Prefatory Note

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

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

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

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

Content last modified 6/05/2009.

CONFIDENTIAL (FR)

April 14, 1976

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

TABLE OF CONTENTS Continued

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.	4-2-76	93.7	3.4	2.5	2.0
Unemployment rate (per cent)	Mar.	4-2-76	7.5	7.6[1]	8.3[1]	8.5[1]
Insured unemployment rate (%)	Mar.	4-2-76	4.2	4.2[1]	4.8[1]	6.2[1]
Nonfarm employment, payroll (mil.)	Mar.	4-2-76	78.5	2.9	3.7	2.7
Manufacturing	Mar.	4-2-76	18.8	4.8	5.7	3.3
Nonmanufacturing	Mar.	4-2-76	59.7	2.3	3.0	2.5
Private nonfarm:						
Average weekly hours (hours)	Mar.	4-2-76	36.2	36.5[1]	36.4[1]	35.9[1]
Hourly earnings ($)	Mar.	4-2-76	4.76	4.75[1]	4.68[1]	4.46[1]
Manufacturing:						
Average weekly hours (hours)	Mar.	4-2-76	40.2	40.4[1]	40.3[1]	38.9[1]
Unit labor cost (1967=100)	Feb.	3-29-76	148.2	-6.4	1.1	2.6
Industrial production (1967=100)	Mar.	4-14-76	120.9	7.0	8.4	9.8
Consumer goods	Mar.	4-14-76	132.2	5.5	6.1	11.8
Business equipment	Mar.	4-14-76	121.4	8.0	10.8	3.8
Defense & space equipment	Mar.	4-14-76	78.9	-3.0	-.5	-3.9
Material	Mar.	4-14-76	120.2	14.1	11.6	13.5
Consumer prices (1967=100)	Feb.	3-19-76	167.3	1.4	4.4	6.4
Food	Feb.	3-19-76	179.4	-11.9	-2.7	4.9
Commodities except food	Feb.	3-19-76	153.5	3.1	3.4	5.4
Services	Feb.	3-19-76	176.0	8.9	10.0	8.4
Wholesale prices (1967=100)	Mar.	4-1-76	179.8	3.9	-.8	5.6
Industrial commodities	Mar.	4-1-76	179.1	4.3	3.6	6.0
Farm products & foods & feeds	Mar.	4-1-76	179.9	-2.7	-16.8	3.1
Personal income ($ billion)[2]	Feb.	3-17-76	1327.9	11.8	9.9	10.4
				(<u>Not</u> at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Feb.	3-30-76	45.1	4.2	7.4	20.0
Capital goods industries	Feb.	3-30-76	12.7	6.8	1.7	4.4
Nondefense	Feb.	3-30-76	10.8	4.4	1.0	8.3
Defense	Feb.	3-30-76	1.9	23.6	5.7	-13.8
Inventories to sales ratio:						
Manufacturing and trade, total	Feb.	4-14-76	1.47	1.49[1]	1.53[1]	1.66[1]
Manufacturing	Feb.	3-30-76	1.62	1.65[1]	1.70[1]	1.92[1]
Trade	Feb.	4-14-76	1.32	1.33[1]	1.37[1]	1.41[1]
Ratio: Mfrs.' durable goods inventories to unfilled orders	Feb.	3-30-76	.842	.838[1]	.825[1]	.783[1]
Retail sales, total ($ bil.)	Mar.	4-9-76	53.9	2.8	3.6	17.2
GAF	Mar.	4-9-76	13.4	2.8	1.5	14.0
Auto sales, total (mil. units)[2]	Mar.	4-5-76	10.4	2.0	8.0	35.0
Domestic models	Mar.	4-5-76	8.9	2.4	8.7	47.9
Foreign models	Mar.	4-5-76	1.4	-.7	3.4	-12.8
Housing starts, private (thous.)[2]	Feb.	3-16-76	1,555	27.0	12.6	63.2
Leading indicators (1967=100)	Feb.	3-29-76	105.7	.8	3.0	16.0

1/ Actual data. 2/ At Annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Continued recovery through the first quarter is evident in further gains in industrial production, employment, personal income, and particularly in consumer spending. However, data now suggest that spending by State and local governments has been curtailed in recent months, and there has also been a substantial deterioration in net exports in the first two months of the year. As a result, GNP growth in the first quarter apparently was less than expected last month. At the same time, incoming data indicate further moderation in prices at both the wholesale and retail levels and also in wages.

Industrial production for March is estimated to have risen by 0.6 per cent following an upward revised 0.7 per cent increase in February; this was the eleventh consecutive monthly increase. The increase from the fourth to the first quarter was almost 9 per cent annual rate, a significant gain, but considerably below that of the previous two quarters. The rise in industrial production in the third and fourth quarters of last year was in large part in response to improved consumer spending and a resumption of inventory accumulation by nondurable goods producers. Although continued strength in consumer demand and associated accumulation of nondurable inventories is supporting growth of production, a new surge in output seems to be awaiting momentum from a buildup in durable goods, particularly capital goods.

The March production increase reflects moderate gains in most components of the index. Among consumer goods, auto assemblies rose by 2.8 per cent from February to an annual rate of 8.3 million units and schedules indicate a similar rise in April. There were moderate gains in March in output of clothing and consumer staples. Output of business equipment showed a small increase. Raw steel production was up somewhat, and output of other durable goods materials is also estimated to have increased further. Nondurable goods materials such as textiles, paper, and chemicals--already up sharply from their recession lows--apparently increased only slightly.

The slower growth in industrial production in the last two months has been about matched by estimated gains in capacity, resulting in comparative stability in manufacturing capacity utilization. However, the rate of utilization for major durable materials did rise somewhat, as the reduced inventory positon of many metal consumers has led to restarting of steel blast furnaces and aluminum production lines. At 73 per cent, the utilization rate for durable materials remains substantially below the 83 per cent rate for nondurable materials. For some nondurable industries--paper, paperboard, and broadwoven fabrics--rates of utilization have climbed to 90 per cent or more.

In recent months the demand for labor has been strong compared with measured output. This may partly reflect difficulties in measuring output in the nonindustrial sector, but it may also reflect the relative slowness of the recovery in durable goods manufacturing, which retards productivity growth. In March, total nonfarm payroll employment rose 190,000, seasonally-adjusted. Payroll employment has risen 2.1 million from its trough in June 1975 but remains 320,000 below its pre-recession peak. Durable manufacturing industries increased their work force by more than 65,000 in March, following February's increase of 28,000. Other sectors showing sizable increases in March include trade (55,000) and services and finance (36,000). While the factory workweek has fallen off by .3 hours during the past two months, the decline may possibly reflect such non-economic factors as the flu epidemic. In contrast, factory overtime increased by .1 hours in March.

The seasonally-adjusted unemployment rate edged down another tenth to 7.5 per cent in March, as total employment rose more sharply than did the labor force. The unemployment rate fell in manufacturing, services, and finance, but rose in construction and in trade. Minority unemployment dropped sharply in March to 12.5 per cent, but the level remains only 1.7 per cent below the levels of last May. Total continuing claims for extended unemployment insurance benefits--after remaining about 2.0 million from September until year-end--dropped by about a quarter million from the beginning of the year to late March.

Recent consumer surveys--by both the Conference Board and the Michigan Survey Research Center--show a

NONFARM PAYROLL EMPLOYMENT
(In thousands, seasonally adjusted)

	Change From:			
	Sept. 74 to June 75	June 75 to Mar. 76	Jan. 76 to Feb. 76	Feb. 76 to Mar. 76
Nonfarm Total	-2,487	2,168	141	191
State and Local Government	400	343	31	46
Services and Finance	82	588	52	36
Nondurable Manufacturing	-588	347	9	9
Trade	-266	480	69	55
Durable Manufacturing	-1,416	387	28	66
Construction	-510	-46	-67	-15

NOTE: September 1974 was the specific peak and June 1975 was the specific low for total nonfarm payroll employment.

notable improvement in consumer optimism in the first two months of this year. The February Michigan index of consumer sentiment increased almost 10 points over the quarter, and has now recovered nearly 85 per cent of the decline in the last recession. Respondents indicated more favorable opinions about the future--a change that has previously been associated with greater willingness to incur installment debt for use in purchases of consumer durables. Further, more respondents thought that it was a "good time to buy" large household goods or a house, and automobile purchase plans rose quite dramatically. The Conference Board index of consumer confidence also registered a healthy gain between surveys. The latest one covering the last part of January and the first half of February; it now stands at the best level since early 1973. The composite buying plan index surged to the highest level for this measure in the 9-year history of the survey; auto and home purchase plans showed particular strength.

Retail sales continue to grow at a vigorous pace. In March total sales rose an exceptionally strong 2.8 per cent, according to the advance partial sample count. The total less autos and nonconsumption items grew by 3.0 per cent over the month with all major categories of stores contributing to the advance. Sales of the food group were unusually strong (up 3.6 per cent) as were sales at stores with more discretionary types of goods. Spending for the GAF grouping--general merchandise, apparel, and furniture--was up 2.8 per cent. The first

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1974	1975		1976		
	Mar.	Mar.	May	Jan.	Feb.	Mar.
Total	5.0	8.5	8.9	7.8	7.6	7.5
Men, 20 years and older	3.3	6.6	7.2	5.8	5.7	5.6
Women, 20 years and older	4.9	8.3	8.4	7.5	7.5	7.3
Teenagers	14.8	20.1	20.3	19.9	19.2	19.1
Household Heads	2.9	5.7	6.1	5.1	4.9	5.0
State Insured*	3.2	6.2	7.0	4.5	4.2	4.2
White	4.5	7.8	8.3	7.1	6.8	6.8
Negro and other races	9.1	13.8	14.2	13.2	13.7	12.5
Construction	8.6	18.0	20.9	15.4	15.5	16.0
Nondurable Manufacturing	5.2	11.2	11.3	8.0	8.1	7.1
Durable Manufacturing	4.6	10.8	12.3	8.2	8.0	7.4
Trade	5.9	8.7	8.8	8.7	8.4	8.7
Services and Finance	4.2	6.5	7.0	7.0	6.8	6.1
Total, using additive seasonal factors	4.9	8.7	8.7	8.2	7.9	7.7

* Per cent of covered workers under regular state programs.

quarter gain in total retail purchases was 3.6 per cent over the preceding quarter. This is greater than the comparable fourth quarter increase of 2.2 per cent.

Auto sales have led the advance in consumer spending. Sales of new domestic-type autos were at an 8.9 million unit seasonally adjusted annual rate in March, up 2.3 per cent from the previous month and 12.7 per cent above the fourth quarter rate. Sales of foreign-model cars were about unchanged in March, at a 1.4 million unit rate.

Inventory developments also continues to provide support for the economic expansion. The book value of business inventories rose at a $16.3 billion annual rate in February, following a January rise of about the same magnitude. In the fourth quarter, book value business inventories were liquidated slightly. The recent gains have been mainly in trade, which rose at a $14.2 billion rate in February. At manufacturers, the book value of nondurable goods stocks continued to rise and durable stocks were about unchanged after eleven months of run off.

The recent moderation in wholesale-price increases implies a smaller inventory valuation adjustment than previously anticipated for the first quarter and, therefore, a larger growth in inventory investment is implied by any given change in reported book values.

Private housing starts rebounded in February to a seasonally adjusted annual rate of 1.56 million units--the highest rate in nearly

RETAIL SALES
(Seasonally adjusted, percentage change from previous period)

	1975		1976	1976			
	III	IV	I	Dec.	Jan.	Feb.	Mar.
Total sales	3.9	2.2	3.6	3.4	-.8	1.6	2.8
(Real*)	(1.5)	(1.0)	n.a.	3.0	(-.9)	(1.8)	n.a.
Total, less auto and nonconsumption items	3.1	1.6	2.0	1.6	-.6	.5	3.0
GAF	2.3	2.8	1.2	2.1	-4.4	3.3	2.8
Durable	5.8	4.4	6.8	7.1	-.9	3.4	2.3
Auto	7.4	4.9	9.8	13.3	-3.2	7.1	2.3
Furniture and appliances	2.3	5.1	1.0	-.5	-2.7	2.3	3.1
Nondurable	3.0	1.2	2.0	1.7	-.7	.7	3.0
Apparel	3.0	.7	3.0	3.7	-1.8	2.2	1.6
Food	2.8	1.0	2.6	.5	1.4	-.3	3.6
General merchandise	2.0	2.7	.8	2.4	-5.6	3.9	3.0
Gasoline stations	6.6	-1.2	2.4	4.6	.2	-1.2	1.1

*Deflated by an unpublished Bureau of Economic Affairs price measure.

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

	1975		1976	1976		
	III	IV	I	Jan.	Feb.	Mar.
Total auto sales	9.2	9.2	10.1	9.6	10.2	10.4
Imports	1.7	1.3	1.3	1.2	1.4	1.4
Domestic models	7.5	7.9	8.7	8.4	8.7	8.9
Large	4.3	4.4	n.a.	4.9	5.1	n.a.
Small	3.2	3.6	n.a.	3.5	3.6	n.a.

2 years. All of the increase was in the single-family sector, where sales of both new and existing units were quite strong in February (up 15 and 5 per cent, respectively). Multi-family starts declined for the fourth consecutive month and were just above the low levels of the first quarter of 1975. Total starts averaged 1.4 million units for January and February--only slightly above the pace in the fourth quarter of 1975. However, since outstanding mortgage loan commitments at S&L's continue strong, and completions of new units both for sale and rent are still low, a continued expansion of starts is indicated for the spring quarter.

Business fixed investment still has not exhibited a strong recovery from its cyclical low. However, a sizable increase in shipments of nondefense capital goods in February suggests somewhat larger outlays for producers durable equipment in the first quarter than previously anticipated. In addition, new orders for nondefense capital goods rose sharply (4.4 per cent) in February--the second month of increase in a row. Although real bookings are now 7.3 per cent above their low of March 1975, they are still well below their previous peaks. Since new orders were exceeded by shipments, the backlog of unfilled orders in February declined for the sixteenth consecutive month.

Nonresidential construction activity remains depressed. Contracts for commercial and industrial buildings (measured in square

BUSINESS INVENTORIES
(Change at annual rates in seasonally adjusted book values, $ billions)

	1975				1976	
	I	II	III	IV	Jan.	Feb.
Manufacturing & trade	-10.4	-18.8	5.4	-1.3	18.2	16.3
Manufacturing	3.2	-12.5	-6.6	.6	5.5	2.1
Durable	7.6	-4.3	-8.6	-3.5	-1.1	0.0
Nondurable	-4.5	-8.2	2.0	4.2	6.6	2.1
Trade, total	-13.6	-6.3	11.9	-1.9	12.7	14.2
Wholesale	-4.1	-2.7	3.1	-2.0	6.4	5.4
Retail	-9.4	-3.6	8.8	.1	6.3	8.8
Auto	-8.3	-1.7	5.5	.3	-1.8	-1.2

INVENTORY RATIOS

	1973	1974	1975	1976	
	IV	IV	IV	Jan.	Feb.
Inventory to sales:					
Manufacturing & trade	1.49	1.62	1.51	1.49	1.47
Manufacturing total	1.61	1.78	1.68	1.65	1.62
Durable	1.98	2.24	2.22	2.15	2.09
Nondurable	1.20	1.29	1.16	1.15	1.14
Trade, total	1.37	1.46	1.34	1.33	1.32
Wholesale	1.16	1.24	1.21	1.20	1.19
Retail	1.53	1.64	1.44	1.43	1.42
Inventories to unfilled orders					
Durable manufacturing	.708	.734	.829	.838	.842

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

	1975				1976		Per cent change in Feb. from:	
	QI	QII	QIII	QIV	Jan.(r)	Feb.(p)	Month ago	Year ago
Permits	.69	.90	1.04	1.06	1.12	1.13	+ 1	+61
Starts	.98	1.05	1.26	1.37	1.22	1.56	+27	+63
1-family	.74	.83	.95	1.03	.95	1.30	+37	+80
2- or more-family	.24	.22	.31	.33	.27	.25	- 8	+ 9
Under construction 1/	1.12	1.05	1.04	1.04	1.05	n.a.	+ 1 2/	-12 2/
1-family 1/	.52	.52	.53	.56	.57	n.a.	+ 1 2/	+ 7 2/
2- or more-family 1/	.60	.53	.51	.48	.48	n.a.	+ 1 2/	-27 2/
Completions	1.40	1.24	1.28	1.27	1.18	n.a.	-10 2/	-24 2/
1-family	.84	.81	.91	.90	.90	n.a.	- 8 2/	- 6 2/
2- or more-family	.57	.43	.37	.37	.27	n.a.	-17 2/	-54 2/
MEMO: Mobile home shipments	.20	.21	.23	.23	.26	.29	+ 9	+31

1/ Seasonally adjusted, end of period.
2/ Per cent changes based on January.
NOTE--indicates change of less than 1 per cent.

HOME SALES

	New Home Sales and Stocks			Sales Indexes of Unit Volume (1972=100, seasonally adjusted)		Median Prices of Homes Sold	
	Homes Sold 1/	Homes for sale 2/	Months' supply	New homes 3/	Existing homes	New homes	Existing homes
	(thousands of units)					(thou. of dollars)	
1975							
QI	438	395	10.8	61	93	38.1	33.8
QII	554	379	8.2	77	105	39.0	35.4
QIII	564	384	8.2	79	111	38.8	36.1
QIV (r)	637	378	7.1	89	126	41.3	35.6
Oct.	610	389	7.7	85	122	40.7	35.4
Nov. (r)	660	381	6.9	92	126	41.1	35.7
Dec. (r)	642	378	7.1	89	131	42.2	35.8
1976							
Jan. (r)	563	383	8.2	78	116	41.8	36.3
Feb. (p)	646	390	7.2	90	122	43.0	36.2

1/ Seasonally adjusted annual rate.
2/ Seasonally adjusted, end of period.
3/ Converted to 1972 index for comparison with existing home sales, which are not available on any other basis.

feet of floor space) rose 7-1/2 per cent in February, but making up only part of the sharp decline in January. Nevertheless, the average for January and February is considerably below that of any quarter last year. While the outlook for spending on nonresidential structures indicated by these figures is not encouraging, it should be remembered that this series does not reflect the activity of public utilities which is expected to expand considerably over the next few years.

Advance indicators of State and local spending in the first quarter have been weaker than we had expected, possibly reflecting the lagged effects of last year's fiscal problems. Preliminary reports show that employment grew by about 35,000 in the first quarter; this contrasts with increases of well above 100,000 in both the third and fourth quarters of 1975. Furthermore, revised data on the value of State and local construction put in place reveal a modest reduction in the fourth quarter and substantial declines in both January and February. The revised data--as yet published only in part and not fully evaluated--incorporate direct progress reports from construction projects, whereas the previous methodology relied on lagged expenditures data.

The outlook for Federal outlays has changed little since last month. The staff's estimates of spending on a unified budget basis are \$372 billion for the fiscal year ending in June and \$389 billion for calendar 1976. The unified budget deficits for these periods are expected to total \$73 billion and \$71 billion, respectively.

NEW ORDERS RECEIVED BY MANUFACTURERS
(Seasonally adjusted monthly rate, billions of dollars)

	1975				1976		Per Cent Change in February From	
	QI	QII	QIII	QIV	Jan.	Feb.	Month Ago	Year Ago
Total Durable Goods								
Current Dollars	36.9	39.1	42.0	42.4	43.3	45.1	4.2	20.0
1967 Dollars[1/]	22.6	23.8	25.4	25.0	25.3	26.3	4.0	14.9
Nondefense Capital Goods								
Current Dollars	9.9	10.3	10.4	10.5	10.4	10.8	4.4	8.3
1967 Dollars[1/]	6.2	6.4	6.4	6.4	6.2	6.4	4.0	1.9

1/ Constructed by deflating new orders by the appropriate wholesale price index.

CONSTRUCTION CONTRACTS FOR COMMERCIAL AND INDUSTRIAL BUILDINGS
(Seasonally adjusted rates measured in millions of square feet)

	1975				1976		Per cent Change in 3 Month Average From	
	QI	QII	QIII	QIV	Jan.	Feb.	Month Ago	Year Ago
Total[1/]	46.9	50.7	48.7	48.9	38.5	41.4	-0.5	-15.9
Commercial	33.7	36.5	36.1	34.9	34.1	35.6	5.3	-2.2
Industrial	12.7	13.2	11.4	13.6	9.9	12.5	2.2	-5.8

1/ The components are seasonally adjusted by the staff so their sum may not equal the total which is seasonally adjusted by the Bureau of the Census.

For fiscal year 1977, the staff continues to project budget outlays at $410 billion, slightly below the $413 billion spending targets recently recommended by the House and Senate Budget Committees. The higher Committee estimates partly reflect recommended Congressional spending initiatives--especially for public service employment. (Further discussion of the Committees' recommendations is provided in Appendix A.) On the revenue side, the staff has dropped its assumption of a rise in social security tax rates and the unemployment tax wage base in January, 1977. Both Congressional Budget Committees as well as the tax writing Committees have now opposed these administration tax proposals. The $5 billion revenue loss from this change in assumptions is partly offset by changes in other staff revenue estimates. On a full employment basis, this revised assumption results in a smaller shift toward fiscal restraint in 1977 than shown in the last month's Greenbook.

In the last few months there has been significant moderation in both wage and price pressures. The average hourly earnings index for private nonfarm workers rose 6.1 per cent at a compound annual rate during the first quarter of 1976. This was the lowest increase in any quarter over the last three years, and it occurred despite an increase in the Federal minimum wage during this quarter. The relatively small number of major collective bargaining settlements and cost-of-living increases so far this year. Wage contributed to the moderation pressures are expected to pick up somewhat later this year, reflecting the increased bargaining schedule (close to 5 million for 1976 as a whole compared to 2.8 million in 1975). The recent Teamster settlement, which covers 400,000 workers and becomes effective April 1, if approved by the membership, provides for a first year annual increases in wages of slightly over 9 per cent. Other major negotiations coming up include the rubber manufacturers in April, General Electric in June, and the automobile industry in September.

Wholesale prices rose 0.2 per cent from February to March. Continuing increases in industrial commodities more than offset the fifth consecutive monthly decline for farm and food products, which are now only about 3 per cent above the level of last March.

Industrial commodity prices rose 0.4 per cent in March and are 6.0 per cent above a year ago. Higher prices for metals and metal products, textile products and apparel, machinery and equipment, paper products, and transportation equipment all contributed significantly to the March rise. The energy group declined again in March; all other industrials were up 0.5 per cent.

The consumer price index rose by only 0.1 per cent (seasonally adjusted) in February, as substantial declines continued in food and petroleum product prices. Excluding food and energy items, the increase was 0.5 per cent, about in line with the rise over the second half of

HOURLY EARNINGS INDEX*
(Seasonally Adjusted)

	Per Cent Change Over Period (compound annual rate)				
	75:QI to 75:QII	75:QII to 75:QIII	75:QIII to 75:QIV	75:QIV to 76:QI	Feb. 76 to Mar. 76**
Private Nonfarm	7.5	8.6	8.3	6.1	4.1
Construction	8.1	6.6	4.4	N.A.	N.A.
Manufacturing	8.9	8.6	8.3	6.8	7.1
Trade	6.1	8.7	6.4	3.9	3.2
Services	4.8	7.3	10.6	7.8	-3.0

* Excludes the effects of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.

** Monthly change at an annual rate, not compounded.

last year. While declines in food and fuel prices can not be expected to continue indefinitely, the moderation in the overall index that has occurred already may help to hold down wage pressures.

The general pattern of price adjustments at retail has changed little since January. While food and fuel prices have been declining, price pressures still persistent in other components. There have been substantial increases for nondurable items other than petroleum products, for household durables, and for new and used cars. Service prices continued to rise rapidly, increasing 0.7 per cent in February. Because services have a large weight in the index, they continue to account for much of the advance in overall consumer prices.

Federal Sector Accounts
(billions of dollars)

	Fiscal Year 1975*	Fiscal Year 1976 e/ Admin. est. 1/	Fiscal Year 1976 e/ Cong. est. 2/	Fiscal Year 1976 e/ F.R. Board	Fiscal Year 1977 e/ Admin. est.	Fiscal Year 1977 e/ F.R. Board	CY 1976 e/ F.R. Board	F.R.B. Estimates — Calendar Quarters 10/ 1975 IV	1976 I	1976 II	1976 III 4/	1976 IV
Unified budget receipts	281.0	297.5	300.8	299.7	351.3	352.4	317.9	67.1	66.6	93.6	82.7	74.9
Unified budget outlays	324.6	374.4	374.9	372.4	395.8	410.0	388.8	93.6	91.9	96.0	100.5	100.5
Surplus/deficit (-) unified budget	-43.6	-76.9	-74.1	-72.7	-44.5	-57.6	-70.9	-26.5	-25.3	-2.4	-17.8	-25.6
Surplus/deficit (-), off-budget agencies 3/	-9.5	-9.3	n.a.	-10.1	-11.1	-11.1	-13.8	-2.6	-4.0	-2.6	-4.5	-2.7
Means of financing combined deficits:												
Net borrowing from public	50.9	88.3	n.a.	83.2	55.1	68.2	82.2	25.8	23.6	10.3	20.5	27.8
Decrease in cash operating balance	1.6	-1.4	n.a.	-2.0	0.0	0.0	1.0	2.0	.5	-1.6	1.7	.4
Other 5/	.7	-.7	n.a.	1.7	.5	.5	1.6	1.3	5.1	-3.7	.1	.1
Cash operating balance, end of period	7.6	9.0	n.a.	9.6	9.0	9.6	7.5	8.5	8.0	9.6	7.9	7.5
Memo: Sponsored agency borrowing 6/	10.8	5.1	n.a.	4.5	10.8	n.e.	n.e.	1.7	.3	1.6	1.2	n.e.
NIA Budget								Seasonally adjusted, annual rates				
Receipts	281.5	307.4	n.a.	305.3 7/	364.7	n.e.	324.3	302.7	308.0	319.0	329.9	340.2
Outlays	328.7	378.7	n.a.	377.2	404.5	n.e.	393.8	374.2	381.3	389.6	398.0	406.1
Surplus/deficit (-)	-47.2	-71.3	n.a.	-71.9	-39.8	n.e.	-69.5	-71.5	-73.3	-70.6	-68.1	-65.9
High Employment surplus/deficit (-) (NIA basis) 8/9/	5.6	n.a.	n.a.	-8.5	n.a.	.1	-6.9	-7.8	-10.5	-8.2	-6.1	-2.9

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

1/ Spring Update of FY 1977 Budget, 3/25/76.
2/ Concurrent Budget Resolution.
3/ Includes Federal Financing Bank, Postal Service, Export-Import Bank, Rural Electrification and Telephone revolving fund, Housing for the Elderly or Handicapped Fund, and Pension Benefit Guaranty Corporation.
4/ Effective in CY 1976, the fiscal year for the U.S. Government changes from July 1-June 30 to October 1-September 30. Hence 76-III represents a transition quarter.
5/ Checks issued less checks paid, accrued items, and other transitions.
6/ Includes Federal Home Loan Banks, Federal National Mortgage Association, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.
7/ Quarterly average exceeds fiscal year total by $.5 for fiscal 1976 due to spreading of wage base effect over calendar year.
8/ Estimated by F.R. Board staff.
9/ The high employment budget estimates now fully incorporate taxes on inventory profits beginning 1973.
10/ Unadjusted data.

WHOLESALE PRICES
(Per cent changes at annual rates; based on seasonally adjusted data)1/

	Relative importance Dec. 75	Dec. 73 to Dec. 74	Dec. 74 to June 75	June 75 to Oct. 75	Oct. 75 to Feb. 76	Feb. 76 to Mar. 76
All commodities	100.0	20.9	.5	11.7	-.3	2.7
Farm and food products	22.8	11.0	-5.6	16.9	-16.8	-2.7
Industrial commodities	77.2	25.6	3.0	9.9	5.8	4.7
Excluding fuels and related products, and power	66.9	22.5	2.6	6.6	8.0	5.6
Materials, crude and intermediate2/	48.3	28.0	2.1	8.2	6.6	6.4
Finished goods						
Consumer nonfoods	18.6	20.5	3.8	11.3	4.7	-2.3
Producer goods	11.8	22.6	8.7	8.6	6.8	4.9
Memo:						
Consumer foods	11.1	13.0	5.0	10.6	-14.8	-10.1

1/ Not compounded for one-month changes.
2/ FR estimate.

CONSUMER PRICES
(Per cent changes at annual rates; based on seasonally adjusted data)1/

	Relative importance Dec. 75	Dec. 73 to Dec. 74	Dec. 74 to June 75	June 75 to Oct. 75	Oct. 75 to Feb. 76	Jan. 76 to Feb. 76
All items	100.0	12.2	6.8	7.5	5.2	1.4
Food	24.7	12.2	5.0	8.8	-.3	-11.9
Commodities (nonfood)	38.7	13.2	6.6	6.6	3.6	3.1
Services	36.6	11.3	8.0	7.4	11.0	8.9
Memo:						
All items less food and energy 2/3/	68.1	11.3	7.2	5.7	8.2	6.0
Petroleum products2/	4.5	22.8	5.6	25.1	-9.5	-14.1
Gas and electricity	2.7	19.6	16.0	12.9	7.3	12.8

1/ Not compounded for one-month changes.
2/ Confidential -- not for publication.
3/ Energy items excluded: gasoline and motor oil, fuel oil and coal, and gas and electricity.

III-T-1

SELECTED DOMESTIC FINANCIAL DATA

(Dollar amounts in billions)

Indicator	Latest data		Net change from		
	Period	Level	Month ago	Three months ago	Year ago
Monetary and credit aggregates			SAAR (per cent)		
Total reserves	March	34.0	-1.5	-3.8	-1.1
Reserves available (RPD's)	March	31.8	-3.2	-3.3	-1.8
Money supply					
M1	March	298.4	6.5	2.9	5.0
M2	March	681.6	8.2	9.5	9.4
M3	March	1125.3	10.4	11.0	12.1
Time and savings deposits (Less CDs)	March	383.2	9.8	14.8	13.4
CDs (dollar change in billions)	March	73.1	-2.3	-9.8	-16.7
Savings flows (S&Ls + MSBs + Credit Unions)	March	443.8	14.0	14.1	16.5
Bank credit (end of month)	March	734.7	8.2	4.3	4.7
Market yields and stock prices			Percentage or index points		
Federal funds wk. endg.	4/7/76	4.73	-.22	-.39	-.5
Treasury bill (90 day) "	4/7/76	4.94	-.14	-.23	-.8
Commercial paper (90-119 day) "	4/7/76	5.20	-.05	-.24	-.90
w utility issue Aaa "	4/9/76	--	--	--	--
nicipal bonds (Bond Buyer) 1 day	4/8/76	6.65	-.33	-.48	-.38
FNMA auction yield (FHA/VA)	4/5/76	8.94	-.12	-.19	-.04
Dividends/price ratio (Common stocks) wk. endg.	4/7/76	3.64	-.03	-.27	-.83
NYSE index (12/31/65=50) end of day	4/12/76	53.33	.58	-2.34	-5.32

Credit demands		Net change or gross offerings			
		Current month		Year to date	
		1976	1975	1976	1975
Business loans at commercial banks	March	-1.9	-1.5	-2.4	-1.6
Consumer instalment credit outstanding	February	1.2	.1	2.5	-.3
Mortgage debt outst. (major holders)	January	3.4	2.7	3.4	2.7
Corporate bonds (public offerings)	March	3.0e	4.0	7.3e	10.8
Municipal long-term bonds (gross offerings)	March	3.2e	2.1	8.0e	6.9
Federally sponsored Agcy. (net borrowing)	March	.9	.5	.3	.1
U.S. Treasury (net cash borrowing)	April	1.6	7.5	23.6	19.4
Total of above credits		11.4	15.4	42.7	38.0

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Conditions affecting the pattern of credit flows and interest rates in recent weeks remain much the same as prevailed throughout most of the first quarter. Liquidity positions of lenders and borrowers have improved further, and investor optimism has been bolstered by the continuation of economic growth and the moderation of inflationary pressures. Since the last FOMC meeting, fears that monetary policy would soon become firmer have dissipated, as the Federal funds rate has edged down again to the 4-3/4 per cent level.

Yields on money market instruments have declined 15 to 50 basis points on balance during the intra-meeting period, more than offsetting the earlier back-up of rates. Yields on most long-term instruments also have moved down, with the sharpest drops in the Treasury and municipal markets. In the corporate sector, the volume of new long-term issues in March was extremely heavy, and yield declines were smaller. Mortgage rates in the primary and secondary markets have edged down 5 to 10 basis points in early April accompanied by some signs of modest easing in nonprice terms of lending as well. Savings inflows at depository institutions are still strong, and outstanding mortgage commitments at savings and loan associations have increased further.

The general reduction in interest rates in recent months has been accompanied by some improvement in the availability of open-market financing to less than prime-rated borrowers, as evidenced by a narrowing of quality yield spreads and a larger volume of lower-rated issues. In contrast, commercial banks as yet do not appear to have eased credit standards materially.

Monetary Aggregates. In March, the narrowly defined money stock (M_1) rose at an annual rate of 6.5 per cent, close to its February pace. Continued strength in economic activity, the lagged impact of declining interest rates in previous months, and possibly the greater than seasonal volume of tax refunds in March may have contributed to this strong expansion. Over the 12-month period ended in March, M_1 increased by 5.0 per cent, at the low end of the 5 to 7-1/2 per cent long-run growth range specified by the Committee a year ago.

Growth of the more broadly defined monetary aggregates moderated in March, as inflows of time and savings deposits to commercial banks slowed. Inflows to savings accounts at banks continued strong, but the rate of increase decelerated from the extraordinary 42 per cent pace in February to about a 24 per cent annual rate in March. March inflows into business and government savings accounts at large banks also were considerably slower than in the previous two months. The slowdown in savings account growth probably reflects a tapering-off of the shift of funds from market instruments into these accounts, which began in early 1976 when some market rates first dropped below rates paid on savings deposits.

SELECTED FINANCIAL MARKET QUOTATIONS
(One day quotes--in per cent)

	Mar.'75 FOMC Mar. 18	Jan.'76 FOMC Jan. 20	Feb.'76 FOMC Feb. 18	Mar.'76 FOMC Mar. 16	Mar. 30	Apr.6	Apr.13
Short-term							
Federal funds 1/	5.38	4.81	4.70	4.77	4.84	4.73	4.73p 4/
Treasury bills							
3-month	5.42	4.83	4.92	5.01	4.99	4.90	4.78
6-month	5.53	5.11	5.27	5.48	5.38	5.24	5.03
1-year	5.63	5.41	5.61	5.88	5.75	5.60	5.34
Commercial paper							
1-month	5.88	4.75	5.00	5.13	4.88	4.88	4.75
3-month	6.00	5.13	5.25	5.38	5.13	5.25	5.13
Large neg. CD's 2/							
3-months	6.05	5.15	5.25	5.40	5.20	5.13	5.05
6-months	6.25	5.50	5.65	5.90	5.60	5.60	5.40
Federal agencies							
1-year	6.23	6.07	6.07	6.46	6.11	6.06p	n.a.
Bank prime rate	7.75	7.00	6.75	6.75	6.75	6.75	6.75
Long-term							
Corporate							
New AAA 1/	9.27	8.64	8.64	8.63	8.53	8.60	--
Recently offered 3/	9.31	8.68	8.68	8.64	8.50	8.54	8.50p
Municipal (Bond Buyer) 4/	6.65	7.09	6.95	6.98	6.72	6.69	6.65
U.S. Treasury (20-year constant maturity)	7.97	8.05	8.06	7.98	7.88	7.84	7.81
Stock prices							
Dow-Jones	779.41	949.86	960.09	983.47	992.13	1001.65	984.26
N.Y.S.E.	45.10	52.33	53.39	53.90	54.43	55.13	53.73
AMEX	81.05	93.00	101.14	103.62	103.95	104.96	101.60
Keefe Bank Stock	487	523	565	564	585	593	590

1/ Weekly average.
2/ Highest quoted new issues.
3/ One day quotes for preceding Friday.
4/ One day quotes for preceding Thursday.
5/ Average for first 6 days of statement week ending April 14.
n.a.--not available.
p--preliminary.

MONETARY AGGREGATES
(Seasonally adjusted changes) 1/

	1975 HI	1975 HII	1975 QIV	1976 QI	1976 Feb.	1976 Mar.p	Twelve months ending Mar. 1976
				Per cent at annual rates			
M_1	4.0	4.8	2.5	2.9	6.1	6.5	5.0
M_2	8.0	8.2	6.1	9.5	14.3	8.2	9.4
M_3 2/	10.2	11.4	9.2	11.0	14.4	10.4	12.1
Adjusted bank credit proxy	4.7	3.7	6.0	2.6	4.2	1.2	3.3
Total time and savings deposits at commercial banks	8.3	6.9	9.1	6.8	6.9	2.4	6.5
a. Other than large CD's	11.3	11.0	9.1	14.8	20.6	9.8	13.0
1. Savings deposits	15.7	16.9	14.7	28.4	42.4	24.0	23.3
2. Time deposits	8.3	6.8	4.9	4.4	3.4	-1.7	5.8
Deposits at nonbank thrift institutions:							
a. Savings and loan associations 3/	17.6	16.4	13.5	16.4	15.0	15.9	18.1
b. Mutual savings banks 3/	12.0	9.7	7.5	10.5	8.2p	11.7e	11.5e 4/
c. Credit unions 3/	21.1	17.3	16.8	n.a.	10.9	n.a.	19.4
				Billions of dollars 5/			
Memoranda:							
a. U.S. Government demand deposits	--	--	--	-0.2	--	-0.1	--
b. Negotiable CD's	-1.0	-0.2	1.3	-3.3	-3.8	-2.3	-1.4
c. Nondeposit sources of funds	-0.2	0.2	0.5	0.1	0.4	0.3	0.2

1/ Except where otherwise defined, growth rates are based on changes in the average amounts outstanding for the period.
2/ M_3 is defined as M_2 plus credit union shares, mutual savings bank deposits, and shares of savings and loan associations.
3/ Based on month-end series.
4/ Twelve months ending February 1976.
5/ Changes in average levels month-to-month or average monthly change for the period, measured from last month in period to last month in period, not annualized.
p - Preliminary.
n.a. - Not available.
e - Estimated.

Time deposits other than large negotiable CD's at commercial banks--which together with savings deposits make up the "other time and savings deposits" category--declined slightly in March reflecting solely the continued run-off of other large denomination time deposits included in this category. Offering rates on these deposits paralled those on negotiable CD's, and hence have declined in recent months. Since the beginning of the year, the outstanding volume of large negotiable and other large denomination time deposits at weekly reporting banks has contracted by about $15 billion (not seasonally adjusted). By contrast, small time and savings deposits at these banks, on which rates are reported to have remained near Regulation Q ceilings, have risen $11.6 billion.

Because of the continued strong deposit growth at nonbank thrift institutions in March, the rate of growth of M_3 moderated less than that of M_2. During the first quarter of 1976, the combined deposit growth rate at savings and loan associations and mutual savings banks was just under 15 per cent (SAAR).

Business Credit. Despite the continuing strong recovery in economic activity, business demands for short-term credit remained depressed in March. Business loans at commercial banks declined sharply for the second consecutive month, and there was a moderate decrease in outstanding commercial paper issued by nonfinancial companies. Such paper had increased substantially in the previous three months, but contracted in March--mainly due to repayments out of the proceeds from capital market financing. On balance over the month, total short-term business credit declined at a seasonally adjusted annual rate of nearly 13 per cent.

The decline in short-term credit continues to reflect the improved internal funds flow of corporations, their large volume of capital market financing, and their conservative inventory and capital spending policies. However, certain sectors--trade, mining, and some nondurable manufacturing sectors, particularly textiles and apparel--have increased their bank loans significantly.

Despite the continued run-off in aggregate business loans, bankers do not seem eager to stimulate loan growth by substantially easing lending terms or lowering standards of credit quality, according to information available from a survey of bank lending practices taken in mid-February. In the commercial paper market, however, credit terms for less than prime-rated businesses appear to have improved somewhat in recent months. Increased demands for short-term paper by investors with improved liquidity positions, accompanied by a limited supply of prime-rated paper, have contributed to some reduction in risk premiums. In March, rates paid on selected issues of commercial paper rated A-2, p-2 were 25 to 50 basis points above the rates on prime (A-1, p-1) paper, in contrast to spreads of 70 basis points last fall and 140 basis points a year ago.

COMMERCIAL BANK CREDIT
(Seasonally adjusted changes at annual percentage rates) 1/

	1975			1976			
	H2	QIII	QIV	QI	Jan.	Feb.	Mar.p
Total loans and investments 2/	3.4	3.6	3.1	7.3	5.3	8.1	8.2
U.S. Treasury securities	15.2	26.0	4.2	53.4	35.4	62.8	55.4
Other securities	2.7	3.9	1.4	-3.6	2.5	-2.5	-10.8
Total loans 2/	1.8	.2	3.4	3.2	1.4	2.4	5.8
Business loans 2/	1.3	--	2.5	-5.3	2.0	-5.3	-12.7
Real estate loans	2.3	.3	4.3	5.4	4.5	5.4	6.3
Consumer loans	5.5	5.7	5.2	n.a.	6.9	1.4	n.a.
MEMO: Business loans plus nonfinancial commercial paper 3/	-.8	-.6	-1.0	-3.4	5.0	-2.5	-12.5

1/ Last Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank), and nonconsolidated nonbank subsidiaries of holding companies.
3/ Nonfinancial commercial paper is measured from end-of-month to end-of-month.
p - Preliminary.
n.a. - Not available.

Corporations continued to finance heavily in long-term markets, issuing a near record $5.9 billion of bonds and equities in March. Gross issues of publicly offered corporate bonds totaled $3.0 billion, the largest monthly volume since June of last year. In addition to seasonal factors, some of the March build-up apparently reflected anticipatory borrowing that may have been stimulated by the temporary increase in short-term rates early in the month. Both industrial corporations and utilities contributed to the increase. Public offerings of less-than-prime rated bonds were at their highest level in almost a year. Privately placed bond issues--which typically serve as an important source of funds for smaller, lower-rated companies, particularly industrial corporations--also have been large of late. Stimulated in part by the ample availability of funds at life insurance companies, private placements in the first three months of this year are estimated to be ahead of last year's record volume, with little or no abatement expected in the next few months.

Yields on new issues of prime-rated publicly offered corporate bonds have been essentially unchanged on balance since early January, while those on seasonal issues have declined. The Board's series of new, Aaa-rated, long-term utility yields has moved narrowly in the 8-1/2 to 8-3/4 per cent range during this period, after declining nearly 1 percentage point since September of 1975. Improving economic conditions have contributed to a pronounced

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

	1975		1976				
	Year	QIV	QI e/	Feb. e/	Mar. e/	Apr. f/	May f/
			Gross offerings				
Corporate securities--Total	4,391	4,029	4,558	4,125	5,900	4,500	4,700
Publicly offered bonds	2,714	1,935	2,433	2,100	3,000	2,200	2,400
By quality 1/							
Aaa and Aa	1,422	776	1,471	1,560	1,525	--	--
Less than Aa 2/	1,292	1,159	962	540	1,475	--	--
By type of borrower							
Utility	925	783	633	420	930	--	--
Industrial	1,429	756	1,206	1,070	1,480	--	--
Other	360	396	594	610	590	--	--
Privately placed bonds	770	1,051	883	900	1,000	900	900
Stocks	907	1,043	1,242	1,125	1,900	1,400	1,400
By type of borrower							
Manufacturing	123	158	308	450	425	--	--
Utility and transp.	598	664	833	600	1,275	--	--
Other	186	221	101	75	200	--	--
Foreign securities 3/	451	634	447	335	400	300	300
State and local government securities							
Long-term	2,544	2,252	2,666	2,504	3,177	2,300	2,400
Short-term	2,420	2,216	1,678	1,506	2,420	2,500	2,600
			Net offerings				
U.S. Treasury	7,564	8,048	7,897	10,064	7,497	-1,000	6,500
Sponsored Federal agencies	187	390	1,197	-1,629	2,193	573	-320

e/ Estimated.
f/ Forecast.
1/ Bonds categorized according to Moody's bond ratings.
2/ Includes issues not rated by Moody's.
3/ Includes only publicly offered issues of marketable securities.

narrowing in the spread between yields on higher and lower rated issues from the record differentials seen last summer and fall. The margin between newly issued A-rated and Aaa-rated utility bonds, for example, is now back to its longer run norm of less than 1/2 of a percentage point, compared to a spread of almost 1-1/2 percentage points in the third quarter of 1975 and 1 percentage point at year-end.

In equity markets, prices moved sharply lower in early April, more than offsetting price gains in the latter half of March. Trading activity, though down sharply from the record pace in February, has remained heavy by historical standards. New issues of common and preferred stock in March increased to $1.9 billion, an all-time high for the month. Public utilities continued to account for a majority of equity financings, but offerings by manufacturers also were sizable. Indeed, manufacturing offerings in the first three months of this year equaled two-thirds of the equities sold by that sector during all of last year.

Other Securities Markets. The market for tax-exempt securities recently has been more buoyant, partly in response to favorable investor reaction thus far to the progress made by New York State in meeting its financing needs. The Bond Buyer Index of long-term seasoned issues, now at 6.65 per cent, has dropped nearly 35 basis points since mid-March. This was the first major yield decline since the end of the year, and was achieved despite a heavy $3.2 billion volume of new long-term issues in March. Syndicate bidding for new issues has become more vigorous recently. In preceding months, most prime municipal issues had drawn not more than two bids, which on occasion were as much as 20 basis points apart. In contrast, several large, high quality State issues recently elicited three bids each, only 1 basis point apart. Nonetheless, the spreads between yields on higher- and lower-rated bonds continue at near record levels, as investors in this market remain highly sensitive to risk.

As yet, the municipal market has not shown any appreciable concern about possible difficulties arising from New York State's plan to sell $2.75 billion of short-term notes in mid-April. Implementation of the plan hinges importantly on the ability of the State to convince large, out-of-State commercial banks to purchase $700 million of notes. (More detail on this financing will be presented in the Greenbook Supplement.)

Yields on Treasury securities have dropped 15 to 50 basis points since mid-March, and now are 10 to 25 basis points below end-of-February levels. The decline in rates in large part reflects revisions of market expectations, given the stability of the Federal funds rate at around 4-3/4 per cent since the last FOMC meeting. In addition, the rally has been sustained by the reduced supply of new money market instruments--including commercial paper, large CD's and Treasury bills.

The Treasury, in fact, has not raised a significant amount of new money in its weekly bill auctions since early February, in contrast to heavy financing activity in this area during 1975 and early 1976. Net cash borrowing over the remainder of fiscal 1976, while down seasonally, will be sizable compared with net redemptions of debt during this period of most years prior to 1975. Following a run-off of $4.5 billion in cash management bills during April, the Treasury is expected to raise $8 to $10 billion of new money in May and early June.

Mortgage and Consumer Credit. Mortgage market conditions have eased somewhat more since the March FOMC meeting. Interest rates on new commitments for home mortgages have declined slightly in both the primary and secondary markets. In response to the downtrend in market rates since January, the Administration reduced the ceiling rate for FHA-insured and VA-guaranteed home mortgages by 1/4 per cent to 8-1/2 per cent, effective March 30.[1/]

S&L's still dominate mortgage lending to an unusual extent, and outstanding commitments at these institutions continued to increase in February in response to strong deposit inflows and active mortgage demand. At month end, S&L mortgage commitments outstanding totaled an estimated $19.2 billion, the highest level since mid-1973. A modest

1/ The ceiling rate for multi-family mortgages, however, remained at 9 per cent.

INTEREST RATES AND SUPPLY OF FUNDS FOR
CONVENTIONAL HOME MORTGAGES
AT SELECTED S&Ls

End of Period	Average rate on new commitments for 80% loans (Per cent)	Basis point change from previous week	Per cent of S&L's with funds in short supply
1975--High	9.59	--	66
Low	8.80	--	7
1976			
Mar. 5	8.77	+2	3
12	8.75	-2	0
19	8.75	0	1
26	8.75	0	1
Apr. 2	8.70	-5	1
9	8.70	0	n.a.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

	FNMA AUCTIONS OF FORWARD PURCHASE COMMITMENTS						Yields on GNMA guaranteed mortgage backed securities for immediate delivery 2/
	Conventional			Govt.-underwritten			
	Amount ($ millions)		Yield to FNMA 1/	Amount ($ millions)		Yield to FNMA 1/	
	Offered	Accepted		Offered	Accepted		
1975--High	100	51	10.92	643	366	9.95	9.10
Low	10	9	8.96	25	18	8.78	8.01
1976							
Mar. 8	75	45	9.15	300	172	9.06	8.31
22	46	34	9.13	146	122	9.03	8.31
Apr. 5	56	32	9.05	106	56	8.94	8.27

1/ Average gross yields before deducting fee of 38 basis points for mortgage servicing. Data reflect the average accepted bid yield for home mortgages, assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA commitment fees and FNMA stock purchase and holding requirements on 4-month commitments. Mortgage amounts offered by bidders relate to total bids received.

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

increase in the proportion of S&L's offering 90 and 95 per cent mortgages suggests some easing in nonrate terms of lending.

Industry observers report that liquidity at S&L's has continued to increase rapidly even though liquidity rations at the end of February were the highest in over three and a half years. Outstanding FHLB advances, moreover, declined further in March with $2.1 billion being repaid in the first quarter.

Consumer instalment credit outstanding expanded strongly in February, though somewhat below the January pace, as auto credit continued to lead a broadly based recovery. Only mobile home credit, which contracted slightly in February, has failed to revive in recent months. Maturity terms on new auto loans have continued to ease, with loans over 36 months accounting for 20 per cent of total extensions at commercial banks in February and 30 per cent at finance companies--up 3 and 5 percentage points, respectively, from the fourth quarter level.

CONSUMER INSTALMENT CREDIT

	1974	1975	1975 QIII	1975 QIV	1976 Jan.	1976 Feb.
Total						
Change in outstandings						
$ Billion (SAAR)	9.5	3.6	9.1	10.1	15.5	14.0
Per cent	6.5	2.3	5.9	6.4	9.8	8.7
Bank share (%)	39.0	-1.8	35.3	33.7	16.1	40.7
Extended						
$ Billion (SAAR)	166.1	166.9	173.2	180.0	194.4	189.9
Bank share (%)	43.6	44.0	44.3	44.3	41.3	43.9
Repaid ($ billion)	156.3	163.1	164.1	169.9	178.9	175.9
Automobile credit						
Change in outstanding $ bil. (SAAR)	0.8	1.5	3.9	5.3	5.9	7.6
Extended, $ billion (SAAR)	43.3	46.7	49.6	51.3	54.1	52.5
New-car finance rate (%, APR)						
Finance companies	12.61	13.12	13.12	13.17	13.18	13.14
Banks (36-month loan)	10.97	11.36	11.31	11.24	11.21	11.18
New-car loans over 36 mos. (%)						
Finance companies	8.4	23.7	24.4	24.8	28.0	29.6 p
Commercial banks 1/	8.8	14.0	15.4	17.0	--	20.0

p/ Preliminary.
1/ Series was begun in May 1974, with data reported for the mid-month of each quarter. 1974 figure is the average for May, August, and November.

April 14, 1976

U.S. International Transactions
(In millions of dollars; seasonally adjusted)

		1975				1976	
		YEAR	H-1	Q-3	Q-4	Jan.*	Feb.*
1.	Trade balance	9,137	4,769	2,123	2,245	-569	-418
2.	Merchandise exports	107,241	52,901	26,661	27,679	8,940	8,670
3.	Merchandise imports	98,104	48,132	24,538	25,434	9,509	9,088
4.	Net service transactions	7,363	3,040	2,350	1,973		
5.	Balance on goods and services 1/	16,500	7,809	4,473	4,218		
6.	Remittances and pensions	-1,763	-910	-423	-432		
7.	Gov't grants and capital, net	-4,546	-2,267	-1,081	-1,199		
8.	Bank-reported private capital, net change	-9,855	-9,583	3,243	-3,515	-199	150
9.	Claims on foreigners (inc.-)	(-13,099)	(-7,523)	(-777)	(-4,799)	(-1,286)	(-2,270)
10.	Short-term	-10,846	-6,755	-588	-897	-1,358	-2,171
11.	Long-term	-2,253	-768	-189	-3,902	72	-99
12.	Liabilities to foreigners (inc.+)	(-3,244)	(-2,060)	(4,020)	(1,284)	(1,087)	(2,420)
13.	Long-term liabilities	-355	-332	-114	91	27	-36
14.	Short-term liabilities 2/	3,599	-1,728	4,134	1,193	1,060	2,456
15.	to commercial banks abroad	(-501)	(-2,790)	(2,572)	(-283)	(1,082)	(2,377)
16.	(to which liab. to branches) 3/	(231)	(-960)	(-43)	(1,234)	(916)	(393)
17.	to other private foreigners	(1,823)	(367)	(591)	(865)	(94)	(37)
18.	to int'l regional organizations	(2,277)	(695)	(971)	(611)	(-116)	(42)
19.	Private transactions in securities, net	-2,429	-1,691	87	-826	214	-794
20.	U.S. purchases (-) of foreign securities	(-6,328)	(-3,022)	(-946)	(-2,361)	(-322)	(-1,201)
21.	of which: New bond issues	(-7,168)	(-3,329)	(-1,266)	(-2,573)	(-557)	(-1,273)
22.	Foreign purch. (+) of U.S. corp. securities	(3,899)	(1,331)	(1,033)	(1,535)	(536)	(4[illegible]
23.	Stocks	4,453	1,856	1,288	1,309	515	[illegible]
24.	of which by OPEC	(1,469)	(643)	(307)	(519)	(197)	(16[illegible]
25.	Bonds (includes U.S. Govt. agencies)	-554	-525	-256	227	21	54
26.	U.S. direct investment abroad, (inc.-)	-5,760	-3,345	-650	-1,765		
27.	Foreign direct investment in U.S., (inc.+)	1,934	1,019	-94	1,008		
28.	Nonbank-reported: liquid claims, (inc.-)	-267	348	-502	-113		
29.	other claims, (inc.-)	-1,211	168	-850	-529		
30.	liabilities, (inc.+)	379	585	-131	-75		
31.	Changes in liab. to foreign official agencies	3,070[4]	5,290	-4,666	2,449[4]	551	730
32.	OPEC countries (inc.+) 3/	4,208	1,271	1,676	1,261	26	-3
33.	Other countries (inc.+)	-1,138[4]	4,019	-6,342	1,188[4]	525	733
34.	Changes in U.S. reserve assets (inc.-)	-607	-354	-342	89	-404	-39
35.	Gold	--	--	--	--	--	--
36.	Special drawing rights	-66	-20	-25	-21	-45	--
37.	Reserve position in the IMF	-466	-314	-95	-57	-106	-76
38.	Convertible currencies	-75	-20	-222	167	-253	37
39.	Errors and omissions	4,556	2,930	936	690		
	Memo:						
40.	Official settlements balance, S.A.		-4,936	5,008	-2,538		
41.	N.S.A.	-2,463	-3,609	3,064	-1,918	-147	-691
42.	O/S bal. excluding OPEC, S.A.		-3,665	6,684	-1,277		
	N.S.A.	1,745	-2,338	4,740	-657	-121	-694

*/ Not seasonally adjusted (except for merchandise trade data lines 1-3).

1/ Differs from "net exports" in the GNP account. The GNP basis excludes U.S. Government interest payments for foreigners from service imports and special military exports to Israel.

2/ Includes transactions in U.S. Treasury bonds and notes.

3/ Not seasonally adjusted. p = Preliminary.

4/ Excludes a $250 million increase in liabilities resulting from the revaluation of System swap liabilities to Belgium and Switzerland.

Foreign exchange markets. During the past five weeks the dollar has advanced by about 1.6 per cent against a trade-weighted average of major foreign currencies. The dollar's advance in this period reflects very substantial appreciations against the Italian lira, sterling and the French franc, partially offset by a decline in the dollar against virtually all other major foreign currencies

Table 1
Changes in Dollar Exchange Rates (in Per cent)

Currencies of	Dec. 1975 to Mar. 12	Mar. 12 to Mar. 19	Mar. 19 to Mar. 31	Mar. 31 to Apr. 14
U.K.	-4.7	-0.3	-0.2	-3.3
Canada	+2.9	0.0	+0.2	-0.2
Germany	+1.8	+1.9	-0.4	+0.4
Switz.	+2.0	+1.8	-0.1	+1.0
France	-2.0	-3.5	+0.6	+0.5
Italy	-15.2	-5.8	+1.7	-4.8
Japan	+1.6	+0.4	+0.1	+0.5
U.S. (wgted. avg.)	+2.3	+0.8	-0.2	+1.1

On March 15 the French decided to withdraw the franc from the European fixed exchange-rate arrangement (the "snake")

In the Brussels emergency meeting of EC Finance Ministers on the night of March 14, the French sought to obtain a general realignment of

snake exchange-rate relationships (perhaps in conjunction with wider intervention limits around a new set of parities among the snake currencies). However, agreement could not be reached among the snake partners on a set of parity changes or other possible adjustments, and France left the snake arrangement on March 15. In the next week the French franc floated down by about 3-1/2 per cent against the dollar and by about 5-1/2 per cent against the mark, . Since that time the franc has appreciated by about one per cent against both the dollar and the mark .
Thus, after an initial adjustment, the French franc remained relatively strong.

When the French franc left the snake, new pressures began to emerge among the remaining snake currencies. With the dissolution of the Benelux "worm" on March 15, the Belgian franc moved quickly to the bottom of the snake where it joined the Danish krone (which had been at its lower limit against the mark for more than a week prior to the departure of the French franc from the snake). Pressures on rate relationships among the snake currencies were quite intense in the week of March 15 to 19

.

Since the week ended March 19 there has been relatively little pressure on snake exchange-rate relationships. Presently, the mark is roughly 1-1/2 to 2 per cent above its central rate against the other snake currencies (the maximum margin being 2-1/4 per cent).

.

Sterling broke through the $2 level on March 5 and fell fairly sharply for about one week; it then fluctuated between about $1.91-1/2 and $1.92-1/2 for the remainder of the month of March

. Sterling dropped sharply again on April 1, falling nearly 2 per cent in a few hours to a low of $1.88, and is currently at about $1.85.

.

The Italian lira has declined by about 9 per cent against the dollar in the five weeks since the last Greenbook and has fallen by nearly 23 per cent since the end of last year. In the week following the withdrawal of the French franc from the snake the lira fell nearly 6 per cent; the Bank of Italy responded with an unprecedented increase of 4 per cent in its Bank Rate, raising the rate to 12 per cent, and there was also a further tightening of exchange controls, and selective tax increases. The lira rose by about 1-1/4 per cent from March 19 through the end of the month

but then declined by nearly 5 per cent in the April 1-14 period

. The lira's decline in recent months reflects not only a relatively high rate of inflation but also renewed political uncertainties.

As was mentioned above, the dollar's advances against sterling, the lira and the French franc over the past five weeks have been partially offset by declines against other major currencies. The German mark and Swiss franc both rose about 1.8 per cent against the dollar in the week following the withdrawal of the French franc from the snake, and the snake currencies as a group (led by the mark) rose against the dollar. In the period since extreme pressures on the snake subsided, the mark has changed little on balance against the dollar, but most of the other snake currencies and the Swiss franc have advanced somewhat further.

.

The Japanese yen has risen with little interruption since the first of the year. The yen is up about one per cent since early March and about 2-1/2 per cent since early January,

. The strength of the yen seems to derive mainly from strong demand for Japanese exports. An additional element in the yen's strength may be Japan's announcement in mid-March that it would now welcome the use of the yen as a reserve currency, a reversal of Japan's previous policy. Evidence is not yet available to indicate if this policy change has prompted any switching of official reserve holdings into yen.

The Canadian dollar rose about 2.9 per cent against the U.S. dollar from the first of the year through early March but has changed little on balance in the past five weeks. In general, the firmness in the Canadian dollar so far this year has stemmed from the continuation of a relatively strong anti-inflationary monetary policy stance in Canada and a high volume of foreign bond issues (mostly in U.S. markets) by Canadian companies and public authorities.

In the past five weeks the System made net purchases of foreign currencies totaling about $52 million equivalent. During the period the System drew $42.5 million equivalent of marks on the Bundesbank but subsequently repaid $27.2 million equivalent, leaving the System's obligation to the Bundesbank at $80 million equivalent. In addition, in early March the System fully repaid its swap drawings on the Netherlands Bank and reduced its Belgian franc drawings by $26.8 million equivalent, to $211.1 million equivalent.

Foreign branch assets and liabilities. Major foreign branches of U.S. banks, which now report quarterly the country breakdown of their assets and liabilities, showed a 4.9 per cent rise in assets from $134.4 billion at the end of September to $141.1 billion at the end of December (after exclusion of claims on other branches of the same parent bank, amounting to $35.3 billion at the end of December). Branch liabilities, which are likewise adjusted to exclude intrabank interbranch accounts, rose 5.3 per cent from $132.5 billion to $139.6 billion. The table shows countries and country groupings vis-a-vis which assets or liabilities were $1 billion or more at either end-September or end-December.

Geographical Distribution of Assets and Liabilities of Major Foreign Branches of U.S. Banks[1/]
(in billions of dollars)

Country of Customer	Assets 9/30/75	Assets 12/31/75	Liabilities 9/30/75	Liabilities 12/31/75
Europe	71.1	74.4	67.5	69.2
Belgium-Luxembourg	5.6	5.2	4.2	3.4
France	6.7	7.6	6.8	7.4
East Germany	1.3	1.3	1.3	1.3
West Germany	5.8	6.7	4.1	5.1
Greece	1.0	1.0	1.0	1.5
Italy	4.4	4.8	1.9	2.1
Netherlands	2.1	2.6	3.2	3.3
Norway	1.1	1.3	0.3	0.4
Spain	1.1	1.5	2.7	2.4
Switzerland	2.0	2.3	7.0	7.3
United Kingdom	34.5	34.3	31.0	30.5
Other East Europe	1.4	1.6	0.2	0.2
Others (including BIS)	4.1	4.2	3.8	4.3
Canada	1.7	1.4	3.9	3.7
Latin America and Caribbean	27.3	28.6	14.2	16.6
Bahamas	7.3	6.8	5.4	6.8
Bermuda	0.3	0.4	1.2	1.1
Cayman Islands	2.2	2.3	2.0	2.4
Brazil	5.2	5.6	0.6	0.6
Mexico	5.2	6.1	0.6	0.9
Panama	2.0	2.2	1.4	1.5
Venezuela	1.1	1.2	1.2	1.3
Others	4.0	4.0	1.8	2.0
Asia, Africa, and Oceania	25.2	27.3	24.8	26.7
Hong Kong	2.0	1.5	1.3	1.6
Indonesia	1.1	1.3	0.2	0.2
Japan	9.5	10.7	4.3	4.6
Lebanon	0.1	0.1	1.3	1.3
Philippines	1.1	1.2	0.8	0.9
Singapore	3.1	3.5	1.9	1.9
Middle East oil-exporting countries	1.7	1.8	10.5	11.7
Liberia	1.6	1.7	0.3	0.3
Others	5.0	5.5	4.2	4.2

	Assets		Liabilities	
	9/30/75	12/31/75	9/30/75	12/31/75
Unallocated	2.2	2.7	2.9	2.6
United States	6.9	6.8	19.2	20.7
Grand total	134.4	141.1	132.5	139.6
Special Groupings:				
Offshore banking centers 2/	17.0	16.8	14.5	16.6
Non-oil developing countries 3/	19.8	21.4	7.3	7.8
Oil-exporting countries	4.4	5.0	12.5	13.9

1/ Based on reports from all branches in the Bahamas and Cayman Islands, and from branches elsewhere above a minimum size that varies by area.

2/ Bahamas, Bermuda, Cayman Islands, Panama, Hong Kong, Lebanon, and Singapore.

3/ Excluding offshore banking centers.

By far the largest asset and liability totals were reported for the United Kingdom, with substantial amounts also showing vis-a-vis France, West Germany, Japan, and five offshore banking centers where U.S. banks have branches: the Bahamas, the Cayman Islands, Panama, Hong Kong, and Singapore. Also important on the claims side were Italy and three smaller European countries -- Spain, Norway, and Greece -- that have been large net borrowers in the Euro-currency market. Developing countries (other than offshore banking centers) on which claims exceeded $1 billion were Brazil and Mexico (over $5 billion on each), Venezuela, Indonesia, the Philippines, and Liberia. The bulk of the claims on Middle East oil-exporting countries were on Bahrain, now emerging as an important financial center.

On the liabilities side, the Middle East oil exporters supplied large amounts of funds to U.S. bank branches. The \$11.7 billion of liabilities to those countries at the end of December exceeded the \$9.6 billion of liabilities to oil-exporting countries on that data reported by banks in the United States. Deposits owed to Swiss depositors, over \$7 billion, also reflected in part the flow of funds from the Middle East. Other important countries on the liabilities side included Spain, which invests much of its official reserves in the Euro-currency market, Bermuda, where banks are active in that market, and Lebanon. Surprisingly, claims on and liabilities to East Germany were both well over \$1 billion.

During the fourth quarter, 60 per cent of the increase in total claims was on Japan (\$1.2 billion) and on France, West Germany, and Mexico (\$0.9 billion each); in addition, increases of \$0.4 - 0.5 billion were shown in claims on Italy, the Netherlands, Spain and Brazil. In contrast, there were small decreases in combined claims on seven offshore banking centers and on the United Kingdom. The increases in claims on Mexico and Brazil accounted for most of the \$1.6 billion rise in claims on non-oil developing countries.

The rise in claims was funded largely by increases of \$2.1 billion in deposits from the offshore banking centers, \$1.5 billion in placements from head offices or other U.S. sources, and \$1.4 billion in deposits from oil-exporting countries. Liabilities to France and West Germany were also up substantially, but there was a sharp drop in liabilities to Belgium-Luxembourg (on which claims also declined).

U.S. International Transactions. U.S. merchandise trade recorded a significant deficit in February for the second month in a row. The trade deficit of $5.9 billion (seasonally adjusted annual rate, balance of payments basis) for January-February was a sharp contrast to the surplus of $8.7 billion in the fourth quarter and $9.0 billion for the year 1975. If, as is expected, net service transactions remain as high as the $7.9 billion surplus recently reported for the fourth quarter of 1975, the January-February trade deficit would be consistent with a $2 billion surplus on goods and services combined (balance of payments basis). Bank-reported private capital flows in February continued the pattern of January: a rapid expansion of both claims on and liabilities to foreigners with little net flow; and there was a small increase in U.S. liabilities to foreign official agencies.

The U.S. merchandise trade deficit of $5.0 billion (S.A.A.R.) in February, following a January deficit of $6.8 billion, indicates that the swing into deficit that the staff had projected for later in the year has occurred sooner than expected, although some surpluses may appear in monthly trade data during the coming months. Unexpected elements in the $14.6 billion swing in the trade balance from the fourth quarter of 1975 to January-February were (1) the $5.1 billion decline in total exports ($3.4 billion in nonagricultural exports), which were expected to pick up slightly, and (2) the $6.3 billion increase in non-fuel imports, which were expected to increase by only about half that much.

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

	1975[r]	1 9 7 5[r]				1 9 7 6		
	Year	1Q	2Q	3Q	4Q	Jan.& Feb.	Jan.[r]	Feb.
EXPORTS	107.2	108.2	103.4	106.4	110.8	105.7	107.3	104.0
Agric.	22.3	24.3	19.6	22.3	23.0	21.7	23.2	20.2
Nonagric.	84.9	83.9	83.8	84.1	87.7	84.0	84.1	83.8
IMPORTS	98.1	102.2	90.3	97.9	102.1	111.6	114.1	109.1
Fuels	28.3	27.6	26.4	30.0	29.4	32.6	34.6	30.5
Nonfuels	69.8	74.7	63.8	68.0	72.7	79.0	79.5	78.5
TRADE BALANCE	+9.0	+6.0	+13.1	+8.4	+8.7	-5.9	-6.8	-5.0

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

The drop in total exports from the fourth quarter to January-February was broadly based. All major end-use categories except consumer goods fell in both current and constant dollars. Exports to every major group of countries declined with the largest decline occurring in exports to non-EEC European countries.

Several factors can be identified that would operate to hold down exports. First, economic activity remains weak in many countries. Indeed, in only several of the major industrial countries are solid recoveries from the recessions of 1974-1975 underway. Second, many countries, both developed and developing, continued to import at high rates during 1975 even though their export revenues were declining and they continued to face large payments for oil. The resulting current account deficits of these countries have been financed by borrowings and reserve losses until now, but the cumulative strain of continuing to finance large deficits has brought efforts, beginning late last fall in some countries, to cut back on imports. Further measures are expected in a number of countries, which would adversely affect U.S. exports, as well as those of other countries. Third, increases in imports of oil-exporting countries have been limited by temporary bottlenecks in these countries' abilities to absorb imports. U.S. exports to OPEC countries have not grown since mid-1975 and are down in January-February. Finally, the appreciation of the U.S. dollar by 12 per cent on a weighted-average basis since June 1975 -- occurring mostly between June and September -- has probably caused some reduction in the demand for U.S. goods, even allowing for the relatively lower U.S. inflation rate. In recent history, however, U.S. exports have not been very sensitive to relative price changes over periods of one to three quarters. Empirical relationships that have held over the past five years suggest that the relative price changes resulting from the weighted-average appreciation of the dollar since mid-1975 reduced exports in January-February by no more than $1 billion from what they would otherwise have been.

New orders for exports of durable goods (except motor vehicles and aircraft) rose for the third consecutive month in February and were 5 per cent above the fourth-quarter rate in January-February. The data on orders suggest somewhat more strength in the outlook for durable goods exports than was seen in shipments during the first two months of the year. However, there are no signs of a significant pick-up in private investment abroad to support higher U.S. exports of capital goods. The latest Commerce Department survey of 1976 capital spending plans, taken in December, reports a weak outlook for spending by foreign affiliates of U.S. firms and may also be indicative of industrial investment abroad, in general. Capital expenditure are projected to rise only 2 per cent in 1976 to $27 billion.

Nonfuel imports in February were marginally lower than in January, but the rate for the two months combined was 9 per cent above the fourth quarter figure. Although nonfuel imports were expected to expand as the U.S. economic recovery continues, the recent pace has been unexpectedly strong. The largest increases for January-February over fourth quarter rates were in imports of industrial supplies and materials (a $3.2 billion or 7 per cent increase), in imports of automobile and parts, ($2.0 billion or 15 per cent) and in imports of consumer goods ($1.3 billion or 9 per cent). The rapid growth in imports of industrial supplies and materials has recently outstripped the expansion of domestic industrial activity and must be partly attributed to an increase in the rate of accumulation of stocks, which had been run down in 1975. Rebuilding of stocks also accounted for part of the increase in imports of foreign-type automobiles and part of the increase in consumer goods imports. Three-fifths of the increase in automobile imports, however, was in imports from Canada and was associated with the pickup in North American automobile production.

Imports of fuels in February dropped back from the high January level, but they remained higher than in the fourth quarter of 1975. The January-February average for imports of fuels was 11 per cent above the fourth quarter rate -- about what we projected. As U.S. petroleum consumption picks up with the recovery in domestic economic activity and -- as is expected -- domestic production does not respond, imports of petroleum will rise much more rapidly than the general rate of economic expansion.

Net bank-reported private capital flows were near zero in both January and February. However, the growth of claims on foreigners continued at a fairly rapid rate with additions of $1.3 billion and $2.2 billion in the first two months of the year to outstanding claims of $59 billion as of the end of December 1975. Virtually all of the growth was in short-term claims. Of the February increase, $1.6 billion was in claims on the Bahamas -- about $1 billion advanced by head offices of U.S. owned banks to their branches there and about $.6 billion advanced by agencies and branches of foreign banks in the United States to affiliates of their parent banks in the Bahamas. Long-term claims, which are mainly loans to non-bank foreigners, are not growing as rapidly as they did in the fourth quarter of 1975.

The decisions of banks on where to carry loans are sensitive to tax considerations, and the behavior of claims reflects these considerations. Up to a point it is advantageous for a U.S. bank to take earnings in a lightly taxed jurisdiction such as the Bahamas. Many banks apparently reached this point for the 1975 tax year by the fourth quarter. While earlier in the year banks had advanced short-term funds to their Bahamas branches for the purpose of making loans to foreigners, in the fourth quarter they made more loans to foreigners directly from their head offices, which were recorded as long-term claims. With the beginning of a new year in January, U.S. banks returned to the practice of lending through their branches in the Bahamas.

Bank-reported liabilities to private foreigners increased by $2.4 billion in February following a $1 billion increase in January. Some of these increasescan be identified as part of the proceeds from the $1.3 billion of new foreign bonds that were sold in the United States in February and which have temporarily remained in the United States. The February rise was exaggerated by usual weekend flows, since the month ended on a weekend. In March the increase in liabilities appears to be smaller, judging from partial weekly data.

Securities transactions in February resulted in a net outflow of $800 million. There was an extraordinarily heavy calendar of new foreign bond issues, headed by $855 million for Quebec Hydroelectric, was responsible for the outflow. Foreign purchases of U.S. stocks fell by $160 million to $350 million (one half of this by OPEC countries) in February as compared with January. In March new issues of foreign bonds were $1 billion, a large calendar except when compared with February. InApril new issues are expected to be about $500 million.

U.S. liabilities to foreign official agencies increased by $730 million in February. The largest increases in U.S. short-term liabilities to foreign official agencies were for Japan ($900 million) and Germany ($600 million); the largest decline was for France ($1 billion).

. OPEC countries did not account for any of the increase.

<u>Monetary conditions in major foreign countries</u>. Since the beginning of the year, there have been significant declines in short-term interest rates in Germany, Japan, Switzerland, and the United Kingdom -- more than the net decline of 25 basis points in the United States; in Canada, France, and especially Italy, however, short-term rates have risen. Long-term yields have changed relatively little on balance over that period, except in Germany, where the decline was sharp, and generally remain high by past standards. Central banks in most countries -- except in Italy and Canada -- have continued to follow essentially accomodating, or even easy, monetary policies, as is evidenced not only by the tendency toward lower interest rates but also by fairly rapid growth of the monetary aggregates. These policies reflect the widespread desire to facilitate an upturn in economic activity. In some countries, however, exchange market developments have also influenced monetary policy.

The most dramatic movement in interest rates took place in Italy, where, as a result of capital outflows and the Bank of Italy's efforts to support the lira, the 3-month interbank rate rose almost 1000 basis points from end-December to early April. Short-term rates in France were raised fairly sharply in February -- also reflecting a reaction to exchange market pressures -- and have since declined only slightly. In Canada, interest rates moved up sharply in March in response to the increase in the Bank of Canada's discount rate in the early part of that month (which was designed to curb monetary growth), but have come down in April.

3-MONTH AND LONG-TERM INTEREST RATES
IN SELECTED INDUSTRIAL COUNTRIES
(Per cent per annum or percentage points

	Level:		Change during month:					Level
3-MONTH RATES	end-1974	end-1975	Jan. 1976	Feb. 1976	Mar. 1976	Apr. 1976 (to date)	Total Change:	Latest
Canada	10.50	9.25	-0.37	0.25	1.25	-0.63	0.50	9.75(4/13)
France	11.88	6.50	0	1.13	-0.13	0	1.00	7.50(4/13)
Germany	8.30	4.20	-0.30	-0.30	0.10	-0.10	-0.60	3.60(4/13)
Italy	17.50	7.63	0.87	3.00	6.75	-1.12	9.50	17.13(4/13)
Japan	13.75	8.25	0	-0.50	0	-0.50	-1.00	7.25(4/13)
Switzerland	n.a.	2.75	-1.75	0.50	-0.25	-0.12	-1.62	1.13(4/13)
United Kingdom	12.44	10.81	-1.00	-1.00	-0.06	0	-2.06	8.75(4/13)
United States	8.94	5.25	-0.37	0.25	-0.13	0	-0.25	5.00(4/7)
LONG-TERM GOV't. BOND YIELDS								
Canada	8.85	9.51	-0.22	-0.02	0.21	-0.09	-0.12	9.39(4/2)
France	10.93	9.91	-0.01	0.03	0.05	0.08	0.15	10.06(4/2)
Germany	9.43	7.74	-0.38	-0.35	-0.49	0.03	-1.19	6.55(4/5)
Italy	12.65	11.37	0.03	0.42	n.a.	n.a.	0.45	11.82(2/27)
Japan	9.60	9.02	-0.40	-0.01	0.10	n.a.	-0.31	8.71(3/31)
United Kingdom	17.44	14.43	-1.64	0.62	0.29	0.19	-0.54	13.94(4/9)
United States	7.92	8.03	0	-0.07	-0.07	-0.08	-0.22	7.81(4/13)

1/ The short-term rates quoted are generally 3-month rates: interbank rates for France, Germany Italy, and the United Kingdom; the finance company paper rate for Canada; and the CD rate for the United States. For Japan, the rate on paper of 2-month or greater maturity is quoted.
2/ The long-term rates quoted are all government bond yields -- mostly composite yields. For the United States, the 20-year constant maturity yield is quoted.

GROWTH OF THE MONEY STOCK IN MAJOR INDUSTRIAL COUNTRIES
(percentage change; SAAR)

Country		1975 Q4 from 1974 Q4	Latest 3 months' average from: Same Period, Year Earlier	Previous 3 months	Latest Month
Canada	M_1	22.1	18.0	-5.1	Mar.
	M_2	17.6	16.5	13.2	Feb.
France	M_1	12.5	12.6	23.3	Jan.
	M_2	16.5	16.0	24.4	Jan.
Germany	M_1	16.5	16.2	12.6	Feb.
	M_2	0.7	1.3	11.3	Feb.
Japan	M_1	10.9	12.2	16.3	Jan.
	M_2	14.5	15.0	16.9	Jan.
United Kingdom	M_1	17.2	14.6	5.8	Feb.
	M_3	9.1	8.0	2.8	Feb.
United States	M_1	4.4	4.7	2.9	Mar.
	M_2	8.2	8.5	9.8	Mar.

Various national sources.

Short-term interest rates in Germany and Switzerland, which already were low last December, have fallen further this year, as monetary authorities attempted both to facilitate economic recovery and to resist upward pressure on their exchange rates. In Japan, short-term rates have continued to decline in lagged response to the Bank of Japan's discount rate cuts last year. British interest rates declined significantly in January and February, from high levels, and have not been raised since despite recent downward pressure on sterling.

Yields on long-term assets are high in most countries, even though they are significantly below last year's peaks (except in Italy). Since the beginning of the year, yields in France and Italy have risen slightly, but elsewhere yields either have declined or have shown little net change. The decline of over 100 basis points in the German bond yield is noteworthy.

The most dramatic monetary developments in the past several months took place in Italy. Italian authorities adopted a series of monetary and fiscal measures designed to restrict bank liquidity and to raise interest rates. These actions were taken in response to the downward pressure on the lira that began in mid-January; the lira crisis is thought to reflect fundamentally the excessively rapid (22 per cent) growth of the monetary base last year which, to a substantial extent, was due to the Bank of Italy's financing of the large public sector deficit, as well as the uncertain political situation. The monetary measures included several increases in the Bank of Italy's base rates for rediscounts and advances (totaling 6 percentage points: from 6 to 12 per cent); an increase in banks' reserve requirements; the cessation by the Bank of Italy of its rediscounting of short-term export paper, which had been another important factor in last year's excessive liquidity growth; and a variety of measures restricting international capital outflows.

These measures resulted in the sharp increase in interest rates noted above. Monetary conditions in Italy are likely to remain fairly tight for the foreseeable future, given the restrictive conditions imposed upon Italy by the European Community in March in conjunction with Italy's borrowing.

Short-term interest rates in Germany declined in January and February -- though not subsequently -- and liquidity conditions have remained easy. So far the Bundesbank has maintained that no further easing is required either to stimulate the economy or to resist upward pressure on the exchange rate. Indeed, monetary policy might have to be tightened if the Bundesbank's target of 8 per cent growth of "Central Bank Money" in 1976 (year-over-year) is to be met. Given monetary growth through February, hitting that target implies an annual rate of growth of "Central Bank Money" of only about 4 per cent from February through the end of the calendar year. In view of this, the Bundesbank decided to offset the expansionary effects of its substantial purchases of foreign currencies on bank liquidity. While tax payments due in mid-March tended automatically to offset some of the liquidity-creating effects, the Bundesbank, in addition, altered what it calls its "deposit policy". Around the turn of the year the Bundesbank had asked the Federal Government to shift its surplus cash from its account at the central bank to commercial banks, thereby enhancing bank liquidity; but in the wake of exchange market intervention, the Bundesbank reversed that policy.

The decline in long-term yields in Germany has been quite pronounced this year. The decline may have reflected a lowering of inflationary expectations -- although the basis for a change in expectations is hard to find. More important, the Federal Government's demand for long-term funds in the remainder of the year is lower than had previously been expected, partly because the expected total 1976 borrowing requirement is lower, but mostly because over half of that borrowing requirement has already been met. In addition, speculation on a DM revaluation increased the demand for DM-denominated securities.

Exchange market considerations have influenced recent monetary conditions and/or policies in France, Belgium, Denmark, the Netherlands, and Switzerland, as well. Following downward pressure on the French franc, short-term interest rates in France rose in February, and have declined only slightly since then. Consumer credit terms have already been tightened (after having been eased last September), and there are reports that credit ceilings will be tightened in the second half of this year. At present, the Bank of France appears to be endeavoring to reallocate credit (toward investment and exports and away from personal consumption) rather than to restrict it.

Reflecting divergent exchange-market pressures, monetary authorities in Belgium and Denmark raised their discount rates, while discount rates were lowered in the Netherlands and Switzerland. The discount rate was also lowered in Sweden, primarily for domestic purposes.

Domestic considerations seem to have played the principal role in influencing monetary policy in the United Kingdom, Canada, and Japan. Short-term interest rates in the United Kingdom declined more than anywhere else since the end of December. Substantial sales of gilt-edge securities to the nonbank public late last year and early this year held down the growth of the money stock: in January both M_1 and M_3 were actually below their October levels. The Bank of England was evidently sufficiently concerned about the lack of monetary growth that gilt sales were suspended in January, and short-term interest rates were allowed to fall. Given the sharp increase in the money stock in February as well as some concern, perhaps, at the extent and rapidity of the decline in the exchange value of sterling, it is likely that the decline in market interest rates has subsided.

Monetary authorities in Canada have been concerned with what they consider an excessively strong demand for credit and a rate of growth of M_1 just within the 10-15 per cent target range announced last November. An increase in the Bank of Canada's discount rate on March 5, from 9 to 9-1/2 per cent, was followed by increases in short-term rates large enough to put further upward pressure on the discount rate, which is intended to be a penalty rate in Canada. That pressure seems to have eased since the beginning of April, but another increase in the discount rate in the near future or even the reinstitution of the "Winnipeg Agreement" remains a remote possibility. The "Winnipeg Agreement", in effect from June 1972 to January 1975, set a limit on the rates that banks could pay for domestic deposits of up to one-year maturity.

In Japan, monetary authorities have repeatedly stated that they will ensure that sufficient funds are available to finance the continued pickup in economic activity. Reserve requirements were cut in January to ease conditions in the face of a large amount of government borrowing. Since bank credit was below its ceiling in the first quarter of this year, the allowable increase in bank credit in the second quarter -- under the Bank of Japan's quarterly ceilings -- is quite high, especially given that credit demands in April-May tend to be seasonally weak. Moreover, Japanese firms were allowed to borrow abroad very heavily in the first quarter, and may continue to be allowed to do so in the near future.

APPENDIX A*

RECENT CONGRESSIONAL BUDGET ACTION

On April 1, the House and Senate Budget Committees reached decisions on their budget targets for the fiscal year which begins in October. Table I presents these estimates and compares them with the most recent Administration and FRB staff forecasts.

Table I
Comparison of Alternative Budget Forecasts
(billions of dollars)

	Administration 1/	FRB 2/	House Budget Committee	Senate Budget Committee 3/
Outlays	$395.8	$410.0	$413.6	$412.6
Receipts	351.3	352.4	363.1	362.4
Deficit (-)	-44.6	-57.6	-50.5	-50.2

1/ Office of Management and Budget, "Spring Update--1977 Budget," March 25, 1976. Spending was revised up by $1.6 billion from the January Budget.
2/ April Greenbook.
3/ The Senate,on April 12,adopted its Budget Committee's recommendations.

By May 15, both Houses must act on the Budget Committee's recommendations by passing a "First Concurrent Resolution" which sets overall spending and revenue targets as well as preliminary outlay goals for each of the seventeen spending categories. After passage of this initial resolution, the House and the Senate will consider requests for appropriations and changes in the revenue laws. By September 15, Congress must establish a <u>ceiling</u> for budget authority and outlays, and a <u>floor</u> for tax revenues.

Revenues

Both the House and the Senate Budget Committees recommend FY'77 receipts targets of approximately $363 billion, substantially higher than the Administration's current estimate of $351.3 billion.

* Prepared by James Fralick and Frank Russek, Economists, Government Finance Section, Division of Research and Statistics.

The Committees' recommendations assume:

(1) a simple extension of the 1975 tax cuts through September, 1977;

(2) rejection of the additional $11.5 billion of individual and corporate tax cuts proposed by the President;

(3) rejection of the increase in social security tax rates proposed by the President;

(4) an increase of .15 per cent in the unemployment tax rate, effective January 1, 1977 1/ but no increase in the wage base ceiling; and

(5) a $2.0 billion reduction in tax expenditures, including the $1.2 billion expected from the tax reform bill passed by the House in December, 1975.

These same legislative assumptions, with the exception of the reform provisions, were also employed in the staff's estimate of FY'77 receipts which turns out to be about $10 billion less than those made by the Committees. The remaining differences from the Committees' estimates reflect substantially different income projections and alternative assumptions regarding the timing of tax payments.

Outlays

As Table I indicates, both the House and the Senate Budget Committees recommend spending levels of around $413 billion, approximately $17 billion above the President's most recent estimate.

A major decision reached by the Budget Committees was to target defense outlays at approximately $101 billion, just slightly below the Administration's request. Furthermore, the Committees decided to accept the President's Federal pay raise proposal which limits the October 1976 pay increase for white collar workers to 5 per cent. (The average pay increase is estimated at 4.7 per cent.) The Committees, however, rejected many of the President's proposals to hold down domestic spending, especially

1/ While the House Budget Committee approved this tax rate increase, the Senate Budget Committee made no provision for it. Thus, the final outcome will depend on actions taken by the full House and Senate.

in the areas of veterans benefits, food stamps, social security benefits, and medicare. The House and Senate panels also decided not to accept the Administration's call to substitute block grants for categorical grants in the areas of health, education, and child nutrition.

Much of this additional non-defense spending had been previously incorporated into our outlay estimate which currently remains at $410 billion. The $3 billion difference between the staff's and the Budget Committees' estimates is due mainly to new Congressional spending initiatives, especially for public service employment.

The Committees' recommendations for FY'77 outlays, while significantly higher than the totals contained in the President's January budget, also indicate an effort at budgetary restraint, since these totals were reached only by instituting a series of cost saving measures, and by limiting the number of new initiatives. Moreover, uncertainties regarding the eventual outcome of the new Congressional spending initiatives contained in the Committees' reports suggests the possibility that outlays might be somewhat lower than the $413 billion target. These budget totals, of course, are still preliminary and may be changed during the next five months as the appropriations and legislative committees debate spending and revenue priorities.