	
		Q1	Q2	Q3	Q4	Jan.	Feb.
Manufacturing and trade	43.2	51.2	56.5	47.3	33.2	49.4	35.6
Manufacturing	18.1	30.2	35.0	28.3	25.8	49.8	30.0
Durable	13.7	24.2	25.7	16.9	21.8	29.1	16.3
Nondurable	4.4	6.0	9.3	11.4	4.0	20.7	13.7
Trade, total	25.1	21.0	21.5	19.0	7.5	-.3	5.6
Wholesale	12.8	13.2	4.7	12.6	6.1	14.0	3.2
Retail	12.3	7.8	16.8	6.4	1.4	-14.3	2.4

INVENTORY TO SALES RATIOS

	1978	1979				1980	
		Q1	Q2	Q3	Q4	Jan.	Feb.
Manufacturing and trade	1.42	1.41	1.44	1.43	1.42	1.38	1.40
Manufacturing	1.52	1.49	1.55	1.55	1.57	1.53	1.54
Durable	1.85	1.82	1.94	1.97	2.03	1.98	1.95
Nondurable	1.15	1.11	1.11	1.10	1.08	1.06	1.08
Trade, total	1.32	1.34	1.34	1.31	1.29	1.24	1.27
Wholesale	1.20	1.23	1.18	1.17	1.15	1.12	1.15
Retail	1.44	1.45	1.50	1.46	1.44	1.36	1.39

the payment of low income energy assistance grants also contributed to the large first quarter federal deficit.

In late March, the administration presented a revised budget that calls for fiscal year 1980 spending of $569 billion and receipts of $532 billion, yielding a deficit of $37 billion. For fiscal year 1981, the administration now proposes $612 billion in spending, down $4 billion from the January figure. This reduction is the net result of $17 billion in budget cuts, partially offset by $13 billion in outlay increases due to changed economic assumptions and reestimates. The cuts include $4 billion in deferrals of new programs and $9.4 billion from reductions in ongoing programs, such as revenue-sharing, public service jobs, and savings from greater efficiency in defense and other government agencies. Additional savings would be realized from a proposal to modify the indexation of federal retirement and food stamp programs.

For the revised fiscal year 1981 budget, receipts of $628 billion are now projected--up $28 billion from January. The revised economic forecast accounts for nearly half of this increase. The rest is expected to come from the recently imposed oil import fee and the proposed withholding of taxes on dividends and interest income. (Additional description of the administration's revised budget and Congressional progress on the first concurrent budget resolution is included in Appendix A.)

State and Local Government Sector

Activity in the state and local government sector appears to have slowed amidst reduced growth in federal aid and developments in the bond market. Preliminary data indicate that recent gains in employment have been small. Although March payrolls increased by 11,000, reductions earlier in the year resulted in only a 7,000 gain in the first quarter; this was off sharply from last year's average quarterly rise of nearly 50,000. The slowdown in hiring reflected in part the continuing reduction of funding for public service employment (PSE). PSE payrolls were reduced by 6,000 on February--the sixth consecutive monthly decline.

Similarly, state and local investment outlays as measured by the value of construction put-in-place dropped sharply in February--down 7 percent or $3-1/2 billion in annual rate terms from the unseasonably strong January level but 8 percent above the December pace. Construction activity was off in February in every category except educational building, conservation, and development; the latter programs are primarily funded by federal monies and are thus vulnerable to proposed budget cuts.

Prices

Aggregate price measures advanced in the first quarter at a considerably more rapid pace than during 1979. Consumer prices rose 1.4 percent in both January and February and producer prices of finished goods increased at a monthly rate of about 1-1/2 percent in each of the first three months of the year. Large advances in energy prices continued to boost the indexes at all levels.

At the consumer level, food prices remained unchanged for the second consecutive month in February. Although producer prices of finished foods turned up in March, they declined at the farm level, reflecting increased marketings.

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

	Relative importance[2] Dec. 1979	1978	1979	1979 H2	1980 Jan.	1980 Feb.	1980 Mar.
Finished goods	100.0	9.2	12.5	14.5	18.9	17.6	16.8
Consumer foods	24.3	11.9	7.5	11.7	-9.7	-5.7	13.0
Consumer nonfood	47.4	8.4	17.8	20.3	33.6	34.7	22.7
Energy	10.3	8.0	62.7	73.3	52.8	89.4	86.7
Exc. energy	37.0	8.5	9.3	9.8	28.4	18.5	4.3
Capital equipment	28.4	8.0	8.7	7.6	19.8	8.4	9.4
Intermediate materials[3]	94.9	8.3	16.3	17.9	36.2	20.5	7.9
Exc. food and energy	81.3	8.9	12.8	13.3	33.0	13.7	3.3
Crude food materials	55.4	18.3	11.1	10.9	-46.0	25.9	-32.9
Crude nonfood	44.6	15.6	26.6	27.5	33.2	38.3	-17.4
Exc. energy	16.0	21.0	13.1	5.7	28.5	53.0	-59.2

1. Changes are from final month of preceding period to final month of period indicated. Changes for other than monthly and yearly periods are compounded.
2. Relative importance weights are on a stage of processing basis.
3. Excludes intermediate materials for manufacturing food and animal feed.

RECENT CHANGES IN CONSUMER PRICES[1]
(Percentage change at annual rates; based on seasonally adjusted data)[2]

	Relative importance Dec. 1979	1978	1979	1979 H2	1980 Jan.	1980 Feb.
All items	100.0	9.0	13.3	13.8	16.7	16.4
Food	17.7	11.8	10.2	9.3	0.0	-.5
Energy[3]	10.3	8.0	37.4	33.7	55.5	61.4
All items less food and energy[3]	72.0	8.5	11.3	12.4	16.0	13.6
Commodities	34.5	7.6	8.8	9.3	14.3	6.2
Services	40.9	9.3	13.7	15.1	16.4	18.5
Memoranda:						
Gasoline	5.6	8.5	52.2	45.1	88.6	87.8
Homeownership	24.9	12.4	19.8	22.5	22.6	18.1

1. Based on index for all urban consumers.
2. Changes are from final month of preceding period to final month of period indicated. Changes for other than monthly and yearly periods are compounded.
3. Energy items: gasoline and motor oil, fuel oil and coal, gas and electricity.

PRICES FOR SELECTED COMMODITIES
(Dollars)

		1979		1980					
		1/	1/	1/	1/	1/	April		
		July	Oct.	Jan.	Feb.	Mar.	1	8	15
Near-term futures prices for precious metals:									
Gold	Troy oz.	297.60	393.50	712.00	697.50	566.50	498.50	538.50	519.20
Silver	Troy oz.	9.36	16.77	46.30	38.00	29.10	14.00	16.47	14.38
Platinum	Troy oz.	414.40	540.00	869.40	919.00	873.60	520.00	605.00	601.00
Spot prices of other metals:									
Copper	Lb.	.851	.973	1.130	1.415	1.044	.918	.945	.956
Lead	Lb.	.585	.605	.500	.510	.500	.480	.465	.465
Zinc	Lb.	.405	.375	.375	.385	.395	.385	.385	.383
Tin	Lb.	7.643	7.782	8.309	8.567	9.085	8.609	8.636	8.693
Weekly Spot price index of major farm commodities (1967=100):		262.0	251.5	246.7	262.6	245.0	230.3	236.0	n.a

1/ Mid-month prices.

Consumer energy prices accelerated further in February and accounted for more than one-third of the overall increase in the CPI. Gasoline price increases continued to dominate this component, reflecting the passthrough of recent price hikes for imported crude oil as well as the effects of decontrol of domestic production. Little relief can be expected in this area in the near future, as the oil import fee will add to the upward pressure on prices.

Price increases in other CPI components eased somewhat from the January pace. Most of the deceleration at the retail level was concentrated among commodities, notably houses, used cars, and apparel. At the producer level, the rise in prices of finished consumer goods less food and energy slowed sharply in March. The major factor was the large decline in prices of precious metal jewelry after the runup of previous months.

Consumer service costs continued to advance at a rapid pace in February. Sharp increases in mortgage rates have been a major influence on homeownership costs for some time, and in view of recent increases in mortgage commitment rates further upward pressure is expected in coming months. Costs of medical and other services also rose rapidly in February.

Prices of precious metals have had a major impact on producer prices of intermediate goods in recent months. Commodity prices for gold and silver skyrocketed until last January, with some spillover effect on other commodities, notably copper. The subsequent declines in metals prices were responsible for much of the March slowing in producer prices for intermediate materials other than food and energy.

HOURLY EARNINGS INDEX[1]
(Percent change at compound annual rates;
based on seasonally adjusted data)

	1977 Q4 to 1978 Q4	1978 Q4 to 1979 Q4	1979 Q4 to 1980 Q1	1980 Feb.	1980 Mar.
Total private nonfarm	8.4	8.1	9.5	10.4	12.0
Manufacturing	8.4	8.8	9.7	13.2	11.0
Durable	8.5	8.6	10.3	13.9	13.4
Nondurable	8.2	9.2	8.8	12.0	6.8
Contract construction	7.4	6.7	5.3	26.2	6.7
Transportation and public utilities	7.4	9.1	7.7	7.9	12.3
Total trade	9.5	7.6	11.9	3.5	11.0
Services	7.6	7.7	8.9	8.4	12.2

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

Since the March 11 PPI pricing date, near-term futures prices for silver posted a spectacular decline; this was accompanied by substantial falls for several other commodities. Despite some recent increases, mid-April prices were well below those of March 11. These declines have been attributed in part to sharply higher financing costs. In contrast to primary commodity markets, inflationary pressures remain strong elsewhere. For example, price hikes were recently announced for a number of major products, including steel, aluminum, and automobiles.

Wages

Wages for nonfarm production workers, as measured by the index of average hourly earnings, rose 1 percent in March. In the first quarter, the index rose at a 9-1/2 percent annual rate, compared to an 8 percent increase during 1979. The acceleration probably reflects some passthrough of recent rapid price increases, as well as the hike in the minimum wage in January. Nonetheless, the rate of increase in wages remains well below current consumer price inflation.

The President has accepted the recommendation of the Pay Advisory Committee to establish a range of 7-1/2 to 9-1/2 percent for allowable increases in wages and private fringe benefits. Other developments in the anti-inflation program include the adoption by the Council on Wage and Price Stability (COWPS) of more extensive price reporting requirements and the institution of procedures for the prenotification of price increases. Also, COWPS has tightened its voluntary price guidelines to delay certain allowable price increases. Previously, businesses could take the entire final 1/4 of their two-year permitted price increases on April 1; now firms are allowed only 1/8 of the two-year increase on April 1 and are expected to defer the remainder until July 1.

APPENDIX A

Revisions of the Federal Budget for Fiscal Year 1981*

Overview

On March 31, 1980, President Carter made public the details of his new budget for fiscal year 1981, part of the anti-inflation program he announced two weeks earlier. The revised budget now projects fiscal year 1981 receipts of $628 billion, up by $28 billion from the January estimate. A revised economic outlook (mainly higher inflation) and proposed new taxes (primarily a gasoline excise tax) account for most of the rise. Outlays have been revised upward by $13 billion mainly because of higher expected interest payments and defense costs. This expenditure gain would be more than offset by $17 billion in planned spending cuts. The proposed revenue-raising measures and sharp spending cuts are expected to result in a $16 billion surplus during fiscal year 1981, following a $36 billion deficit now projected for this year. (In January, the President had recommended a budget with a $16 billion deficit for fiscal year 1981, and a $40 billion deficit for this year.)

Even this dramatic swing from deficit to surplus understates considerably the degree of fiscal restraint now proposed by the President. The high employment budget, which measures discretionary changes in fiscal policy, is projected to shift toward surplus by over $80 billion between fiscal years 1980 and 1981.[1] Despite this shift toward restraint, the combined deficit--unified plus off-budget--is still expected to register a $2 billion deficit in fiscal year 1981 (see table 1), as heavy spending by the off-budget Federal Financing Bank (mainly for rural electrification and disaster loans), more than offsets the recommended surplus in the unified budget.

Economic Outlook

The administration continues to forecast a recession, but this downturn now is expected to occur later in 1980 than was anticipated in January. A slower recovery is projected for 1981. A comparison of the January and March economic forecasts appears in table 2, which shows that real GNP is now projected to drop--fourth quarter over fourth quarter--by 0.4 percent during 1980, and to rise by 2.2 percent during 1981. The new unemployment rate forecast is slightly more optimistic than January's Budget. The most significant difference between the January and March forecasts is in the inflation rate. As measured by the GNP implicit price deflator (from fourth quarter to fourth quarter), the 1980 rate is projected at 10.4 percent (1.4 percent higher than January prediction) and the 1981 rate at 9.1 percent (0.5 percent higher).

* Prepared by Kevin Riper, Government Finance Section.
1. Preliminary FRB staff estimate, consistent with the administration's new unified budget proposals.

Table 1
ADMINISTRATION BUDGET ESTIMATES: ON- AND OFF-BUDGET
(Billions of dollars; fiscal years)

	1979 Actual	1980 Estimate	1981 Estimate
Receipts	465.9	532.4	628.0
Outlays	493.7	568.9	611.5
Surplus(+)/deficit(-)	-27.7	-36.5	16.5
Deficit(-) of off-budget entities	-12.4	-15.0	-18.7
Combined deficit(-)	-40.2	-51.5	-2.2

Table 2
ECONOMIC ASSUMPTIONS IN THE BUDGET
(Billions of dollars; calendar years)

	1979	1980		1981	
	Actual	Jan.	Mar.	Jan.	Mar.
GNP					
Current dollars					
Amount	2,369	2,567	2,621	2,842	2,885
Percent change, year over year	11.4	8.3	10.6	10.7	10.1
Percent change, fourth over fourth	10.0	7.9	10.0	11.7	11.4
Constant (1972) dollars					
Amount	1,432	1,423	1,442	1,448	1,449
Percent change, year over year	2.3	-0.6	0.8	1.7	0.4
Percent change, fourth over fourth	1.0	-1.0	-0.4	2.8	2.2
Price level					
GNP implicit price deflator					
Percent change, year over year	8.8	8.9	9.8	8.8	9.6
Percent change, fourth over fourth	9.0	9.0	10.4	8.6	9.1
Consumer price index					
Percent change, year over year	11.4	11.8	13.9	9.2	9.5
Percent change, fourth over fourth	12.8	10.7	12.8	8.7	9.0
Unemployment rate					
Percent, fourth quarter	5.9	7.5	7.2	7.3	7.3

Receipts

The administration now estimates that receipts will total $628 billion in fiscal year 1981 (up $28 billion from the January estimate) and $532 billion during the current fiscal year (up $8 billion). Stronger near-term economic activity and worsening inflation account for $5 billion of the fiscal year 1980 rise and $12 billion of the fiscal year 1981 increase. (See table 3.)

The President--using existing legislative authority--also has imposed an import fee of $4.62 per barrel of crude oil, effective March 15, 1980. The administration is expected to allocate supplies and regulate oil prices through existing "entitlements" in order to shift the burden of this fee from oil importers to gasoline users. The administration also has proposed that the fee be replaced (later this year) by an ad valorem gasoline tax. The gas tax would require legislative action and would add $13 billion to fiscal year 1981 revenues.

The administration has recommended that the Congress pass legislation to withhold taxes on dividend and interest payments. This proposal would raise an estimated $3.4 billion in fiscal year 1981. One billion dollars of this revenue would result from increased tax law compliance, since significant amounts of interest and dividend incomes currently are not reported on tax returns. The remaining $2.4 billion would result from the speedup in tax payments that withholding would produce.

Thus, the administration now estimates that federal tax receipts will grow by more than $95 billion, or 18 percent, between fiscal years 1980 and 1981. Table 4 shows the components of this increase, which pushes federal revenues to 22.4 percent of GNP--the highest level ever.

Outlays

The new outlay estimates reflect the administration's revised economic forecast, and the proposed $17 billion in spending cuts. Higher interest rates and inflation are now expected to add $4 billion to fiscal year 1981 outlays. Technical reestimates for other programs--mainly operations and maintenance in the Defense Department--are projected to add another $9 billion in outlays for fiscal year 1981. For the current fiscal year, upward revisions due to economic conditions and reestimates are expected to add $8 billion to the original January spending estimate. (See table 5.)

The President plans to offset this spending increase with sharp reductions in numerous ongoing and proposed programs. Budget cuts totaling $2.6 billion in fiscal year 1980 and $17.2 billion in fiscal year 1981 would be achieved through such measures as: eliminating the state portion of general revenue sharing; reducing the

Table 3
ADMINISTRATION REVENUE PROPOSALS
(Billions of dollars; fiscal years)

	1980	1981
January revenue estimate	\$523.8	\$600.0
Revisions due to new economic forecast	5.2	12.0
March revenue forecast (excluding proposals)	\$529.0	\$612.0
New initiatives		
Oil import fee/gasoline tax (initiated March 15, 1980)	3.4	12.6
Withholding on interest and dividends (proposed)	0.0	3.4
New revenue forecast (including initiatives)	\$532.4	\$628.0

Table 4
CHANGES IN FEDERAL RECEIPTS
Fiscal Year 1980 to Fiscal Year 1981
(Billions of dollars)

Source of Change	Revenue Change
Changes increasing effective tax rates or advancing the timing of receipts	
Effects of previously enacted legislation	
Social security rate increase	$9.2
Effects of new tax initiatives (change from previous period)	
"Windfall profits" tax	9.9
Oil import fee and gas tax	9.2
Tax withholding on interest and dividend income	3.4
Miscellaneous (cash management initiatives, user fees)	5.0
Revenues attributable to the taxation of income at higher rates due to tax progressivity	12.6
Total	$49.3
Residual (primarily the effect of nominal income growth on receipts under the effective tax rate structure in existence in 1980. The administration expects an 11.4 percent increase in nominal incomes--9.1 percent inflation and 2.2 percent real growth--between 1980:Q4 and 1981:Q4.)	46.3
TOTAL CHANGE	$95.6

Table 5
COMPARISON OF ADMINISTRATION'S JANUARY AND MARCH OUTLAY ESTIMATES
(Billions of dollars; fiscal years)

	1980	1981
Outlays in January budget estimate	$563.6	$615.8
Revisions due to economic assumptions: subtotal	--	4.2
Interest payments	1.0	3.1
Indexed income security programs	--	1.5
Unemployment compensation	-1.0	-0.4
Revisions due to reestimates: subtotal	7.9	8.7
Defense (mainly fuel and transportation costs)	4.0	5.7
Other	3.9	3.0
March budget estimate before proposed reductions	$571.5	$628.7
Proposed budget cuts: subtotal	-2.6	-17.2
General revenue sharing (eliminate state portion)	--	-1.7
Deferral of energy projects	-0.2	-1.1
Reduce public service employment	-0.4	-1.0
Targeted fiscal assistance	-0.1	-1.0
Shift from semiannual to annual indexing	-0.2	-1.4
Delay strategic petroleum reserve purchases	-0.2	-0.8
Defense	-0.3	-1.0
Net interest	-0.2	-2.2
Other	-1.0	-7.0[1]
March budget estimate including proposed spending cuts	$568.9	$611.5

1. The $7.0 billion figure includes grant reductions for community development, waste treatment, education, mass transit and medicare. The President also has proposed a freeze on federal hiring, and a delay in welfare reform.

number of public service jobs; canceling countercyclical fiscal assistance to cities; postponing energy research projects and oil purchases for the strategic petroleum reserve; and adjusting federal retirement benefits and food stamps only once a year instead of twice a year as is currently done. Congressional approval will be required for all of these budget cuts. If the Congress approves them, and the $5.6 billion in legislative savings set forth earlier in the January Budget, then federal outlay growth will be sharply curtailed--a projected 7.4 percent rise from 1980 to 1981, the smallest increase since 1973, and clearly a decline in real terms.

Congressional Action

Both the House and the Senate Budget Committees have recently endorsed a balanced budget for fiscal year 1981 (see table 6). The Senate Budget Committee included in its revenue estimate the proceeds of the recently imposed oil import fee, and recommended it be offset by a $10 billion cut in personal income and business taxes. The House Budget Committee, on the other hand, excluded from its revenue estimate the $10-1/2 billion oil import fee, and suggested it be earmarked for later productivity-increasing personal and business tax cuts. Both committees were firm in their resolve not to endorse a tax cut for 1981 unless the budget is in balance.

The Federal Credit Budget

Finally, the President has expanded the scope of his proposed federal credit budget, first announced in January. The administration originally excluded federal housing agencies from the list of credit activities subject to annual appropriations control. Bowing to pressure from the Budget Committees, the administration now has decided to include these agencies in the credit control budget. This action would increase (from $15 billion to $45 billion) the amount of new federally assisted credit subject to suggested appropriation limits in fiscal year 1981.

Table 6
BUDGET COMMITTEES' ENDORSED RECOMMENDATIONS
(Billions of dollars; fiscal years)

	1980		1981	
	House	Senate	House	Senate
Receipts	528.8	528.9	614.2	612.9
Outlays	567.0	566.4	612.0	612.9
Surplus(+)/deficit(-)	-38.2	-37.5	2.2	0.0

SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data Period	Level	Net Change from: Month ago	Three months ago	Year ago
	$ billions		Percent at annual rates		
Monetary and credit aggregates[1]					
Total reserves	March	43.3	6.7	1.7	5.7
Nonborrowed reserves	March	40.5	-26.9	-11.2	1.2
Money supply					
M-1A	March	375.3	-3.2	4.1	6.6
M-1B	March	392.3	-1.8	4.7	7.8
M-2	March	1550.9	3.3	7.0	8.8
M-3	March	1809.9	3.9	8.2	9.5
Time and savings deposits (Gross	March	681.4	7.1	10.5	9.0
Thrift deposits (S&Ls + MSBs) Total + Credit Unions) Total	March	669.4	3.2	1.1	5.5
Bank credit	March	1168.9	3.7	11.8	11.1

		Latest data Period	Percent or index	Net Change from: Month ago	Three month age	Year ago
Market yields and stock prices						
Federal funds	wk. endg.	4/9/80	19.04	2.60	5.10	9.11
Treasury bill (90 day)	" "	4/9/80	14.54	-.97	2.62	4.90
Commercial paper (90-119 day)	" "	4/9/80	17.61	.60	4.51	7.64
New utility issue Aaa	" "	4/11/80	13.31	-.62	1.72	3.65
Muncipal bonds (Bond Buyer) 1 day	1 day	4/10/80	9.07	.01	1.77	2.74
FNMA auction yield (FHA/VA)		3/31/80	15.93	.72	3.38	5.51
Dividend price ratio (common stocks)	wk. endg.	4/9/80	6.04	.32	.55	.69
NYSE index (12/31/65=50)	end of day	4/14/80	58.42	-1.65	-5.16	.54

	Net Change or Gross Offerings Period	Latest data	Year ago	Year to date 1980	1979
Credit demands					
Business loans at commercial banks[1]	March	2.1	2.8	12.6	12.8
Consumer instalment credit outstanding[1]	February	2.4	3.6	3.8	6.6
Mortgage debt outstanding (major holders)[1 3]	January	7.0	8.8	7.0	8.8
Corporate bonds (public offerings)	February	1.4e	1.3	3.8e	2.6
Municipal long-term bonds (gross offerings)	March	2.7e	4.6	8.1e	10.1
Federally sponsored agcy. (net borrowing)	February	0.8e	2.5	3.0e	3.5
U.S. Treasury (net cash borrowing)	February	2.1	-0.7	7.3	2.6

1/ Seasonally adjusted.
2/ Includes comm'l banks, S&Ls, MSBs, life ins. cos, FNMA and GNMA.
e -- Estimated.

Interest rates reached all-time highs in late March and early April. However, with the monetary aggregates weakening and economic indicators evidencing recessionary tendencies, financial markets have rallied, pushing yields on most fixed-income securities below their mid-March levels. Credit conditions nonetheless remain taut. Many financial institutions are experiencing significant liquidity and earnings pressures, and investors are exhibiting a greater concern about safety and liquidity.

Deteriorating cash flows have compelled nonfinancial businesses to maintain a substantial pace of external financing. These firms have continued to react to high long-term rates by relying heavily on floating-rate or shorter-term credit--especially commercial paper and bank loans. Meanwhile, a diminution in investable funds of life insurance companies has contributed to weakness in demand for corporate bonds.

High interest rates have continued to be a significant deterrent to municipal bond issuance. However, sales of housing revenue bonds have remained sizable as states and localities have attempted to offset the impact of tight mortgage markets. The federal government has been an active borrower in recent weeks, selling a large amount of short-term debt to finance the pre-tax date deficit and to cover redemptions of nonmarketable obligations.

In the household sector, high interest rates and reduced credit availability likely have contributed to reductions in home mortgage and consumer credit flows. Thrift institutions continue to suffer from disintermediation and an earnings squeeze. The Board's recent actions under the Credit Control Act have encouraged and aided consumer lenders

SELECTED MEASURES OF RISK PREMIA
(Monthly averages; in basis points)

Period		Medium grade comm. paper less high grade paper	Aaa-rated utility bonds less 20-year U.S. gov'ts.	A-rated utility bonds less Aaa-rated utility bonds
1973-1979:	Average	44	78	61
	High	169 (10/74)	186 (10/74)	140 (8/75)
	Low	12 (--)[1]	49 (9/78)	15 (5/73)
1979-Sept.		51	67	54
Oct.		97	93	135
Nov.		117	98	104
Dec.		114	113	104
1980-Jan.		110	121	101
Feb.		100	117	102
Mar.		113	140	125
Apr.[2]		138	153	156

1. Multiple dates.
2. Data through April 11 only.

SELECTED FINANCIAL MARKET QUOTATIONS
(Percent)

	1974 High[1]	1979-1980[2] FOMC Oct. 5	FOMC Mar. 18	Inter-meeting High	Apr. 15	Change from: FOMC Oct. 5	FOMC Mar. 18	Inter-meeting High
Short-term rates								
Federal funds[3]	13.55	11.91	16.24	19.39	18.74p	6.83	2.50	-.65
Treasury bills								
3-month	9.63	10.70	14.62	16.00	13.82	3.12	-.80	-2.18
6-month	9.75	10.63	14.61	15.64	13.43	2.80	-1.18	-2.21
1-year	9.54	10.28	13.66	14.58	12.39	2.11	-1.27	-2.19
Commercial paper								
1-month	12.25	11.73	17.09	18.00	17.13	5.40	.04	-.87
3-month	12.25	11.86	17.32	17.69	16.77	4.91	-.55	-.92
6-month	12.00	11.84	16.79	17.25	15.94	4.10	-.85	-1.31
Large negotiable CDs[4]								
1-month	12.58	12.09	17.21	17.87	17.08	4.99	-.13	-.79
3-month	12.64	12.50	18.00	18.59	17.03	4.53	-.97	-1.56
6-month	12.30	12.80	17.97	18.47	16.31	3.51	-1.66	-2.16
Eurodollar deposit[3]								
1-month	13.78	12.45	18.60	19.04	18.89p	6.44	.29	-.15
3-month	14.01	12.79	18.98	19.60	18.59p	5.80	-.39	-1.01
Bank prime rate	12.00	13.50	18.50	20.00	20.00	6.50	1.50	0
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	8.84	10.01	13.68	14.53	12.10	2.09	-1.58	-2.43
10-year	8.14	9.60	12.40	13.65	11.57	1.97	-.83	-2.08
30-year	n.a.	9.36	12.00	12.85	11.47	2.11	-.53	-1.38
Municipal (Bond Buyer)[5]	7.15	6.64	9.08	9.44	9.07	2.43	-.01	-.37
Corporate Aaa								
New issue[6]	10.61	10.22	13.95	14.22	13.33p	3.11	-.62	-.89
Recently offered[7]	10.52	10.25	13.72	14.12	13.42p	3.17	-.30	-.70
Primary conventional mortgages[7]	10.03	11.35	15.40	16.35	16.35	5.00	.95	0

	1974 Low[8]	FOMC Oct. 5	FOMC Mar. 18	Inter-meeting Low	Apr. 15	FOMC Oct. 5	FOMC Mar. 18	Inter-meeting Low
Stock prices								
Dow-Jones Industrial	577.60	897.61	801.62	759.98	783.36	-114.25	-18.26	23.38
NYSE Composite	32.89	63.39	59.09	55.30	58.30	-5.09	-.79	3.00
AMEX Composite	58.26	235.15	253.27	215.69	243.56	8.41	-9.71	27.87
NASDAQ (OTC)	54.87	152.29	138.92	124.09	136.39	-15.90	-2.53	12.30

1. Statement week averages except where noted.
2. One-day quotes except as noted.
3. Averages for statement week closest to date shown.
4. Secondary market.
5. One-day quotes for preceding Thursday.
6. Averages for preceding week.
7. One-day quotes for preceding Friday.
8. Calendar week averages.

to take a variety of actions to raise returns on loans or to curtail credit expansion.

Monetary Aggregates and Bank Credit

M-1A contracted at an annual rate of 3-1/4 percent in March, while M-1B declined somewhat less owing to an expansion in other checkable deposits. These two measures of transactions balances conceivably might have been weaker still had there not been a relatively large volume of tax refunds last month. For the first quarter as a whole, growth in M-1A was at a 5-1/2 percent pace--in line with historical relationships among money, income, and interest rates.

M-2 growth slowed to a 3-1/4 percent annual rate in March. Combined savings and small time deposits at commercial banks continued to expand, but at a reduced pace. At thrift institutions such deposits increased slightly after having contracted in January and February. However, at both sets of institutions outflows in March from fixed-ceiling deposits remained sizable; only variable-ceiling accounts--including a record increase in MMCs at S&Ls--exhibited any strength. Indeed, high market rates have continued to prompt substantial premature withdrawals from fixed-ceiling time accounts.

Contributing to the slowdown in M-2 during March was weakness in money market mutual fund shares, which actually declined in recent weeks. While slackening of MMMF growth was to be expected following the extraordinary surge earlier in 1980, the recent decline undoubtedly resulted in part from policies of many existing funds either to limit or to refuse new share purchases until they devised a method to respond to the new 15 percent marginal special deposit requirement. To attract new

MONETARY AGGREGATES
(Based on seasonally adjusted data unless otherwise noted)[1]

	1979 Q3	1979 Q4	1980 Q1	1980 Jan.	1980 Feb.	1980 Mar.[e]	Mar. '79 to Mar. '80[e]
	---- Percentage change at annual rates ----						
Money stock measures							
1. M-1A	8.8	4.7	5.4	3.6	11.9	-3.2	6.6
2. M-1B	10.1	5.3	6.0	4.3	11.7	-1.8	7.8
3. M-2	10.3	7.2	7.2	6.8	10.8	3.3	8.8
4. M-3	10.3	9.9	8.4	7.9	12.6	3.9	9.5
Selected components							
5. Currency	11.1	8.1	8.7	13.6	10.1	7.8	9.3
6. Demand deposits	8.0	3.4	4.1	-0.5	12.7	-7.6	5.6
7. Other checkable deposits, NSA[2]	45.4	12.7	17.7	22.2	0.0	29.1	40.8
8. M-2 minus M-1B (9+10+11+14)	10.4	7.9	7.4	7.6	10.5	5.1	9.1
9. Overnight RPs and Eurodollars, NSA[3]	-4.7	-17.3	0.0	39.8	9.6	-86.1	-6.0
10. Money market mutual fund shares, NSA	166.2	120.0	150.9	151.4	185.7	82.5	260.7
11. Commercial banks	10.7	7.5	7.4	8.0	8.8	4.1	8.9
12. savings deposits	-0.4	-15.1	-16.8	-12.3	-16.1	-34.6	-10.8
13. small time deposits	21.5	28.6	28.1	24.6	28.6	33.7	29.5
14. Thrift institutions	5.3	3.7	-0.7	-0.4	-1.9	2.6	3.1
15. savings deposits	-2.5	-26.0	-22.4	-15.7	-27.4	-26.3	-15.9
16. small time deposits	10.4	22.3	11.3	2.3	11.5	17.4	15.9
17. Large time deposits	9.5	30.3	18.8	17.0	31.9	16.8	15.7
18 at commercial banks, net[4]	2.5	22.6	11.0	9.5	27.7	16.6	8.5
19. at thrift institutions	72.2	90.8	71.2	63.4	60.2	14.3	87.3
20. Term RPs, NSA	13.8	5.4	-15.8	0.0	-39.6	-65.5	1.8
	—Average monthly change in billions of dollars--						
MEMORANDA:							
21. Managed liabilities at commercial banks (22+23)	9.5	-1.5	6.7	4.4	13.7	2.1	4.2
22. Large time deposits, gross	4.3	2.2	3.2	1.3	6.0	2.5	1.7
23. Nondeposit funds	5.2	-3.7	3.5	3.1	7.7	-0.4	2.5
24. Net due to related foreign institutions, NSA	2.9	-2.2	1.9	-0.8	2.5	4.0	1.6
25. Other[5]	2.2	-1.4	1.6	3.9	5.2	-4.4	0.9
26. U.S. government deposits at commercial banks[6]	0.6	-1.0	-0.7	2.9	-1.0	-4.0	0.1

1. Quarterly growth rates are computed on a quarterly average basis.
2. Consists of ATS and NOW balances at all institutions, credit union share draft balances, and demand deposits at mutual savings banks.
3. Overnight and continuing contract RPs issued to the nonbank public by commercial banks, net of amounts held by money market mutual funds, plus overnight Eurodollar deposits issued by Caribbean branches of U.S. member banks to U.S. nonbank customers.
4. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.
5. Consists of nondeposit borrowings of commercial banks from nonbank sources, calculated as the sum of federal funds purchased, security RPs, other liabilities for borrowed money (including borrowings from the Federal Reserve), and loans sold less interbank borrowings.
6. Consists of Treasury demand deposits at commercial banks and Treasury note balances.
e—estimated. n.a.—not available. p—preliminary.

accounts, many organizations have established so-called clone funds. These funds are operationally similar to existing funds and can be registered within as few as five to seven working days. As of April 4, nine of the 24 registering clone funds had been authorized by the SEC.

Growth in total reserves rebounded in March to a 6-3/4 percent annual rate, reflecting strong growth in small time deposits and interbank demand deposits. Nonborrowed bank reserves declined for the second consecutive month, but borrowing rose to $2.8 billion from $1.7 billion in February. The high cost of funds at the discount window (16 percent for banks incurring the frequent-borrower surcharge) may have added to pressures in the federal funds market. Federal funds have traded at rates near 19 percent in recent weeks--roughly 3 percentage points above the weekly average level at the time of the March FOMC meeting. (The rate to which reference is made is that for borrowings not subject to the 10 percent marginal reserve requirement. Nonexempt federal funds for the most part began trading at 1-1/2 to 2 percentage points under the exempt rate, reflecting the more general exposure to marginal reserves since mid-March.)

The growth of bank credit dropped off substantially in March to 3-3/4 percent at an annual rate. Holdings of Treasury securities were marginally lower, and the rate at which banks acquired other securities slowed considerably. Total loans increased at only a 4-1/4 percent rate, with business loan growth decelerating sharply and increases in real estate loans also slowing. Security loans declined for the sixth consecutive month, as dealers apparently continued to pare inventories and as nonbank sources of financing--particularly the RP market--became more attractive.

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT
(Percentage changes at annual rates, based on seasonally adjusted data)[1]

	1979 Q3	1979 Q4	1980 Q1	1980 Jan.	1980 Feb.[e]	1980 Mar.[e]	Mar. '79 to Mar. '80[e]
				Commercial Bank Credit			
1. Total loans and investments at banks[2]	15.8	3.4	11.8	12.8	18.7	3.7	11.1
2. Investments	8.5	3.5	7.3	4.2	14.7	2.1	6.3
3. Treasury securities	1.7	-5.9	3.4	-7.7	20.6	-2.5	0.7
4. Other securities	12.1	8.3	9.2	10.0	13.1	4.3	9.3
5. Total loans[2]	18.2	3.4	13.4	15.7	19.8	4.2	12.8
6. Business loans	22.7	6.0	17.2	20.5	22.2	8.3	16.6
7. Security loans	8.7	-88.5	-35.0	-19.7	-20.0	-61.0	-20.0
8. Real estate loans	14.7	14.2	11.9	12.9	13.2	9.2	14.1
9. Consumer loans	7.5	5.5	n.a.	6.6	4.6	n.a.	n.a.
				Short- and Intermediate-Term Business Credit			
10. Total short- and intermediate-term business credit (sum of lines 13,14 and 15)	27.4	6.4	n.a.	24.1	25.0	n.a.	n.a.
11. Business loans net of bankers acceptances held[1]	21.7	6.3	18.2	22.0	19.5	12.3	16.6
12. Commercial paper issued by nonfinancial firms[3]	69.7	15.5	76.2	81.6	53.5	80.5	65.2
13. Sum of lines 11 & 12	25.7	7.0	23.0	28.0	22.8	19.1	20.6
14. Finance company loans to business[4]	9.4	4.0	n.a.	-8.5	-3.4	n.a.	n.a.
15. Total bankers acceptances outstanding[4]	74.9	4.6	n.a.	52.3	84.4	n.a.	n.a.

1. Average of Wednesdays for domestic chartered banks and average of current and preceding ends of months for foreign-related institutions.
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. Average of Wednesdays.
4. Based on average of current and preceding ends of months.
e--estimated. n.a.--not available.

The moderation in credit growth during March allowed banks to limit increases in their total managed liabilities and in the large-time deposit component to less than those in the first two months of the year. Nondeposit liabilities fell slightly on balance, with a decline in federal funds and security RPs somewhat exceeding a pickup in Eurodollar borrowing. The weakness in managed liabilities was particularly evident in the second half of March, possibly in response to the Board's recent amendments to its marginal reserves program.[1]

Business Finance

Shorter-term business credit flows remained relatively strong last month, led by rapid growth of commercial paper. Outstanding commercial paper of nonfinancial firms increased $2.2 billion in March--roughly twice the pace of the past year. Although evidently increasing preferences by investors for security and liquidity were associated with some widening of quality spreads and difficulties in selling low-rated issues, the paper market was utilized heavily by companies to defer long-term financing and to avoid higher bank loan rates.

Business loans at commercial banks (net of bankers acceptances) grew at an annual rate of 12-1/4 percent in March--a bit over half the pace during the first two months of the year. The increase of the commercial bank prime rate to 20 percent was probably a factor in the reduced growth.

1. Effective the statement week ending March 26, there was a reduction of at least 7 percent in the base for calculating marginal reserve requirements and an increase in the requirement on the excess of covered managed liabilities over the base, to 10 percent for member banks and foreign bank families. In addition, the Board imposed a special deposit requirement of 10 percent on increases in managed liabilities of nonmember banks. At member banks and branches and agencies of foreign banks, managed liabilities subject to marginal reserve requirements averaged $20-1/2 billion in the statement week ending March 26, up from $6 billion in the previous week.

CHANGE IN COMMERCIAL PAPER OUTSTANDING[1]
(Monthly totals or monthly averages, seas. adj.; billions of dollars)

	1979	1980			Outstanding
	Q4	Q1	Feb.	Mar.	3/31/80
Total commercial paper	1.5	2.5	1.4	2.1	118.7
Bank-related	0.3	0.6	1.2	-0.2	22.6
Nonbank-related	1.2	1.8	0.2	2.3	96.1
Financial	0.8	-0.1	-1.2	0.1	61.1
Dealer placed	0.4	0.1	-0.1	--	14.7
Directly placed	0.4	-0.1	-1.1	0.1	46.4
Nonfinancial	0.4	1.9	1.4	2.2	35.0

1. Monthly data are averages of weekly data.
Note. Components may not add to total due to rounding.

CHANGE IN BUSINESS CREDIT OUTSTANDING AT FINANCE COMPANIES[1]
(Monthly totals or monthly averages, seas. adj.; billions of dollars)

	1979		1980		Outstanding
	Q3	Q4	Jan.	Feb.	2/29/80
Total business credit	0.5	0.2	-0.5	-0.2	69.9
Retail commercial vehicles	0.1	--	-0.1	--	15.3
Wholesale auto and truck	-0.1	-0.5	-0.8	-0.5	12.7
Comm'l. accounts receivable[2]	-0.1	0.2	0.3	0.1	7.3
Equipment loans & all other	0.7	0.5	0.1	0.2	34.5

1. Monthly data are averages of two end-of-months.
2. Includes factored commercial accounts receivable.
Note. Components may not add to total due to rounding.

Between the beginning of the year and mid-March, the markup of the prime rate over CD rates had deteriorated sharply, from nearly 2 percentage points to only a few basis points. The imposition of higher marginal reserve requirements in March added to the effective cost of CD funds at many banks. With the recent increases in the prime rate, the customary spread over the CD rate has been reestablished and, in fact, widened a bit.

Apart from cost considerations, stringent lending policies have been encouraged by both the Board's voluntary credit restraint guidelines and the massive volume of loan commitments outstanding. Unused business loan commitments at sampled large commercial banks rose by $11 billion (seasonally adjusted) in February--more than the combined increases of the three previous months. This apparently resulted from businesses' attempts to secure such agreements in anticipation of credit controls.

Reduced availability of bankers acceptance financing may also be adding to business credit stringency. Acceptances outstanding grew rapidly in 1979 and in early 1980, reaching $52.3 billion at the end of January. However, many large bank issuers have reached a level of acceptances outstanding close to their permissible limits. As a result, some banks apparently have now temporarily suspended the issuance of acceptances.

Business credit at finance companies fell $200 million in February (see table on page III-9). A decline in dealer inventories caused the wholesale automotive category to drop by $500 million. The weakness in March of commercial paper issuance by finance companies--along with further auto stock reductions--suggests that sluggish business lending by these institutions continued last month.

Gross public offerings of corporate notes and bonds remained on the light side in March, edging up to only $1.7 billion. Furthermore, private placements of corporate bonds likely continued at a low level. Investable funds at life insurance companies--the primary purchasers in the private placement market--have been curtailed by a surge in policy loans and by a lower than expected pace of contributions to insurer-managed pension fund accounts. With total mortgage commitments outstanding close to a record level, the latest available data (January) indicate a very sharp reduction by life companies in all types of loan commitments (see chart on page III-13). In fact, recent liquidity pressures have led several life companies to issue commercial paper, and others to draw on previously established bank lines of credit.

Aaa-rated corporate bond yields are currently well below their levels at the time of the March FOMC meeting, but yields on lower-rated obligations have declined by a smaller amount as investors have become more quality conscious. For example, the rate spread between newly issued A- and Aaa-rated utility bonds is currently about 150 basis points--up from 125 basis points in mid-March.

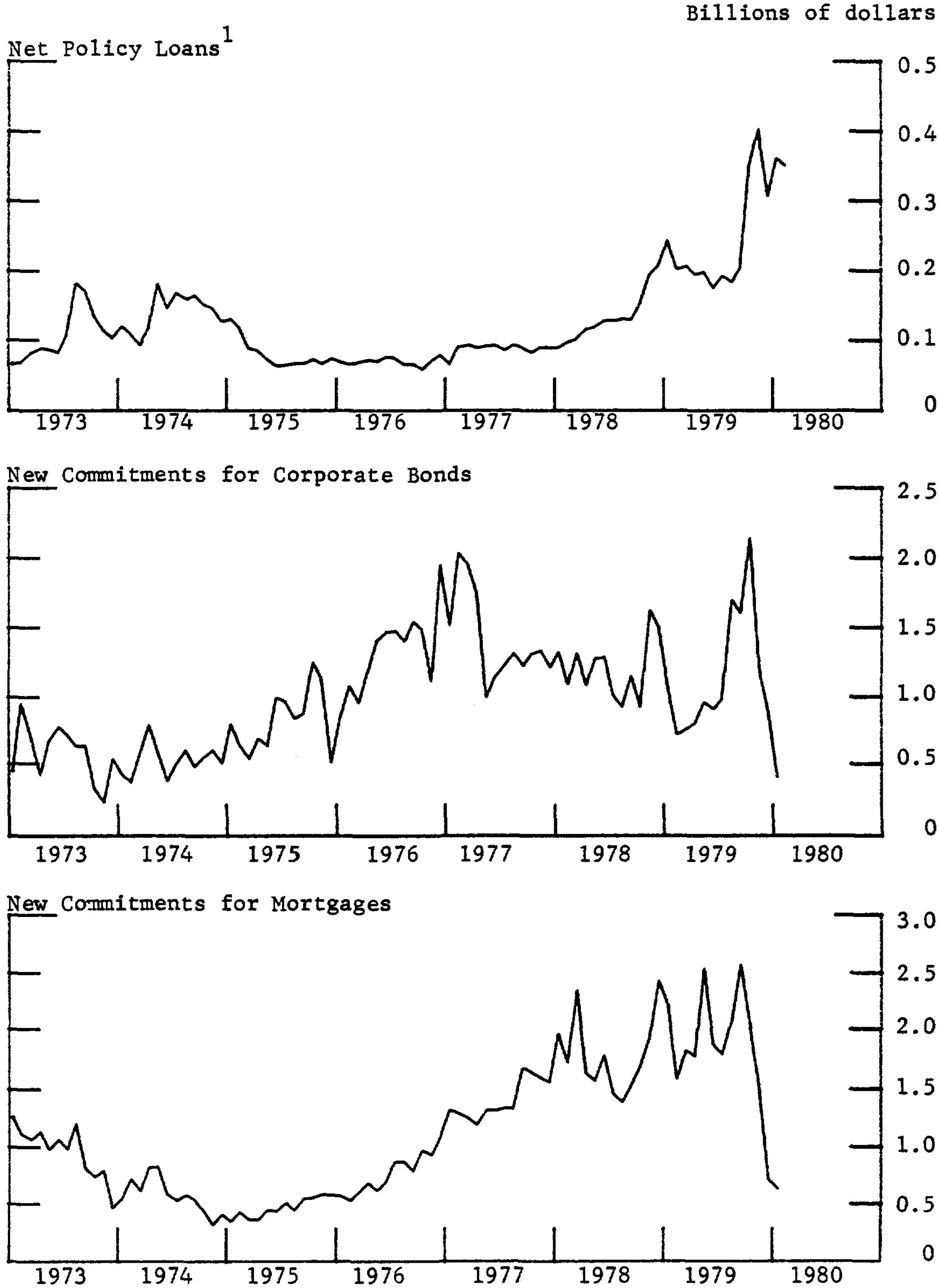
Stock prices continued to fall sharply in late March, but these declines were partially retraced in early April. On balance, major stock price indexes are 1 to 4 percent below their levels at the time of the March FOMC meeting. The volume of new equity issues has remained large, with the increase from last year's pace largely reflecting a pickup in industrial offerings. Since the amount of stock retired through mergers appears to have fallen off sharply, net stock issuance probably has increased even more markedly than gross offerings.

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

	1979 H1	1979 H2	1980 Q1[p]	1980 Mar.[p]	1980 Apr.[f]
	-------- Seasonally adjusted --------				
Corporate securities--total	4,370	4,160	4,165	3,825	3,950
Publicly offered bonds	2,190	2,110	1,875	1,725	1,825
Privately placed bonds	1,460	875	865	800	800
Stocks	720	1,175	1,425	1,300	1,325
	------ Not seasonally adjusted ------				
Publicly offered bonds--total	2,280	2,023	1,933	2,000	2,100
By quality[1]					
Aaa and Aa	1,225	1,120	1,010	760	--
Less than Aa[2]	1,055	903	923	1,240	--
By type of borrower					
Utility	700	825	1,175	1,405	--
Industrial[3]	635	753	455	495	--
Financial	945	445	303	100	--
Stocks	719	1,183	1,367	1,400	800
By industry group					
Utility	384	621	667	650	--
Industrial	251	408	617	650	--
Financial	84	154	83	100	--

p--preliminary. f--forecast.
1. Bonds categorized according to Moody's bond ratings.
2. Includes issues not rated by Moody's.
3. Includes equipment trust certificates.

POLICY LOANS AND NEW COMMITMENT ACTIVITY
AT LIFE INSURANCE COMPANIES
(Monthly, seasonally adjusted)



1. Policy loans at 15 large life insurance companies (approximately one-half of the industry total).
Latest data shown: Net policy loans-February 1980; New commitments-January 1980.

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

	1979		1980		
	H1	H2	QI[e]	March[e]	April[f]
			Seasonally adjusted		
State and local government securities, gross offerings					
Total	5.01	5.65	4.72	4.35	4.78
Long-term	3.41	3.82	2.75	2.45	3.05
Short-term	1.60	1.83	1.97	1.90	1.73
U.S. government securities, net offerings					
U.S. Treasury[1]	3.28	2.87	9.41	18.03	6.68
Sponsored agencies	2.22	1.74	3.06	5.23	3.05
			Not seasonally adjusted		
State and local government securities, gross offerings					
Total	5.43	5.82	4.30	4.40	6.80
Long-term	3.55	3.68	2.70	2.70	2.80
Housing revenue bonds	0.75	0.92	0.86	0.80	0.75
Single-family	0.57	0.61	0.76	0.72	0.70
Multi-family	0.18	0.31	0.10	0.08	0.05
Short-term	1.88	2.14	1.60	1.70	4.00
U.S. government securities, net offerings					
U.S. Treasury[1]	1.97	4.16	10.68	19.26	1.25
Bills	-0.35	2.13	7.78	18.46	-2.05
Coupons	2.32	2.03	2.90	0.80	3.30
Sponsored agencies	2.09	1.92	2.57	5.08	2.89

e--estimate. f--forecast.
1. Marketable issues only.

Government Debt Markets

The Treasury borrowed heavily in the market during March, since the first-quarter budget deficit was larger than expected and there were substantial redemptions of nonmarketable debt. Of the $19.3 billion (not seasonally adjusted) raised in the market by the Treasury in March, $16 billion was through cash management bills and another $2-1/2 billion in regular bill auctions. By the April FOMC meeting, $9 billion of additional new cash likely will be raised in sales of marketable debt.

Noncompetitive tenders have assumed unprecedented importance in recent Treasury auctions. During the first quarter, noncompetitive tenders totaled more than $22 billion--about $3 billion above the record pace of the last quarter of 1979. Such tenders were especially heavy in regular weekly bill auctions, where investors were attracted by the combination of high yields, safety, and liquidity.

Federally sponsored credit agencies borrowed $5.2 billion in March--more than double the monthly average for January and February. FHLBs raised about $2.3 billion, and FNMA borrowed $1.6 billion. (FNMA raised another $500 million in early April debenture offerings.) Federal Farm Credit Banks borrowed $1.3 billion during March--also primarily to finance mortgage lending activity; this rate was well above 1979's record average monthly pace. Total sponsored agency borrowing for the first quarter was $9.2 billion, exceeding the previous record of $8 billion set in the final quarter of last year.

Gross issuance of tax-exempt bonds slowed to about $2.5 billion in March--nearly $400 million below February's relatively low volume. Sharp increases in interest rates undoubtedly contributed to the further slackening. At these high rates, states and localities were unable--or unwilling--to issue 45 scheduled offerings totaling $800 million during March. Postponements during February and March together were about as large as in the three months following the Board's October 6 action. Although state interest rate limitations on municipal securities reportedly were responsible for half of the deferrals in March, the seven postponements attributed to unstable market conditions accounted for more than 60 percent of the dollar volume displaced. The volume of housing revenue bonds issued in March, however, was only slightly below that of February. In fact, single-family mortgage financing through the tax-exempt bond market increased, presumably reflecting the liberal transition rules included in the House-passed version of the bill dealing with such bonds.[1]

Mortgage Markets

Interest rates in mortgage markets stabilized or eased somewhat in mid-April, after establishing record highs earlier in the intermeeting period. In the primary market for conventional loans, average rates on new commitments remained over 16 percent in the week ended April 11--3-1/2 percentage points above the level in mid-February. Rates continued to be highest in the West (at 17 percent), but they averaged at least 16 percent

1. On March 26, the House passed legislation allowing restricted use of single-family revenue bonds, but only for two years according to a "sunset" clause. At the end of two years, the use of tax-exempt mortgage bonds must again be approved. The general transition rule would allow state housing agencies to issue $150 million of mortgage bonds minus any bonds already marketed under this rule, and would permit local authorities to issue mortgage bonds totaling the greater of $35 million or $50 per person. In both cases, mortgage commitments would have to be made by January 1, 1981. A special transition rule was approved that could result in the issuance of an estimated $800 million of mortgage revenue bonds by Kansas localities.

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

Period	Conventional home mortgages: Average rate on new commitments for 80% loans (percent)	Basis point change from month or week earlier	Spread[1] (basis points)	Percent of S&Ls[2] with mortgage funds in short supply
1979—High	12.90	—	+174	88
Low	10.38	—	+64	54
1979—Aug.	11.09	0	+160	77
Sept.	11.30	+21	+143	83
Oct.	11.64	+34	+79	83
Nov.	12.83	+119	+147	86
Dec.	12.90	+7	+132	85
1980—Jan.	12.88	-2	+118	85
Feb.	13.03	+15	-22	84
Mar.	15.28	+225	+139	89
Mar. 7	14.00	+41	+6	85
14	15.40	+140	+168	93
21	15.70	+30	+190	89
28	16.03	+33	+191	89
Apr. 4	16.35	+32	+242	88
11	16.35	0	+293	85

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

SECONDARY HOME MORTGAGE MARKET ACTIVITY

Period	FNMA auctions of forward purchase commitments: Conventional: Amount ($ millions): Offered	Accepted	Yield to FNMA[1]	Government-underwritten: Amount ($ millions): Offered	Accepted	Yield to FNMA[1]	Yields on GNMA-guaranteed mortgage-backed securities for immediate delivery[2]
1979—High	454	172	13.97	1,035	448	13.29	11.77
Low	19	18	10.92	37	19	10.42	9.51
1980—Mar. 3	324	73	15.36	535	178	15.26	13.58
10							13.57
17	426	114	17.00	443	149	15.73	13.84
24							14.17
31	168	52	17.51	289	100	15.93	13.78
Apr. 7							13.40
14	81	42	16.91	285	111	15.18	12.96

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

in all regions of the country.[1] Yields on purchase commitments for conventional home mortgages in the FNMA and FHLMC auctions have declined noticeably during recent weeks.

Market yields for government-underwritten loans also have turned down. Yields on FHA/VA loans, originated primarily by mortgage companies, have been determined largely by competitive pressures in GNMA-guaranteed security markets. For many investors these instruments are substitutes for Treasury and agency securities, on which yields have eased of late. In view of record market rates and substantial discount points being paid in early April, the Administration raised the ceiling rate for FHA/VA home loans a full percentage point to 14 percent.

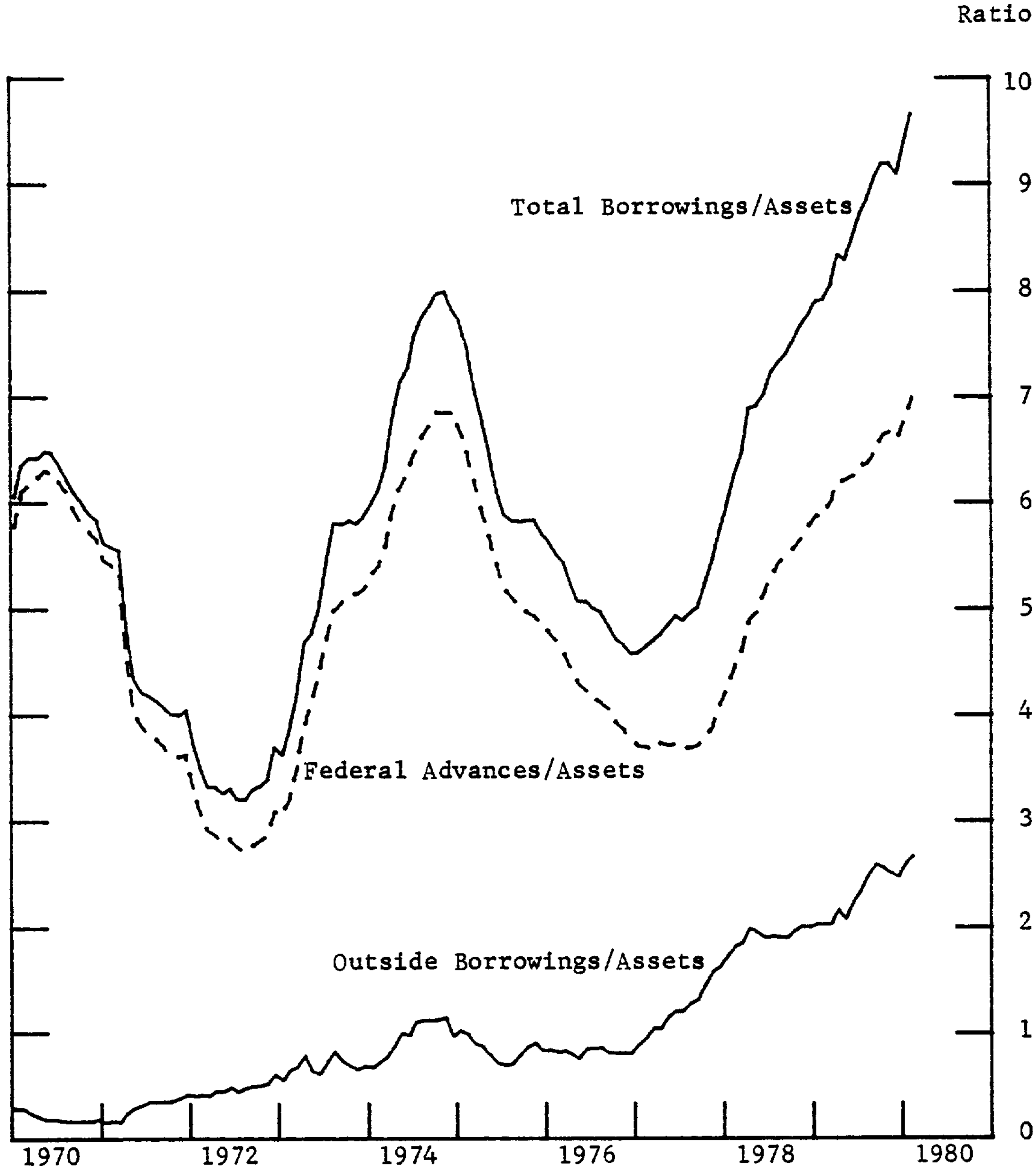
With conventional home mortgage rates remaining high at the same time that yields on corporate bonds fell, the spread between mortgage and corporate bond yields has widened to record levels. However, institutions that ordinarily are most sensitive to this spread have been strapped for investable funds and, consequently, have apparently not channeled additional money into mortgage markets. Mutual savings banks, on balance, lost deposits during the first quarter. Further, cash flow difficulties have discouraged new commitments for mortgage lending by life insurance companies. At life insurance companies, seasonally adjusted commitments outstanding to acquire all types of home mortgages--which peaked at $3.2 billion last September--had declined to $1.9 billion by the end of January.

1. Under provisions of the Depository Institutions Deregulation and Monetary Control Act of 1980, usury ceilings on most residential mortgages have been eliminated unless a state adopts a new usury limit prior to April 1983.

Other traditional suppliers of conventional mortgage credit also have shown signs of retrenchment. A special Federal Reserve Bank survey of 239 commercial banks ordinarily active in the residential mortgage market indicated that only three-fourths were still offering commitments for long-term home mortgages in mid-March. At savings and loans, mortgage commitments outstanding declined only slightly further in February as both new commitments and net mortgage acquisitions increased. However, new commitments likely fell sharply in March as deposit flows continued weak. According to biweekly FHLBB surveys of more than 120 large S&Ls, almost three-fourths of the associations tightened their commitment policies during the first half of March--in most cases by increasing mortgage rates charged. More than 50 percent of respondents reported additional tightening in the final two weeks of the month.

Reflecting cash flow pressures, thrift institutions borrowed heavily in March. Net advances by Federal Home Loan Banks totaled a record $3.6 billion last month. Some of this borrowing may have replaced issuance of commercial paper and large CDs. A few S&Ls recently suffered downgradings of their commercial paper, and outstanding S&L paper fell $300 million during the first quarter as a whole. Investors took a similarly negative view of savings and loan CDs. With the relative cost of such funds rising, S&Ls increased outstanding CDs by much less in March than earlier in the year. While the ratio of FHLB advances to total S&L assets is about equal to the peak reached in 1974, reliance on other borrowings has increased significantly since the last interest rate cycle. Meanwhile S&L holdings of liquid assets have remained relatively large as institutions hedged some of their MMC liabilities; in February, the liquidity ratio of all insured associations actually rose slightly.

BORROWINGS OF SAVINGS AND LOAN ASSOCIATIONS
RELATIVE TO ASSETS



To provide relief for S&Ls facing poor deposit flows and earnings difficulties, the FHLB System has recently taken several actions in addition to making substantial advances. These actions include lowering the minimum liquidity requirements, increasing and accelerating dividends paid to S&Ls on FHLB stock, and permitting federal S&Ls to offer "rollover" mortgages. In addition, a special program has been announced for subsidized advances to institutions experiencing severe difficulties.

Consumer Credit

The combination of the high cost of funds and statutory ceilings on finance rates clearly is discouraging consumer lending. The Board's March 14 credit restraint program has served to reinforce incentives for lenders to reduce consumer credit growth and made it politically and competitively easier to take tightening actions. Reports suggest that recent moves have been effective; many lenders have imposed measures ranging from stricter credit standards to higher fees on credit card accounts.[1]

Installment credit growth in February (the latest available data) rebounded to 9 percent from a much-reduced 5-1/4 percent pace in both December and January. However, the increase in outstandings resulted from a decline in liquidations of existing debt as well as a moderate increase in extensions. Finance companies--especially the subsidiaries of the auto makers--were the most active suppliers of consumer credit, accounting for 60 percent of the total expansion. Consumer credit contracted at credit unions for the fifth consecutive month. Growth of revolving credit (credit card accounts and bank overdraft credit) rose somewhat from

1. An appendix summarizes some of the actions that lenders have taken to curtail credit growth and to bolster revenues.

CONSUMER INSTALLMENT CREDIT[1]

	1978	1979	1979 Q3	1979 Q4	1980 Jan.	1980 Feb.[2] Revised (confidential)
Total						
Change in outstandings						
Billions of dollars	44.8	35.5	37.3	23.8	16.5	27.5
Percent	19.4	12.9	12.8	7.9	5.3	8.9
Bank share (percent)	53.1	37.8	32.7	21.4	31.6	34.1
Extensions						
Billions of dollars	298.4	322.6	332.3	319.3	320.4	324.9
Bank share (percent)	47.8	46.4	45.9	44.9	45.4	44.3
Liquidations						
Billions of dollars	253.5	287.1	294.9	295.6	304.0	297.4
Ratio to disposable income	17.4	17.7	18.0	17.6	17.9	17.2
Automobile credit						
Change in outstandings						
Billions of dollars	19.6	12.6	12.1	6.8	11.7	10.6
Percent	23.6	12.3	11.0	6.0	10.2	9.1
Extensions						
Billions of dollars	89.0	91.9	94.2	87.5	93.4	91.9

1. Quarterly and monthly dollar figures and related percent changes are seasonally adjusted annual rates.
2. Information received after the April 7 publication resulted in some downward revision of February data. The revised data **are confidential** pending their release.

the unusually low January pace, but remained moderate in comparison with most months during 1979.

Personal bankruptcies in the first quarter of 1980 rose to a level 22 percent above a year earlier after an unexpected drop in the previous quarter. This is in line with average increases throughout the first three quarters of 1979.

APPENDIX A*

RECENT CONSUMER LENDING POLICY CHANGES

Following the announcement on March 14 of the Board's program of restraint on certain types of consumer credit, a large number of creditors have announced changes in lending policies and credit terms. This appendix summarizes actions that have been reported by the press and trade sources. It is also noted that restrictive tendencies already had become prevalent prior to announcement of the Board's program.

Since March 14, a number of commercial banks, retailers, finance companies, and certain other lenders have moved to limit the expansion of consumer credit.[1] Profits of creditors have been placed under increasing pressure as costs of funds have escalated while finance rates have become constrained by statutory ceilings in a growing number of states. The Board's 15 percent special deposit requirement on covered credit in excess of base period amounts has further diminished prospects for profitable consumer lending.

The most frequent policy response among commercial banks has been to confine approval of new credit cards and certain kinds of loans to established customers, usually defined as those with specified deposit relationships. Ranking next in frequency have been reductions in the maximum amount of loans, overdraft credit lines, or credit card cash advances. Also often mentioned have been increasing minimum monthly payments on bank credit card accounts; limiting or eliminating credit line increases on existing accounts; raising credit standards for new loans or revolving credit accounts; imposing stricter policies in dealing with delinquent borrowers and with balances that exceed credit limits; and rejecting all new credit card accounts and applications for certain types of loans.

A number of banks have reduced advertising and other solicitations. In a few cases, existing credit card accounts have been cancelled on the basis of risk or geographic criteria. Some banks have refused to grant new credit cards or overdraft credit lines to customers who already hold one or more bank revolving credit accounts.

Meanwhile, some retail firms have increased minimum monthly repayments on open-end credit accounts, reduced new account solicitations, and raised the size of the minimum purchase that can be charged to a revolving

1. The Board's action on April 2 required that 30-day's notice be given of changes in certain credit terms on open-end credit accounts, and that account holders be allowed to repay outstanding debt in accord with the original terms of their contract. Since some creditors may have to revise their disclosures in order to comply with these additional requirements, some changes in credit terms and loan policies announced in the period between March 14 and April 2 could be altered.

*Prepared by James T. Fergus, Economist, Mortgage and Consumer Finance Section, Division of Research and Statistics.

credit account. Responses evidently have been more limited in number and scope for retailers than for banks, possibly because retailers are reluctant to alter credit arrangements that have proven satisfactory to their customers or because part of the costs of retailer credit services may be recouped through higher prices on some kinds of merchandise.

Three nationwide personal finance company chains are closing many of their offices in states where rate ceilings have become especially restrictive. A financing subsidiary of a major auto manufacturer indicated that that its credit standards have been tightened and that larger downpayments are being required from marginally qualified buyers.

Besides directly curtailing the volume of lending, many creditors have taken steps on the pricing side, both to limit growth in credit outstanding and to offset higher expenses and the prospective effects of the special deposit requirement. The most frequent action by commercial banks, where permitted by state law, has been to impose annual membership fees or initial charges for cash advances. Some banks have raised finance rates, instituted penalty fees for late payments or for exceeding credit lines, or have begun applying finance charges from the date of purchase rather than from the date of billing. One institution has established a transaction fee for each credit purchase or cash advance. Several banks have increased discount fees charged to process credit card receivables of merchants, while one bank has begun charging each retailer an annual fee in addition to the merchant discount. One retailer has raised its finance rates in several states where they were below statutory ceilings. Also, a major gasoline company has decided to apply finance charges from the date of purchase, and another is introducing a discount fee to be paid by dealers on certain kinds of credit card sales.

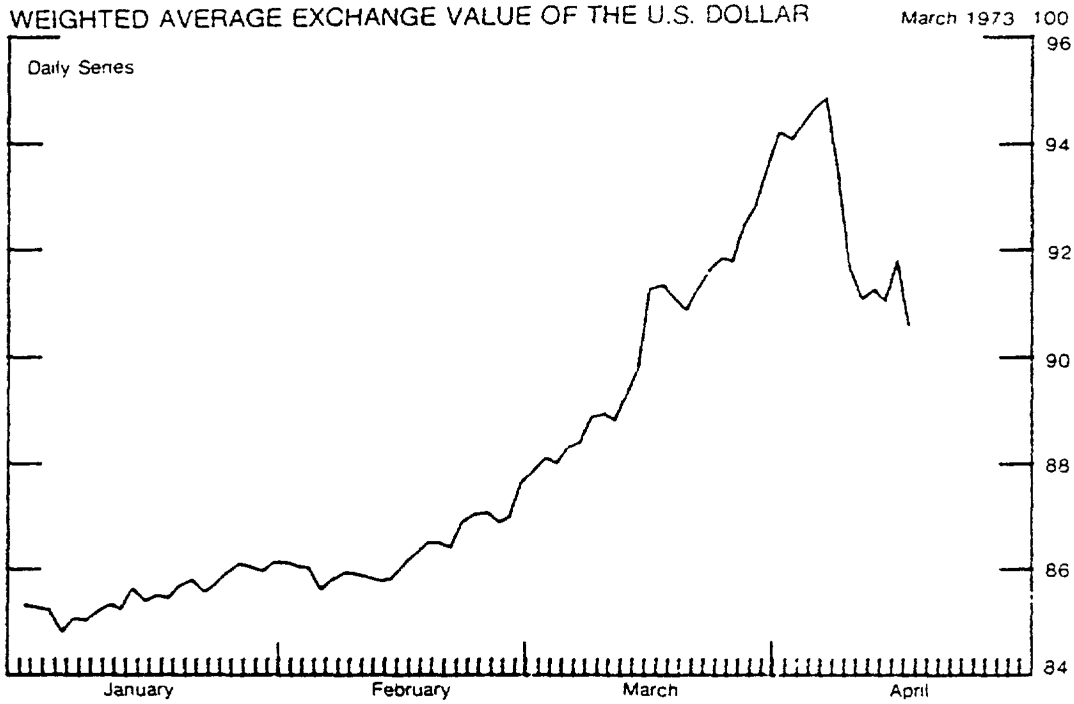
The availability of consumer credit had been under pressure well before mid-March, as costs of loanable funds rose above statutory rate ceilings in a growing number of states. Many of the restrictive actions noted at that time resemble measures announced in recent days. Research directors at the district Federal Reserve Banks reported early last November a broad tightening--apparent in all districts--in price and nonprice terms on consumer credit at various types of creditors. The Survey of Senior Bank Loan Officer Opinion, taken in mid-November, showed a sharp decrease in bank willingness to make consumer installment loans during the preceding three months. This restrictive tendency continued through mid-February, according to the survey taken at that time. Trade reports and news coverage for the period prior to March 14 also document a decline in the availability of consumer credit.

Furthermore, a sharp decrease in automobile installment credit availability has been noted recently in many areas. Major "captive" automobile finance companies and some commercial banks have attributed increased demand for auto loans at their institutions to a widespread withdrawal from the market of certain banks and other lenders. Although the Board's expectation that commercial banks will hold the growth of their aggregate lending during 1980 at 6 to 9 percent may have exerted some indirect impact, restrictions on the supply of auto credit mainly have reflected a profitability squeeze, since secured auto credit is exempted from the consumer credit restraint program.

Foreign exchange markets. The strong demand for dollars that emerged in late February and early March became even more buoyant after the March 14 announcement of new U.S. credit restraint measures. With the U.S. prime rate moving up from around 18-1/4 percent at mid-March to 20 percent in early April and Eurodollar rates also jumping to almost this level, dollar assets became attractive to foreign currency holders and maintaining short positions against the dollar became very costly. As illustrated in the chart, from mid-March through the first week in April the dollar's weighted average exchange value rose steadily and sometimes, on individual days, sharply. Between the time of the last green book on March 12 and the Easter weekend in early April, the dollar's average value rose by 6-1/2 percent. Gains were scored against all the major foreign currencies, including a 9 percent rise against the German mark, with the dollar reaching the DM 1.98 level. Against the yen, the dollar hovered for some time below the ¥ 250 level with intervention support for the yen from U.S. authorities, but later the dollar broke through to as high as ¥ 261 in early April, for a gain of 5-1/2 percent.

STRICTLY CONFIDENTIAL (FR)
Class II - FOMC

WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR



. In the period from mid-March through the first week of April, the Desk purchased a total of $1.7 billion equivalent of foreign currencies, mostly marks

.

As the dollar rose in late March, the German mark weakened relatively more than other currencies in the EMS arrangement and the mark dropped close to its 2-1/4 percent intervention margin against the French franc,

. The Belgian franc also was near the bottom of the EMS currency band

.

Early in Arpil exchange market attitudes toward the dollar became somewhat wary, and some participants came to expect a retrenchment after the earlier runup. Statements by former Bundesbank President Emminger that the appropriate value for the dollar was around DM 1.70 reinforced this view. Further, increasing numbers of participants came to believe that U.S. interest rates were either at or very close to their peaks. As signs loomed of an impending U.S. recession, it was felt that rates would soon decline. There was also an expectation that the Bundesbank would raise the German discount rate at its April 10 meeting. In addition, unsettling political factors reemerged after the Easter weekend with the U.S. diplomatic break with Iran, explusion of Iranian officials and increasing hostilities between Iran and Iraq.

By the second week of April, sentiment had deteriorated sufficiently that the dollar came under sharp and widespread selling pressure. During the week, trading in turbulent and sometimes disorderly conditions, the dollar dropped precipitously by more than 4 percent, giving up 5 percent against the mark and 2-1/2 percent against the Japanese yen. There were frequent reports of large-scale dollar sales by Middle East interests to purchase European currencies, especially the French franc, which remained the strongest of the EMS currencies.

The Desk's intervention support for the dollar was on a larger scale. During the second week of April, the Desk made net sales of foreign currencies equivalent to $766 million, mainly marks but also lesser amounts of Swiss and French francs. Financing of the intervention sales of marks was shared by the System and the Treasury. The System's share initially came from previously accumulated balances, but subsequently the System made renewed drawings on the Bundesbank swap line. The relatively small sales of Swiss francs were covered from System balances, and the

French franc sales, amounting to $47 million equivalent, were financed by drawing (for the first time since the second quarter of 1975) on the swap arrangement with the Bank of France.

Early in the third week of April, selling pressure on the dollar abated temporarily;

the Desk purchaed $24 million equivalent of marks to repay System swap debt. However on April 16, substantial downward pressure on the dollar resumed following the announcement by Chase Manhattan Bank of a reduction in its prime rate from 20 percent to 19-3/4 percent. The Desk entered the market to counter this pressure by selling $35 million equivalent of marks and $2 million equivalent of French francs.

On balance over the five week period since the last green book, the dollar's weighted average value rose about 2-1/2 percent; against the German mark the net rise was 3-1/2 percent.

. The Desk purchased, net, close to $1 billion equivalent of foreign currencies, of which more than $800 million equivalent were German marks, mainly for Treasury account. As a result of these developments, System swap debt with the Bundesbank now stands at $204 million equivalent, and that with the Bank of France at $49 million equivalent. The System's overall open position in foreign currencies stands at $775 million equivalent.

Gold prices oscillated between \$500 and \$560 for most of the interval since the last green book, ending the period near the mid-point of this range.

<u>Foreign claims of U.S.-chartered banks</u>. Claims on foreigners held by domestic offices and foreign branches of U.S. banks rose $29 billion (10.5 percent) in the second half of 1979, compared with $18 billion (7.7 percent) in the second half of 1978. This acceleration in the rate of net lending occurred in claims on both international financial centers (G-10 countries and offshore centers) and other areas of the world, including non-oil developing countries. Because of the slowing in net lending that had occurred in the first half of 1979, the 14-1/2 percent increase in claims in the year ending December 1979 was close to the 15 percent rise in the previous year adjusted for the mid-1978 change in reporting procedures (see note to table). Both these rates of increase were considerably below the pace of lending in 1976-77.

Contrary to the pattern of the preceding three years, total claims increased less in the fourth quarter of last year ($10-1/2 billion) than in the third ($18-1/2 billion). As was reported in the green book last month, events in the fourth quarter made lenders more cautious, and beginning in November there was a sharp contraction in the amount of new medium-term Eurocurrency loans announced. To some degree the slowing in U.S. bank net lending in the fourth quarter, based on changes in actual outstanding claims, may have reflected some of the same forces, including the Federal Reserve actions of October 6 and developments in U.S.-Iranian relations. The continued low level of announcements of new medium-term Eurocurrency loans in the first quarter of 1980 suggests that actual international lending in the first quarter may well show a considerable decline from the comparable 1979 level, although there are a number of differences between these two measures of international bank activity.

CLAIMS ON FOREIGNERS OF U.S.-CHARTERED BANKS
(Billions of dollars)

	1975	1976	1977	1978		1979	
	Dec.	Dec.	Dec.	June	Dec.	June	Dec.
I. Total Claims	167.1	206.8	241.4	247.1	266.1	275.3	304.3
II. Claims on International Financial Centers[1]	106.9	125.0	142.5	145.0	155.5	161.7	178.9
III. Claims on Other Countries	55.5	77.0	91.2	94.1	101.5	103.8	113.7
Smaller developed countries	10.8	15.0	18.6	19.4	19.4	18.2	19.9
Eastern Europe	3.7	5.2	6.3	6.4	6.9	6.7	7.8
Oil-exporting countries	6.9	12.6	17.6	19.2	22.7	22.7	22.8
Non-oil developing countries	34.1	44.2	48.7	49.1	52.5	56.2	63.2
Brazil	8.0	11.1	12.7	13.3	14.9	15.1	15.3
Mexico	9.0	11.7	11.9	11.0	10.8	11.0	12.3
Others	17.1	21.4	24.1	24.8	26.8	30.1	35.6
IV. Misc. & Unallocated	4.7	5.0	5.4	8.1	9.1	9.9	11.8

1. G-10 countries, Switzerland, and offshore banking centers.
General note: Beginning in June 1978, customer claims and foreign currency claims are excluded. These amounted to $10 billion in June 1978, $11.8 billion in December 1978.

U.S. banks' claims on countries other than international financial centers rose 9-1/2 percent ($10 billion) in the second half of 1979, compared with an increase of less than 8 percent a year earlier. However, in this case too the fourth quarter showed a deceleration in net lending, relative to the third quarter, rather than the usual acceleration. Claims on oil-exporting countries were almost unchanged during the second half of 1979, reflecting the greatly enlarged external surplus of those countries, but claims on all the other groups showed somewhat larger increases in the second half of 1979 than a year earlier. Among the non-oil developing countries, Brazil increased its debts to U.S. banks by less than a year earlier, but for most of the other countries the reverse was true. This was notably the case as regards Mexico. After declining throughout most of 1978 (from a peak in September 1977), U.S. bank claims on Mexico rose slightly in the first half of 1979 and more rapidly in the second half. Claims on Argentina, Korea and the Philippines also rose more in the second half of 1979 than in the comparable period of 1978.

U.S. International Transactions

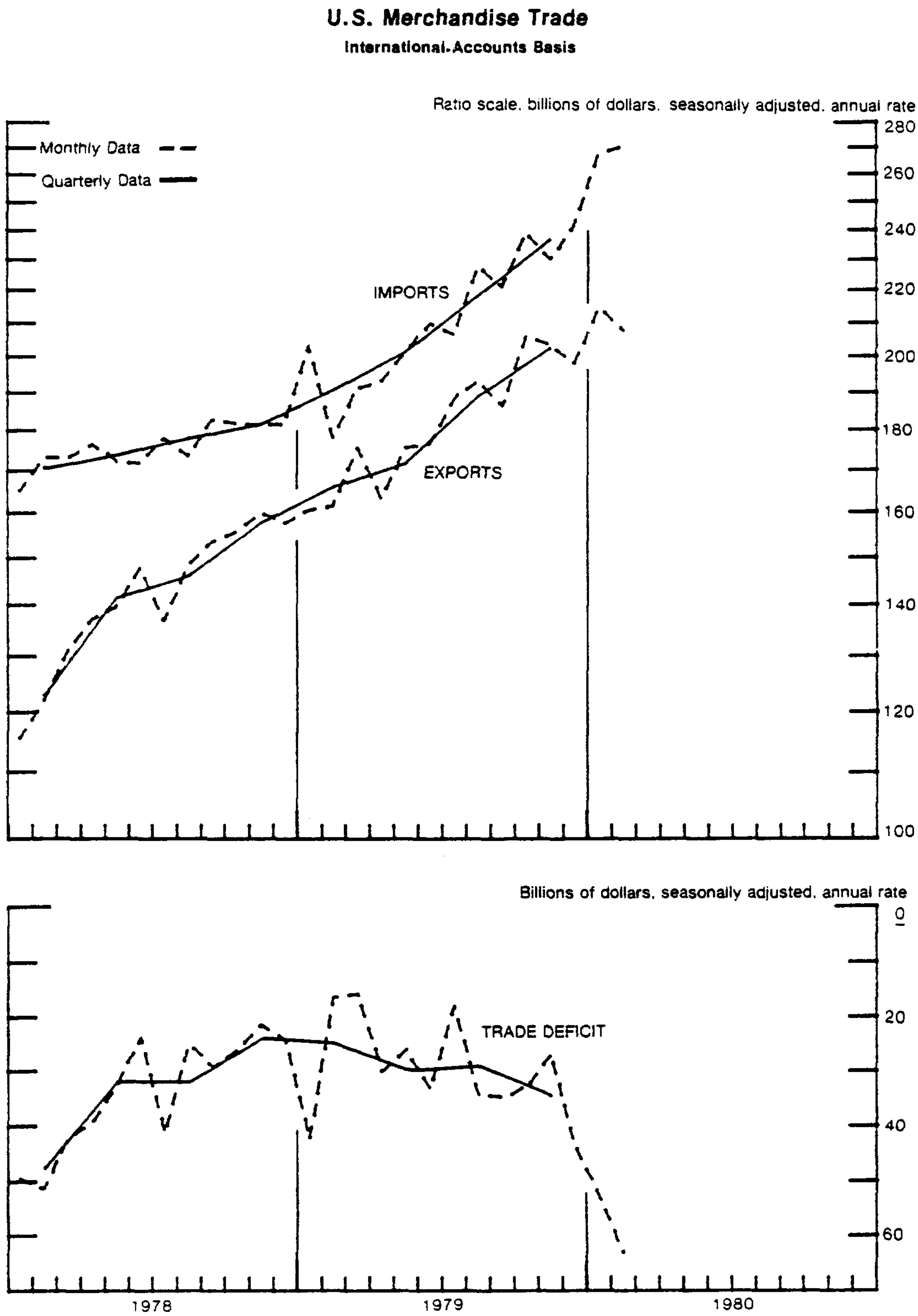
During the first two months of 1980 the U.S. merchandise trade deficit increased substantially to an annual rate of $58 billion (international accounts basis), nearly $25 billion larger than the rate in the fourth quarter. Imports grew about three times faster than exports. Both imports and exports appear to have been affected by the January/February run-up in commodity prices, which has since been reversed.

The rise in nonpetroleum imports in January/February was spread over most commodity categories, particularly industrial supplies, capital goods, foreign cars, and other consumer goods. About one quarter of the increase was related to high import prices for non-ferrous metals. Another one quarter may be attributed to unusual seasonal factors which should not persist in coming months. Steel imports returned to the third-quarter 1979 rate, after falling by five

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

	1979 r/	1979 r/				1980		
	Year	1Q	2Q	3Q	4Q	Jan.&Feb.	Jan. */	Feb. */
EXPORTS	182.1	165.7	171.6	188.9	202.1	210.7	214.3	207.1
Agric.	35.4	30.5	30.8	38.3	42.0	41.0	40.9	41.0
Nonagric.	146.7	135.3	140.7	150.6	160.0	169.8	173.4	166.1
IMPORTS	211.5	190.5	201.2	217.9	236.4	268.6	266.9	270.2
Petroleum	60.0	46.6	51.6	66.5	75.4	86.9	81.0	92.8
Nonpetroleum	151.5	144.0	149.6	151.5	161.0	181.7	185.9	177.4
BALANCE	-29.5	-24.8	-29.6	-29.0	-34.4	-57.8	-52.5	-63.1

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


U.S. Merchandise Trade
International-Accounts Basis
Ratio scale, billions of dollars, seasonally adjusted, annual rate
Monthly Data
Quarterly Data
IMPORTS
EXPORTS
280
260
240
220
200
180
160
140
120
100
Billions of dollars, seasonally adjusted, annual rate
TRADE DEFICIT
0
20
40
60
1978
1979
1980

percent in the fourth quarter. Although strong foreign car sales in January and February resulted in an additional draw-down of already low dealers' inventories, there are indications that various foreign manufacturers do not plan to increase further their shipments to the United States at this time, perhaps because of sensitivity about possible action to protect U.S. manufacturers.

Oil imports rose by $11-1/2 billion (annual rate) in January/ February from the fourth-quarter level. Sharply higher prices accounted for most of the increase. Even so, the price of February oil imports of $28.34 per barrel was still below the current level of world market prices; prices of March imports may be as much as 5 per cent higher. Import volume will likely drop from the January/February rate of 8.9 million barrels per day as winter demand tapers off (oil import data are not seasonally adjusted) and as consumption declines with higher prices and the slowdown in economic activity.

Nonagricultural exports rose by 6 per cent in January/February over the fourth-quarter rate. Much of the increase appears to have been in association with shipments of nonferrous metals other than gold. The rise in silver prices early this year also contributed to the sharp increase in the value of numismatic coin exports (recorded as consumer goods). Exports of other industrial supplies and consumer goods also increased, along with civilian aircraft and machinery. Shipments of automotive parts for assembly in Canada declined, reflecting the weak U.S. market for larger cars. The value of gold exports dropped off sharply from the fourth quarter. (The U.S. Treasury has not sold gold since November.)

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

		1978	1979	1979				1979	1980	
		Year	Year	Q1	Q2	Q3	Q4	Dec.	Jan.	Feb.
1.	Trade balance 1/	-33,759	-29,450	-6,197	-7,409	-7,248	-8,596	-3,622	-4,378	-5,257
2.	Merchandise exports	142,054	182,074	41,435	42,890	47,235	50,514	16,475	17,862	17,262
3.	Merchandise imports	-175,813	-211,524	-47,632	-50,299	-54,483	-59,110	-20,097	-22,240	-22,519
4	Change in net foreign positions of banking offices in U.S. (excl. liab. to foreign official inst.)	-14,975	14,860	14,557	5,053	538	-5,287	-13,062	8,723	5,553
	Through interbank transactions with									
5	a) Own offices in foreign countries	4,943	21,137	15,140	6,954	8,132	-9,089	-7,709	5,155	5,730
6	b) Unaffiliated banking offices in foreign countries	-4,560	3,646	836	-1,209	-2,345	6,364	-2,754	4,167	-1,070
	Through nonbank transactions									
7.	a) Claims on nonbanks in foreign countries (increase,-)	-16,434	-12,211	-1,018	-2,051	-5,257	-3,885	-2,689	519	-132
8	b) Liabilities to private nonbanks in foreign countries (inc. custody liab.)	1,076	2,287	-402	1,360	8	1,321	90	-1,118	1,025
9.	Private securities transactions, net (excl. U S. Treas. Oblig.)	-712	-3,639	-576	-81	-2,080	-902	-306	560	704
10.	Foreign net purchases of U.S. corp. bonds	1,127	308	1	279	6	22	-23	196	148
11.	Foreign net purchases of U.S. corp. stocks	1,686	1,035	424	274	143	194	142	669	1,038
12.	U.S. net purchases (-) of foreign securities	-3,525	-4,982	-1,001	-634	-2,229	-1,118	-425	-305	-482
13.	Foreign net purchases of U.S. Treasury obligations 2/	3,866	7,381	5,119	-119	1,460	921	-198	2,125	754
14.	Change in foreign official reserve assets in U S. (increase +)	31,400	-13,045	-8,082	-10,192	5,557	-328	8,146	-3,674	-862
	By Area									
15.	G-10 countries and Switzerland	29,951	-21,067	-7,096	-11,610	4,816	-7,177	4,410	-2,100	-1,654
16.	OPEC	-1,165	6,467	-1,472	346	1,624	5,969	2,319	-876	1,288
17.	All other countries	2,614	1,555	486	1,072	-883	880	1,417	-698	-496
	By Type									
18.	U.S. Treasury securities	23,849	-21,051	-7,695	-12,623	5,036	-5,769	3,842	1,726	-939
19.	Other 3/	7,551	8,006	-387	2,431	521	5,441	4,304	-5,400	77
20.	Change in U.S reserve assets (increase -)	662	-278	-3,008 4/	412	2,712	-394	333	-2,034 4/	122
21.	All other transactions and statistical discrepancy	13,518	24,170	-1,813	12,336	-939	14,586	8,709	-1,322	-1,014
MEMO:	Current Account (bil. $ seasonally adj., annual rates)	-13.5	-.3	1.1	-3.2	4.6	-3.7	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 repurchases agreements.
4/ Includes newly allocated SDR's of $1,103 million in Q1 1979 and $1,147 million in January 1980.

Agricultural exports averaged $41 billion (annual rate) in January and February, slightly below the record level in the fourth quarter. Shipments of wheat and feedgrains declined. However, the decline was less than anticipated in the wake of the embargo of shipments of U.S. grain to the U.S.S.R. announced by the President on January 4 and the subsequent refusal of longshoremen on the East and Gulf coasts to load non-embargoed grain bound for the Soviet Union. U.S. agricultural exports have been higher than expected because more grain than was anticipated has been reaching the U.S.S.R. Other countries, mainly Argentina, have boosted shipments to the U.S.S.R. and U.S. exporters have picked up sales to traditional Argentine markets. In spite of the strong export performance, grain prices have declined 5-10 per cent since the announcement of the embargo. At the end of March, the government had acquired only about 1.3 MMmt of the 13 MMmt under contract to the U.S.S.R. that the administration agreed to buy.

Foreign official assets in the United States fell by somewhat less than $1 billion in February.

. OPEC assets held at the FRBNY increased by about $1 billion in March.

In February, net inflows of funds through banks were again modest when measured on a daily average basis, although a substantial inflow apparently related to month-end transactions appears in the balance-of-payments data. Partial data for March indicate that substantial net inflows through banks did develop last month. Net foreign purchases of U.S. corporate stock in January and February totalled $1.7 billion -- exceeding the total for all of 1978 or 1979.

U.S. nonbank holdings of Eurodollars are estimated to have risen by $1.2 billion to $48.3 billion in February, after rising by $7.2 billion in January. Partial data for March indicate that Eurodollar CD holdings of open-ended money-market mutual funds and short-term unit investment trusts declined sharply; at the end of the month they amounted to $8.1 billion, which was just slightly more than at the beginning of the year. In February these holdings had reached a level of $10 billion.

Foreign Economic Developments. Economic activity remains strong in Japan, Germany, and Italy. Industrial production rose sharply in Japan and Italy in February. In Germany industrial production remained at a high level through February. Real GDP growth slowed but remained positive during 1979-QIV in Canada, France and the United Kingdom. Preliminary data indicate that real activity has slowed further in France during 1980-QI and in the United Kingdom may have declined.

Inflation rates remain high abroad, but in many cases were slightly lower for the most recent months than the very high levels experienced at the beginning of the year. This was the case for both retail and wholesale prices in the United Kingdom and in Italy (where the high January CPI rise was in part due to increases in regulated prices) and for the CPI in Germany, Belgium, and Sweden.

Policy measures directed primarily against inflation were announced during March by authorities in several foreign countries. The budget for fiscal year 1980/81 was presented by the government in the United Kingdom. It called for continued adherence to a monetary growth rate target and a tightening of fiscal policy. The Bank of Japan again raised its discount rate, announced higher reserve ratios, and set reduced limits for bank lending growth. In Germany the Bundesbank continued to pursue a tight monetary policy. In addition, the government is trying to reduce expenditure levels generally so that increased defense spending and increased foreign assistance (esp. for Turkey) will not result in a larger budget deficit.

In response to the fact that 1979 monetary growth exceeded the target, the Bank of France increased the quantity of bank credits

CONSUMER AND WHOLESALE PRICES IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change, from previous period or as indicated)

				1978	1979				1980	Latest 3 Months from:		
	1977	1978	1979	Q4	Q1	Q2	Q3	Q4	Q1	Previous 3 Months (at Ann. Rate)	Year Ago	Latest Month
Canada: CPI	8.0	8.9	9.1	1.6	2.3	2.6	2.0	2.3	n.a.	8.9	9.6	Feb.
WPI	7.9	9.2	14.4	3.3	4.9	3.1	2.7	3.6	n.a.	20.0	15.7	Feb.
France: CPI	9.5	9.2	10.6	2.1	2.2	2.8	3.2	2.8	n.a.	13.8	12.7	Feb.
WPI	5.6	4.3	13.3	2.9	4.4	3.8	2.8	1.8	n.a.	9.9	13.0	Feb.
Germany: CPI	3.9	2.6	4.0	0.1	1.8	1.4	1.2	0.9	1.9	7.7	5.5	Mar.
WPI	1.8	-0.3	7.1	0.1	3.4	3.3	1.7	1.1	n.a.	13.3	10.7	Feb.
Italy: CPI	18.4	12.1	14.8	3.0	3.9	3.7	3.5	5.6	6.4	27.1	20.1	Mar.
WPI	17.4	8.4	15.5	2.2	4.4	4.6	4.3	5.6	n.a.	27.8	22.4	Feb.
Japan: CPI	8.3	4.3	3.5	0.2	-0.2	2.2	0.9	1.9	1.9	7.8	7.1	Mar.
WPI	1.9	-2.5	7.3	-0.6	1.9	4.1	4.9	4.3	6.4	28.3	21.2	Mar.
United Kingdom: CPI	15.8	8.3	13.4	1.7	3.1	3.7	6.7	2.8	n.a.	16.2	18.2	Feb.
WPI	19.8	9.1	12.2	1.7	2.7	4.0	5.0	3.0	5.3	22.8	18.4	Mar.
United States: CPI	6.5	7.6	11.3	2.0	2.5	3.4	3.3	2.9	n.a.	14.4	13.8	Feb.
WPI	6.1	7.7	11.0	2.3	3.3	2.5	2.6	3.7	4.0	17.2	13.4	Mar.

REAL GNP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period, seasonally adjusted)

		1977	1978	1979	1978 Q4	1979 Q1	1979 Q2	1979 Q3	1979 Q4	1979 Sept.	1979 Oct.	1979 Nov.	1979 Dec.	1980 Jan.	1980 Feb.
Canada:	GNP	2.4	3.4	2.9	0.7	1.5	-0.6	1.1	0.2	*	*	*	*	*	*
	IP	4.0	5.3	4.7	2.6	1.4	-1.2	2.3	-0.8	2.4	-1.4	-0.3	-1.9	0.3	n.a.
France:	GDP	3.0	3.5	3.6	1.8	0.2	0.4	1.9	0.7	*	*	*	*	*	*
	IP	2.0	1.9	3.9	1.8	0.0	0.5	4.3	-1.9	-2.2	-1.5	0.8	1.5	-1.5	n.a.
Germany:	GNP	2.6	3.5	4.3	0.8	0.4	2.0	1.1	0.7	*	*	*	*	*	*
	IP	2.6	2.3	5.3	0.8	-0.3	3.4	1.9	0.0	0.8	0.8	0.0	0.0	0.8	0.0
Italy:	GDP	2.0	2.6	n.a.	2.9	1.1	-0.7	1.0	n.a.	*	*	*	*	*	*
	IP	1.1	1.9	6.3	6.1	1.1	-2.6	1.4	7.8	6.0	3.8	0.6	-1.3	0.8	3.8
Japan:	GNP	5.4	6.0	5.9	1.6	1.5	1.7	1.7	1.3	*	*	*	*	*	*
	IP	4.2	6.2	8.3	2.2	1.8	2.4	2.0	2.6	-1.5	2.6	1.2	-0.2	1.2	3.9
United Kingdom:	GDP	1.8	2.7	1.7	0.2	-0.7	3.2	-1.7	0.3	*	*	*	*	*	*
	IP	3.7	3.8	2.7	-0.9	-0.2	4.2	-1.4	-0.2	-1.2	0.8	2.2	-1.8	-0.3	n.a.
United States:	GNP	5.3	4.4	2.3	1.4	0.3	-0.6	0.8	0.5	*	*	*	*	*	*
	IP	5.9	5.8	4.1	1.9	1.0	-0.2	0.2	-0.1	0.5	-0.1	-0.1	0.1	0.3	-0.2

* 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)

			1978		1979				1979	1980	
	1978	1979	Q3	Q4	Q1	Q2	Q3	Q4	Dec.	Jan.	Feb.
Canada: Trade	3.1	3.4	0.6	0.7	0.6	0.6	0.9	1.3	0.6	0.3	0.7
Current Account	-4.6	-4.3	-1.2	-1.5	-1.2	-1.3	-0.9	-0.9	*	*	*
France: Trade[b]	0.7	-2.4	0.2	0.1	0.3	-0.4	-1.4	-1.3	-0.2	-1.1	-1.0
Current Account[b]	3.7	1.5	0.9	1.3	0.6	0.7	0.1	0.1	*	*	*
Germany: Trade	20.6	12.1	5.2	5.8	4.4	4.0	2.4	1.4	0.2	0.7	n.a.
Current Account[c]	8.9	-5.0	0.2	4.8	1.4	-1.1	-4.2	-1.1	-0.3	-1.2	-1.4
Italy: Trade	-0.5	-5.3	-1.0	0.1	-0.1	-0.4	-1.5	-3.3	-1.4	-1.7	-1.4
Current Account[c]	6.4	5.2	2.5	1.7	1.1	2.1	3.9	-1.9	*	*	*
Japan: Trade	24.6	2.0	6.8	4.2	2.5	1.9	-1.0	-1.4	-0.3	-0.2	-0.4
Current Account	16.5	-8.7	4.5	1.7	0.1	-0.7	-3.9	-4.2	-1.3	-1.2	-1.5
United Kingdom: Trade	-2.9	-7.3	-0.9	-0.4	-3.2	-1.0	-1.1	-1.6	-0.6	-0.7	-0.5
Current Account	1.8	-5.1	0.5	1.1	-2.4	-0.6	-0.5	-1.5	-0.4	-0.6	-0.4
United States: Trade	-33.8	-29.4	-7.9	-6.0	-6.2	-7.4	-7.2	-8.6	-3.6	-4.4	-5.3
Current Account	-13.5	- 0.3	-3.2	0.1	0.3	-0.8	1.1	-0.9	*	*	*

a The current account includes goods, services, and private and official transfers.
b French annual data are not seasonally adjusted.
c Not seasonally adjusted.
* Comparable monthly current account data are not published.

subject to credit controls. Similarly, the Bank of Italy announced new regulations to enforce its bank credit ceilings. The Swedish government has declared a temporary general price freeze while a new central wage settlement is being negotiated. The Dutch government has adopted a new wage control policy. The Belgian National Bank raised its discount rate again, from 12 to 14 percent.

Individual Country Notes. The government budget for the United Kingdom for fiscal year 1980/81 beginning April 1 was presented by Chancellor of the Exchequer Geoffrey Howe on March 26. It provides that the Public Sector Borrowing Requirement (PSBR) will be reduced from £9 billion (or 4.75 percent of GDP) in FY 1979/80 to £8.5 billion this fiscal year as the result of a net 1 percent cut in real government spending and increased revenue from higher excise taxes and the petroleum revenue tax which more than offset lost revenues due to higher income tax exemptions. It also included the announcement that the £M3 target growth rate will remain at 7 to 11 percent, but the base will be shifted from mid-June 1979 to mid-February 1980 and that the "corset" reserve requirement on the growth of interest-bearing liabilities above prescribed limits will end on June 18. The budget also includes for the first time medium-term targets for the main monetary and fiscal aggregates. These provisions provide that by FY 1983/84 the rate of growth of £M3 will decrease to 6 percent, real public spending will fall by 4 percent, and the PSBR will decrease to between 1 and 2 percent of GDP.

In 1979-QIV, real GDP in the United Kingdom increased by only 0.3 percent. While the volume of retail sales rose in January and

February, the decline in industrial production in January and the strike against the British Steel Corporation suggest that real GDP declined in the first quarter of this year. The 13-week strike was ended on April 1 after workers accepted a settlement worth nearly 18 percent in wage increases and other benefits. Both retail and wholesale prices rose 1.4 percent (n.s.a.) in February. A 5-1/2 percent increase in the volume of exports was the main factor contributing to a reduction in February in both trade and current-account deficits.

Despite previous contractionary measures, activity in Japan has remained very strong. A large increase in the preliminary figure for industrial production in February brought that index to a level more than 12 percent above its level in February 1979. Moreover, there are indications that this figure will be revised upwards. Demand also appears to have remained relatively buoyant, at least through February, with exports and private investment providing the major strength. Wholesale prices rose 2.6 percent in February (an annual rate of more than 30 percent), the largest monthly increase since early 1974. Increases in consumer prices continue to be more moderate, but still significant; in the first quarter the Tokyo CPI rose almost 2 percent above its 1979-QIV level. Larger increases are expected in coming months, as recently announced increases in utility tariffs and the latest wholesale price rises are passed on to consumers.

The Japanese authorities continued to tighten monetary policy in March in an effort to bring both inflationary pressure and downward pressure on the yen under control. For the second time this year, on March 19 the discount rate was raised by 1.75 percentage points to 9 percent, its highest level since shortly after the 1973 oil crisis. Reserve ratios were raised again, effective April 1, and lending limits for the large city banks in the second quarter were increased by approximately 85 percent of the corresponding increase a year ago. The new limits will constrain bank lending to an estimated 6 percent increase by the end of June over year-earlier levels. In mid-March, coupled with a pronouncement that "the price situation had entered an extremely serious phase," the government also announced a package of anti-inflation measures. These included deferral of some government expenditure, cuts in telephone rates, closer surveillance of prices, release of commodity stockpiles, and further promotion of energy conservation measures. Capital-account measures taken in March to help support the yen appeared to have had, at best, a very limited and temporary effect, as the yen depreciated well beyond the 250¥/$ point in the early days of this month. An important factor in the downward pressure on the yen was the continuation of very large deficits in Japan's current account. The February deficit (s.a.) was slightly less than $1.5 billion, a decline of about $200 million from the January level.

While there are some indications that economic activity is levelling off in Germany, there are as yet no signs of the sharp slowdown expected for later this year. Total industrial production through February increased slightly above the relatively high level of late last year while the rate of unemployment has remained at 3.5 percent since late last year. Business climate indicators remain unchanged; demand for investment goods continues strong. However, automobile sales have dropped somewhat during February and March; and the volume of orders, especially from abroad, has declined somewhat recently. The rate of inflation, as measured by the consumer price index, was 0.6 percent in March after a sharp price rise of 1.1 percent in February. This puts consumer prices in the first quarter of this year 5.5 percent above their year ago level. The wholesale and producers price indices have risen even more rapidly and in February were 10.9 and 7.9 percent respectively above their year-ago levels.

Economic activity in Italy in the early part of 1980 continued the rapid expansion shown at the end of last year; in January and February industrial production averaged 3 percent over the previous two-month level. The consumer price inflation rate slowed to 1.7 percent in February and 0.9 percent in March, after its 3.3 percent pace in January. The January increase reflected in part energy price increases, quarterly rent adjustments, and public utility charge increases. The deterioration in the trade account that began at the end of last year persisted into this year. For November-February the average monthly customs trade deficit (s.a. imports c.i.f.) was $1.5 billion, compared to $120 million for the previous three months.

On March 14 the Bank of Italy announced new regulations to enforce its bank credit ceilings. Banks will be required to make non-interest-bearing deposits at the central bank, varying from 10 to 50 percent of the amount by which loans are in excess of the ceilings. The measure was taken in response to strong loan demand, reflecting strong economic activity, which induced some banks to exceed their lending limits.

French real GDP growth in 1979-QIV slowed to 0.7 percent (s.a.) from 1.9 percent in the previous quarter. January industrial production figures and survey data indicate that growth will slow further the first quarter of this year, but probably will not stagnate. Consumer prices and wholesale prices have surged in the first two months of the year, increasing by 3 percent and 2.8 percent respectively. For January and February, the French trade deficit was more than $2 billion, a figure which represents roughly the magnitude of the deficit for all of 1979. Although the franc has weakened considerably with respect to the dollar in the past month, it has risen to the top of the EMS.

French money growth was over 14 percent in 1979, more than 3 percent above the 11 percent target. The excessive growth was primarily due to rapid growth in credit for activities not fully integrated into the credit control system. In an effort to deal with this excessive growth, the Bank of France increased from 40 to 50 percent the fraction of formerly excluded credit which must be included in controlled credit. In the middle of March the Bank suspended its policy of daily intervention in one month treasury bills; since then it has been conducting intervention in seven day repurchases at 13 percent.

Economic activity in Canada continues to show some strength. After falling for three successive months, industrial production rose slightly in January. There is some preliminary evidence that inventory accumulation, although slowing, remained positive in 1980-QI. The Bank Rate as of April 10 was 16.2 percent. This represents a 2.2 percentage point increase since the Bank of Canada moved on March 13 to a system whereby the bank rate floats at 1/4 percent above the yield on 91-day treasury bills.

On March 27 the Swedish government announced a general price freeze until May 9 in order to facilitate a new central wage settlement which would directly cover 35 percent of the private sector labor force. The government said it would consider an extension of the freeze through the end of the year if such action were needed. Swedish consumer prices accelerated during the second half of 1979 and then rose by almost 5 percent from December to February. In the Netherlands parliament approved on March 22 the government's wage control bill which will reduce by one-half the semi-annual cost of living adjustment in wages and welfare payments. The new wage control policy results from the failure of union-business-government negotiations during the wage freeze that was in force from January 10 to March 10. The trade deficit for January and February in Switzerland was $1.25 billion. This figure exceeds that for the first two quarters of 1979 and suggests that the Swiss current-account balance has become negative.