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CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

April 11, 1973

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	Mar.	4/6	88.3	9.6	4.6	2.3
Unemployment rate	Mar.	4/6	5.0	5.1[1/]	5.1[1/]	5.9[1/]
Insured unemployment rate	Feb.	3/26	2.7	2.7[1/]	3.3[1/]	3.5[1/]
Nonfarm employment, payroll (mil.)	Mar.	4/6	74.9	3.0	4.7	4.0
Manufacturing	Mar.	4/6	19.6	2.6	4.1	5.0
Nonmanufacturing	Mar.	4/6	55.3	3.2	4.9	3.7
Private nonfarm:						
Average weekly hours (hours)	Mar.	4/6	37.2	37.2[1/]	37.0[1/]	37.1[1/]
Hourly earnings ($)	Mar.	4/6	3.80	6.3	5.3	5.8
Manufacturing:						
Average weekly hours (hours)	Mar.	4/6	40.9	40.9[1/]	40.7[1/]	40.4[1/]
Unit labor cost (1967=100)	Feb.	3/27	122.5	13.9	8.3	2.5
Consumer prices (1967=100)	Feb.	3/21	128.9	9.5	6.1	3.9
Food	Feb.	3/21	131.5	26.1	16.5	7.3
Commodities except food	Feb.	3/21	121.3	6.0	3.0	2.6
Services 2/	Feb.	3/21	136.2	4.4	3.9	3.3
Wholesale prices (1967=100)	Mar.	4/5	129.4	26.8	19.9	10.5
Industrial commodities	Mar.	4/5	122.5	14.0	9.9	5.0
Farm products & foods & feeds	Mar.	4/5	148.4	56.7	45.0	25.1
Personal income ($ bil.)[3/]	Feb.	3/19	993.9	10.1	7.3	9.4
				(Not At Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Feb.	3/30	39.8	1.0	5.8	22.6
Capital goods industries:	Feb.	3/30	12.0	-2.7	2.8	20.4
Nondefense	Feb.	3/30	10.0	-4.0	2.6	22.2
Defense	Feb.	3/30	2.0	4.1	3.8	12.1
Inventories to sales ratio:						
Manufacturing	Feb.	3/30	1.57	1.57[1/]	1.60[1/]	1.73[1/]
Ratio: Mfrs.' durable goods inventories to unfilled orders	Feb.	3/30	.845	.855[1/]	.870[1/]	.937[1/]
Retail sales, total ($ bil.)	Mar.	4/10	42.3	2.3	7.2	16.0
GAF	Mar.	4/10	11.2	3.7	11.0	16.0
Auto sales, total (mil. units)[3/]	Mar.	4/5	12.63	6.1	7.3	25.2
Domestic models	Mar.	4/5	10.64	7.5	7.7	24.9
Foreign models	Mar.	4/5	1.98	-0.6	5.5	26.8
Housing starts, private (thou.)[3/]	Feb.	3/16	2,444	-2.1	2.0	-3.8
Leading indicators (1967=100)	Feb.	3/27	158.7	1.8	4.3	17.6

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

The most striking developments in the domestic economy in the first quarter were a sharp upsurge of consumer spending and an exceptionally large and widespread increase in prices, led by farm products and foods. The staff is now estimating a rise of $40 billion, or about 13.5 per cent annual rate, in nominal GNP in the first quarter. Real GNP is estimated to have increased at a 7 per cent rate and the implicit deflator--and the private fixed weight index, as well--at a 6-1/4 per cent rate. All of these estimates--particularly for prices--are higher than four weeks ago.

With retail sales rising sharply further in March--up almost 2-1/2 per cent, according to the advance report--on top of large upward revisions for the previous two months, we are now estimating an increase in consumer outlays of nearly $28 billion for the first quarter, $6 billion more than in the last Greenbook. Retail sales for the quarter as a whole were up 6 per cent from the preceding quarter, the most rapid advance since the Korean War.

While a considerable part of this increase reflected sharply higher prices, especially for foods, real consumer outlays also rose very rapidly, particularly for durable goods. Unit auto sales reached a new high in March, at an annual rate of 12.6 million (10.6 million domestic-type), and were also at a record rate for the quarter as a whole. A slower rise in consumer spending in the months ahead is suggested by recent consumer surveys which indicate a deterioration in appraisals of future prospects and also growing expectations of further inflation.

Because of the unexpectedly large increase in consumer spending, inventory investment in the first quarter is likely to have been smaller than in the fourth quarter. The book value of inventories through February was rising rapidly, but much of the increase reflected higher prices.

Industrial output and employment rose appreciably further last quarter. Industrial production is tentatively estimated to have risen about 0.5 per cent in March, with increases in business equipment, consumer nondurable goods, and some materials. For the first quarter as a whole, the rise in industrial output is estimated at an annual rate of about 8 per cent. There are indications that output is now pressing against immediately available capacity in a number of important industries, especially in the intermediate materials lines. Nonfarm payroll employment also rose considerably further in March, following an exceptionally large increase in February. For the quarter as a whole, the increase was at an annual rate of 3.2 million. But the labor force has also grown rapidly in recent months, and the unemployment rate has remained at around 5 per cent.

Wage rates have been rising more moderately since late last year; for the first quarter as a whole, the hourly earnings index was up about 5-1/2 per cent from a year earlier. Prices have been rising at exceptionally rapid rates, however, and real hourly and weekly earnings have declined somewhat since last fall. Wholesale prices of farm products and foods, paced by livestock and meats, rose almost 5 per cent in March and late in the month ceilings were imposed on meat prices. Prices of industrial commodities rose 1.2 per cent, following an increase of 1 per cent in the preceding month. The incidence of increases among commodity groups was exceptionally high.

Outlook. The staff is now assuming growth in the monetary aggregates consistent with expansion in M_1 at a 5 - 5-1/2 per cent annual rate this year, with some further rise in short-term market rates likely by year-end. The Federal spending assumptions of the preceding projection are essentially unchanged.

For the remaining three quarters of 1973, the present projection differs only a little from that of four weeks ago. Growth in real GNP is projected to slow to an annual rate of 3.8 per cent by the fourth quarter and the unemployment rate is still expected to edge down to 4.7 per cent. Consumer spending is now projected to increase a little less rapidly in the middle quarters of the year, following the exceptionally strong first quarter. On the other hand, inventory investment is expected to increase more rapidly, making up for the unintended first quarter shortfall.

The rise in the private GNP fixed weight price index is now projected to slow at an annual rate of 4.5 per cent in the second quarter, on the assumption that the increase in food prices will moderate considerably. This increase is somewhat more than had been projected four weeks ago. In the second half of the year, this index of prices is projected to rise at an average annual rate of about 4.5 per cent also.

Taking into account the upward revisions for the first quarter, the figures for the year as a whole now show somewhat more expansion in nominal GNP, mainly due to a larger rise in prices. The projected increase in real GNP over the year is little changed from that of four weeks ago.

STAFF GNP PROJECTIONS

Date	Change in nominal GNP $ billion		Per cent increase, annual rate: Real GNP		Per cent increase, annual rate: Private GNP fixed weight price index		Unemployment rate	
	3/14/73	Current	3/14/73	Current	3/14/73	Current	3/14/73	Current
1971 1/	74.0	74.0	2.7	2.7	4.5	4.5	5.9	5.9
1972 1/	101.4	101.4	6.4	6.4	3.3	3.3	5.6	5.6
1973	124.4	128.8	6.6	6.7	4.0	4.3	4.8	4.8
1972-I 1/	31.0	31.0	6.5	6.5	4.5	4.5	5.8	5.8
-II 1/	30.3	30.3	9.4	9.4	2.5	2.5	5.7	5.7
-III 1/	24.6	24.6	6.3	6.3	2.9	2.9	5.6	5.6
-IV 1/	30.9	30.9	8.0	8.0	3.1	3.1	5.3	5.3
1973-I	36.8	40.1	6.5	7.0	5.1	6.2	5.0	5.0
-II	31.3	32.5	6.2	6.1	4.0	4.5	4.9	4.9
-III	28.5	29.0	4.8	4.8	4.3	4.3	4.8	4.8
-IV	27.2	27.0	3.9	3.8	4.6	4.6	4.7	4.7
Change: 1972-IV to 1973-IV	123.8	128.6	5.4	5.5	4.6	5.0	-.6	-.6

1/ Actual.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarter figures at annual rates.)

	1972	1973 Proj.	1972 III	1972 IV	1973 Projected I	1973 Projected II	1973 Projected III	1973 Projected IV
Gross National Product	1151.8	1280.6	1164.0	1194.9	1235.0	1267.5	1296.5	1323.5
Final purchases	1145.9	1267.1	1156.0	1184.6	1228.3	1254.5	1280.0	1305.5
Private	891.3	991.7	900.4	925.3	961.1	982.2	1002.1	1021.5
Excluding net exports	895.5	995.2	903.8	928.8	965.4	987.5	1005.4	1022.3
Personal consumption expenditures	721.0	799.7	728.6	745.7	773.4	793.5	808.6	823.3
Durable goods	116.1	132.4	118.6	120.8	128.5	132.5	134.0	134.5
Nondurable goods	299.5	336.3	302.0	310.4	324.6	333.5	340.0	347.0
Services	305.4	331.0	308.0	314.5	320.3	327.5	334.6	341.8
Gross private domestic investment	180.4	209.0	183.2	193.4	198.7	207.0	213.3	217.0
Residential construction	54.0	55.9	54.4	57.0	59.3	56.5	54.8	53.0
Business fixed investment	120.5	139.6	120.7	126.1	132.7	137.5	142.0	146.0
Change in business inventories	5.9	13.5	8.0	10.3	6.7	13.0	16.5	18.0
Nonfarm	5.6	13.5	7.9	10.1	6.5	13.0	16.5	18.0
Net exports of goods and services 1/	-4.2	-3.4	-3.4	-3.5	-4.3	-5.3	-3.3	-0.8
Exports	73.7	93.7	74.4	79.6	87.1	92.1	96.1	99.6
Imports	77.9	97.1	77.8	83.1	91.4	97.4	99.4	100.4
Gov't. purchases of goods and services	254.6	275.3	255.6	259.3	267.2	272.3	277.9	284.0
Federal	105.8	108.0	105.4	104.0	107.0	107.1	108.2	109.8
Defense	75.9	74.8	75.1	73.2	75.3	74.5	74.6	74.9
Other	29.9	33.2	30.2	30.8	31.7	32.6	33.6	34.9
State & local	148.8	167.3	150.2	155.2	160.2	165.2	169.7	174.2
Gross national product in constant (1958) dollars	789.5	842.2	796.1	811.6	825.8	838.3	848.4	856.4
GNP implicit deflator (1958 = 100)	145.9	152.1	146.2	147.2	149.6	151.2	152.8	154.5
Personal income	935.9	1028.5	939.9	974.6	994.5	1019.9	1040.0	1060.0
Wage and salary disbursements	627.0	693.7	630.8	648.8	668.9	686.4	702.5	717.0
Disposable income	795.1	879.0	798.8	828.2	851.0	878.4	885.6	901.2
Personal saving	54.8	58.7	50.8	62.8	57.4	64.4	56.2	56.9
Saving rate (per cent)	6.9	6.7	6.4	7.6	6.7	7.3	6.3	6.3
Corporate profits before tax	94.3p	119.7	95.7	101.9p	117.0	119.0	120.5	122.5
Corp. cash flow, net of div. (domestic)	91.8p	109.0	93.1	97.2p	106.3	108.3	109.9	111.4
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	228.7p	261.2	229.8	238.6p	252.6	252.2	267.1	272.7
Expenditures	246.8	266.5	241.6	262.7	262.9	265.1	267.1	270.8
Surplus or deficit (-)	-18.1p	-5.3	-11.8	-24.1p	-10.3	-12.9	0.0	1.9
High employment surplus or deficit (-)	-0.4	-3.3	4.4	-11.6	-8.0	-7.0	-0.3	2.4
State and local government surplus or deficit (-), N.I.A. basis	12.7p	10.2	9.4	19.5p	13.7	10.1	9.0	8.1
Total labor force (millions)	89.0	90.8	89.3	89.6	90.0	90.6	91.0	91.4
Armed forces "	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Civilian labor force "	86.5	88.4	86.9	87.2	87.6	88.2	88.6	89.0
Unemployment rate (per cent)	5.6	4.8	5.6	5.3	5.0	4.9	4.8	4.7
Nonfarm payroll employment (millions)	72.8	75.3	72.9	73.8	74.6	75.1	75.6	75.9
Manufacturing	18.9	19.7	18.9	19.3	19.6	19.7	19.8	19.8
Industrial production (1967 = 100)	114.4	124.0	115.0	118.4	120.7	123.3	125.2	126.6
Capacity utilization, manufacturing (per cent)	77.6	81.0	78.1	79.6	80.2	81.0	81.4	81.4
Housing starts, private (millions, A.R.)	2.36	2.13	2.37	2.40	2.38	2.18	2.05	1.90
Sales new autos (millions, A.R.)	10.94	11.71	11.53	11.69	12.23	12.10	11.50	11.00
Domestic models	9.32	10.03	9.91	9.90	10.27	10.35	10.00	9.50
Foreign models	1.62	1.68	1.61	1.79	1.95	1.75	1.50	1.50

1/ GNP exports and imports estimates for 1972 have not yet been revised to reflect revised Balance of Payments estimates incorporating new seasonal factors; these revised estimates for 1972 and corresponding projections for 1973 are:

	1972	1973 Proj.	1972 III	1972 IV	1973 I	1973 II	1973 III	1973 IV
Net exports of goods and services	-4.2	-2.6	-3.5	-2.6	-3.5	-4.5	-2.5	0.0
Exports	77.5	94.1	73.9	80.0	87.5	92.5	96.5	100.0
Imports	77.8	96.8	77.3	82.7	91.0	97.0	99.0	100.0

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1972	1973 Proj.	1972 III	1972 IV	1973 I	1973 Projected II	1973 Projected III	1973 Projected IV
	Billions of Dollars							
Gross National Product	101.4	128.8	24.6	30.9	40.1	32.5	29.0	27.0
Inventory change	2.3	7.6	3.0	2.3	-3.6	6.3	3.5	1.5
Final purchases	99.2	121.2	21.6	28.6	43.7	26.2	25.5	25.5
Private	77.4	100.4	20.1	24.9	35.8	21.1	19.9	19.4
Excluding net exports	82.3	99.7	18.3	25.0	36.6	22.1	17.9	16.9
Net exports	-4.8	0.8	1.8	-0.1	-0.8	-1.0	2.0	2.5
Government	21.8	20.7	1.5	3.7	7.9	5.1	5.6	6.1
GNP in constant (1958) dollars	47.8	52.7	12.2	15.5	14.2	12.5	10.1	8.0
Final purchases	45.8	47.1	9.8	13.8	17.5	7.6	7.2	6.4
Private	40.6	43.6	11.1	13.7	15.6	6.5	5.9	5.1
	Per Cent Per Year							
Gross National Product	9.7	11.2	8.9	11.0	13.4	10.5	9.2	8.3
Final purchases	9.5	10.6	7.6	9.9	14.8	8.5	8.1	8.0
Private	9.0	11.3	9.1	11.1	15.5	8.8	8.1	7.7
Personal consumption expenditures	8.4	10.9	8.5	9.4	14.9	10.4	7.6	7.3
Durable goods	12.2	14.0	16.5	7.4	25.5	12.5	4.5	1.5
Nondurable goods	7.7	12.3	6.5	11.1	18.3	11.0	7.8	8.2
Services	7.8	8.4	7.4	8.4	7.4	9.0	8.7	8.6
Gross private domestic investment	18.7	15.9	14.0	22.3	11.0	16.7	12.2	6.9
Residential construction	26.8	3.5	12.1	19.1	16.1	-18.9	-12.0	-13.1
Business fixed investment	13.9	15.8	5.0	17.9	20.9	14.5	13.1	11.3
Gov't. purchases of goods & services	9.4	8.1	2.4	5.8	12.2	7.6	8.2	8.8
Federal	8.2	2.1	-10.0	-5.3	11.5	0.4	4.1	5.9
Defense	6.3	-1.4	-17.8	-10.1	11.5	-4.2	0.5	1.6
Other	13.7	11.0	8.1	7.9	11.7	11.4	12.3	15.5
State & local	10.2	12.4	11.5	13.3	12.9	12.5	10.9	10.6
GNP in constant (1958) dollars	6.4	6.7	6.3	8.0	7.0	6.1	4.8	3.8
Final purchases	6.2	6.0	5.0	7.0	8.7	3.7	3.5	3.1
Private	6.7	6.8	7.0	8.5	9.4	3.9	3.5	2.9
GNP implicit deflator	3.0	4.2	2.4	2.8	6.3 1/	4.4	4.3	4.5
Private GNP fixed weight index 2/	3.3	4.3	2.9	3.1	6.2	4.5	4.3	4.6
Personal income	8.6	9.9	7.5	14.8	8.2	10.2	7.9	7.7
Wage and salary disbursements	9.4	10.6	6.4	11.4	12.4	10.5	9.4	8.3
Disposable income	6.8	10.6	8.2	14.7	11.0	12.9	3.3	7.0
Corporate profits before tax	13.2p	26.9	17.9	25.9p	59.3	6.8	5.0	6.6
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.9p	14.2	8.7	15.3p	23.5	-0.6	23.6	8.4
Expenditures	11.8	8.0	8.0	34.9	0.3	3.3	3.0	5.5
Nonfarm payroll employment	3.0	3.5	2.2	4.9	4.2	2.6	2.7	1.6
Manufacturing	2.2	4.1	0.0	8.0	4.8	3.0	2.0	0.0
Industrial production	7.1	8.4	6.7	11.8	7.9	8.5	6.2	4.3
Housing starts, private	14.9	-9.8	15.1	6.4	-3.8	-3.4	-23.0	-29.3
Sales new autos	6.8	7.1	41.9	5.7	18.4	-4.2	-19.8	-17.4
Domestic models	7.4	7.6	44.4	-0.5	15.2	3.0	-13.5	-20.0
Foreign models	3.3	4.2	27.7	44.1	36.4	-41.8	-57.1	0.0

1/ Excluding Federal pay increase, 5.6 per cent annual rate.

2/ Using expenditures in 1967 as weights.

Industrial production. Industrial production is tentatively estimated to have increased about one-half per cent further in March to a level about 9 per cent above a year ago. The gains in output are estimated to have been in non-durable consumer goods, business equipment, and some industrial materials. If the estimated March increase is realized, the rise in the total index from the fourth quarter of 1972 to the first quarter of 1973 would be at an annual rate of around 8 per cent.

Auto assemblies changed little in March. Output of household appliances appear to have been maintained at record levels but production of room air conditioners and furniture are estimated to have risen further.

Advances in output of business equipment are estimated to be widespread but at a somewhat slower rate of increase than in recent months. Among materials, production of textiles, chemicals, and rubber products apparently rose further, but capacity limitations seem to be restricting further gains in some other materials producing industries.

Retail sales. Sales in March rose sharply, by 2.3 per cent, according to the advance report. All major types of stores reported higher sales, with the largest increases in the automotive, apparel and general merchandising groups. Sales at food stores increased only 0.5 per cent.

As a result of the March increase, along with unusually large upward revisions for January and February, sales in the first quarter were 6 per cent above the fourth--much more than had been anticipated. This was the largest quarterly increase in retail sales since the Korean War, with a large proportion of the rise representing physical volume.

Durable goods sales in the first quarter were up 8.8 per cent from the fourth quarter of 1972, with gains of about this size in both the automotive and furniture and appliance groups. First quarter sales of nondurables were 4.6 per cent above the fourth quarter; the sizable rise in the usually slow moving food group largely reflected sharp price increases. Sales in the general merchandise category were 5.7 per cent above the fourth quarter.

RETAIL SALES
Percentage change from previous period

	1972		1973			
	IIIQ	IVQ	IQ	Jan.	Feb.	Mar.
Total	2.6	3.7	6.0	3.3	1.5	2.3
Durable	3.9	5.4	8.8	4.4	1.1	3.3
Auto	4.6	6.0	8.3	2.5	.8	3.7
Furniture and appliance	2.0	3.2	9.5	8.5	2.8	1.3
Nondurable	1.9	2.8	4.6	2.7	1.7	1.8
Food	1.7	1.7	4.0	5.0	- .5	.5
General merchandise	2.6	2.0	5.7	3.6	2.4	4.0
Total, less auto and nonconsumption items	1.9	2.9	4.9	3.1	1.7	1.7
GAF	1.9	2.8	6.4	4.3	2.6	3.7
Total in constant prices*	1.6	2.8	n.a.	2.6	.4	n.a.

* Deflated by all commodities CPI, seasonally adjusted.

n.a. -- Not available.

Unit sales of consumer durables. March sales of new domestic-type autos were at a 10.6 million seasonally adjusted annual rate in units, up from 10 million in the fourth quarter and 8.5 million a year earlier. Sales were helped by several sales incentive contests ending in March, including one by Chevrolet. For the quarter as a whole, sales of domestic-type autos were at a 10.3 million unit rate compared with a 9.9 million unit rate in the fourth quarter.

Sales of foreign cars were at a 2.0 million annual rate for both March and the first quarter, following a 1.8 million rate in the fourth quarter. Consumers' anticipations of price increases as pre-devaluation inventories are exhausted, probably helped maintain high foreign sales.

Factory sales of major home appliances, TVs, and radios in the first two-thirds of March were unchanged from February but were 15 per cent above a year earlier. TV sales were 16 per cent above a month earlier but radio and appliance sales were somewhat lower. Inventories of major appliances in March rose 4 per cent above their January-February level as sales were off somewhat.

UNIT SALES OF SELECTED CONSUMER DURABLE GOODS
Seasonally adjusted

	1972	1973			Per cent change from:	
	March	Jan.	Feb.	March	Month ago	Year ago
Auto sales		Annual rates				
Domestic	8.5	10.3	9.9	10.6	7	25
Foreign	1.6	1.9	2.0r/	2.0	0	27
Total	10.1	12.2	11.9	12.6	6	25
Home goods factory sales		Index, 1967=100				
TVs 1/	121	117	132	153e/	16	26
Radios 1/	83	88	107	104e/	- 3	25
Major appliances	129	155	151r/	137p/	- 9	6
Total	124	137	142	142e/p/	0	15

e/ Estimated from data through March 17.
p/ Based on data through March 24.
1/ Includes foreign-made units sold under domestic labels; foreign-label units not included.

Consumer surveys. The latest surveys by the Michigan Survey Research Center and the Conference Board confirm the deterioration in consumer appraisals of future economic conditions reported in their immediately preceding surveys. The Michigan index of consumer sentiment for February-March declined 10 percentage points--the largest one quarter drop since the index was started in the early fifties. The index is now 80.8 (Feb. 1966=100) compared with 94.0 in August-September 1972 and 75.4 at the index recession low in April-May 1970.

The precipitous decline in the Michigan index was mainly attributable to substantial declines in expectations about business conditions during the next year and the next 5 years. There were also more unfavorable evaluations of present and expected personal finances. The recent change in sentiment is related to sharply increased inflationary expectations. In the February-March survey, 44 per cent of all respondents expected the rate of inflation to accelerate during the next 12 months; at the end of last year, only 29 per cent expected acceleration. Apparently, because respondents expected prices to go higher, the proportion saying it is a good time to buy automobiles, large household durables, and houses increased.

In the Conference Board survey taken in January-February, there was also an increase in pessimism about prospects for business conditions, employment and income in the next six months. Appraisals of present business and employment conditions and purchase plans for homes were essentially unchanged from their relatively high November-December levels. Purchase plans for autos were also unchanged--but at a moderate rate inconsistent with the brisk auto sales currently reported--and purchase plans for all major appliances were off sharply.

Construction and real estate. Seasonally adjusted value of new construction outlays--revised slightly downward for February--remained about unchanged in March at an annual rate of $135.6 billion. The March rate almost matched the peak now reported for January and was the same as the record first quarter average. Private residential construction continued to expand in March, reflecting in part the exceptionally high rate of housing starts in recent months. Although outlays for the other major construction categories remained below their January highs, they were also quite strong in March.

The Census Bureau's composite cost index in March--which may be understated--continued at the moderately increased level of 143 per cent (1967=100) reached in January. In view of this most of the first quarter increase in current dollar outlays for construction was estimated to be real.

NEW CONSTRUCTION PUT IN PLACE
(Seasonally adjusted annual rates, in billions of dollars)

	1972	1973		Per cent change in March from:	
	QIV(r)	QI(p)	March 1/	Feb. 1973	Mar. 1972
Total - current dollars	129.0	135.5	135.6	--	+10
Private	97.0	102.2	103.0	+1	+11
Residential	56.9	59.3	60.2	+1	+13
Nonresidential	40.1	42.9	42.8	--	+ 9
Public	32.1	33.4	32.6	-1	+ 7
State and local	27.6	28.5	28.0	--	+ 9
Federal	4.4	4.9	4.6	-7	- 3
Total - 1967 dollars	91.7	94.9	94.9	--	+ 5

1/ Data for March 1973 are confidential Census Bureau extrapolations. In no case should public reference be made to them.

A strongly sustaining factor in the housing market thus far has been the high level of demands for both homeowner and rental accomodations. Of new rental apartments, 69 per cent of those completed in the third quarter of last year were occupied by the end of the fourth quarter, according to the Census Bureau. This compared favorably with initial "rent-up" ratios for new apartments in most other recent quarters despite a considerable increase in the number of completed units on the market in 1972. Moreover, 93 per cent of the apartments completed in the first quarter of 1972 were occupied by the end of the year, virtually as high as the comparable ratio at the end of 1971.

Throughout 1972, median monthly rents for new apartments continued around $191, some 4 per cent above a year earlier. In contrast, median prices of new one-family homes sold by merchant builders--including the lot value--advanced 9 per cent in 1972, or 6 per cent after allowance for upgrading in the mix of units purchased. Except for 1969, when prices after allowance for changes in the mix rose 8 per cent, this was the largest annual increase since the series began in 1963.

Manufacturers orders and shipments. New orders for durable goods rose 1.0 per cent in February (p), following a 4.9 per cent increase in January. Orders for motor vehicles and parts were down somewhat from an already high level and nondefense capital goods declined for the first time since last July. However, the January-February average still showed strong gains from the fourth quarter for most categories although therate of increase in orders for household durables, construction, and nondefense capital goods appears to have moderated somewhat.

Durable goods shipments were about unchanged in February after a 4.6 per cent increase in January. Shipments of motor vehicles and parts and defense and nondefense capital goods were reported off from the previous month. However, the continued rapid increase in unfilled orders suggests future strength in durable goods shipments.

MANUFACTURERS NEW ORDERS FOR DURABLE GOODS
Per cent changes

	1972	1973	
	QIV from QIII	Jan.-Feb. from QIV	Feb. from Jan. (p)
Durable goods total	4.6	6.2	1.0
Excluding defense	4.8	5.9	.8
Primary metals	2.1	10.1	8.3
Motor vehicles & parts	4.0	10.2	-6.1
Household durables	5.6	2.7	9.4
Capital goods industries	5.2	4.9	-2.7
Nondefense	6.1	3.9	-4.0
Defense	.2	10.8	4.1
Construction & other durables	5.4	4.2	2.9

Inventories. Book value of manufacturing and trade inventories continued to expand at a rapid rate in February, from upward-revised January rates. The January and February rates of expansion for manufacturing and trade--an average of $23.8 billion--were the highest since the 1950-51 period. With wholesale prices rising rapidly, a very high inventory valuation adjustment is likely in the first quarter, and the high rates of book value growth translate into a quite moderate amount of inventory investment in GNP terms.

In manufacturing, growth in book value of materials and supplies was stepped up while finished goods stocks were down from December to February. At wholesalers, the largest book value increases have been at dealers in farm products, raw materials, and other nondurable goods.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
Seasonally adjusted annual rate, $ billions

	1972		1973	
	QIII	QIV	Jan. (rev.)	Feb. (prel.)
Manufacturing and trade	13.3	14.9	26.1	21.6
Manufacturing, total	7.7	6.4	6.0	10.9
Durable	5.6	5.2	5.9	6.5
Nondurable	2.1	1.2	..2	4.4
Trade, total	5.5	8.5	20.1	10.7
Wholesale	4.1	4.3	10.2	4.5
Retail	1.5	4.2	9.9	6.2

Note: Detail may not add to totals because of rounding.

Sales increased more rapidly than inventories in February, and the inventory sales ratio declined to 1.42, the lowest since March 1966. The ratio of factory stocks of durable goods to unfilled orders declined but remained higher than in any previous expansion in the post-war period.

INVENTORY RATIOS

	1972		1973	
	Jan.	Feb.	Jan. (rev.)	Feb. (prel.)
Inventories to sales:				
Manufacturing & trade	1.55	1.56	1.43	1.42
Manufacturing, total	1.72	1.73	1.57	1.57
Durable	2.07	2.07	1.86	1.86
Nondurable	1.31	1.32	1.22	1.21
Trade, total	1.38	1.39	1.29	1.28
Wholesale	1.19	1.24	1.18	1.16
Retail	1.50	1.48	1.36	1.36
Inventories to unfilled orders:				
Durable goods manufacturing	0.939	0.937	0.855	0.845

Cyclical indicators. The Census composite index of leading indicators rose 1.8 per cent in February, following a pick up of 1.4 per cent in January. These increases are larger than both the average change in this series, and the average revision. The index before trend adjustment also rose significantly; based on past experience, this would suggest that a turning point in general economic expansion is at least 6 months away. The coincident and lagging indexes also rose in January and February.

CHANGES IN COMPOSITE CYCLICAL INDICATORS
(Per cent change from previous month)

	Nov.	Dec.	Jan.	Feb. (p)
12 Leading (trend adjusted)	1.8	1.0	1.4	1.8
12 Leading, prior to trend adjustment	1.4	.6	1.1	1.4
5 Coincident	1.7	.8	1.2	1.1
5 Coincident, deflated	1.5	.7	.8	.7
6 Lagging	1.8	1.4	1.6	2.6

Leading index components rising in February were the manufacturing workweek, initial claims for unemployment insurance (inverted), new orders for durable goods, industrial materials prices, and the ratio of price to unit labor cost. Series declining were contracts and orders for plant and equipment, housing permits, and common stock prices. Since compilation of the index, an increase also has been reported in growth in consumer instalment debt, but the change in book value of inventories was down somewhat in February before an upward revised January rate.

In March, according to preliminary data, common stock prices declined but industrial materials prices rose.

Labor market. Total employment continued to increase sharply in March. The unemployment rate at 5 per cent remained virtually unchanged from late 1972 as rapid labor force growth accompanied the large employment gains. Preliminary payroll employment estimates for March also showed a considerable gain--200,000--and the revised February increase totaled about half a million.

NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted, in thousands)

	Change from a year ago*	Change from preceding quarter			
		1972			1973
	March 1973	Q II	Q III	Q IV	Q I
Total	2832	743	428	898	782
Private	2449	644	347	764	713
Goods producing	1020	260	70	374	287
Manufacturing	941	255	69	331	234
Service producing	1429	384	277	390	426
Trade	643	177	123	164	195
Services	553	142	131	119	169
Government	383	99	81	134	69
Federal	-47	-12	-37	20	-12
State & local	430	110	119	114	80

*Based on not seasonally adjusted data.

Nonfarm payroll employment grew by 800,000 in the first quarter, continuing the rapid rate of expansion which began in mid-1972. The manufacturing sector has grown rapidly, with large employment gains, among others, in the metal and metal-using industries. Employment increases have also remained strong in private service industries. In the public sector, Federal government employment has continued its irregular decline while growth of State and local government employment has slowed somewhat.

<u>Unemployment and labor force</u>. Although labor force growth has accelerated in the past few months, the recent more rapid pace followed a period of rather slow growth. The civilian labor force in March was 1.9 million higher than a year earlier, compared with a 1.6 million "normal" rate of increase. Total employment has increased by 2.6 million, and unemployment has declined appreciably from a year ago.

Unemployment rates were unchanged in March among adults, but the teenage unemployment rate fell back to the January level. While the total unemployment rate has come down considerably over the year, the unemployment picture for Negroes and other races relative to whites has continued somewhat more adverse than in 1970 and 1971. The ratio of the Negro to white unemployment rate has averaged 2 to 1 over the past five quarters, compared to a ratio of 1.80 to 1 in 1971.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1972		1973	
	March	Sept.	Feb.	March
Total	5.9	5.5	5.1	5.0
Men:				
20-24 years	10.4	8.6	7.5	7.5
25 and over	3.2	3.0	2.7	2.7
Women 20 years & over	5.5	5.4	4.9	4.9
Teenagers	17.4	16.2	15.8	14.2
Household heads	3.4	3.3	3.0	3.0
White workers	5.3	5.0	4.6	4.4
Negro workers	10.4	10.0	9.0	9.0
White collar	3.4	3.4	3.0	2.9
Blue collar	6.9	6.0	5.7	5.4

Earnings. Over the past year, wages have been rising at a rate in line with stabilization goals, with a more moderate pace since November following large increases in the fall. In March, the private nonfarm index of hourly earnings was up 5.6 per cent from a year earlier; this compares with a rise of 6.6 per cent in the twelve months ending in March 1972. Wages of manufacturing production workers have risen at a 5.4 per cent rate over the year. Increases have also been below 5-1/2 per cent in services and trade, but higher in transportation, mining and construction.

With the increase in earnings slowing in recent months, sharply rising consumer prices have been eroding real purchasing power. Earlier, in 1971 and much of 1972, real earnings showed substantial increases with real weekly earnings rising at about a 3-1/2 per cent annual rate. However, between October 1972 and February 1973 (the latest month for which consumer price data are available) all measures of real earnings showed declines. (The exceptionally large decline in spendable earnings from October to February also reflected an increase in social security taxes effective at the beginning of 1973).

AVERAGE EARNINGS OF PRODUCTION WORKERS
(Per cent change at annual rate,
based on seasonally adjusted data)

	Mar. 1971-Mar. 1972	Mar. 1972-Mar. 1973	Mar. 1972-Nov. 1972	Nov. 1972-Mar. 1973	Feb. 1973-Mar. 1973
Hourly earnings index*					
Private nonfarm	6.6	5.6	5.8	5.0	4.2
Manufacturing	6.3	5.4	5.3	5.4	6.0
Construction	7.7	5.7	5.3	6.3	7.9
Transportation	10.4	8.8	9.7	6.5	10.3
Trade	5.5	5.1	4.9	5.5	6.0
Services	5.9	4.6	5.0	3.6	.0
	Feb. 1971-Feb. 1972	Feb. 1972-Feb. 1973	Feb. 1972-Nov. 1972	Oct. 1972-Feb. 1973	Jan. 1973-Feb. 1973
Real earnings, private nonfarm (1967 dollars)					
Hourly earnings index*	2.6	1.7	2.7	-1.2	-9.2
Real weekly earnings	3.3	2.5	3.6	-1.4	6.7
Real spendable earnings	4.1	1.0	2.8	-4.0	5.0

* Average hourly earning adjusted for inter-industry shifts, and in manufacturing only, for over-time hours.

Industrial relations. The railroads and the rail unions tentatively agreed on a 10.7 per cent wage and benefit increase over the 18 months beginning July 1, 1973. Covering 500,000 workers in 15 unions, the package provides a pay boost of 4 per cent effective January 1, 1974 and additional increases of 6.7 per cent over-the-life of the contract reflecting reductions in employee contributions to the railroad retirement system. On an annual rate basis the package amounts to 7.2 per cent. Railroad workers have their own pension plan which is outside the Social Security system. Under this plan they receive about twice the amount of Social Security benefits, but their monthly payments into the pension fund are about twice as large as those paid into Social Security. Under the new agreement, the railroads would assume all current costs of the railroad retirement system in excess of the amount paid under the Social Security system. So far, 4 of the 15 unions have formally ratified the agreement and at least one union has announced opposition. The rail contracts expire June 30, 1973.

In other industrial relations developments, the steel workers and the major steel producing companies approved a no-nationwide strike plan to take effect when the present contract expires July 31, 1974. The basic pact provides a $150 bonus to workers on August 1, 1974, a minimum annual wage increase of 3 per cent and continuation of the current cost-of-living escalator with no maximum limit over the term of the new contract. The new agreement also provides for disputes to be settled by binding arbitration if not resolved in regular bargaining. This agreement should help to moderate greatly steel stockpiling as a hedge against strikes. The steel workers will begin negotiations on additional wages and other benefits early in 1974.

Four of the Chicago area's seven trucking employers have agreed to extend contracts with the Chicago Teamsters for 90 days, until June 30, when the National Teamster contract will expire. Under the three-month extension, the Chicago teamsters received a pay adjustment April 1 which maintains their relationship with the Teamsters covered under the national contract. In exchange the Chicago unions agreed to accept the economic package negotiated nationally by the Teamsters. In 1970 the Chicago unions held out for an increase of $1.65 an hour after the National Teamsters tentatively had settled for an increase of $1.10 an hour under the national contract. The National Teamsters subsequently reopened their wage talks, and eventually settled for $1.85.

In the first action of its kind under Phase III, the Cost of Living Council blocked part of a two-year contract reached in mid-March between the International Association of Machinists and North Central Airlines and covering about 600 machinists. The CLC set aside a pay hike totaling 8.9 per cent over the next twelve months pending a more thorough review of the contract.

<u>Consumer prices</u>. In February the rate of rise in consumer prices accelerated to 10 per cent, seasonally adjusted annual rate, as food prices climbed sharply--at an annual rate of 30 per cent. Prices of other commodities and of services rose more than in most recent months--at annual rates of 6 and 4-1/2 per cent, respectively--bringing the total index to a level nearly 4 per cent above February 1972.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	Relative Importance Dec. 1972	1972		1973	
		Dec. 1971 to June 1972	June to Dec.	Dec. 1972 to Jan. 1973	Jan. to Feb.
All items	100.0	2.9	3.9	6.5	9.8
Food	22.5	3.5	6.1	25.4	29.5
Commodities less food	40.1	2.6	2.5	.0	6.1
Services1/	37.4	3.7	3.5	2.7	4.5
Addendum:					
All items less mortgage costs2/	96.3	3.0	3.9	4.9	12.0
Services less home finance 1/ 2/ 3/	30.9	3.5	3.1	2.8	4.6
Commodities less food, used cars, home purchase 3/	31.8	2.2	2.0	1.0	6.2

1/ Not seasonally adjusted.
2/ Home financing costs excluded from services reflect property taxes and insurance rates as well as mortgage costs, which in turn move with mortgage interest rates and house prices.
3/ Confidential.

Large advances in gasoline and fuel oil prices were of major importance in the accelerated rise in prices of nonfood commodities. Among services, the index for rents and for several other items also rose more than in recent months; the advance in rents over the past three months is the largest since early 1971.

With meat prices skyrocketing and continued large advances reported for most other foods, the index for all foods jumped over 4 per cent between December and February, more than in any two-month period since early 1951. The two-month increase for meats, poultry and fish was the largest in the postwar period. The February food index also included a sharp advance for fresh vegetables, and substantial increases for cereal and bakery and dairy products, partially offset by a large drop in egg prices.

According to the USDA chainstore sample, beef and pork prices at retail rose sharply further from early February to early March (when food prices are collected for the CPI) and continued to advance through the third week. It is therefore likely that ceiling prices on meats will be significantly above the levels registered in the March index. Prices in April, however, could drop from March as a result of the boycott.

Since early in 1972 the climb in beef prices has been associated with a substantial and sustained widening of the estimated spread between prices at the farm and retail levels. Over the past three quarters, this spread has averaged about 15 per cent, or 5-6 cents per pound higher than in the second half of 1971, an increase out of line with that in the costs of processing and distribution. It is farm prices, however, which account for the extraordinary surge at retail this year.

In the case of pork, in contrast, throughout last year the spread between farm and retail prices remained below the second half of 1971 level; and it has declined further in February and March of this year. For meat products as a whole, the estimated spread in the second half of 1972 averaged about 8 per cent above the second half of 1971 and about 30 per cent above 1967.

MEAT PRICES AND MARGINS[1/]
(Indexes, 1967=100)

	1971	1972		1973			
	Second half	First half	Second half	Jan.	Feb.	March (3-week average)	Week ending[2/] March 24
Beef							
Retail value	128.3	137.2	138.3	148.1	157.7	163.4	165.0
Farm value	130.7	139.0	134.7	155.5	165.1	174.3	176.6
Spread	124.2	134.1	144.7	134.8	144.6	143.9	144.3
Pork							
Retail value	106.5	118.2	129.3	140.0	144.5	152.4	153.4
Farm value	99.0	126.6	148.4	168.1	186.2	202.3	196.8
Spread	114.7	109.3	108.8	109.9	99.7	98.8	106.8

1/ Calculated from USDA dollars-and-cents estimates for choice beef and pork.
2/ Preliminary estimate, not for publication.

<u>Wholesale prices</u>. Wholesale price increases were substantial and widespread in March. The increase of 2.2 per cent in the wholesale price index, seasonally adjusted, was the largest since January 1951. Prices increased sharply further for both industrial commodities (up 1.2 per cent) and farm and food products (up 4.7 per cent). The acceleration in rates of price advance in the WPI for February and March, the first two months of Phase III, can be attributed in part to the change in the economic controls program, but market conditions both here and abroad as well as the currency realignments also were significant.

WHOLESALE PRICES
(Percentage changes at seasonally adjusted annual rates)

	1972		1973		
	June 1972 to Sept. 1972	Sept. 1972 to Dec. 1972	Dec. 1972 to Mar. 1973	Jan. 1973 to Mar. 1973	Feb. 1973 to Mar. 1973
All commodities	6.7	9.6	21.5	25.6	30.4
Farm and food products 1/	17.4	30.1	53.1	59.3	74.1
Farm products	32.6	25.8	73.8	73.1	103.1
Processed foods and feeds	9.0	31.4	40.3	66.0	51.2
Industrial commodities	3.2	2.0	10.3	13.5	14.9
Crude materials 2/	10.6	14.6	12.8	13.7	4.3
Intermediate materials 3/	2.4	3.7	12.1	16.9	21.5
Finished goods 4/	3.3	- .8	6.8	8.9	6.7
Producer	2.0	-1.7	5.4	7.2	7.2
Consumer	3.9	- .3	7.5	9.8	6.4
Finished foods	10.0	15.8	45.0	43.6	70.8

1/ Farm products and processed foods and feeds.
2/ Excludes crude foodstuffs and feedstuffs, plant and animal fibers, oilseeds, and leaf tobacco.
3/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.
4/ Excludes foods.

The extremely sharp increase in consumer finished foods in March was due mainly to higher prices for meats, processed poultry, eggs, fresh fruits and vegetables, and dairy products. Prices of consumer finished goods, excluding foods, also rose appreciably as increases were posted for refined petroleum products, cigarettes, textile products, mens' and boys' apparel, footwear, passenger cars, and household furniture. Higher prices for machinery and motor vehicles were the main elements in the increase in the index of producer finished goods.

Processed materials, excluding foods and feeds, increased sharply as prices moved higher for metals, textile products, lumber and plywood, paper products, and metal cans. The nonfood crude materials index reflected increases for scrap metals, bituminous coal, crude natural rubber, and natural gas.

As has been the case in recent months increases in the prices of farm and food products were of major importance in the seasonally adjusted rise in the WPI for March, and prices of livestock and meats were prominent influences on the rise. Since mid-March, livestock prices have declined about 5 per cent, and lower prices for meat have been reported. Prices of broilers, however, have increased further. Eggs are lower, but prices of wheat, corn, cocoa, and coffee have risen. Soybeans, now at about the price level of mid-March, have increased recently--from lower levels reached in late March--on evidence of possible lower-than-anticipated supplies later in the year. Given the above, the index of farm products may be little changed in the April WPI.

Toward the end of March the Administration set ceilings on the prices of beef, pork, and lamb. The sellers' ceilings are the highest prices charged during the 30 days ending March 29 at which at least 10 per cent of sales were made. About a week earlier, the Administration extended to all but the smallest meat packers regulations that previously applied to only the 21 largest processors. Price increases were restricted to an amount equal to the increase in the cost of livestock or partially-processed meats. Packers are required to lower prices if such costs decline.

Hearings on lumber prices, which have spurted recently, were held last week by the Cost of Living Council, but a decision has not been announced on whether additional controls are to be applied to the lumber industry.

Agriculture. During the month ending March 15, prices received by farmers increased 7 per cent to a level 33 per cent above March 1972. Higher prices for livestock, eggs, onions, potatoes and soybeans contributed to the increase.

From March 15 through the first week in April, hog and cattle prices declined but broiler prices increased another 20 per cent. This pattern reflects, in part, a shift in consumption from red meat to poultry, encouraged by the recent meat boycott.

During the meat boycott week, April 1-7, cattle slaughter fell 23 per cent below the March average rate, and hog slaughter was off about 6 per cent. Total red meat production was 17 per cent below the March level.

The December-February pig crop, 5 per cent larger than last year, indicates a moderately larger pork supply by early fall. Numbers of cattle on feed on March 1 were 8 per cent above a year ago but larger inventories reflect the placement of lighter animals and consequently a longer required feeding period. Beef supplies in the second half of 1973 are expected to be about 2 per cent larger than a year ago.

Of the additional 14 million acres of feed-grain set-asides which were released for crops on March 26, about 3 million are expected to be planted. If realized, 1973 corn acreage would be 12 per cent above 1972. Wheat and soybean acreages are expected to be 6 and 15 per cent higher, respectively, than in 1972. Wet weather has hampered plantings but has contributed to the excellent condition of winter wheat.

DOMESTIC FINANCIAL SITUATION

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator		Latest data: Period	Latest data: Level	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
Monetary and credit aggregates				SAAR (per cent)		
Total reserves		March	32.0 p	13.5	8.9	9.9
Reserves available (RPD's)		March	29.6 p	13.8	9.7	9.5
Money supply						
M1		March	256.6 p	-0.5	1.7	6.3
M2		March	532.7 p	5.0	5.8	9.0
M3		March				
Time and savings deposits (Less CDs)		March	276.1 p	10.1	9.6	11.6
CDs (dollar change in billions)		March	54.9 p	6.0	11.7	21.1
Savings flows (S&Ls + MSBs)		March				
Bank credit (end of month)		March	585.0	19.4	20.3	15.2
Market yields and stock prices			Percentage or index points			
Federal funds	wk. endg.	4/4/73	7.18	.16	1.57	3.02
Treasury bill (90 day)	"	4/4/73	6.44	.61	1.28	2.62
Commercial paper (90-119 day)	"	4/4/73	7.08	.68	1.45	2.67
New utility issue Aaa	"	4/6/73	7.51	--	--	17.0
Municipal bonds (Bond Buyer)	1 day	4/5/73	5.22	-.05	-.14	.27
FNMA auction yield (FHA/VA)		4/2/73	7.86	..11	.17	.31
Dividends/price ratio (Common stocks)	wk. endg.	3/28/73	2.87	.01	.16	.02
NYSE index (12/31/65=50)	end of day	4/9/73	59.02	-2.0	-6.27	-1.96

Credit demands	Period	Net change or gross offerings: Current month		Year to date	
		1972	1971	1972	1971
Mortgage debt outs. (major holders)	December	5.7	3.8	57.2	41.9
		1973	1972	1973	1972
Business loans at commercial banks	March	3.6	1.2	12.8	3.1
Consumer instalment credit outstanding	February	2.0	0.9	3.9	2.0
Corporate bonds (public offerings)	January	1.0	1.8	1.0	1.8
Municipal long-term bonds (gross offerings)	January	1.9	1.8	1.9	1.8
Federally sponsored Agcy. (net borrowing)	April	2.1 e	0.5	3.6 e	0.9
U.S. Treasury (net cash borrowing)	April	-1.7 e	-2.1	7.0	1.7
Total of above credits		14.6	7.9	87.4	53.2

e - Estimated

DOMESTIC FINANCIAL SITUATION

In recent weeks, credit demands have continued to center on commercial banks, with large increases in business, real estate, consumer, and financial loans financed primarily by record sales of CD's. Reflecting Regulation Q ceilings, most of the new CD issues in March--as in February--have been in the under 90 day maturity range, with offering rates in early April about 25 basis points higher than at the time of the last Committee meeting. Although new issue volume in other short-term market instruments was either unchanged or reduced, yields on these other instruments also increased by about 25 basis points with the exception of long-term bills. Most recently, however, bill rates have declined sharply--and other market yields were also subject to some downward pressure--as market participants came to expect less pressure on monetary market rates in light of the recent weakening of the monetary aggregates, and increased prospects of a tightened wage-price controls program.

Despite substantially higher rates in short-term markets over recent months, bond yields continued to fluctuate in a narrow range. Since the last Committee meeting, corporate bond yields have changed little, with new offerings remaining relatively light, and tax-exempt yields have declined 12 basis points, although the volume of new offerings has been above average. Mortgage yields, on the other hand, have edged up 5 to 10 basis points since mid-March, reflecting concern about fund availability and high forward commitments at the thrift institutions.

Outlook. Credit demands this spring are likely to continue strong at banks. With consumer-type time and savings deposit growth likely to remain modest, banks are expected to reduce their acquisition of securities further, and to continue to seek CD funds in large volume. They may also step up their borrowing from domestic affiliates and--if rate relationships turn more favorable--from their foreign branches.

Credit demands from the Federal sector are not expected to be large. The Treasury, with higher than expected receipts, is now projected to be out of the market for new money until July and may reduce its debt by a little over $5 billion, net, over the second quarter. Agency financing, however, is expected to be sizable, a amounting to about $3.0 billion in the second quarter.

Public corporate bond offerings also appear likely to remain relatively modest this spring, with corporations financing their needs not only internally and at banks, but also through private placements and equity offerings. Consumer credit demands are projected to moderate from the rapid pace of recent months, partly reflecting debt repayments from the proceeds of tax refunds.

Thus, supply and demand factors themselves suggest no significant upward pressure on interest rates in the near-term. Most short-term rates appear to have adjusted to the higher Federal funds rate, and with the Treasury retiring debt and commercial paper volume declining, the market would seem able to continue to absorb a significant volume of CD's with little change in yield. Similarly, the relatively modest volume of bond offerings reported in the pipeline seems unlikely to result in other than continued fluctuation of bond yields within a narrow range. Should developments cast doubt on present market expectations as to monetary policy and price and wage controls, however, interest rates in both short- and long-term markets could adjust sharply upward.

Some further upward adjustment in mortgage yields may develop this spring in any event. Available data suggest a continued slowing of thrift institution deposit inflows over the recently concluded reinvestment period, and with outstanding commitment volume high these lenders may curb the rate of growth of new commitments. Federal housing agencies are already positioning themselves to expand their support to lenders and the mortgage market generally.

Monetary Aggregates. Preliminary data indicate that M_1 remained essentially unchanged in March, while M_2 continued to increase at about half the pace of 1972. For the first quarter as a whole, M_1 expanded at only a 1.7 per cent annual rate, and for the fourth and first quarters combined, increased at a 5.2 per cent pace. While some of the March weakening in M_1 may be associated with unusually modest business borrowing over the mid-month tax date, demands for money apparently have been restrained by the cumulative impact of rising interest rates and perhaps also by shifts by consumers out of cash into goods in anticipation of even higher prices of goods later.

Inflows of consumer-type time and savings deposits at banks rose at a somewhat higher rate in March than in February. However, on balance, growth in these interest-bearing deposits has been weaker in recent months than during the early part of 1972, with inflows slowing in both the fourth quarter of 1972 and the first quarter of this year. The recent slower growth was to be expected in view of the rapidly rising rates on competing money market instruments.

With growth in demand and consumer-type time deposits moderating and credit demands strong, banks continued to bid actively for funds through sales of large negotiable CD's. Following a record increase in February, outstanding CD's rose by an even larger $6.1 billion (seasonally adjusted) in March. Thus, total outstanding CD's have increased close to $12 billion since the end of December. In addition, with offering rates on all maturities longer than 90 days at ceiling levels, close to 90 per cent of CD sales in both February and March were in shorter-term maturities at the large New York City banks. As banks competed for additional funds, posted offering rates on shorter-term CD's increased over 75 basis points at prime New York City banks in March, with some banks recently offering rates as high as 7-1/4 per cent.

In March, banks also recorded a modest increase of $400 million in non-deposit sources of funds--primarily Eurodollars and bank related commercial paper--whereas this series had been virtually stable in earlier months.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1972			1973		
	QII	QIII	QIV	QI	Feb.	Mar. p
	Per cent at annual rates					
M_1 (Currency plus private demand deposits)	6.1	8.2	8.6	1.7	6.1	- .5
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	8.5	10.3	10.2	5.8	5.9	5.0
M_3 (M_2 plus savings deposits at mutual savings banks and S&L's)	10.8	12.4	11.5	8.4	8.7	6.3
Adjusted bank credit proxy	11.5	9.8	12.1	15.1	16.4	20.0
Time and savings deposits at commercial banks						
a. Total	14.8	14.0	14.4	23.1	21.6	30.9
b. Other than large CD's	10.8	12.3	11.6	9.6	5.7	10.1
	Billions of dollars 1/					
Memorandum:						
a. U.S. Government demand deposits	.5	-1.1	1.4	1.0	.1	.3
b. Negotiable CD's	3.7	2.4	3.3	11.7	4.4	6.1
c. Nondeposit sources of funds	--	.4	.3	.5	--	.4

p - Preliminary and partially estimated.
1/ Month-to-month and last-month-in-quarter to last-month-in-quarter changes in averages, not annualized.

Bank Credit. Paced by expansion in Cd's, bank credit continued to expand sharply in March. Business loan growth moderated somewhat, though it remained very strong by historical standards. Other loan categories, including consumer and real estate loans, maintained their rapid rates of growth. In addition, banks acquired a modest amount of U. S. Government securities during March following a substantial reduction in their holdings in February; bank holdings of other securities remained essentially unchanged.

COMMERCIAL BANK CREDIT ADJUSTED FOR
LOANS SOLD TO AFFILIATES 1/

(Seasonally adjusted changes at annual percentage rates)

	1972	1973		
	QIV	QI	Feb.	Mar.
Total loans and investments 2/	14.4 (15.0) 3/	20.3	21.9	19.4
U. S. Treasury securities	--	- 9.0	-34.8	8.0
Other securities	8.1	3.5	1.0	--
Total loans 2/	18.7 (19.5) 3/	30.2	36.9	27.1
Business loans 2/	15.2	39.1	47.2	30.9
Real estate loans	17.6	16.0	15.8	15.6
Consumer loans	19.0	17.6	16.8	16.5

1/ Last Wednesday of month series.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
3/ Adjusted to exclude an $800 million matched sale-purchase transaction by the Federal Reserve on the last Wednesday of September.

Most of the slowing in business loan growth in March occurred around the mid-month tax period. Despite the absence of available tax bills, and no noticeable net reduction in outstanding CD's, business borrowing from banks over the tax date was relatively small. Apparently, corporations met their March tax liabilities mainly from their larger holdings of liquid assets, including demand balances.

The somewhat slower growth of business loans apparently did not reflect moderation in the substitution of such loans for commercial paper. With the spread between commercial paper rates and the prime rate still wide, dealer-placed commercial paper declined $1.8 billion in March, little different than the drop in February, as shown in the table. After adjustment for the shift from commercial paper to bank loans, business loan expansion in March was only somewhat higher than in the latter half of 1972. As noted in the table, total bank loans and commercial paper increased at a 14.4 per cent annual rate in March, above the average pace for the third quarter of 1972 but almost the same as the fourth quarter average.

CHANGES IN BUSINESS LOANS AND COMMERCIAL PAPER 1/

	Business loans at all commercial banks	Dealer-placed commercial paper	Total	Annual percentage rate of change of total
	(Billions of dollars, seasonally adjusted)			
1973 - January	3.9	- .2	3.7	31.0
February	5.3	-2.0e/	3.3e/	27.0e/
March	3.6	-1.8e/	1.8e/	14.4e/
Memorandum: Average monthly changes				
1972 - QIII	1.3	- .4	.9	8.0
QIV	1.6	.2	1.8	14.8e/
1973 - QI	4.3	-1.3e/	3.0e/	24.6e/

1/ Adjusted for outstanding amounts of loans sold to affiliates.
e/ Partly estimated.

The growing demand by businesses for bank credit over the first quarter--while no doubt buoyed by relative cost considerations--appears to be related to the continuing cyclical needs of corporations for working capital and investment funds. As in previous months, lending in March tended to be broadly based across most industry groups. However, most of the strength in business loans in the first quarter occurred at the largest banks, which generally have more ready access to the CD market.

CHANGES IN BUSINESS LOANS BETWEEN DECEMBER AND MARCH
(Not seasonally adjusted; including loans sold; in millions of dollars)

Year	All commercial banks	Large weekly reporting banks: Total	Large weekly reporting banks: New York City	Large weekly reporting banks: Outside, NYC	Nonweekly reporting banks
1970	- 845	- 386	- 148	- 238	- 459
1971	-1,551	-1,695	- 852	- 843	+ 144
1972	+ 34	- 601	+ 114	- 715	+ 635
1973	+9,333	+8,002	+2,675	+5,327	+1,331 1/

1/ Data are estimated on basis of change in total loans and on changes in business loans in corresponding periods of other recent years.

In addition to continued strength in business, real estate and consumer loans, loans to nonbank financial institutions in March also rose rapidly. With consumer credit demand high, finance companies, even while continuing to borrow heavily in the commercial paper market, also stepped up their borrowing from banks. Bank borrowing was also unusually large by mortgage bankers and real estate investment trusts, in a period of heavy lending for both construction and property purchase.

While loans to foreign commercial banks increased another $700 million, on balance, in March, some repayment had begun to develop in late March and early April. Since late January, these institutions had borrowed up to $2 billion from U. S. banks.

With loans still expanding at a rapid rate, and banks acquiring a very moderate amount of securities, there was a further decline in bank liquidity at large banks as measured by the ratio of liquid assets to total liabilities. The decline in liquidity ratios at these banks has been moderate but continuous since December, with New York City banks experiencing the sharpest decline.

<u>Consumer credit</u>. Growth in consumer credit outstanding slowed in February to a seasonally adjusted annual rate of $23.6 billion, down somewhat further from January, and more than 20 per cent below the peak rate of $29.6 billion in December. Although the over-all increase was the smallest since last October, the instalment credit component of the total edged up to a new high in February for the second month in a row. Among the various types of instalment credit, large gains continued in the major commodities sectors--automobiles and other consumer goods--while personal loans rose by a record amount. As in January, both extensions and repayments of instalment debt reached new highs.

Noninstalment credit has emerged as the "swing" item affecting changes in the over-all total of consumer credit during recent months, with especially large fluctuations in charge account balances. Charge accounts showed an unprecedented seasonally adjusted annual rate of increase of $6.3 billion in December, but have declined nearly $4.0 billion in the first two months of 1973.

Consumers appear to be encountering no major difficulty in obtaining credit to finance their purchases at relatively low interest rates. Rates on consumer instalment loans at commercial banks and finance companies--although up slightly in some categories since year-end--have remained at or below year-earlier levels despite sharp increases in the cost of funds to lenders. Rates on new car loans at finance companies have changed little since last spring, and at 11.86

per cent in February were 13 basis points below February 1972; used car rates were 7 basis points under their year-earlier level in February. Commercial bank rates on all types of consumer instalment loans eased somewhat during March, after a small rise in February.

The ready availability of financing on such terms has apparently encouraged an increased volume of borrowing by customers of higher credit-risk, and delinquency rates on most types of consumer credit have continued an uptrend that is counter to the usual behavior at this stage of the business cycle. The seasonally adjusted delinquency rate on auto contracts at major finance companies extended the rising trend of recent months into January. According to confidential company data, the January delinquency rate--2.47 per cent of accounts outstanding delinquent over 30 days--was moderately higher than the December rate and was well above the 2.04 per cent rate of January 1972. In fact, it was the highest rate in the 6-year history of the series with the exception of some months in the first half of 1970. At that time unemployment was rising and the Federal income tax surcharge had restrained growth in disposable income.

Agricultural credit. Demand for farm production loans will probably be unusually high this spring as farmers seek to finance higher-priced feed and livestock inventories as well as increased crop production. Farm machinery purchases are expected to maintain a strong pace, and seasonal operating expenses to rise markedly. According to upward revised estimates of the Department of Agriculture, 1973 farm production expenses will rise by $6 billion or 12 per cent, compared to annual increases of about 7 per cent in each of the last four years. To some degree, the effects of the large cost increase on demands for credit will be reduced by farmers' high current cash flow.

Rural banks generally will be able to accommodate increases in farm production loan demands. Due to improved farm income last year, rural banks are more liquid than at any time since the spring of 1969. At production credit associations (PCA's), a rapid rate of farm loan repayments left year-end loan volume at only 8.5 per cent above a year earlier, well below the average gain for recent years. However, new loan volume at PCA's picked up strongly in January and February, running 19 per cent above the same months of 1972, perhaps already reflecting the credit demand factors listed above.

A high level of activity continues in the farm real estate market. Land prices nationally rose 10 per cent in the year ended last November 1, double the average annual gain of the last 20 years, and indications are that the rate of increase has accelerated so far this year. The current profitability of farm operations and growing optimism over longer-term prospects for farm income appear responsible in view of the unusual price strength.

Farm mortgage debt is reflecting the higher land prices and rate of transfers. At Federal Land Banks, outstanding farm mortgage holdings at the end of February were up by $1.3 billion, or 16.5 per cent, from a year earlier. Loan volume closed during the 12 months ending in February and was 50 per cent higher than the total for the preceding 12 months, with the number of loans and the average size of loan each up by 22 per cent.

<u>Short-term markets.</u> Interest rates on short-term securities rose considerably further in the two weeks immediately following the last meeting of the Committee. Advances ranged to as much as 35 basis points on short-term CD's and to about 20 basis points on 3-month Treasury bills, although yields on longer maturity bills were up only 5-10 basis points. Much of the rise reflected a lagged response of security rates to earlier tightening of day-to-day money market conditions. In addition, new data documenting the strength of inflationary pressures tended to reinforce expectations of further money market tightening ahead. Continuing aggressive efforts of commercial banks to sell large CD's added substantially to the supply of short-term market instruments during March, despite a sizable decline in the total volume of outstanding commercial paper. This latter cut-back was attributable entirely to a drop of $1.8 billion in nonbank-related dealer placed paper reflecting continued substitution of bank credit for commercial paper by nonfinancial corporations. This decline more than offset the increase in both bank-related and nonbank-related directly placed commercial paper.

Thus far in April, short-term interest rates have turned down. The largest rate reversal has been on 3-month Treasury bills which have traded most recently around 6.20 per cent, about a quarter of a percentage point below their early April high and 10 basis points below the level prevailing at the time of the last Committee meeting. Rates on bank CD's and commercial paper have dropped an eighth of a percentage point since early April, but are still 10 to 25 basis points higher than at the last meeting.

The recent general easing of short-term markets has reflected a rather abrupt shift in market expectations about public economic policies. The recent tendency for the Federal funds rate to drift back below 7 per cent--from the roughly 7-1/8 per cent average level prevailing earlier--along with the much slower recent growth in the money supply aggregates and evident Desk efforts to supply reserves have led market participants to conclude that at least for the near-term monetary policy will not be contributing to further tightening of short-term rates. At the same time the very large recent rise in wholesale prices has led market participants to conclude that a stronger program of wage and price controls will soon be forthcoming. In addition to these psychological factors, Treasury bill rates have been under downward pressure recently from large, partly seasonal, demands, including some reinvestment of the $1.5 billion of revenue-sharing payments just received by State and local governments.

Intermediate-term markets. During the latter part of March, yields on Treasury coupon issued remained relatively stable despite the further rise in short-term rates. Continued foreign account purchases of such issues, at a time when dealers' positions remained in a substantial net short position, contributed importantly to this relative rate stability. In addition, with the Treasury in a comfortable cash position, it soon became clear that the $2 billion, 2-year Treasury note, previously scheduled for offering at the end of March, would not be needed after all. In this market climate the sizable volume of new Federal agency issues brought to market around the end of the quarter was absorbed without much difficulty.

With the recent strengthening of short-term markets, dealers have moved fairly aggressively to reduce the exposure of their short positions in coupon issues. As a result, yields on 10-year Treasury issues, for example, are now about 10 basis points below the levels prevailing at the time of the last meeting.

Looking ahead, staff projections indicate that the Treasury probably will not need to enter the market for cash until July--barring any sizable redemption of special issues by foreign central banks. Although the Treasury may feel committed to offer an additional $2 billion note in its new 2-year cycle before the end of the fiscal year, this could be incorporated into the May refunding. If no further Treasury cash offering is undertaken in the second quarter, net debt repayment of a little over $5 billion seems likely by the end of June. This figure includes the run-off of April and June tax bills and an assumption that $1 billion of maturing May issues will be paid off. Net financing operations by Federal agencies, on the other hand, are expected to amount to about $3.0 billion between now and mid-year. This is a considerably larger volume of financing than occurred in 1971 and 1972.

SELECTED SHORT-TERM INTEREST RATES
(per cent)

Week Ending	1973 Mar. 19	Mar. 26	Apr. 2	Apr. 9	Change Mar. 19--Apr. 9
Treasury bills					
3-month	6.22	6.23	6.46	6.16	-.06
6-month	6.70	6.64	6.79	6.29	-.41
1-year	6.72	6.64	6.74	6.30	-.42
Federal agency					
1-year	7.30	7.32	7.36	7.22	-.08
Commercial paper					
90-119 days	6.88	7.00	7.13	7.13	.25
Large negotiable CD's					
60-89 days	6.63	6.88	7.00	7.13 (4/4)	.50
90-119 days	6.75	6.75	6.75	6.75	--
Bank prime rate-most prevalent	6.25	6.50	6.50	6.50	.25
	Statement Week Ended Mar. 21	Mar. 28	Apr. 4	Apr. 10 1/	Change--week ending Mar. 21 to week ending Apr. 10
Federal funds 1/ (daily average)	6.96	7.11	7.18	6.98	.02

1/ Average for first 6 days of the week.

Long-term securities markets. On balance, yields on long-term private securities have remained stable or even declined somewhat since the meeting in mid-March. Demands on the capital markets have remained quite moderate, especially in the corporate sector. And, as of early April at least, the concern of market participants about further increases in short-term interest rates and prospects for controlling inflation was offset by the positive effects of a strong technical position in long-term markets and the limited prospective supply of bonds. Most recently, market participants appear to have come to believe that monetary policy would not continue to be so restrictive and that short-term rates are at or near their peaks.

SELECTED LONG-TERM INTEREST RATES
(Per-cent)

	New Aaa utility bonds 1/	Recently offered Aaa utility bonds 1/	Long-term State & local bonds 2/	U. S. Gov't. (10-year constant maturity)
1971				
Low	7.02 (2/5)	7.14 (12/31)	4.97 (10/21)	5.38 (3/23)
High	8.26 (7/30)	8.19 (1/2)	6.23 (6/24)	6.95 (7/28)
1972				
Low	6.99 (11/24)	7.12 (12/1)	4.96 (12/7)	5.85 (1/14)
High	7.60 (4/21)	7.46 (4/21)	5.54 (4/13)	6.63 (9/25)
1973				
Low	7.29 (1/12)	7.26 (1/5)	5.00 (1/19)	6.42 (1/5)
High	7.52 (3/16)	7.60 (3/16)	5.35 (3/23)	6.76 (3/23)
March 2	--*	7.45	5.22	6.65
9	--*	7.50	5.27	6.67
16	7.52	7.60	5.34	6.72
23	7.45	7.53	5.35	6.76
30	--*	7.44	5.26	6.71
April 6	7.51p	7.43p	5.22	6.72p

p Preliminary
* No observations available for new issues rated A or higher that meet the criteria for inclusion in the series.
1/ FRB series
2/ Bond Buyer

Offerings of public bonds by corporations amounted to $1.1 billion in March, and the staff estimates that April volume will be somewhat lower. Underwriters indicate that few industrial corporations plan to issue debt in the near future. At this time it appears that public bond volume might average only about $1 billion a month during the second quarter of 1973, a seasonally light supply. On the other hand, takedowns of private placements appear to be edging up further on average from the high levels prevailing in 1972.

CORPORATE AND MUNICIPAL LONG-TERM SECURITY OFFERINGS
(Monthly or monthly averages, in millions of dollars)

	1972	1972 QIV	1973 QI e/	1973 Mar. e/	1973 Apr. f/
Corporate Securities					
Total	3,398	3,521	2,820	4,050	3,000
Public bonds	1,528	1,386	905	1,100	1,000
Privately placed bonds	780	1,049	632	1,000	800
Stock	1,087	1,086	1,283	1,950	1,200
State and local gov't. securities	1,970	1,952	1,872	2,200	1,700

e/ Estimated
f/ Forecast

The March estimate of new stock issues has been revised to about $2 billion and now includes new issues of shares in closed-end income funds, which the SEC recently began to report in the stock figures. The staff estimate for April has also been increased to take account of such issues. On the basis of scheduled utility stock issues, stock volume might well remain close to the $1 billion level throughout the second quarter.

Stock prices continued drifting lower on balance throughout the month of March and into early April. The gains registered in the market rally over the fourth quarter of 1972 have now been largely erased by the general decline in stock prices since mid-January. Recent trading volume on major exchanges has been slow to moderate, reflecting investor apprehension about high interest rates, inflationary pressures, and the strength of the dollar in the international markets. This lower level of trading volume is, of course, generating reduced commission revenues for brokerage firms.

RECENT STOCK PRICES AND VOLUME DEVELOPMENTS

	Oct. 16, 1972-Jan. 11, 1973	Jan. 11, 1973-Apr. 9, 1973
Price change (per cent)		
NYSE	+11.7	-9.9
D-J Ind.	+13.8	-9.9
AMEX	+3.8	-9.6
NASDAQ	+8.5	-16.2
Trading Volume (in millions of shares)1/		
NYSE	18.6	16.5
AMEX	4.2	3.5
NASDAQ	9.0	7.8

1/ Daily average for period.

Several large, long-term, tax-exempt offerings late in March boosted the monthly total to almost $2.2 billion. The April calendar suggests a total of about $1.7 billion for this month. In spite of this relatively large volume, yields on long-term tax-exempts have declined moderately. Casualty companies continue to make heavy purchases of revenue bonds and longer-term tax-exempt bonds in general. Underwriters also report that in recent weeks banks outside the money centers have increased their net purchases of municipals somewhat.

Short-term municipal debt, as measured by the FRB series on the net change in short-term debt, declined by about $2 billion in March, the first monthly decline of such magnitude in the history of the series. The run-off in short-term securities undoubtedly reflects the combination of higher tax receipts for State and local governments and revenue-sharing payments.

Nonbank thrift institutions. During the month of March, deposit growth at thrift institutions is estimated to have been slightly above the pace recorded in February. Most of the deposit inflow at S&L's and MSB's was received in the first three weeks of the month, with both sets of institutions experiencing some outflows or only very small inflows during the latter part of March--a normal seasonal pattern. However, the large volume of interest credited at month-end, and the fact that this amount has increased substantially in recent years, may tend to inflate the seasonally adjusted growth rate. On the basis of net new money alone, seasonally adjusted deposit inflows at insured S&L's were only about half of the amount received in February.

DEPOSIT GROWTH AT NONBANK THRIFT INSTITUTIONS
(Seasonally adjusted annual rates, in per cent)

	Mutual savings banks	Savings and loan associations	Both
1972 - QI	13.6	22.5	19.7
QII	10.7	15.9	14.3
QIII	11.6	18.2	16.2
QIV	11.0	14.2	13.2
1973 - QI e/	8.0	14.0	12.0
1973 - January	10.6	23.3	19.4
February	6.1	9.0e	8.1e
March e/	7.0	10.0	9.0

e/ Estimated on the basis of sample data.

End-of-month deposit outflows were most prevalent at the large New York City mutual savings banks, in which depositors historically have been quite interest sensitive. Recent data available for the first five business days of April indicate that these large banks experienced an outflow of $78.8 million. This, of course, compares unfavorably with 1972 and 1971, but in both of those years the large New York MSB's received contraseasonal net inflows when rates on market securities were low relative to rates on depositary claims. The dollar volume of outflows is the same as during the similar period of 1969, but the 1973 outflow represents a much smaller proportion of total deposits than in the 1969 period.

Apparently reflecting increased seasonal demands for commitments, as well as anticipation of the month-end reinvestment period, savings and loan associations increased their borrowings from the FHLBanks by over $400 million during the month of March. In the preceding 3 years, S&L's repaid substantial amounts of outstanding borrowings from the FHLBanks. Given the moderation in deposit flows, the usual seasonal rise in extensions of mortgage credit during the spring could lead to increased borrowings through the FHLB system and somewhat more restrictive S&L lending policies.

Mortgage market. With slackening deposit flows to nonbank thrift institutions and uncertainty about interest rate prospects for mortgages, offerings of home loans to FNMA and FHLMC have increased in recent weeks and costs of housing finance have remained under upward pressure. According to field reports and trade opinion, rates on new commitments for permanent home loans have apparently risen somewhat, at a time when seasonal demands for mortgage credit have strengthened.

In the primary market during early March, average contract rates on conventional first home mortgages closed under prior commitments remained essentially unchanged from a month earlier, and non-rate terms continued to be quite liberal, according to the newly-reconstituted FHLBB series. More than a tenth of all such loans closed during the first quarter of 1973 were for amounts in excess of 90 per cent of property value. Savings and loan associations and mortgage companies have accounted for nearly all of these high-ratio mortgages. Such loans--which typically require private insurance--have in many cases replaced mortgages which might otherwise have been underwritten by the Federal Housing Administration at lower effective yields.

In the secondary market, the steady uptrend in mortgage yields has accelerated slightly. Average yields on Government underwritten home loans rose 5 basis points further in the latest bi-weekly (April 2) auction of FNMA forward purchase commitments. At a level of 7.86 per cent, yields were up 18 basis points from their recent low late last year. A somewhat sharper yield uptrend has been evident in FNMA's commitment auction for high loan-to-value ratio conventional home mortgages. However, offerings to FNMA of this kind of loan, while rising, have remained substantially below those of FHA/VA mortgages.

FNMA PURCHASE AUCTIONS
(FHA/VA HOME MORTGAGES)

	Total Offers Received (millions of dollars)	Total Offers Accepted (millions of dollars)	Per cent of offers accepted	Yield to FNMA 1/ (per cent)
1972 - High	365 (5/1)	336(5/1)	92 (5/1,7/24)	7.74 (10/30)
- Low	61 (11/27)	36 (11/27)	42 (3/20)	7.53 (3/20)
1973 - Jan. 8	74	61	83	7.69
22	107	92	86	7.70
Feb. 5	129	65	51	7.71
20	110	72	65	7.73
Mar. 5	171	108	63	7.75
19	297	169	57	7.81
Apr. 2	235	146	62	7.86

1/ Data show gross yield to FNMA on 4-month commitments, before deduction of 38 basis point fee paid for mortgage servicing, assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA charges for commitment fees and stock purchase and holding requirements.

Although foreclosure rates remained quite low, the average delinquency rate on home mortgages (MBA series) increased more than usual during the fourth quarter of 1972 to reach 4.7 per cent of outstanding loans held by reporting institutions, a new high for the series which dates from 1953. The increase continued an uptrend that has persisted with little interruption since early 1969. Although the average 30-day and over delinquency rate moved higher for all types of mortgages, most of the rise was in FHA-insured loans, both subsidized and unsubsidized.

Federal Finance. Our forecast of receipts for fiscal 1973 has been raised $3.5 billion from the estimate given in the March Greenbook. As a result, budget receipts for the fiscal year are now projected at $231.5 billion. With fiscal year outlays still projected at $249.8 billion, the budget deficit of $18.3 billion has been revised downward by the same amount as the upward revision in receipts.

A substantial part of the increase in the estimate of receipts reflects the larger than anticipated revenues obtained in February and March, especially in the area of withheld and social insurance taxes. Projections of receipts over the remainder of the fiscal year have also been raised, partly because previously expected taxpayer adjustments to overwithholding have not materialized to any considerable degree. The increase in social insurance taxes includes larger social security payroll tax collections as well as larger projected inflows in a number of miscellaneous social insurance receipts. Estate and gift tax collections are also running higher than expected earlier. Because the corporate profits projection has been increased approximately

$8.0 billion for calendar 1973, we have increased our receipts projection for the second half of calendar 1973 by $1.5 billion. The total calendar 1973 increase in our receipts projection is therefore $5.0 billion.

Considerable uncertainty remains about the size of final payments on calendar year 1972 personal tax liabilities, but collections so far are somewhat above our projections. The fiscal 1973 refunds projection remains essentially unchanged at $20.1 billion. However, the delay in the processing of refunds continues, due in part to delays caused by the need to verify taxpayer residences for revenue sharing purposes. The staff now expects cash refunds in the second quarter to be $5 billion above last year, even though actual first quarter refunds were only $1 billion above last year on a cash basis.

Outlays have been running substantially below expected levels. During February and March they were $2.1 billion below their projected two month total. A continuation of this trend would result in fiscal 1973 outlays falling $2 to $3 billion below current projections. However, because the Administration has not changed its expenditure projection, the staff anticipates an acceleration of spending or reduced asset sales as the fiscal year draws to a close and is therefore maintaining its own projection at the Administration's official estimate of $249.8 billion.

The end-of-March Treasury cash balance was $12.9 billion. The excess of $1.9 billion over that projected in the March Greenbook reflects the increased receipts and reduced outlays discussed above.

Because April cash flows are projected to continue in surplus, the end-of-April cash balance is forecast up $.3 billion at $13.2 billion.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	March	April	May	June
Total net borrowing	3.3	-1.7	-0.6	-2.2
Weekly and monthly bills	--	0.2	0.1	--
Tax bills	--	-2.0	--	-2.5
Coupon issues	--	--	--	--
As yet unspecified new borrowing	--	--	--	--
Special issues to foreigners	3.0	--	--	--
Agency transactions, debt repayment, etc.	.3	0.1	-0.7	0.3
Plus: Other net financial sources a/	1.9	0.3	0.6	-0.7
Plus: Budget surplus or deficit (-)	-4.1	1.7	-3.5	4.8
Equals: Change in cash balance	1.1 b/	0.3	-3.5	1.9
Memoranda: Level of cash balance, end of period	12.9 b/	13.2	9.7	11.6
Derivation of budget surplus or deficit:				
Budget receipts	15.6	24.9	18.2	27.6
Budget outlays	19.7	23.2	21.7	22.8
Maturing coupon issues held by public	--	--	4.3	--
Sales of financial assets	0.9	0.4	1.1	1.3
Budget agency borrowing	--	-0.6	--	--
Net borrowing by government-sponsored agencies	0.4	2.1	1.2	0.3

a/ Checks issued less checks paid and other accrual items.
b/ Actual

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

	Fiscal 1973 e/		FY 1974 e/	Calendar Years		F.R. Staff Estimates Calendar Quarters				
	Jan. Budget	F.R. Board	Jan. Budget	1972 Actual	1973 F.R.B. e/	1972 IV*	1973 I	II	III	IV
Federal Budget										
Surplus/deficit	-24.8	-18.3	-12.7	-17.4	-11.3	-10.5	-8.8	3.0	--	-5.6
Receipts	225.0	231.5	256.0	221.5	248.4	50.5	54.8	70.7	64.5	58.4
Outlays	249.8	249.8	268.7	239.0	259.7	60.9	63.5	67.7	64.5	64.0
Means of financing:										
Net borrowing from the public	25.0	21.6	16.5	15.2	8.2	12.3	8.7	-4.5	1.7	2.3
Decrease in cash operating balance	3.0	-1.5	n.a.	0.2	3.1	-1.3	-1.8	1.3	-0.2	3.8
Other 1/	-3.2	-1.8	n.a.	2.0	0.1	-0.5	1.9	.2	-1.5	-0.5
Cash operating balance, end of period	7.1	11.6	n.a.	11.1	8.0	11.1	12.9	11.6	11.8	8.0
Memo 2/: Sales of financial assets 3/	5.5	5.9	4.0	3.1	n.e.	1.1	1.3	2.7	n.e.	n.e.
Budget agency borrowing 4/	1.4	0.4	2.5	0.8	0.2	0.3	--	-0.6	0.4	0.4
Sponsored agency borrowing 5/	7.6	6.5	9.6	3.1	10.9	0.8	1.5	3.6	3.4	2.4
National Income Sector										
Surplus/deficit	-26.6	-19.0	-12.5	-18.1	-5.3	-24.1 p/	-10.3	-12.9	--	1.9
Receipts	233.3	239.1 6/	263.0	228.7	261.2	238.6 p/	252.6	252.2	267.1	272.7
Expenditures	259.9	258.1	275.5	246.8	266.5	262.7	262.9	265.1	267.1	270.8
High Employment surplus/deficit (NIA basis) 7/	n.a.	- 5.6	n.a.	-0.4	-3.3	-11.6	-8.0	-7.0	-0.3	2.4

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

1/ Includes such items as deposit fund accounts and clearing accounts.

2/ The sum of sponsored and budget agency debt issues and financial asset sales does not necessarily reflect the volume of debt absorbed by the public, since both the sponsored and budget agencies acquire a portion of these issues.

3/ Includes net sales of loans held by the Commodity Credit Corporation, Farmers Home Adm., Government National Mortgage Assn., Federal Housing Adm., and Veterans Adm. Receipts from these sales are netted against Federal Budget Outlays shown above.

4/ Includes, for example, debt issued by the U.S. Postal Service, Export-Import Bank, and Tennessee Valley Authority, which is included in the Net Treasury Borrowing from the Public shown above.

5/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

6/ Quarterly average exceeds fiscal year total by $4.2 billion due to spreading of wage base and refund effect over calendar year.

7/ Estimated by F.R. Board Staff.

INTERNATIONAL DEVELOPMENTS

U.S. Balance of Payments
In millions of dollars; seasonally adjusted

	1972p/			1973p/	
	Year	1H	2H	Jan.*	Feb.*
Goods and services, net 1/	-4,219	-2,703	-1,520		
Trade balance 2/	-6,816	-3,608	-3,208	443	440
Exports 2/	48,840	23,220	25,620	4,972	5,020
Imports 2/	55,656	-26,828	-28,828	-5,415	-5,460
Service balance	2,597	905	1,688		
Remittances and pensions	-1,556	-772	-784		
Govt. grants & capital, net	-3,575	-1,574	-2,001		
U.S. private capital (- = outflow)	-8,339	-3,302	-5,039		
Direct investment abroad	-3,339	-1,366	-1,973		
Foreign securities	-619	-747	127	-127	46
Bank-reported claims -- liquid	-733	-221	-512	3	-1,193
" " " other	-2,780	-650	-2,130	444	-1,664
Nonbank-reported claims -- liquid	-406	-255	-151		
" " " other	-462	-63	-400		
Foreign capital (excl. reserve trans.)	10,488	4,322	6,167		
Direct investment in U.S.	322	-10	332		
U.S. corporate stocks	2,463	860	1,603	481	438
New U.S. direct investment issues	1,974	1,062	912		
Other U.S. securities (excl. U.S. Treas.)	64	101	-37		
Liquid liabilities to:	4,816	1,743	3,073	-85	-1,896
Commercial banks abroad	3,905	1,456	2,449	3	-2,033
Of which liab. to branches 3/	(178)	(196)	(-18)	(-67)	(-544)
Other private foreign	809	334	475	-54	109
Intl. & regional organizations	102	-47	149	-34	28
Other nonliquid liabilities	849	566	283		
Liab. to foreign official reserve agencies	10,265	3,847	6,417	-724	7,676
U.S. monetary reserves (increase, -)	742	554	188	97	128
Gold stock	547	544	3	--	--
Special drawing rights 4/	7	7	--	--	--
IMF gold tranche	153	184	-31	-4	-4
Convertible currencies	35	-181	216	101	132
Errors and omissions	-3,806	-372	-3,433		
BALANCES (deficit -) 4/					
Official settlements, S.A.		-4,401	-6,605		
" " , N.S.A.	-11,007	-3,957	-7,050	627	-7,804
Net liquidity, S.A.		-5,668	-9,015		
" " , N.S.A.	-14,684	-6,122	-8,562		
Liquidity, S.A. 5/		-6,144	-9,678		
" , N.S.A.	-15,823	-6,738	-9,085	712	-5,908

* Monthly, only exports and imports are seasonally adjusted.
1/ Equals "net exports" in the GNP, except for latest revisions.
2/ Balance of payments basis which differs a little from Census basis.
3/ Not seasonally adjusted.
4/ Excludes allocation of $710 million of SDRs on 1/1/72.
5/ Measured by changes in U.S. monetary reserves, all liabilities to foreign official reserve agencies and liquid liabilities to commercial banks and other foreigners.

INTERNATIONAL DEVELOPMENTS

Summary and outlook. In foreign exchange markets there has been no definite trend since the end of the upheaval in February and early March. There has been little in the general economic news to reassure the market about future stability. In the United States the market has seen an upsurge of commodity prices after a period in which the U.S. price performance was greatly admired abroad. Also in the U.S. picture have been the varied amendments to the Par Value Modification Bill (one of which would allow dealings by private citizens in gold markets), and pressure to put ceilings on interest rates. Abroad, with overall economic activity generally strengthening, there has been a rapid rise in prices of foods and raw materials, tempered somewhat by currency revaluations. Efforts to restrain inflation abroad have involved some further tightening of monetary policy--facilitated in some cases by stronger barriers against capital inflows--and some measures in the areas of indirect taxation, tariffs, and income policies.

The U.S. trade balance showed some further gain in the January-February average, to an annual rate of deficit of about $5-1/4 billion. There was a remarkable increase in exports of agricultural products to a $14-1/2 billion annual rate. Other exports also exceeded the fourth-quarter rate, and information on export orders points to further increases ahead in exports of machinery and durable goods.

A strong plus factor in January and February was foreign net purchases of U.S. corporate stocks totalling about $900 million. There were also sizable purchases of U.S. corporate bonds, including substantial official Japenese purchases.

The selling pressure on the dollar in the period from the end of January through mid-February and the renewed pressure early in March were reflected in a large increase in foreign claims reported by U.S. banks (including agencies of foreign banks) and a decline in their liabilities to banks abroad. Taken together, these shifts reported by banks corresponded to about half of a total official settlements deficit of about $12 billion in the six weeks to March 14. From the middle of March through the week ended April 4, the weekly indicators have shown a sizable surplus on the official settlements basis. More than half of the reduction in official dollar holdings was for Japan, with a much smaller reduction for Germany.

In the current quarter there may well be some increase in the trade deficit because of higher import prices and domestic demand strong enough to maintain import volumes. Also on the negative side, the inflow of foreign capital to the U.S. stock market is apparently not being sustained at nearly the January-February rate. On the other hand, the scope for further lending abroad by U.S. banks is under some pressure from the VFCR ceilings.

Foreign Exchange Markets. Activity in the exchange markets since the official re-opening of the European and Japanese markets on March 19 has been rather subdued. The dollar has strengthened against major foreign currencies except for sterling and the Swiss franc, probably reflecting some unwinding of leads and lags in commercial payments as well as the effects of the negative interest rates on non-resident deposits imposed by several European countries. The Bank of Japan sold $745 million in market intervention around the end of March; otherwise, there has been very little dollar intervention by major foreign central banks.

Volume in most markets on most days since March 19 has been considerably below normal, but has tended to increase from the extremely low levels of March 5-16 when markets were officially closed.

The dollar has appreciated by about 2 per cent since March 14 against the guilder and the Belgian franc, and by 1/4 to 1/2 per cent against the French franc and the German mark. (The relatively greater depreciation of the guilder and the Belgian franc probably reflects the effects of the negative interest rates on non-resident deposits imposed by those two countries, effective March 26. Details of these and other capital control measures are covered in Appendix A).

The European band has been fully extended much of the period since March 19, and the mark has received a moderate amount of central bank support against other European currencies, particularly the French franc and the Scandinavian currencies. In recent days the narrower Benelux band has also been fully extended, and the guilder has been supported by central bank sales of Belgian francs.

The dollar has depreciated by about 1 per cent against sterling since mid-March and on balance has shown no change against the Swiss franc. Sterling strengthened on the basis of encouraging developments in the domestic labor situation and the continuation of very high interest rates available to foreigners, at a time when most other European countries have imposed negative interest rates on non-resident deposits. The relative strength of the Swiss franc reflects, inter alia, the continued tight liquidity position of Swiss banks.

The dollar appreciated by around 2-1/2 per cent against the yen, which is currently trading at 16 per cent over its Smithsonian central rate. The softness of the yen in the past few weeks, particularly before the end of March, can be attributed to several factors, including a seasonal weakness of Japan's trade balance, large pre-payments for special uranium imports from the United States, and certain corporate remittances abroad associated with the end of the Japanese fiscal year on March 31.

The Canadian dollar depreciated against the U.S. dollar by 1/2 per cent from March 14 through April 9, with the Canadian dollar falling below U.S. $1.00 on the latter date. The Bank of Canada sold, net, U.S. $38 million to cushion the decline. The weakness of the Canadian currency was attributed to the rise in U.S. dollar interest rates relative to Canadian dollar interest rates over that period. On Friday, April 6 the Bank of Canada raised its discount rate by 1/2 per cent to 5-1/4 per cent, and on Monday the Canadian dollar moved back above U.S. $1.00 with the Bank of Canada taking in U.S. $13 million.

Euro-dollar Market. Euro-dollar rates have eased markedly since the passing of the exchange market turmoil in February and early March, but remain well above their levels at the beginning of the year. In recent weeks U.S. banks have found reserve-free overnight Euro-dollar borrowing slightly more expensive than borrowing in the Federal funds market, a reversal of the relationship that prevailed throughout the last quarter and 1972 and the first month of 1973 before February's massive speculative selling pressure on the dollar in exchange markets drove the overnight Euro-dollar rates above 9 per cent. Rates on one-and three-month Euro-dollar deposits have on average exceeded rates on CD's of comparable maturity by about 1 percentage point in recent weeks. This contrasts with the situation of near equality between the two sets of rates which prevailed in late 1972 and the excess of several percentage points of longer maturity Euro-dollar rates over comparable maturity CD rates in February. U.S. banks have allowed their reserve-free Euro-dollar borrowing bases to decline to about $1-3/4 billion by reducing average daily borrowings from their foreign branches by over $100 million during the computation period ended March 14.

SELECTED EURO-DOLLAR AND U.S. MONEY MARKET RATES

Average for month or week ending Wednesday	(1) Over-night Euro-$ 1/	(2) Federal Funds 2/	(3) Differ-ential (1)-(2)	(*)	(4) 1-month Euro-$ Deposit 1/	(5) 30-59 day CD rate (Adj.) 3/	(6) Differ-ential (4)-(5)	(*)
1972 - Oct.	4.77	5.05	-0.28	(0.91)	5.10	5.10	0.00	(1.28)
Nov.	4.74	5.05	-0.31	(0.88)	5.08	5.01	0.07	(1.34)
Dec.	4.75	5.33	-0.58	(0.61)	6.05	5.25	0.80	(2.31)
1973 - Jan.	5.72	5.94	-0.22	(1.21)	5.97	5.79	0.18	(1.67)
Feb.	9.03	6.58	2.45	(4.71)	7.70	6.35	1.35	(3.28)
Mar.	9.19 4/	7.09	2.10	(4.40)	8.79	7.20	1.59	(3.79)
1973 - Feb. 28	11.30	6.75	4.55	(7.38)	8.64	6.45	2.19	(4.35)
Mar. 7	7.29	7.00	0.29	(2.11)	9.63	6.72	2.91	(5.32)
14	8.16	7.13	1.03	(3.07)	8.89	6.84	2.05	(4.27)
21	7.43	6.96	0.47	(2.33)	8.24	7.11	1.13	(3.19)
28	7.29	7.11	0.18	(2.00)	8.57	7.24	1.33	(3.47)
Apr. 4	15.05	7.18	1.37	(11.63)	8.38	7.37	1.01	(3.11)
11 p/	6.93	6.98	-0.05	(1.68)	7.96	7.37	0.59	(2.58)

1/ All Euro-dollar rates are noon bid rates in the London market; over-night rate adjusted for technical factors to reflect the effective cost of funds to U.S. banks.

2/ Effective rates.

3/ Offer rates median, (as of Wednesday) on large denomination CD's by prime banks in New York City; CD rates adjusted for the cost of required reserves.

4/ 8.07 excluding March 29. A technical anomaly involving a quarter-end squeeze on dollar balances raised overnight Euro-dollar borrowing to 60 per cent on that date.

5/ 7.57 excluding March 29.

*/ Differentials in parentheses are after adjustment of Euro-dollar rates for the 20 per cent marginal reserve requirement (relevant to banks with borrowings in excess of their reserve-free bases). p/ Preliminary.

U.S. balance of payments. With foreign exchange markets calm since mid-March, and some countries raising barriers against non-resident funds, there has been a moderate reversal of the enormous outflows of funds from the United States in February and early March. Consequently the overall U.S. balance of payments has recorded sizable surpluses in recent weeks. For the three weeks ending April 4, the balance on the official settlements basis was a surplus of $1.8 billion, a sharp turnaround from the $12-1/2 billion deficit registered from the end of January through March 14.

Large flows of funds involving changes in bank assets and liabilities occurred in the first quarter. Liabilities of U.S. banks to their foreign branches declined sharply -- by $1.1 billion -- in the three weeks to February 14, but on balance over the first quarter as a whole they declined by only a small amount, $300 million. U.S. agencies and branches of foreign banks returned about $3/4 billion to their home offices and affiliates during the 3 weeks to February 14. Last year these foreign agencies had been bringing in funds -- $1/2 billion in the fourth quarter and over $2-1/2 billion in the year 1972 as a whole.

Bank claims on foreigners also increased sharply in the first quarter. The flow totaled over $2-3/4 billion in February alone, with over $1 billion in claims on Japan. The increase in claims in February was about equally divided between U.S. banks and U.S. agencies of foreign banks. Weekly banking statistics indicated continued large increases in claims by U.S. banks through most of March, turning to reductions at the end of March and early April.

Information regarding operations in late January and early February shows that only a small part of the rise in U.S. banks' foreign assets was in foreign currency holdings. The rise in dollar "loans" included at that time an increase in overnight overdrafts of correspondent banks abroad, as well as drawings on outstanding commitments.

Probably both the decline in foreign liabilities and the rise in foreign assets of banks in the United States reflected in large part pressures in the Eurodollar market related to currency speculation. Initially, banks in Europe from which Eurodollar deposits were withdrawn or at which there was a rise in dollar loans drew on resources quickly available to them in the United States. Subsequently some of the lending from the United States has no doubt served to refinance Eurodollar borrowings.

Foreign net purchases of U.S. stocks were surprisingly strong in February, amounting to $450 million, only slightly smaller than the very large amount -- $480 million -- purchased in January. However, the bulk of the February purchases occurred immediately after the devaluation on February 12, after which purchases dropped sharply. A small sample of brokers indicate that there was little business in March and there may have been net sales of stocks by foreigners in that month. Bond purchases by private foreigners--particularly offshore issues--also held up well in February, but were probably small in March.

U.S. foreign trade. The trade deficit in February was at an annual rate of $5-1/4 billion (estimated balance of payments basis), about the same as the deficit in the two preceding months but considerably below the $6-3/4 billion deficit rate of the fourth quarter of 1972. Exports and imports both rose slightly in February, after very sharp increases in January. (These balance of payments data for January and February have been adjusted for timing of entry of imports. The published Census data for February include a substantial amount of imports which actually arrived in January. This slippage resulted from computational difficulties resulting from the introduction of new statistical classifications, as explained in the March Greenbook.)

It is quite likely that the trade deficit will worsen in the next few months as dollar prices of imports rise, reflecting more fully the impact of the exchange rate changes of 1971 and early 1973. Some foreign suppliers have announced higher prices beginning with March deliveries. Dollar prices of exports will probably also rise as a result of the devaluation, but on average these increases may be more gradual than for imports since a significant portion of U.S. exports consists of specialized machinery or other heavy equipment contracted for earlier at a fixed dollar price.

The values of both exports and imports in January-February were exceptionally high, reflecting the continued strength of U.S. demand, the further growth in foreign economic activity, and high prices of agricultural commodities and nonagricultural industrial materials. Exports in the first two months were at an annual rate of $60 billion, 13 percent higher than in the fourth quarter and 23 percent above the average for all of 1972, a further acceleration of the very steep rates of increase that had already occurred in the third and fourth quarters of last year. Over one-half of the increase in exports in January-February was in shipments of agricultural commodities, which rose to an extraordinarily high annual rate of $14-1/2 billion, 35 percent higher than the previous record posted in the fourth quarter. Only a small part of the increase was in the value of agricultural shipments to the Soviet Union, partly because the export prices of the wheat corn and soybeans currently being shipped to that country are at the levels of last summer when the sales were made; these prices are considerably below the present export prices of the same commodities shipped to other countries. For example, the price of wheat exported to Russia in February was $1.62 per bushel; to other countries the average price was over $2.05 per bushel.

Exports of nonagricultural commodities also rose sharply in January-February, continuing the advance which had begun in mid-1972. Shipments of a broad variety of nonagricultural industrial materials--steel, ferrous scrap, nonferrous metals, chemicals, logs, etc.--were very strong as were exports of machinery. Foreign orders for U.S. machinery, and other types of durable goods (aside from aircraft), rose by nearly 20 percent from January to February. New orders for machinery in January-February combined were about 30 percent higher than a year earlier.

Imports in January-February also increased very sharply, though not as much as exports. They were 9 percent greater than in the fourth quarter. The advance, as throughout 1972, was led by imports of industrial materials; imports of fuels were up to $6 billion at an annual rate, about $3/4 billion higher than in the fourth quarter. Imports of lumber, paper, copper and chemicals also rose substantially, but imports of steel were no higher than in the fourth quarter.

Imports of other major commodity groups--particularly foods and other consumer goods (except autos)--were also considerably stronger in January-February. Imports of capital equipment were also higher in January-February, after being relatively flat in the middle quarters of 1972, reflecting the increasing strength in domestic investment expenditures.

The major exception to the broad growth in imports in the first two months was the continued stability in imports of cars from Europe and Japan. Domestic sale of these cars have been extremely high--about 2 million units at an annual rate in each month from December through March, with a surge occurring after the devaluation of February 12. These sales are far in excess of the number of cars imported and have resulted in a sharp decrease in inventories. While sales of these cars are expected to drop as new higher prices resulting from the devaluation become effective (assuming, of course, that domestic car prices hold steady), it is quite likely that even a partial replenishment of inventories will result in a large increase in auto imports during the coming months.

Price and wage developments in major foreign industrial countries. The most striking feature of the price picture in the past few quarters has been the sharp acceleration of the increase in agricultural and raw materials prices beginning in the second half of 1972. This has been observed in all of the major industrial countries. Despite somewhat more favorable price performance for manufactured products in most countries, the general level of prices at both wholesale and retail levels has also tended to increase more rapidly since mid-1972. (See Table 1.) Data are generally not available beyond January or February; thus the effects of the February exchange rate changes in holding back the advances in nondollar prices of internationally traded goods -- at least in relation to dollar price increases -- are not yet evident.

The rise in the prices of primary products has been particularly sharp. (See Table 2.) The United Nations dollar-based price index for primary commodities was 17.1 per cent higher in the fourth quarter of 1972 than it had been a year earlier. Over that period the index for food rose by almost 19.6 per cent; the index for non-food agricultural commodities rose by 18.5 per cent, with wool prices -- which have a large weight in the index -- almost doubling; the index for metal ores rose by 8.7 per cent; and the index for fuels rose by 9.9 per cent -- the only major category in which prices rose less in 1972 than in 1971.

Table 1. Wholesale Prices of Manufactured Products
(percentage changes at annual rate)

	1971-Q2 to 1971-Q4	1971-Q4 to 1972-Q2	1972-Q2 to 1972-Q4	1972-Q4 to latest 1/
France	3.4	5.2	9.2	5.4
Germany	1.4	4.0	4.0	8.4
Italy	2.2	2.8	5.5 2/	n.a.
U.K.	4.4	4.6	7.8	5.1
Japan	-1.4	2.0	8.6	19.2
Canada	6.0	7.2	9.0	n.a.
U.S.	2.2	4.6	3.8	16.3

1/ Latest data include March for the United States and the United Kingdom; otherwise, only January data are available.
2/ Data available only through November.
Source: OECD Main Economic Indicators and national sources.

Table 2. Export Prices of Primary Commodities 1/
(percentage changes at annual rate)

	1970-Q4 to 1971-Q2	1971-Q2 to 1971-Q4	1971-Q4 to 1972-Q2	1972-Q2 to 1972-Q4
Total	11.0	3.5	18.8	14.1
Food	7.0	0	18.8	18.8
Agricultural non-food	5.9	7.7	18.5	16.9
Metal ores	8.3	1.6	12.6	4.4
Fuels	30.6	4.7	18.3	1.4

1/ The indices are computed in U.S. dollars. 1963 = 100.
Source: United Nations Monthly Bulletin of Statistics.

These prices reflect both demand factors (including substantial rebuilding of stocks) and supply factors. Various shortages of materials developed toward the end of the year, and agricultural production was lower than in 1971 in many industrial and non-industrial countries. These prices, expressed in dollars, also reflect the effect of dollar exchange rate depreciation since the base period. In countries whose currencies have appreciated against the dollar, import prices for primary commodities have of course increased somewhat less. This was a factor holding down the rate of general price increase in Japan, Germany, and Switzerland, especially.

Significant upturns in aggregate demand in most industrial countries were an important factor putting upward pressure on prices of manufactured goods and services, as well as on prices of primary commodities. Tightening labor market conditions increased the likelihood that the rise in prices -- especially food prices -- would be reflected in new labor contracts. This apparently has not happened yet. Indeed, with wage rates and earnings generally rising more slowly in 1972 than in 1971, and with productivity increasing more rapidly, there was actually some deceleration in the rate of increase in unit labor costs in 1972 (although that rate generally remains higher abroad than in the United States.) But it is feared in many countries that cost pressures may intensify as spare capacity and unemployment is increasingly eliminated.

Authorities in virtually all the major countries, therefore, have been attempting to hold inflationary pressures in check. In many countries (France, Germany, Switzerland, and Japan) these efforts have largely taken the form of less expansionary aggregate demand management policies. In France, and to a lesser extent in Switzerland, these measures have been supplemented with voluntary price and wage restraint agreements or surveillance procedures which appear to be fairly weak. Tax and tariff reductions have been implemented in France and Canada (and in the EEC as a whole) to lower some prices directly. In the Netherlands, Austria, Luxemburg, Norway, and Sweden, some prices have been quite strictly controlled. In Italy, a large reduction in social security taxes, to reduce firms' production costs, is planned for the near future. Only in the United Kingdom, however, has a comprehensive set of wage/price controls been employed.

Although the underlying price picture is largely the same in most countries, some particular developments in individual countries deserve mention.

The imposition of a wage/price freeze in the United Kingdom last November has had a marked effect on the rate of increase of those prices which have been controlled. Retail prices for all non-food items rose only 0.6 per cent in the three months since the freeze, compared to 2.7 per cent in the previous three months. In the same recent period, wholesale prices of manufactured products rose 1.1 per cent, precisely half the rate observed in the three months prior to the freeze. Average earnings have remained essentially unchanged since November, and basic hourly and weekly wage rates have risen only 1/2 per cent.

On the other hand, increases in those prices which were not controlled (food and imported raw materials) accelerated sharply -- even more sharply than elsewhere, reflecting the devaluation of sterling as well as the rapid rise of world commodity prices discussed above.

The Government is relying almost exclusively on the success of its wage/price policy to keep prices under control. Under a Phase II program (which replaced the wage freeze on March 31 and is to replace the price freeze on April 28), a Price Commission and a Pay Board have been established to enforce the final version of the Pay and Price Code published on March 26. This Code provides that prices of controlled items (e.g., items other than imports and most fresh foods) will be allowed to reflect higher "allowable cost per unit of output"1/ only if: (1) cost increases were incurred before October 1, except for companies previously observing voluntary price restraint and now intending to invest; and (2) labor costs rose, but not by more than the freeze and Phase II allow. Even so, only half the increase in wages can be passed

1/ Allowable costs include certain services such as rental of equipment, insurance, storage, and maintenance, as well as labor, materials, components, fuels, rents, taxes, and interest charges.

on in prices.[2/] In addition, prices must be lowered if net profit margins exceed the average of the best two of the last five years, unless (1) the profit margin does not produce a return of 5 per cent on capital, or 1 per cent on turnover for service industries; (2) increases in volume sales have led to reduced costs; or (3) companies have been trading for two years or less. Allowable cost increases or profit margin limits can be modified if the Price Commission thinks that the prospective rate of return would prevent a company from going ahead with investment.

Interest rates are exempt, but banks will not be able to increase other charges unless the above cost rules permit.

The limit on pay increases is £1 a week per individual, plus 4 per cent of the average wage bill for a group of workers. The maximum increase for any individual is £250 a year. Exceptions include extra pay to bring women's pay closer to men's; reduction in hours, down to 40; increases in holidays, up to 3 weeks; merit, age, or seniority increases; individual promotions; and better pension or redundancy payments. All of this adds up to something on the order of an 8 per cent annual rate of increase of earnings -- about half the rate experienced in the year preceeding the freeze.

In France, an anti-inflationary program was announced in December. Large reductions in the value-added tax (especially on food and

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2/ Where the share of a company's labor costs exceeds 35 per cent of total costs, the company will only have to absorb an amount equal to that which would apply if labor represented 35 per cent of total costs.

manufactured goods) were included, and are expected to reduce retail prices in the first quarter by 1.2 per cent below what they would otherwise have been. Retail prices were stable in January and rose only 0.3 per cent in February, after rising previously at annual rates of 6 to 7 per cent.

There was also a recommendation in the December program that both firms in the private sector and unions hold wage increases to 6 per cent in 1973 unless prices rise more than 4 per cent, in which case a 2 per cent gain in real income should be maintained. But unless the Government decides to put some teeth into this policy there is little question that the price increase will exceed 4 per cent, and it is expected that union leaders will begin, after a quiet winter, to voice stronger demands.

In Italy new labor contracts were signed in recent weeks. The most important contracts were those for the metal and engineering industries, where hourly earnings reportedly will increase by 16-18 per cent over 3 years, as the result of a 12 per cent across-the-board pay rise coupled with reductions in average hours worked per week and longer vacations. The increases are probably front-loaded, the bulk of the 3-year increase coming in the first year.

The Japanese authorities have taken various measures in recent months to reduce inflationary pressures, even though these pressures have developed more recently in Japan than elsewhere. The measures include credit ceilings, higher commercial bank reserve requirements, and an increase in the Bank of Japan's basic discount rate (from 4.25 to 5.0 per cent, effective April 2).

There has been some discussion in the Canadian press about price and wage controls, but the government has so far been opposed to such measures. Instead, some of the provisions in the budget which was announced February 19 were aimed at decreasing inflationary pressures. Specifically, temporary tariff reductions averaging 5 percentage points on about 1.3 billion Canadian dollars of imported consumer goods were introduced, and sales taxes on food products and some clothing, and some excise taxes, were abolished. In addition, in order to stop the decrease in real after-tax income resulting from the interaction of inflation and a progressive tax system, the personal income tax system will be indexed to price increases beginning in 1974. The indexing would consist of raising tax brackets to which given percentage rates apply and increasing principal exemptions each year by an inflation factor based on the Consumer Price Index. However, the basic thrust of the new budget -- and of policy generally -- remains expansionary in order to encourage growth and reduce unemployment.

APPENDIX A: SELECTED POLICY MEASURES TAKEN BY FOREIGN COUNTRIES SINCE JANUARY 20, 1973*

This list refers to: 1) measures taken by foreign countries in reaction to the exchange market developments of January-March (excluding exchange rate changes and exchange market intervention); 2) the abolition or expiration of those measures; and 3) measures taken to affect foreign exchange markets, other than official intervention.

Belgium

Week of February 26. Effective March 1 the National Bank took administrative actions to prevent speculative inflows in the form of nonresident holdings of commercial francs. These measures were lifted on March 16.

Week of March 26. Under an agreement with the National Bank, beginning March 26 the banks would levy a charge of 0.25 per cent per week on increases in nonresident franc deposits above the daily average level in the fourth quarter of 1972. The charge is equivalent to a negative interest rate of 13.75 per cent per annum.

France

Week of March 12. The following new control measures were announced on March 16:

1. Payment of interest is prohibited on new franc deposits made by nonresidents on or after January 4, 1973, for periods of less than six months.
2. A 100 per cent marginal reserve requirement is imposed on increases in deposits of nonresidents on or after January 4, 1973. This marginal requirement supplements the existing average reserve requirement of 10 and 5 per cent for resident sight and time deposits, respectively, and 12 and 6 per cent for nonresident sight and time deposits.
3. Financial-franc accounts may not be debited for the purpose of buying any short-term securities, especially Treasury bills, certificates of deposit, private bills, or payments to a passbook account. This implies that nonresidents are strictly prohibited from purchasing any short-term French securities.

These provisions do not apply to financial-franc accounts opened for nonresident natural persons to the extent of wages, salaries and fees, social insurance compensation payments, pensions, and annuities collected to the credit of these accounts.

4. Resident commercial banks may not increase any surplus (or reduce any shortfall) of forward exchange purchases over forward exchange sales beyond the level as of February 28.

Week of March 26. A. French banks announced that due to the 100 per cent marginal reserve requirement imposed by the Bank of France, they are imposing a charge on nonresident deposits.

B. The Bank of France informed the commercial banks on March 31 that henceforth they may no longer enter into or renew operations with any nonresidents which would amount to a swap operation against French francs.

Germany

Week of January 29. Effective February 5, Bundesbank approval is required for: purchase of German equities by nonresidents; direct investment, in excess of DM 500,000, by nonresidents in enterprises in Germany; borrowing in excess of DM 50,000 by residents from nonresidents; and any changes in the terms of payment for commercial transactions that constitute a "departure from normal practices." Note: Since the end of June, the sale by residents to nonresidents of German bonds has required Bundesbank approval. Also, since July commercial banks have been under orders not to sell to nonresidents "any types of claims on residents, shares of mutual and real estate funds, and foreign bonds out of their portfolios." The banks have also been instructed "not to arrange and/or guarantee foreign credits to residents in excess of DM 500,000."

Week of February 19. On February 23, the German Parliament completed passage of an amendment to the Bardepot law authorizing a rise from 50 to 100 per cent in the legal ceiling on the proportion of the proceeds of a loan by a nonresident to a German nonbank which the latter must maintain interest free with the Bundesbank. However, the new authority has not been invoked and the required deposit remains at 50 per cent.

Italy

Week of January 22. Effective January 22 Italian residents were required to liquidate, by sale on the exchange market or other authorized uses, foreign exchange held in foreign currency accounts with banks by the end of the month following that in which the exchange was originally deposited.

Week of January 29. On February 1, transactions in foreign banknotes were transferred from the commercial lira market to the financial lira market.

Japan

Week of February 26. A. The Ministry of International Trade and Industry (MITI) indicated that it would tighten up its investigative procedures, which were first instituted in March 1972, in order to ensure that the benefits from yen revaluation are passed on to the public in the form of lower prices for imported consumer goods. Twenty items, such as wristwatches, fountain pens, automobiles, and gasoline, are to be the targets of continuous price investigations, with the results being made known to the consumers. MITI also intends to warn industries if it finds that they are not cutting prices when they could do so.

B. In a move to reduce excessive bank liquidity, caused in part by the large balance-of-payments surpluses, the Bank of Japan announced that effective March 16 commercial bank reserve requirements would be raised for the large city banks by 0.5 percentage points to 1.5 per cent for time deposits, and by 1.0 percentage points to 3.0 per cent for other deposits.

Reserve requirements for smaller banks were also raised by 0.25 percentage points. This was the second such action in two months, reserve requirements having been raised earlier on January 16, 1973.

Week of March 12. The Government instituted emergency measures for aiding smaller enterprises seriously affected by the revaluation of the yen. Three specific measures were taken: (1) ¥220 billion ($840 million) has been set aside by the Government for the use of three governmental financial institutions to aid small enterprises; (2) the period for the repayment of special loans that were extended to small enterprises after the last yen revaluation in 1971 has been extended by one year; and (3) the ceiling on the amount of insurance obtainable under the Smaller

Enterprises Credit Insurance System has been increased. The Smaller Enterprise Agency of the Ministry of International Trade and Industry will also study the operations of small enterprises in 16 industrial areas and make recommendations for restructuring their operations in view of the yen revaluation.

Netherlands

Week of March 12. Effective March 26, negative interest is being charged on the convertible guilder deposits of nonresidents in Dutch banks. Specifically, a so-called commission of 0.25 per cent per week (13 per cent, annual rate) is being charged on that part of such deposits in excess of the average balance in the period February 1 through February 14. The commission can legally be raised to as much as 2 per cent per week. "O" guilder accounts are exempt from the commission, as are balances not exceeding guilders 100,000 on account of individuals, associations and foundations. Commercial banks must deposit these proceeds with the Netherlands Bank.

Switzerland

Week of January 29. Effective January 29 the Swiss National Bank reimposed on banks the requirement that their foreign currency assets (spot and forward together) be at least equal to the corresponding liabilities on every day.

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