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# Part 1

February 12, 1975

## CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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### Summary and Outlook

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

**CONFIDENTIAL (FR)**

**February 12, 1975**

**SUMMARY AND OUTLOOK**

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

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# **SUMMARY AND OUTLOOK**

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DOMESTIC NONFINANCIAL DEVELOPMENTS

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Summary and outlook. This past month has brought evidence of further substantial declines in real activity. Industrial production in January was cut even more than in December, and employment fell sharply again. The unemployment rate surged in January to a postwar record. Real business investment is moving downward; consumer markets generally remain weak; and the beginning of a significant recovery in residential construction seems several months away. A shift toward inventory liquidation is also acting strongly to curtail production and employment.

Progress in the inflation front is continuing. Wage rate increases have moderated in the past several months, and price concessions to reduce excess inventories are spreading.

Industrial production fell by 3.6 per cent in January--significantly more than in either of the two previous months. Since its recent high in September, the index has declined by almost 10 per cent. Reductions have been widespread among final products and materials, and the capacity utilization rate for major materials fell in January to 71.5 per cent--about one-fourth below its peak in mid-1973.

Employment was cut sharply again in January, and the work-week was curtailed further. Nonfarm payroll employment has now fallen by 1½ million in 3 months--the largest such contraction since before World War II. The unemployment rate jumped a full percentage

point in January to 8.2 per cent. The number of workers drawing unemployment benefits continued to rise rapidly following the January survey week, indicating a probable further increase this month in the jobless rate for experienced workers.

With employment and real incomes declining, consumer demand has shown little sign of rallying. Retail sales excluding autos increased by .8 per cent in January--probably not much more than the rise in prices, and the dollar volume of sales was no higher than the fourth quarter average. Auto sales, on the other hand, have responded to price rebates--sales of the smaller models on which rebates are being given picked up briskly in the last 10 days of January. In addition, banks and auto finance companies have been offering longer terms and "temporary" reductions in the cost of new car loans. Reacting to this apparent success in autos, rebate plans have also been announced by some appliance manufacturers.

There have been further indications recently of weakening business demands for inventories and fixed capital. New orders for durable goods have continued to drop at an accelerating rate; capital goods orders were off sharply further in December, and construction contract awards for commercial and industrial buildings have now slipped to almost half the mid-1973 peak.

Despite widespread efforts by businesses to cut excess stocks, manufacturers' inventory book values rose in December at only slightly less than the third quarter rate, and stock-sales ratios rose

further from levels that were already high. However, production cutbacks and aggressive sales efforts by business are expected to be reflected in outright inventory liquidation--particularly in the auto industry--in the current quarter.

Outlook. The current staff GNP projection incorporates a more stimulative set of fiscal policy assumptions than were included in the previous Greenbook, reflecting new budget information. Federal spending projections for fiscal 1976 have been raised around \$15 billion--with the increase spread fairly evenly over the projection period. Part of the upward revision represents higher unemployment and food stamp benefits resulting from larger projected income losses in the private economy. Our Federal spending estimates assume that most of the \$17 billion of spending cuts recommended by the President will not be approved by the Congress.

On the revenue side, we have assumed that the \$20 billion tax cut in the tentative House Ways and Means Committee bill will pass. This would provide an \$8 billion tax rebate to individuals on 1974 liabilities, and a continuing tax cut of \$8.4 billion a year--mainly to lower income taxpayers. For businesses, the total tax cut would add up to around \$4 billion. The investment tax credit would be raised to 10 per cent, and the top of the 22 per cent corporate tax bracket would be raised from \$25,000 to \$50,000. Apart from the tax rebate, we assume that these tax cuts will become permanent. In the energy field, we have again omitted a new policy, since the President's proposals have met vigorous resistance in the Congress, and possible alternatives have not yet crystallized.

On the monetary side, we continue to assume a 6 per cent growth rate of  $M_1$  during 1975 and into 1976. With economic activity markedly weaker in the near term than previously assumed, interest rates are expected to decline during the second quarter to lower levels than previously projected--before turning up again later in the year.

We are now projecting a 10-1/2 per cent annual rate of decline in real GNP in the first quarter and a further drop at a 3-1/2 per cent annual rate in the second. Recent data on production, employment, business orders and spending make it evident that the first quarter will be much weaker than we were forecasting earlier--due principally to sharper declines in business fixed capital spending and also in inventory investment--and some of this weakness will carry over into the second quarter.

The expected sharper decumulation of inventories in the first half, however, should provide the basis for a stronger upturn in activity later on. The more rapid expansion of Federal spending now assumed would add to the momentum of recovery. Also, consumer purchases would be bolstered/ <sup>by</sup> the tax rebate, the continuing tax cut, and the 8 per cent social security benefit hike expected on July 1. The impact on withholding would be sizable in the last half of 1975, when it is likely the entire \$8.4 billion tax cut for 1975 will be achieved. As a result of these fiscal actions, the saving rate is expected to rise in the last three quarters of 1975. Real residential construction



is also projected to increase more in the second half of the year in response to the easier financial conditions that develop as a result of the weaker economy now projected.

Thus, starting from a considerably lower base in the second quarter of 1975, we now expect a rise in real GNP over the last half of 1975 averaging about 5-3/4 per cent, annual rate. The rate of recovery is expected to moderate in the first half of 1976--as the impact of the one-time tax rebate is dissipated and the expansion of residential construction is retarded by reduced availability of mortgage funds associated with the cyclical upturn in interest rates. The level of real GNP in the second quarter of 1976 is now projected to be around 1 per cent less than a month ago.

With unemployment already over 8 per cent in January and a period of weaker activity ahead, we have revised up substantially the projected unemployment rate to 9-1/2 per cent by mid-1975. The level of unemployment would recede somewhat thereafter, however, if the projected recovery of real GNP occurs.

Price increases are expected to moderate during the projection period--with much of the improvement anticipated soon--associated mainly with competitive price cutting to reduce inventories. The improvement thereafter reflects slack in labor and product markets and a slowing in the rise of unit labor costs. However, food prices may be rising somewhat more rapidly through the summer months. We now project the increase in the fixed weighted price index to decline to an annual rate of a little under 6 per cent by the fourth quarter of this year, and to around 5-1/2 per cent by the second quarter of 1976.

## STAFF GNP PROJECTIONS

	Per cent change, annual rate									
	Changes in nominal GNP (\$ billions)		Real GNP				Gross private product fixed weighted price index		Unemployment rate (per cent)	
	1/15/75	2/12/75	1/15/75	2/12/75	1/15/75	2/12/75	1/15/75	2/12/75		
1971 <u>1/</u>	77.8	77.8	3.3	3.3	4.3	4.3	5.9	5.9		
1972 <u>1/</u>	103.1	103.1	6.2	6.2	3.3	3.3	5.6	5.6		
1973 <u>1/</u>	136.9	136.9	5.9	5.9	6.3	6.3	4.9	4.9		
1974 <u>1/</u>	100.8	101.8	-2.1	-2.2	11.4	11.4	5.6	5.6		
1975	79.7	55.8	-3.1	-4.5	8.9	3.8	8.0	9.2		
1973-III <u>1/</u>	31.0	31.0	1.6	1.6	8.4	8.4	4.7	4.8		
IV <u>1/</u>	35.1	35.1	2.3	2.3	9.1	9.1	4.7	4.8		
1974-I <u>1/</u>	14.8	14.8	-7.0	-7.0	14.1	14.1	5.2	5.2		
II <u>1/</u>	25.0	25.0	-1.6	-1.6	12.3	12.3	5.1	5.1		
III <u>1/</u>	32.5	32.5	-1.9	-1.9	13.8	13.8	5.5	5.5		
IV <u>1/</u>	7.7	11.7	-9.0	-9.1	10.4	12.0	6.5	6.6		
1975-I	9.0	-14.5	-5.2	-10.5	7.9	7.0	7.6	8.5		
II	17.3	9.5	-2.1	-3.6	7.2	6.5	8.0	9.2		
III	37.4	40.5	3.6	5.1	6.9	6.5	8.2	9.5		
IV	42.8	46.5	5.0	6.5	6.1	5.8	8.1	9.3		
1976-I	38.0	38.0	4.2	4.5	5.8	5.5	8.1	9.3		
II	32.1	36.0	2.8	4.0	5.6	5.4	8.2	9.3		
Change:										
73-IV to 74-IV	80.0	84.0	-4.9	-5.0	12.5	12.9	1.8	1.8		
74-II to 75-II	66.5	39.2	-4.6	-6.3	9.6	9.6	2.9	4.1		
74-IV to 75-IV	106.5	82.0	.2	-.9	7.0	6.4	1.6	2.7		
75-II to 76-II	150.3	161.0	3.9	5.0	6.1	5.8	.2	.1		

1/ Actual.

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.)

	1974		1975 Proj.				1976 Proj.	
	III	IV	I	II	III	IV	I	II
Gross National Product	1416.3	1428.0	1413.5	1423.0	1463.5	1510.0	1548.0	1584.0
Final purchases	1407.6	1413.5	1423.0	1438.0	1473.5	1512.5	1545.5	1578.5
Private	1095.3	1091.1	1093.1	1102.4	1131.9	1161.4	1186.6	1212.4
Excluding net exports	1098.4	1089.9	1094.0	1104.5	1134.5	1166.2	1194.0	1220.5
Personal consumption expenditures	901.3	896.8	907.1	916.5	941.0	964.2	984.0	1003.3
Durable goods	136.1	121.5	120.5	118.0	123.0	128.0	132.0	135.0
Nondurable goods	389.0	391.5	396.0	401.1	411.6	421.2	428.5	436.3
Services	376.2	383.8	390.6	397.4	406.4	415.0	423.5	432.0
Gross private domestic investment	205.8	207.6	177.4	173.0	183.5	199.5	212.5	222.7
Residential construction	46.2	40.5	36.9	40.2	44.5	49.8	54.5	58.2
Business fixed investment	150.9	152.7	150.0	147.8	149.0	152.2	155.5	159.0
Change in business inventories	8.7	14.4	-9.5	-15.0	-10.0	-2.5	2.5	5.5
Nonfarm	6.6	13.8	-8.0	-14.0	-9.5	-2.5	2.5	5.5
Net exports of goods and services <sup>1/</sup>	-3.1	1.2	- .9	-2.1	-2.6	-4.8	-7.4	-8.1
Exports	143.6	144.3	130.4	126.9	128.4	132.9	137.5	144.5
Imports	146.7	143.2	131.3	129.0	131.0	137.7	144.9	152.9
Gov't. purchases of goods and services	312.3	322.4	329.9	335.6	341.6	351.1	358.9	366.1
Federal	117.2	122.8	125.3	126.7	128.2	133.4	135.8	137.7
Defense	78.4	83.5	84.0	84.5	85.7	89.5	91.0	92.5
Other	38.8	39.3	41.3	42.2	42.5	43.9	44.8	45.2
State & local	195.1	199.6	204.6	208.9	213.4	217.7	223.1	228.4
Gross national product in constant (1958) dollars	823.1	803.7	781.7	774.7	784.3	796.8	805.7	813.7
GNP implicit deflator (1958 = 100)	172.1	177.7	180.8	183.7	186.6	189.5	192.1	194.7
Personal income	1168.2	1186.4	1194.8	1211.9	1239.7	1264.8	1288.2	1313.8
Wage and salary disbursements	763.0	768.8	763.8	771.5	783.5	799.5	816.4	833.4
Disposable income	993.1	1008.7	1015.6	1046.6	1088.8	1092.6	1102.0	1122.3
Personal saving	65.5	85.4	82.0	103.4	120.7	100.8	89.9	90.3
Saving rate (per cent)	6.6	8.5	8.1	9.9	11.1	9.2	8.2	8.0
Corporate profits & inventory val. adj.	105.8	102.6	87.3	81.3	98.3	114.6	120.6	126.4
Corporate profits before tax	157.0	132.4	114.5	105.5	118.5	130.0	133.0	137.0
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	302.8	295.5	286.5	269.9	260.3	286.8	306.0	314.0
Expenditures	304.7	317.3	335.5	344.2 <sup>2/</sup>	355.5 <sup>2/</sup>	366.2 <sup>2/</sup>	372.9 <sup>2/</sup>	378.1
Surplus or deficit (-)	-1.9	-21.8	-49.0	-74.3 <sup>2/</sup>	-95.2 <sup>2/</sup>	-79.4 <sup>2/</sup>	-66.9 <sup>2/</sup>	-64.1
High employment surplus or deficit (-)	27.7	19.4	8.3	-8.3	-25.6	-16.0	-5.7	-1.8
State and local government surplus or deficit (-), (N.I.A. basis)	2.1	- .7	-4.1	-5.7	-6.8	-3.6	-2.3	-2.0
Total labor force (millions)	93.6	94.0	94.3	94.5	94.6	94.7	94.8	95.1
Armed forces "	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Civilian labor force "	91.4	91.8	92.1	92.3	92.4	92.5	92.6	92.9
Unemployment rate (per cent)	5.5	6.6	8.5	9.2	9.5	9.3	9.3	9.3
Nonfarm payroll employment (millions)	78.7	78.3	76.8	76.2	76.0	76.2	76.3	76.7
Manufacturing	20.1	19.6	18.1	17.6	17.5	17.5	17.6	17.7
Industrial production (1967 = 100)	125.4	121.5	111.0	109.2	111.0	113.5	115.4	116.9
Capacity utilization, mfg. (per cent)	79.4	75.8	68.7	67.0	67.6	68.6	69.2	69.6
Major materials (per cent)	88.5	79.4	70.5	68.7	69.6	70.2	71.2	71.8
Housing starts, private (millions, A.R.)	1.21	.99	1.05	1.25	1.50	1.70	1.80	1.75
Sales new autos (millions, A.R.)	10.07	7.38	8.40	7.65	8.25	9.00	9.50	9.50
Domestic models	8.52	6.05	6.90	6.25	6.75	7.50	8.00	8.00
Foreign models	1.55	1.33	1.50	1.40	1.50	1.50	1.50	1.50
<sup>1/</sup> Net exports of g. & s. (Bal. of Paymts.)	-1.3 <sup>3/</sup>	.8 <sup>3/</sup>	-1.2 <sup>3/</sup>	-2.3 <sup>3/</sup>	-2.9	-5.0	-7.6	-8.4
Exports	146.4 <sup>3/</sup>	152.5 <sup>3/</sup>	138.7 <sup>3/</sup>	135.1 <sup>3/</sup>	136.6	141.2	145.8	152.7
Imports	147.7	151.7	139.9	137.4	139.5	146.2	153.4	161.1

<sup>2/</sup> Federal government N.I.A. receipts are reduced by \$16.0 billion, annual rate, in 1975-II and III to reflect the \$8.0 billion rebate of 1974 individual income taxes and by \$18.8 billion, annual rate, in 1975-III and IV to effect the \$8.4 billion reduction in 1975 individual income taxes in those quarters. (In 1976-I and following quarters revenues are reduced \$10.0 billion by the continuing tax cut.)

<sup>3/</sup> Includes shipments of military equipment and supplies to Israel which are not included in GNP exports; amounts billions of dollars are: 1974-IV. \$.4; 1975-I and II \$.3.

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1974		1975				1976	
	III	IV	Projection				I	II
			I	II	III	IV		
-----Billions of Dollars-----								
Gross National Product	32.5	11.7	-14.5	9.5	40.5	46.5	38.0	36.0
Inventory change	-4.8	5.9	-23.9	-5.5	5.0	7.5	5.0	3.0
Final purchases	37.3	35.9	9.5	15.0	35.5	39.0	33.0	33.0
Private	29.4	-4.2	2.0	9.3	29.5	29.5	25.2	25.8
Net exports	-1.6	4.3	-2.1	-1.2	- .5	-2.2	-2.6	- .7
Excluding net exports	31.0	-8.5	4.1	10.5	30.0	31.7	27.8	26.5
Personal consumption expenditures	32.2	-4.5	10.3	9.4	24.5	23.2	19.8	19.3
Durable goods	6.6	-14.6	-1.0	-2.5	5.0	5.0	4.0	3.0
Nondurable goods	13.2	2.5	4.5	5.1	10.5	9.6	7.3	7.8
Services	12.4	7.6	6.8	6.8	9.0	8.6	8.5	8.5
Residential fixed investment	-2.6	-5.7	-3.6	3.3	4.3	5.3	4.7	3.7
Business fixed investment	1.5	1.8	-2.7	-2.2	1.2	3.2	3.3	3.5
Government	7.9	10.1	7.5	5.7	6.0	9.5	7.8	7.2
Federal	2.9	5.6	2.5	1.4	1.5	5.2	2.4	1.9
State and local	5.0	4.5	5.0	4.3	4.5	4.3	5.4	5.3
GNP in constant (1958) dollars	-4.0	-19.4	-22.0	-7.0	9.6	12.5	8.9	8.0
Final purchases	- .8	-23.5	-7.3	-4.2	8.2	9.1	5.3	6.4
Private	- .9	-23.4	-8.7	-4.6	7.8	8.7	6.1	6.3
-----In Per Cent Per Year <sup>1/</sup> -----								
Gross National Product	9.7	3.3	-4.0	2.7	11.9	13.3	10.5	9.6
Final purchases	11.3	1.7	2.7	4.3	10.2	11.0	9.0	8.8
Private	11.5	-1.5	.7	3.4	11.1	10.8	9.0	9.0
Personal consumption expenditures	15.7	-2.0	4.7	4.2	11.1	10.2	8.5	8.1
Durable goods	22.0	-36.5	-3.3	-8.0	18.1	17.3	13.1	9.4
Nondurable goods	14.8	2.6	4.7	5.3	10.9	9.7	7.1	7.5
Services	14.3	8.3	7.3	7.1	9.4	8.7	8.4	8.3
Gross private domestic investment	-10.9	3.5	-46.7	-9.6	26.6	39.7	28.7	20.6
Residential structures	-19.7	-40.9	-31.1	40.9	50.2	56.8	43.4	30.0
Business fixed investment	4.1	4.9	-6.9	-5.7	3.3	8.9	9.0	9.3
Gov't. purchases of goods and services	10.8	13.6	9.6	7.1	7.3	11.6	9.2	8.3
Federal	10.5	20.5	8.4	4.5	4.8	17.2	7.4	5.7
Defense	9.7	28.7	2.4	2.4	5.8	19.0	6.9	6.8
Other	12.2	5.3	22.0	9.0	2.9	13.8	8.5	3.6
State and local	10.9	9.5	10.4	8.7	8.9	8.3	10.3	9.8
GNP in constant (1958) dollars	-1.9	-9.1	-10.5	-3.6	5.1	6.5	4.5	4.0
Final purchases	- .4	-11.0	-3.6	-2.1	4.3	4.6	2.7	3.2
Private	- .5	-13.2 <sup>2/</sup>	-5.3 <sup>2/</sup>	-2.9	5.0	5.5	3.8 <sup>2/</sup>	3.9
GNP implicit deflator	11.9	13.7 <sup>2/</sup>	7.3 <sup>2/</sup>	6.5	6.5	6.4 <sup>2/</sup>	5.7 <sup>2/</sup>	5.4
Private GNP fixed weighted index <sup>3/</sup>	13.8	12.0	7.0	6.5	6.5	5.8	5.5	5.4
Personal income	12.4	6.4	2.9	5.8	9.5	8.3	7.6	8.2
Wage and salary disbursements	9.9	3.1	-2.6	4.1	6.4	8.4	8.7	8.6
Disposable income	11.5	6.4	2.8	12.8	17.1	1.4	3.5	7.6
Corporate profits before tax	62.8	-49.4	-44.1	-27.9	59.2	44.8	9.6	12.6
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	21.2	-9.3	-11.6	-21.2	-13.5	47.4	29.6	10.9
Expenditures	19.2	17.6	25.0	10.8	13.8	12.6	7.5	5.7
Nonfarm payroll employment	1.7	-1.7	-7.4	-3.1	-1.0	1.1	.5	2.1
Manufacturing	- .6	-10.3	-27.1	-10.6	-2.3	.0	2.3	2.3
Industrial production								
Housing starts, private	-64.7	-54.9	27.0	100.9	107.4	65.0	25.7	-10.7
Sales new autos	43.5	-71.2	68.0	-31.2	35.3	41.6	24.1	.0
Domestic models	31.7	-74.6	69.5	-32.7	36.0	52.4	29.5	.0
Foreign models	138.3	-46.0	61.8	-24.1	31.8	.0	.0	.0

<sup>1/</sup> Percentage rates are annual rates compounded quarterly.

<sup>2/</sup> Excluding Federal pay increases rates of change are: 1974-IV, 13.0 per cent; 1975-I, 7.1 per cent; 1975-IV, 5.7 per cent; and 1976-I, 5.5 per cent.

<sup>3/</sup> Using expenditures in 1967 as weights.

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				1974	
	III	IV	I	II	III	IV	I	II
Gross National Product	1169.3	1204.7	1248.9	1277.9	1308.9	1344.0	1358.8	1383.8
Final purchases	1159.1	1193.7	1238.9	1267.2	1297.0	1315.1	1341.9	1370.3
Private	904.0	931.1	969.9	993.9	1020.1	1028.7	1045.6	1065.9
Excluding net exports	908.8	936.4	970.7	993.4	1013.4	1019.4	1034.3	1067.4
Personal consumption expenditures	736.8	757.2	781.7	799.0	816.3	823.9	840.6	869.1
Durable goods	121.2	124.3	132.4	132.1	132.4	124.3	123.9	129.5
Nondurable goods	302.0	310.9	323.3	332.7	343.8	352.1	364.4	375.8
Services	313.6	322.0	325.9	334.2	340.1	347.4	352.4	363.8
Gross private domestic investment	182.1	190.2	199.0	205.1	209.0	224.5	210.5	211.8
Residential construction	54.5	56.7	58.5	58.7	58.1	53.6	48.4	48.8
Business fixed investment	117.5	122.5	130.5	135.6	139.0	141.9	145.2	149.4
Change in business inventories	10.2	11.0	10.0	10.7	11.8	28.9	16.9	13.5
Nonfarm	9.6	10.4	6.5	7.7	7.4	24.0	13.1	10.4
Net exports of goods and services <sup>1/</sup>	-4.8	-5.3	-.8	.5	6.7	9.3	11.3	-1.5
Exports	73.3	78.5	88.8	95.4	103.7	113.6	131.2	138.5
Imports	78.1	83.8	89.5	94.9	96.9	104.3	119.9	140.0
Gov't. purchases of goods and services	255.1	262.6	269.0	273.3	276.9	286.4	296.3	304.4
Federal	102.7	105.2	106.4	106.2	105.3	108.4	111.5	114.3
Defense	72.6	74.7	75.0	74.0	73.3	75.3	75.8	76.6
Other	30.1	30.5	31.4	32.2	32.0	33.1	35.7	37.7
State & local	152.4	157.4	162.6	167.1	171.6	177.9	184.8	190.1
Gross national product in constant (1958) dollars	798.1	814.2	832.8	837.4	840.8	845.7	830.5	827.1
GNP implicit deflator (1958 = 100)	146.5	148.0	150.0	152.6	155.7	158.9	163.6	167.3
Personal income	950.3	985.0	1013.6	1039.2	1068.0	1099.3	1112.5	1134.6
Wage and salary disbursements	631.4	647.5	667.6	683.8	698.2	717.0	727.6	745.2
Disposable income	807.2	838.1	869.5	892.1	913.9	939.4	950.6	966.5
Personal saving	49.3	58.9	65.3	69.6	73.2	89.3	84.4	71.5
Saving rate (per cent)	6.1	7.0	7.5	7.8	8.0	9.5	8.9	7.4
Corporate profits & inventory val. adj.	92.9	99.8	103.9	105.0	105.2	106.4	107.7	105.6
Corporate profits before tax	100.2	108.2	120.4	124.9	122.7	122.7	135.4	139.0
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	228.4	235.6	249.1	255.0	261.8	268.3	278.1	288.6
Expenditures	238.2	261.2	260.2	262.4	263.4	270.6	281.0	291.6
Surplus or deficit (-)	-9.8	-25.6	-11.2	-7.4	-1.7	-2.3	-2.8	-3.0
High employment surplus or deficit (-)	1.5	-17.3	-9.4	-4.6	4.0	5.6	15.0	21.0
State and local government surplus or deficit (-), (N.I.A. basis)	9.2	19.1	13.2	10.4	8.4	4.6	3.2	2.0
Total labor force (millions)	89.3	89.6	90.0	90.8	91.3	92.1	92.7	92.9
Armed forces "	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.2
Civilian labor force "	86.9	87.1	87.6	88.5	89.0	89.8	90.5	90.6
Unemployment rate (per cent)	5.6	5.3	5.0	4.9	4.8	4.8	5.2	5.1
Nonfarm payroll employment (millions)	74.0	74.9	75.8	76.5	77.1	77.8	78.0	78.3
Manufacturing	17.5	19.5	19.8	20.0	20.1	20.3	20.2	20.2
Industrial production (1967 = 100)	116.3	120.2	123.1	124.8	126.7	127.0	124.9	125.5
Capacity utilization, mfg. (per cent)	79.4	81.5	82.8	83.3	83.3	82.6	80.5	80.1
Major materials (per cent)	90.6	92.3	93.0	93.4	93.5	92.3	90.2	90.2
Housing starts, private (millions, A.R.)	2.36	2.39	2.39	2.21	2.01	1.58	1.63	1.57
Sales new autos (millions, A.R.)	11.21	11.68	12.18	12.03	11.33	10.15	9.04	9.20
Domestic models	9.59	9.90	10.26	10.17	9.66	8.51	7.49	7.95
Foreign models	1.61	1.78	1.92	1.85	1.67	1.64	1.55	1.25
<sup>1/</sup> Net exports of g. & s. (Bal. of Paymts.)	-4.8	-5.3	-.7	.5	6.6	11.2 <sup>2/</sup>	11.6 <sup>2/</sup>	-.7 <sup>2/</sup>
Exports	73.3	78.5	88.8	95.4	103.7	116.0 <sup>2/</sup>	132.6 <sup>2/</sup>	140.8 <sup>2/</sup>
Imports	78.1	83.8	89.5	94.9	97.1	104.8	121.0	141.5

<sup>2/</sup> Includes shipments of military equipment and supplies to Israel which are not included in GNP exports: amounts in billions of dollars at annual rates are 1973-IV, \$2.4; 1974-I, \$.3; 1974-II, \$.3.

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1972		1973				1974	
	III	IV	I	II	III	IV	I	II
-----Billions of Dollars-----								
Gross National Product	26.3	35.4	44.2	29.0	31.0	35.1	14.8	25.0
Inventory change	2.2	.8	-1.0	.7	1.1	17.1	-12.0	-3.4
Final purchases	24.0	34.6	45.2	28.3	29.8	18.1	26.8	28.4
Private	22.7	27.1	38.8	24.0	26.2	8.6	16.9	20.3
Net exports	2.1	-.5	4.5	1.3	6.2	2.6	2.0	-12.8
Excluding net exports	20.6	27.6	34.3	22.7	20.0	6.0	14.9	33.1
Personal consumption expenditures	16.2	20.4	24.5	17.3	17.3	7.6	16.7	28.5
Durable goods	5.0	3.1	8.1	-.3	.3	-8.1	-.4	5.6
Nondurable goods	4.6	8.9	12.4	9.4	11.1	8.3	12.3	11.4
Services	6.6	8.4	3.9	8.3	5.9	7.3	5.0	11.4
Residential fixed investment	1.6	2.2	1.8	.2	-.6	-4.5	-5.2	.4
Business fixed investment	2.8	5.0	8.0	5.1	3.4	2.9	3.3	4.2
Government	1.3	7.5	6.4	4.3	3.6	9.5	9.9	8.1
Federal	-3.2	2.5	1.2	-.2	-.9	3.1	3.1	2.8
State and local	4.5	5.0	5.2	4.5	4.5	6.3	6.9	5.3
GNP in constant (1958) dollars	11.5	16.1	18.6	4.6	3.4	4.9	-15.2	-3.4
Final purchases	9.7	15.6	20.2	4.1	3.1	-7.0	-5.8	-1.0
Private	11.7	14.4	19.1	4.3	3.3	-9.0	-6.1	-.8
-----In Per Cent Per Year <sup>1/</sup> -----								
Gross National Product	9.5	12.7	15.5	9.6	10.1	11.2	4.5	7.6
Final purchases	8.7	12.5	16.0	9.5	9.7	5.7	8.4	8.7
Private	10.7	12.5	17.7	10.3	11.0	3.4	6.7	8.0
Personal consumption expenditures	9.3	11.5	13.6	9.2	8.9	3.8	8.4	14.3
Durable goods	18.4	10.6	28.7	-.9	.9	-22.3	-1.3	19.3
Nondurable goods	6.3	12.3	16.9	12.1	14.0	10.0	14.7	13.1
Services	8.9	11.2	4.9	10.6	7.3	8.9	5.9	13.6
Gross private domestic investment	15.9	19.0	19.8	12.8	7.8	33.1	-22.7	2.5
Residential structures	12.7	17.2	13.3	1.4	-4.0	-27.6	-33.5	3.3
Business fixed investment	10.1	18.1	28.8	16.6	10.4	8.6	9.6	12.1
Gov't. purchases of goods and services	2.1	12.3	10.1	6.5	5.4	14.4	14.6	11.4
Federal	-11.5	10.1	4.6	-.7	-3.3	12.3	11.9	10.4
Defense	-16.3	12.1	1.6	-5.2	-3.7	11.4	2.7	4.3
Other	1.3	5.4	12.3	10.6	-2.5	14.5	35.3	24.4
State and local	12.7	13.8	13.9	11.5	11.2	15.5	16.4	12.0
GNP in constant (1958) dollars	6.0	8.3	9.5	2.2	1.6	2.4	-7.0	-1.6
Final purchases	5.1	8.1	10.4	2.0	1.5	-3.3	-2.8	-.5
Private	7.6	9.2	12.0	2.5	1.9	-5.1	-3.5	-.5
GNP implicit deflator	3.3	4.1	5.5	7.3	8.3	8.6	12.3	9.4
Private GNP fixed weighted index <sup>2/</sup>	3.6	3.8	7.4	8.1	8.4	9.1	14.1	12.3
Personal income	8.6	15.4	12.1	10.5	11.6	12.2	4.9	8.2
Wage and salary disbursements	7.5	10.6	13.0	10.1	8.7	11.2	6.0	10.0
Disposable income	9.0	16.2	15.8	10.8	10.1	11.6	4.9	6.9
Corporate profits before tax	18.7	36.0	53.3	15.8	-6.9	.0	48.3	11.1
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	7.9	13.2	25.0	9.8	11.1	10.3	15.4	16.0
Expenditures	-8.7	44.6	-1.5	3.4	1.5	11.4	16.3	16.0
Nonfarm payroll employment	3.6	4.8	5.0	3.9	3.0	3.8	1.0	1.6
Manufacturing	3.3	7.3	6.3	4.4	2.1	3.7	-2.4	-.3
Industrial production	9.1	14.1	10.0	5.6	6.2	1.0	-6.5	1.9
Housing starts, private	15.4	4.7	1.0	-27.0	-32.0	-61.4	11.6	-14.4
Sales new autos	22.2	17.9	18.3	-5.0	-21.3	-35.5	-37.1	7.4
Domestic models	20.8	13.4	15.4	-3.5	-18.6	-39.8	-40.0	27.1
Foreign models	30.9	48.0	35.4	-12.9	-35.0	-5.9	-20.0	-57.8

<sup>1/</sup> Percentage rates are annual rates compounded quarterly.<sup>2/</sup> Using expenditures in 1967 as weights.

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.)

	1969	1970	1971	1972	1973	1974	1975 Proj.
Gross National Product	930.3	977.1	1054.9	1158.0	1294.9	1396.7	1452.5
Final purchases	922.5	972.6	1048.6	1149.5	1279.6	1383.3	1461.8
Private	712.5	753.1	814.4	893.8	1003.2	1074.5	1122.2
Excluding net exports	710.6	749.5	814.6	899.8	999.3	1072.5	1124.8
Personal consumption expenditures	579.5	617.6	667.1	729.0	805.2	877.0	932.2
Durable goods	90.8	91.3	103.9	118.4	130.3	127.8	122.4
Nondurable goods	245.9	263.8	278.4	299.7	338.0	380.2	407.5
Services	242.7	262.6	284.8	310.9	336.9	369.1	402.4
Gross private domestic investment	139.0	136.3	153.7	179.3	209.4	208.9	183.4
Residential construction	32.6	31.2	42.8	54.0	57.2	46.0	42.9
Business fixed investment	98.5	100.6	104.6	116.8	136.8	149.6	149.8
Change in business inventories	7.8	4.5	6.3	8.5	15.4	13.4	-9.3
Nonfarm	7.7	4.3	4.9	7.8	11.4	11.0	-8.5
Net exports of goods and services <sup>1/</sup>	1.9	3.6	- .2	-6.0	3.9	2.0	-2.6
Exports	55.5	62.9	65.4	72.4	100.4	139.4	129.7
Imports	53.6	59.3	65.6	78.4	96.4	137.5	132.3
Gov't. purchases of goods and services	210.0	219.5	234.2	255.7	276.4	308.8	339.6
Federal	98.8	96.2	97.6	104.9	106.6	116.4	128.4
Defense	78.4	74.6	71.2	74.8	74.4	78.6	85.9
Other	20.4	21.6	26.5	30.1	32.2	37.9	42.5
State & local	111.2	123.3	136.6	150.8	169.8	192.4	211.2
Gross national product in constant (1958) dollars	725.6	722.5	746.3	792.5	839.2	821.1	784.4
GNP implicit deflator (1958 = 100)	128.2	135.2	141.4	146.1	154.3	170.1	185.2
Personal income	750.9	808.3	864.0	944.9	1055.0	1150.4	1227.8
Wage and salary disbursements	509.7	542.0	573.0	626.8	691.7	751.1	779.6
Disposable income	634.4	691.7	746.4	802.5	903.7	979.7	1060.9
Personal saving	38.2	56.2	60.5	52.6	74.4	76.7	101.7
Saving rate (per cent)	6.0	8.1	8.1	6.6	8.2	7.8	9.6
Corporate profits & inventory val. adj.	79.8	69.2	78.7	92.2	105.1	105.4	95.4
Corporate profits before tax	84.9	74.0	83.6	99.2	122.7	141.0	117.1
Federal government receipts and expenditures, (N.I.A. basis)							
Receipts	197.3	192.0	198.5	227.2	258.5	291.1	275.9
Expenditures	189.2	203.9	220.3	244.7	264.2	298.6	350.4
Surplus or deficit (-)	8.1	-11.9	-21.9	-17.5	-5.6	-7.6	-74.5
High employment surplus or deficit (-)	8.8	6.2	2.6	-4.6	-1.1	20.8	-10.4
State and local government surplus or deficit (-), (N.I.A. basis)	.7	1.8	3.4	12.3	9.2	1.7	-5.1
Total labor force (millions)	84.2	85.9	86.9	89.0	91.0	93.2	94.5
Armed forces "	3.5	3.2	2.8	2.4	2.3	2.2	2.2
Civilian labor force "	80.7	82.7	84.1	86.5	88.7	91.0	92.3
Unemployment rate (per cent)	3.5	4.9	5.9	5.6	4.9	5.6	9.1
Nonfarm payroll employment (millions)	70.4	70.9	71.2	73.7	76.8	78.3	76.3
Manufacturing	20.2	19.3	18.6	19.1	20.1	20.0	17.7
Industrial production (1967 = 100)	110.7	106.7	106.8	115.2	125.6	124.3	111.2
Capacity utilization, mfg. (per cent)	86.5	78.3	75.0	78.6	83.0	79.0	68.0
Major materials (per cent)	90.0	86.2	85.3	89.6	93.0	87.1	69.8
Housing starts, private (millions, A.R.)	1.47	1.43	2.05	2.36	2.05	1.34	1.38
Sales new autos (millions, A.R.)	9.57	8.40	10.24	10.93	11.44	8.87	8.33
Domestic models	8.46	7.12	8.68	9.32	9.67	7.45	6.85
Foreign models	1.11	1.28	1.56	1.61	1.77	1.42	1.48
<sup>1/</sup> Net exports of g. & s. (Bal. of Paymts.)	1.3	2.9	- .2	-6.0	4.4 <sup>2/</sup>	2.6 <sup>2/</sup>	-2.9 <sup>2/</sup>
Exports	55.0	62.3	65.4	72.4	101.0 <sup>2/</sup>	143.0 <sup>2/</sup>	137.9 <sup>2/</sup>
Imports	53.6	59.4	65.6	78.4	96.6	140.4	140.8

<sup>2/</sup> Includes shipments of military equipment and supplies to Israel which are not included in GNP exports; amounts in billions of dollars are: 1973, \$.6; 1974, \$.325; and 1975, \$.150.

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1969	1970	1971	1972	1973	1974	Proj. 1975
-----Billions of Dollars-----							
Gross National Product	66.1	46.8	77.8	103.1	136.9	101.8	55.8
Inventory change	.7	-3.3	1.8	2.2	6.9	-2.0	-22.7
Final purchases	65.4	50.1	76.0	100.9	130.1	103.7	78.5
Private	55.0	40.6	61.3	79.4	109.4	71.3	47.7
Net exports	-.6	1.7	-3.8	-5.8	9.9	-1.9	-4.6
Excluding net exports	55.6	38.9	65.1	85.2	99.5	73.2	52.3
Personal consumption expenditures	43.3	38.1	49.6	61.9	76.2	71.8	55.2
Durable goods	6.8	.5	12.6	14.5	11.9	-2.5	-5.4
Nondurable goods	15.1	17.9	14.6	21.3	38.3	42.2	27.3
Services	21.4	19.9	22.2	26.1	26.0	32.2	33.3
Residential fixed investment	2.5	-1.4	11.6	11.2	3.2	-11.2	-3.1
Business fixed investment	9.7	2.1	4.0	12.2	20.0	12.8	.2
Government	10.4	9.5	14.7	21.5	20.7	32.4	30.8
Federal	.0	-2.6	1.4	7.3	1.7	9.8	12.0
State and local	10.4	12.1	13.3	14.2	19.0	22.6	18.8
GNP in constant (1958) dollars	19.0	-3.1	23.8	46.2	46.7	-18.1	-36.7
Final purchases	18.7	-.4	-22.5	-44.4	43.0	-15.5	-22.4
Private	20.6	6.2	18.5	46.1	45.2	-17.0	-24.4
-----Per Cent per Year <sup>1/</sup> -----							
Gross National Product	7.6	5.0	8.0	9.8	11.8	7.9	4.0
Final purchases	7.6	5.4	7.8	9.6	11.3	8.1	5.7
Private	8.4	5.7	8.1	9.7	12.2	7.1	4.4
Personal consumption expenditures	8.1	6.6	8.0	9.3	10.5	8.9	6.3
Durable goods	8.1	.6	13.8	14.0	10.1	-1.9	-4.2
Nondurable goods	6.5	7.3	5.5	7.7	12.8	12.5	7.2
Services	9.7	8.2	8.5	9.2	8.4	9.6	9.0
Gross private domestic investment	10.3	-1.9	12.8	16.7	16.8	-.2	-12.2
Residential structures	8.3	-4.3	37.2	26.2	5.9	-19.6	-6.7
Business fixed investment	10.9	2.1	4.0	11.7	17.1	9.4	.1
Gov't purchases of goods & services	5.2	4.5	6.7	9.2	8.1	11.7	10.0
Federal	.0	-2.6	1.5	7.5	1.6	9.2	10.3
Defense	.1	-4.8	-4.6	5.1	-.5	5.6	9.3
Other	-.5	5.9	22.7	13.6	7.0	17.7	12.1
State and local	10.3	10.9	10.8	10.4	12.6	13.3	9.8
GNP in constant (1958) dollars	2.7	-.4	3.3	6.2	5.9	-2.2	-4.5
Final purchases	2.7	-.1	3.1	6.0	5.5	-1.9	-2.8
Private	3.7	1.1	3.9	6.7	6.5	-2.5	-3.7
GNP implicit deflator	4.8	5.5	4.6	3.4	5.6	10.2	8.9
Private GNP fixed weighted index <sup>2/</sup>	4.7	4.8	4.3	3.3	6.3	11.4	8.8
Personal income	9.0	7.6	6.9	9.4	11.7	9.0	6.7
Wage and salary disbursements	9.6	6.3	5.8	9.3	10.4	8.6	3.8
Disposable income	7.3	9.0	7.9	7.5	12.6	8.4	8.3
Corporate profits before tax	-3.1	-12.8	13.0	18.7	23.7	14.9	-17.0
Federal Government receipts and expenditures (N.I.A. basis)							
Receipts	12.7	-2.7	3.4	14.5	13.8	12.6	-5.2
Expenditures	4.2	7.8	8.0	11.1	8.0	13.0	17.3
Nonfarm payroll employment	3.7	.7	.4	3.5	4.2	2.0	-2.6
Manufacturing	2.0	-4.1	-4.0	2.8	5.0	-.5	-11.5
Industrial production	4.7	-3.6	.1	7.9	9.0	-1.0	-10.6
Housing starts, private	-2.7	-2.3	43.2	14.9	-13.2	-34.7	3.3
Sales new autos	-.6	-12.3	21.9	6.7	4.7	-22.5	-6.0
Domestic models	-1.8	-15.9	21.9	7.4	3.7	-23.0	-8.0
Foreign models	9.0	15.5	21.8	3.3	9.8	-20.1	4.5

<sup>1/</sup> Percentage rates are annual rates compounded quarterly<sup>2/</sup> Using expenditures in 1967 as weights.



DOMESTIC FINANCIAL DEVELOPMENTS

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Summary. Since the last Committee meeting interest rates have declined considerably and stock prices have risen sharply. A decline of 50-100 basis points has brought short-term interest rates to levels 1-1/2 to as much as 3 percentage points below those prevailing at year-end 1974. Downward pressures on rates were associated with weakening short-term private credit demands and additional easing monetary policy actions, as indicated by the 1/2 percentage point cut in the discount rate, the announcement of a reduction in reserve requirements, and a further decline in the Federal funds rate. In long-term securities markets, corporate and municipal bond rates declined about 1/2 percentage point, the first significant downward yield movement since last November. Yields on Treasury coupon issues also declined, but by smaller amounts. Stock prices rose in record trading volume and currently are 27 per cent above their 1974 lows though still 36 per cent below their early 1973 highs.

Given the improving market environment, net cash borrowing by the Treasury of \$2.0 billion at the time of the mid-February refunding, along with \$300-400 million additions to the monthly bill auctions, was absorbed readily. The strength in demands for Treasury issues stems partly from continuing emphasis on quality by investors as well as enlarged purchases by foreign official accounts. State and local governments also sold a sizable amount of short- and long-term debt in recent weeks, related in part to their weakening fiscal position.

In the corporate bond market, the volume of new issues was extremely large in January, reflecting strong demands by industrial firms to finance capital outlays and to fund short-term debt.

In private short-term markets, by contrast, there was a further sharp decline in outstanding consumer credit in December, and indications are for another sizable decline in January in association with slack consumer expenditures. The deteriorating economic situation as well as the sizable volume of funds raised in securities markets has also led to limited business borrowing over the past two months at banks and in the commercial paper market taken together.

At commercial banks, business lending has been discouraged by the smaller declines in the prime loan rate compared to the sharp decline in commercial paper rates and by the reported maintenance of tight nonprice loan terms and conditions. The restrained growth in total loans and modest acquisitions of securities have resulted in banks reducing their reliance on CD's and nondeposit sources of funds.

Inflows of deposits to savings and loan associations and mutual savings banks in January expanded at about 9 per cent, down slightly from the advanced rate in the month earlier. While these institutions made large repayments of outstanding FHLBB debt and rebuilt liquidity positions, they also apparently became more willing mortgage lenders. In view of the weak demand for mortgage credit and additional support for residential mortgages by ~~CNMA~~, the decline in mortgage interest rates accelerated somewhat. In line with these

developments, the FHA/VA ceiling rate was reduced 1/2 percentage point to 8-1/2 per cent in January.

Outlook. The projected further deterioration in economic activity during the first half of this year is expected to be accompanied by a marked change in the composition of credit demands. Short-term borrowing by businesses and consumers is expected to be much weaker than last year, while Treasury borrowing burgeons.

In the period between now and mid-year, the Treasury is expected to raise about \$26 billion in new money, with roughly \$18 billion required by mid-April. Borrowing by Federally sponsored agencies is expected to moderate, however, in view of the enhanced savings inflows to private mortgage lenders.

Security flotations by State and local governments and by corporations are expected to remain generally strong. The financial position of State and local governments is projected to erode further because of reduced tax receipts, and their total borrowing is likely to be large--especially in shorter-term markets.

In the corporate sector, desires to restructure liabilities will tend to produce major reliance on bond markets for fund requirements. The projected run-off in business inventories and large borrowing in securities markets is expected to keep short-term business borrowing low, however. Consumer credit demands on private short-term markets are also likely to be weak over the next few months, and outstanding consumer credit may decline further or at most expand slowly.

Thus, the Treasury deficit between now and mid-year may be financed in large part out of funds released by reduced private short-term borrowing. Interest rates in general should decline further in the process, given the weakness in the economy and efforts to promote moderate growth in the monetary aggregates.

Inflows of consumer-type funds to the depository institutions are expected to rise further as a result of the enhanced competitive advantage of depository claims, as most market rates decline. S&L's and mutual savings banks are likely to continue to use a portion of their funds to strengthen liquidity positions further but will also increase their new commitment activity and seek out borrowers more aggressively. Thus, the availability of funds to the mortgage market will rise and mortgage rates probably will move lower.

Commercial banks are likely to be slower to shift to more aggressive lending policies given their prospective loan losses and concerns about their capital and liquidity positions. In general, it appears that institutional and other investors are likely to remain more cautious than usual in placing their funds and in limiting risk exposure. As a result lower-rated borrowers may continue to face relatively high costs and limited availability of funds.

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INTERNATIONAL DEVELOPMENTS

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Summary. The dollar continued under downward pressure in exchange markets throughout January. In the first week of February, the Federal Reserve and several European central banks began to intervene in the exchange markets in a more concerted manner and in larger amounts than in previous months. In the week ended February 12 the weighted average rate of the dollar against leading foreign currencies was up by about 1/2 percent from the last week in January, and was about 1 percent lower than in mid-January and about 3 percent lower than in March 1973 just after the second devaluation of the dollar. Among other currencies, the German mark and the Swiss franc were notably strong, sterling held steady, and the yen was tending to appreciate from January lows.

There is as yet no evidence of more than a moderate worsening in the trade or service accounts over the past few months. In December the trade deficit widened again to an annual rate of \$11.5 billion, but this was probably a temporary aberration. For the fourth quarter as a whole the trade deficit was at a rate of about \$6 billion, and current projections put the first quarter 1975 rate at about \$8 billion. The balance on service transactions remains in surplus, but weakening net investment income is probably eroding it somewhat. For goods and services combined the balance currently is thought to be a small deficit -- not greatly different from the situation in the last 3 quarters of 1974.

Consequently, the depreciation of the dollar in recent months is due primarily to developments in the capital account, including the effects on capital flows of the large reductions in U.S. interest rates, market anticipations of the future trends of rates here and abroad, and heavy net intervention sales of dollars by major central banks in the September-December period. Lately, interest rates abroad have also been declining sharply, with short-term rates off by 100 basis points or more in the last month in Germany, France, Italy, Canada and Belgium. Germany has recently taken further steps to ease credit. The main exception to the easing in credit conditions appears to be Japan -- and there the continuing rapid decline in economic activity may soon force a shift.

Lending abroad by U.S. banks expanded sharply in November and December, increasing by \$4 billion for the two months combined, and bringing the increase in banks' foreign assets for the year to about \$18 billion. Credits to Japan have not risen recently, as they did in the first half of the year; most of the recent lending has been to Latin America, Europe, and Canada. On the other hand, banks have also increased their liabilities to private foreigners by record amounts -- \$3.4 billion in the fourth quarter and \$15 billion for 1974 as a whole. Weekly data for January suggest that bank lending abroad may have slowed, but that there has also been some reduction in liabilities to foreign banks.

One factor possibly depressing the dollar in the market may be a slowdown of direct placements in the United States by OPEC countries. It appears that less than \$1/2 billion was placed in U.S. liquid assets by these countries in December, and that January placements may also have been below the nearly \$1 billion monthly average in 1974. Also, new issues of foreign bonds in the United States were unusually large in January, at \$1 billion, and may amount to \$1/2 billion in February. The principal borrowers were international institutions and Canada.

Outlook. Recent projections of U.S. international transactions, taking account both of the very steep decline and subsequent pickup in U.S. economic activity now indicated and of prospective weakness in foreign demand, show a goods and services balance shifting from a small surplus in the fourth quarter of 1974 to a deficit in the fourth quarter of this year at an annual rate of about \$5 billion. This projected change reflects a prospective decline in agricultural exports, some rise in petroleum imports, little net change in other exports and imports, and a decline in net investment income. Such projections are obviously hazardous, since the balance is itself only a small fraction of the nearly \$300 billion gross turnover of trade and services.

With continued large capital flows in both directions likely, the direction of net pressures on exchange rates remains very uncertain. Our projections assume little net change in the effective rate for the dollar over the year ahead.