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May 14, 1980

RECENT DEVELOPMENTS

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

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SELECTED DOMESTIC NONFINANCIAL DATA
(Seasonally adjusted)

	Latest Data			Percent Change from		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year earlier
						(At annual rate)
Civilian labor force	Apr.	5-2-80	104.4	3.7	.7	2.2
Unemployment rate (%) <u>1/</u>	Apr.	5-2-80	7.0	6.2	6.2	5.8
Insured unemployment rate (%) <u>1/</u>	Apr.	5-2-80	3.7	3.3	3.2	3.0
Nonfarm employment, payroll (mil.)	Apr.	5-2-80	90.3	-6.3	-1.5	1.4
Manufacturing	Apr.	5-2-80	20.6	-15.7	-5.3	-2.1
Nonmanufacturing	Apr.	5-2-80	69.7	-3.5	-.3	2.6
Private nonfarm:						
Average weekly hours (hr.) <u>1/</u>	Apr.	5-2-80	35.3	35.4	35.7	35.3
Hourly earnings (\$) <u>1/</u>	Apr.	5-2-80	6.52	6.52	6.42	6.04
Manufacturing:						
Average weekly hours (hr.) <u>1/</u>	Apr.	5-2-80	39.6	39.8	40.3	39.1
Unit labor cost (1967=100)	Mar.	4-30-80	186.7	17.6	10.8	8.5
Industrial production (1967=100)	Mar.	4-15-80	151.2	-9.4	-2.6	-1.2
Consumer goods	Mar.	4-15-80	148.1	-9.6	-1.1	-3.1
Business equipment	Mar.	4-15-80	175.8	.0	3.9	2.9
Defense & space equipment	Mar.	4-15-80	95.7	-1.3	-.8	3.0
Materials	Mar.	4-15-80	154.5	-7.7	-4.4	-1.2
Consumer prices all items (1967=100)	Mar.	4-22-80	240.4	17.2	17.0	14.6
All items, excluding food & energy	Mar.	4-22-80	226.2	14.5	14.9	12.6
Food	Mar.	4-22-80	247.1	11.8	3.8	7.2
Producer prices: (1967=100)						
Finished goods	Apr.	5-9-80	239.8	6.0	13.6	13.6
Intermediate materials, nonfood	Apr.	5-9-80	276.8	3.5	10.7	17.2
Crude foodstuffs & feedstuffs	Apr.	5-9-80	229.5	-73.2	-26.8	-6.2
Personal income (\$ bil.) <u>2/</u>	Mar.	4-17-80	2069.4	9.1	8.1	10.5
						(Not at annual rates)
Mfrs. new orders dur. goods (\$ bil.)	Mar.	4-30-80	79.1	-3.3	1.8	-4.8
Capital goods industries	Mar.	4-30-80	27.5	6.6	3.1	1.4
Nondefense	Mar.	4-30-80	23.5	6.3	2.7	-2.1
Defense	Mar.	4-30-80	4.0	9.0	5.7	28.8
Inventories to sales ratio: <u>1/</u>						
Manufacturing and trade, total	Mar.	5-12-80	1.42	1.40	1.41	1.38
Manufacturing	Mar.	4-30-80	1.57	1.54	1.56	1.44
Trade	Mar.	5-12-80	1.28	1.27	1.28	1.31
Ratio: Mfrs.' durable goods inventories to unfilled orders <u>1/</u>	Mar.	4-30-80	.570	.567	.567	.544
Retail sales, total (\$ bil.)	Apr.	5-9-80	75.3	-1.2	-5.2	5.2
GAF <u>3/</u>	Apr.	5-9-80	16.4	.3	-4.6	5.5
Auto sales, total (mil. units.) <u>2/</u>	Apr.	5-5-80	8.2	-18.7	-27.4	-28.0
Domestic models	Apr.	5-5-80	6.0	-21.4	-27.9	-32.1
Foreign models	Apr.	5-5-80	2.2	-10.3	-26.2	-13.8
Housing starts, private (thous.) <u>2/</u>	Mar.	4-16-80	1,041	-21.8	-32.8	-42.2
Leading indicators (1967=100)	Mar.	4-30-80	131.3	-2.6	-3.0	-8.3

1/ Actual data used in lieu of percent changes for earlier periods.

2/ At annual rate.

3/ Excludes mail order houses.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Incoming data confirm that a marked contraction of economic activity is underway. Sizable further cutbacks were made during April to production and employment in motor vehicle- and construction-related industries, and declines have spread to other sectors as well. Total retail sales in nominal terms fell substantially in April for the third consecutive month. In March, residential and nonresidential construction activity were reduced, while spending on capital equipment was relatively well-maintained. Producer and consumer prices continued to increase rapidly in March, but in April a large decline in food prices resulted in an easing of inflation at the producer level.

Employment and Production

Labor demand fell sharply in April, as nonfarm payroll employment dropped 480,000. Contractions in employment were widespread, with almost three-quarters of the nonfarm industries covered by the establishment survey posting declines in payrolls. However, the reduction in employment was concentrated at durable goods manufacturers, trade establishments, and at construction sites, where payrolls have fallen 335,000 since January. About half the job loss in durable goods manufacturing was in automobiles and trucks, and much of the remainder was among suppliers to the construction and motor vehicle industries. A large reduction in overtime hours in April contributed to a decrease in the overall factory workweek of 0.2 hour to 39.6 hours. Since January, the average workweek has dropped three-quarters of an hour.

Total employment, as measured by the household survey, also fell 1/2 million in April. The labor force increased by 325,000, and

CHANGES IN EMPLOYMENT¹
(Thousands of employees; based on seasonally adjusted data)

	1978	1979		1980		
		H1	H2	Q1	Mar.	Apr.
- - - Average monthly changes - - -						
<u>Nonfarm payroll employment²</u>	334	249	103	186	-46	-479
Strike adjusted	318	254	109	187	-46	-493
Manufacturing	69	30	-30	3	-3	-274
Durable	57	30	-24	14	3	-263
Nondurable	12	1	-6	-12	-6	-11
Construction	39	32	20	-28	-133	-140
Trade, finance and services	169	132	90	158	6	-120
Private nonfarm production workers	256	171	58	86	-172	-552
Manufacturing production workers	50	13	-39	-14	-4	-266
<u>Total employment³</u>	270	137	210	-85	-297	-502
Nonagricultural	264	159	191	-85	-328	-386

1. Changes are from final month of preceding period to final month of period indicated.

2. Survey of establishments. Not strike adjusted, except where noted.

3. Survey of households.

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

	1978	1979		1980		
		H1	H2	Q1	Mar.	Apr.
Total, 16 years and older	6.0	5.8	5.8	6.1	6.2	7.0
Teenagers	16.3	16.0	16.2	16.2	15.9	16.2
20-24 years old	9.5	8.8	9.3	9.8	9.7	11.4
Men, 25 years and older	3.4	3.2	3.4	3.7	3.9	4.7
Women, 25 years and older	5.1	4.9	4.8	4.9	5.0	5.5
White	5.2	5.0	5.1	5.4	5.4	6.2
Black and other	11.9	11.5	11.1	11.7	11.8	12.6
Fulltime workers	5.5	5.2	5.4	5.7	5.8	6.6
White collar	3.5	3.3	3.3	3.4	3.3	3.7
Blue collar	6.8	6.7	7.2	7.9	8.0	9.7

the jobless rate rose 0.8 percentage point to 7.0 percent, the highest since August 1977. Much of the increase in unemployment occurred among adult men, but nearly all demographic groups sustained some increase in joblessness. Job losers contributed heavily to the sharp rise in the number of unemployed, and the unemployment rate for blue-collar workers jumped to 9.7 percent.

According to tentative staff estimates, industrial production fell about 2 percent in April, the largest one-month drop since early 1975. Auto assemblies fell 15 percent to a 6.0 million unit rate in April and are expected to remain near that level in May; output of trucks and automotive parts and supplies fell sharply, as did steel production. Output of construction supplies also registered a sizable drop in April and has now declined about 7 percent since January. But, in contrast to recent months when declines in output were concentrated in those two areas, cutbacks during April occurred in most other industries as well, including home goods, textiles, and business supplies.

Reflecting the large and widespread curtailments in industrial production, capacity utilization rates for manufacturers are estimated to have dropped in April to the lowest levels in more than three years. Operating rates for manufacturing and also for producers of industrial materials have been declining for more than a year and April were estimated to have been around 6 percentage points below their recent cyclical highs.

Consumer spending

Consumers continued to cut their spending in April, and nominal retail sales fell 1-1/4 percent, following a downward-revised 2-1/4

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

	1979		1980			
	Q3	Q4	Q1	Feb.	Mar.	Apr.
Total sales	4.0	2.0	2.0	-1.9	-2.3	-1.2
(Real) ¹	2.0	-0.4	-1.1	-2.6	-3.4	n.a.
Total, less auto and nonconsumption items	4.0	3.5	2.4	-0.9	0.1	0.7
GAF ²	4.6	1.7	-0.2	-3.0	-1.9	0.3
<u>Durable</u>	4.4	-1.5	0.8	-3.3	-8.1	-5.3
Auto	3.7	-3.0	1.5	-4.1	-10.4	-9.8
Furniture & appliances	6.5	-1.1	0.8	-3.0	-3.6	0.1
<u>Nondurable</u>	3.8	3.9	2.6	-1.1	0.8	0.7
Apparel	4.8	-0.7	1.3	-3.2	-1.9	1.5
Food	2.3	3.3	2.3	-1.5	2.9	1.3
General merchandise ³	3.8	3.7	-1.1	-2.9	-1.2	-0.1
Gasoline	8.2	7.7	8.5	3.3	1.0	1.6

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

2. General merchandise, apparel, furniture and appliance stores.

3. General merchandise excludes mail-order nonstores; mail-order sales are also excluded in the GAF composite sales summary.

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

	1979		1980			
	Q3	Q4	Q1	Feb.	Mar.	Apr.
Total	10.8	9.8	10.6	10.5	10.1	8.2
Foreign-made	2.2	2.4	2.8	2.9	2.5	2.2
U.S.-made	8.6	7.4	7.9	7.7	7.6	6.0
Small	3.6	3.5	4.0	3.7	4.0	3.1
Intermediate & standard	4.9	4.0	3.9	4.0	3.6	3.0

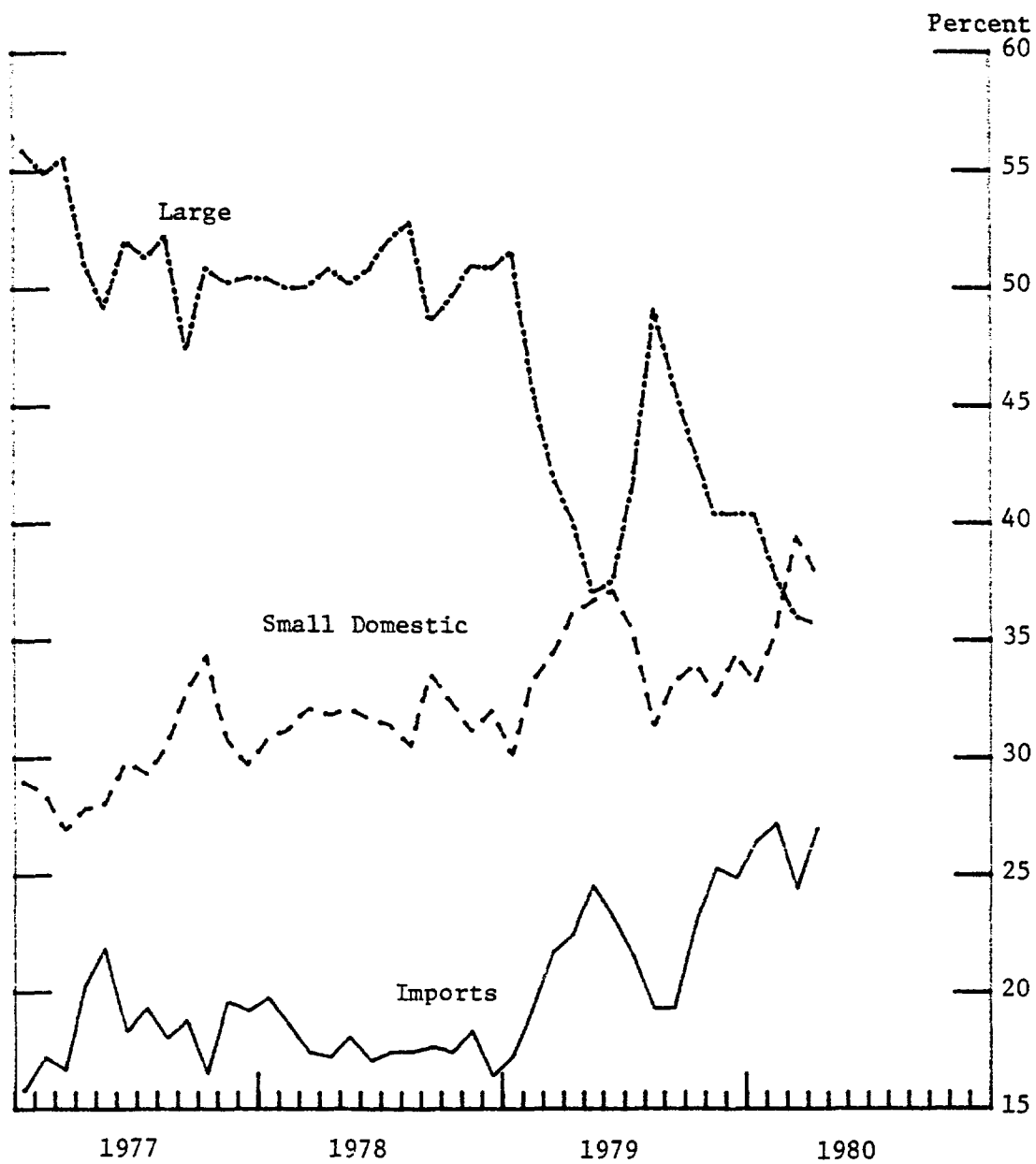
Note: Components may not add to totals due to rounding.

percent drop in March. Since January, such sales have fallen 5 percent--the largest 3-month decline on record. Excluding autos and mainly non-consumption items, nominal retail spending rose 3/4 percent in April to its January level, in part reflecting further large increases in gasoline purchases. Sales at apparel stores rose modestly, while those at general merchandise and at furniture and appliance stores were about unchanged. For the FAG grouping as a whole, nominal spending in April was about 2 percent below the first-quarter average.

Total unit auto sales in April were at an 8.2 million unit annual rate--off almost 2.5 million units from the first quarter rate and the slowest monthly sales pace since the spring of 1975. Sales of domestically-produced units in April were at a 6.0 million unit annual rate, down 2 million from the first-quarter pace. Some of the decline can be attributed to the termination of rebate programs and dealer incentive contests, but the magnitude of this drop reportedly was exacerbated by restrictive credit conditions and by heightened consumer fears of a recession. Sales of imported cars in April--at a 2.2 million unit rate--were 500,000 below the first-quarter rate; even so, the market share of imports reached 27.2 percent in April--about equal to the high recorded in February.

The retrenchment in consumer spending over the past three months apparently reflects to a considerable extent the tightening of financial conditions as well as the weakness of real household incomes. In real terms, disposable personal income declined about 1/2 percent over the first quarter, following a year of essentially no change. Moreover, data on hours and earnings in April suggest that wages and

NEW CAR SALES:
Market Share by Major Category



salaries probably decreased substantially further in nominal terms last month.

Surveys of consumer attitudes conducted in April indicated a further deterioration of consumers' views about general business conditions and their own personal financial situations. The Conference Board index of confidence declined for the sixth consecutive month, and the University of Michigan Survey Research Center reported that consumer confidence had fallen to a record low level. According to the Michigan Survey, consumers were particularly negative about market conditions for large household durable goods, which most respondents attributed to high interest rates and lack of credit availability.

Business Fixed Investment

Business investment was characterized in March by continued relatively strong growth in spending on capital equipment and a further decline in construction activity. Shipments of nondefense capital goods rose 2 percent in March, following a similar increase in February; in constant dollars these shipments appear to have been about 4 percent higher in the first quarter than in the preceding quarter. Spending on nonresidential construction fell 2-1/2 percent in nominal terms in March after a comparable decline in February; even so, outlays--both nominal and constant dollar--in the first quarter were substantially above the fourth quarter.

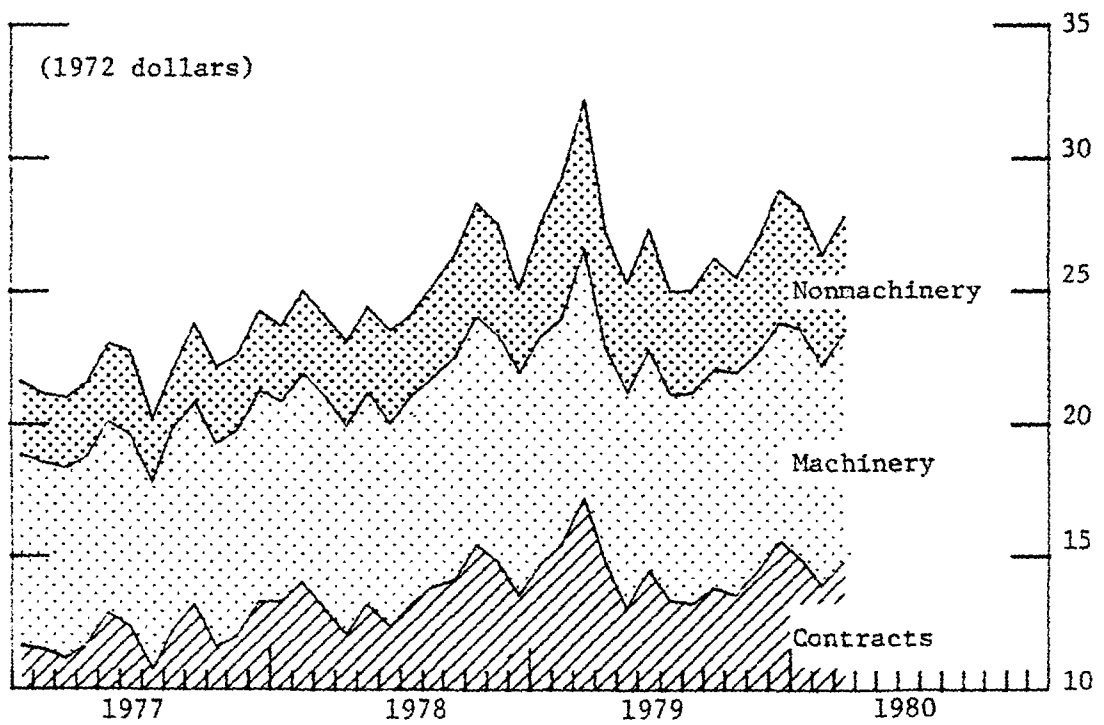
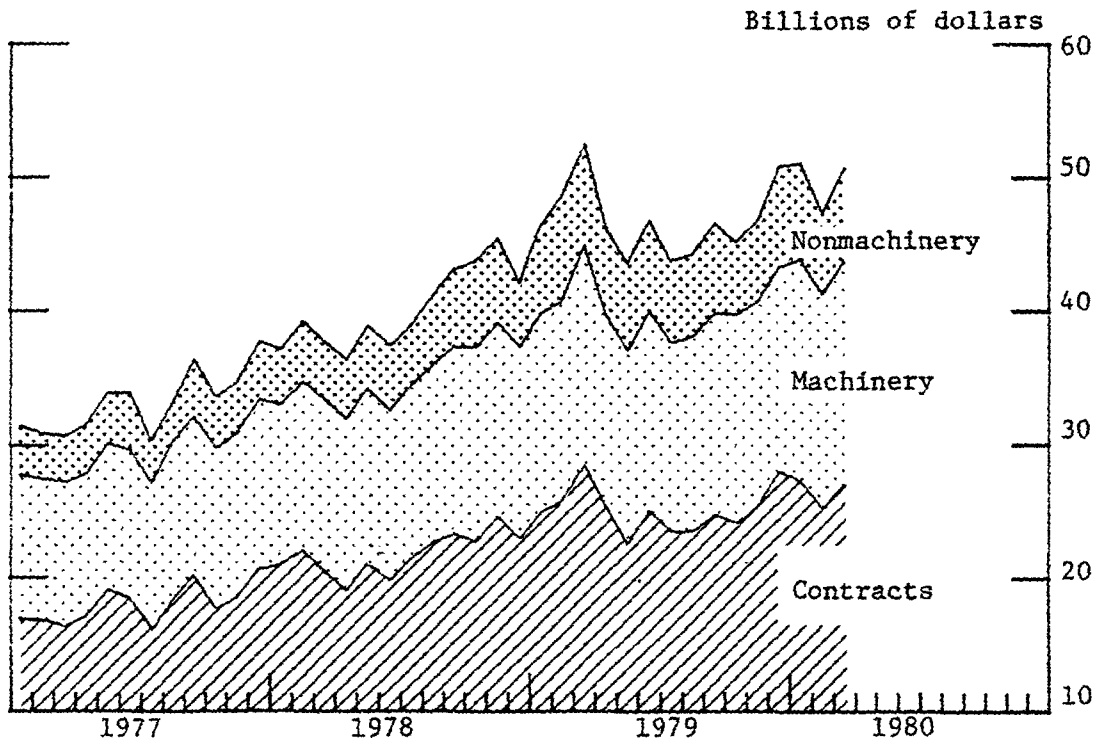
Business fixed capital spending plans and commitments generally have indicated that shipments of equipment should hold up well over the next few months in spite of weakening consumer demands and high interest rates. New orders for nondefense capital goods rose 6-1/4 percent in

COMPONENTS OF BUSINESS INVESTMENT SPENDING
 (Percentage change from preceding comparable period,
 based on seasonally adjusted data)

	1979		1980				Mar. 1979 to Mar. 1980
	Q3	Q4	Q1	Jan.	Feb.	Mar.	
Nondefense Capital Goods Shipments							
Current Dollars	5.4	0.8	7.2	4.0	1.7	2.1	12.0
1972 Dollars <u>1/</u>	3.5	0.6	4.3	n.a.	n.a.	n.a.	n.a.
Nonresidential Construction Put-in-Place							
Current Dollars	4.8	3.7	3.4	3.4	-2.1	-2.5	13.8
1972 Dollars	1.3	0.4	2.7	3.5	-2.9	-2.5	3.7

1/ Deflator for shipments is derived from that for the corresponding components of producers' durable equipment and is only available quarterly.

CAPITAL SPENDING COMMITMENTS
Seasonally adjusted



PLANT AND EQUIPMENT EXPENDITURE SURVEYS
(Percent change from prior year)

	Planned for 1980			
	1/		McGraw-Hill	
	Commerce Department		Fall 1979	Spring 1980
	Dec. 1979	Feb. 1980	Survey	Survey
	Survey	Survey	Survey	Survey
All business	10.9	11.1	9.5	12.4
Manufacturing	14.3	14.3	13.5	16.9
Durables	15.5	16.8	12.6	15.2
Nondurables	13.2	12.0	14.4	18.0
Nonmanufacturing	8.3	8.6	6.3	8.4

1/ Results are adjusted for systematic bias. Without this adjustment, the Commerce results would have been 11.1 percent in December and 13.2 percent in February.

RECENT PERFORMANCE OF SPRING McGRAW-HILL SURVEY
(Percent change from prior year)

	Anticipated Increase	Actual Increase	Error (anticipated less actual increase)
1970	8.9	5.5	3.4
1971	3.9	1.8	2.1
1972	14.5	8.9	5.6
1973	19.3	12.8	6.5
1974	19.5	12.7	6.8
1975	5.5	.3	5.2
1976	12.7	6.8	6.1
1977	17.5	12.7	4.8
1978	17.3	13.3	4.0
1979	15.7	15.1	.6

March; for the first quarter as a whole, bookings totaled about 6 percent more than in the final quarter of 1979, with gains fairly evenly split between the machinery and nonmachinery components. However, contracts for private industrial and commercial building and for nonbuilding construction have continued to fluctuate around the level reached nearly two years ago, and permits for nonresidential building, which had not changed, on balance, since early 1979, fell substantially in March. It should be noted that these indicators of spending intentions probably do not fully reflect the changes in financial conditions since the middle of March or the severity of the declines in production in April.

Finally, the spring McGraw-Hill survey of plant and equipment spending, taken in late March and early April, reported that business is planning to increase spending by 12-1/2 percent in 1980, compared with the 9-1/2 percent rise anticipated in the fall survey. But, the spring survey has consistently overestimated actual spending growth--frequently by a large margin; in view of this record, the McGraw-Hill reading does not appear to be out of line with earlier surveys that suggested little or no growth in constant-dollar plant and equipment outlays in 1980.

Inventory Investment

The book value of total manufacturing and trade inventories increased at a \$31 billion annual rate, a considerably slower pace than earlier in the first quarter. Accumulation was concentrated at manufacturers, where large increases were reported by the aerospace and the petroleum and coal products industries. Total retail inventories edged up only slightly in March, as a sizable increase in stocks at general

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

	1978	1979		1980		
		H1	H2	Q1	Feb.	Mar.
Manufacturing and trade	43.2	53.8	40.3	40.9	42.6	30.5
Manufacturing	18.1	32.6	27.0	41.0	34.1	39.0
Durable	13.7	24.9	19.4	23.2	17.8	22.8
Nondurable	4.4	7.6	7.7	17.8	16.4	16.3
Trade, total	25.1	21.3	13.2	-1	8.5	-8.5
Wholesale	12.8	8.9	9.4	2.7	5.1	-10.9
Retail	12.3	12.3	3.9	-2.8	3.4	2.4

INVENTORY TO SALES RATIOS

	1978	1979		1980		
		H1	H2	Q1	Feb.	Mar.
Manufacturing and trade	1.42	1.42	1.42	1.41	1.40	1.42
Manufacturing	1.52	1.50	1.55	1.56	1.54	1.57
Durable	1.85	1.85	1.99	2.01	1.96	2.03
Nondurable	1.15	1.10	1.08	1.09	1.08	1.08
Trade, total	1.32	1.33	1.30	1.26	1.27	1.28
Wholesale	1.20	1.20	1.15	1.13	1.15	1.14
Retail	1.44	1.46	1.46	1.40	1.39	1.43

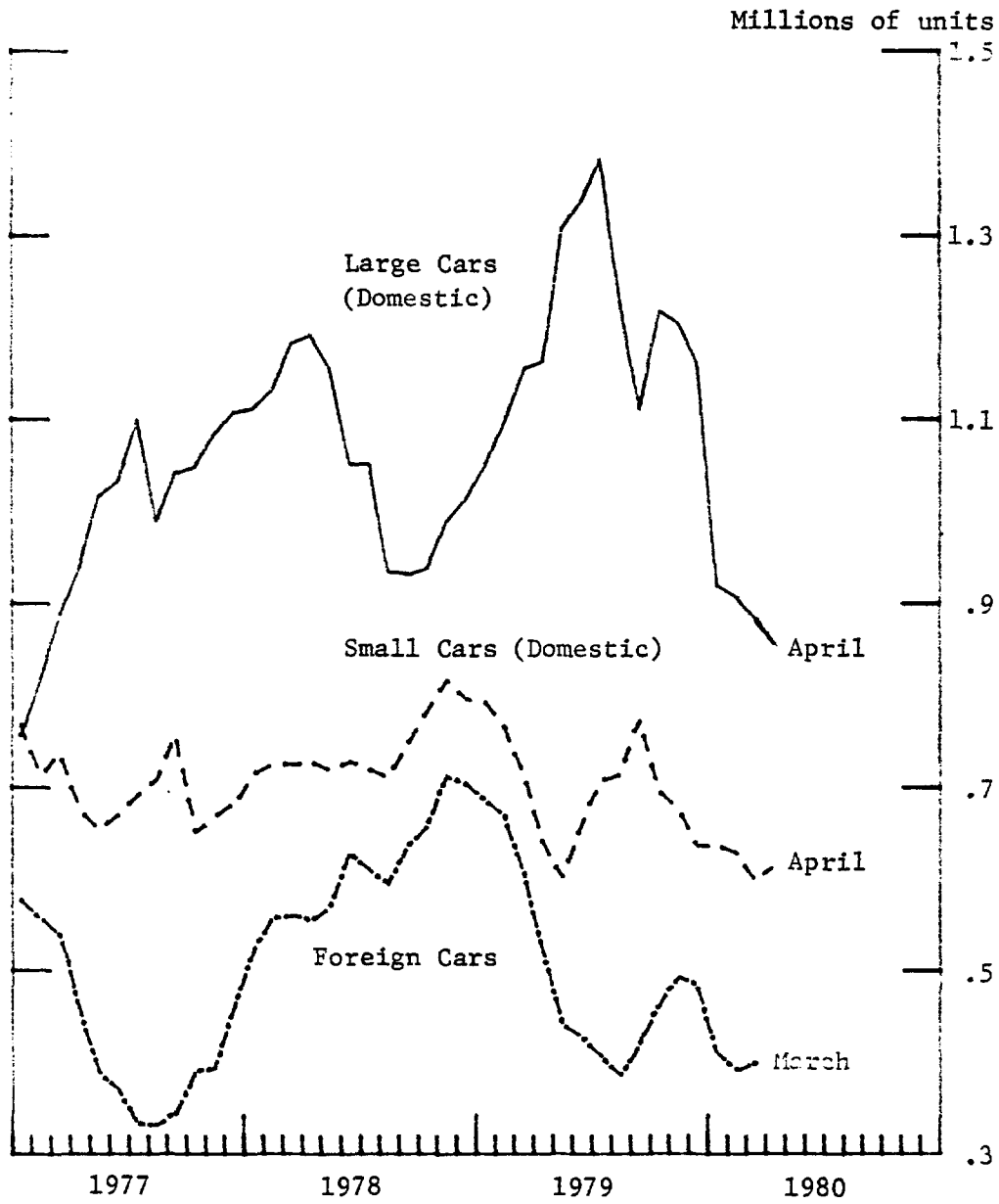
merchandisers was largely offset by declines in the value of stocks held by automotive outlets. Wholesale trade inventories fell at a substantial rate in March; declines in this sector were widespread, with a particularly large drop in merchants' stocks of raw farm products.

In April, unit stocks of domestic automobiles at dealers were unchanged after declining for five consecutive months. Nonetheless, the precipitous fall in sales during April resulted in a sharp rise in the ratio of stocks to sales; significant increases in days' supply were reported for all size classes of domestically-produced cars.

Residential Construction

Housing market activity worsened appreciably further in March, as sales of single-family homes declined for the sixth consecutive month. Sales of existing homes fell 8 percent, and sales of new homes dropped 17 percent, reaching the lowest level in five years. For the first quarter as a whole, total home sales were 16 percent below the pace of the previous quarter. Builders have been adjusting production rapidly in response to flagging sales and high construction loan rates, as evidenced by the drop in single-family starts in March to a 600,000 unit annual rate--the third lowest monthly rate in 20 years. Nonetheless, the backlog of unsold new homes in March rose to a 10.6 months' supply--just below the peak reached in the 1974-75 housing downturn. In the multifamily sector, building also has been held down by adverse financial conditions, but historically low rental vacancy rates and sustained demand for condominium units appear to have cushioned the decline in this sector somewhat.

AUTOMOBILE STOCKS
(Seasonally adjusted)



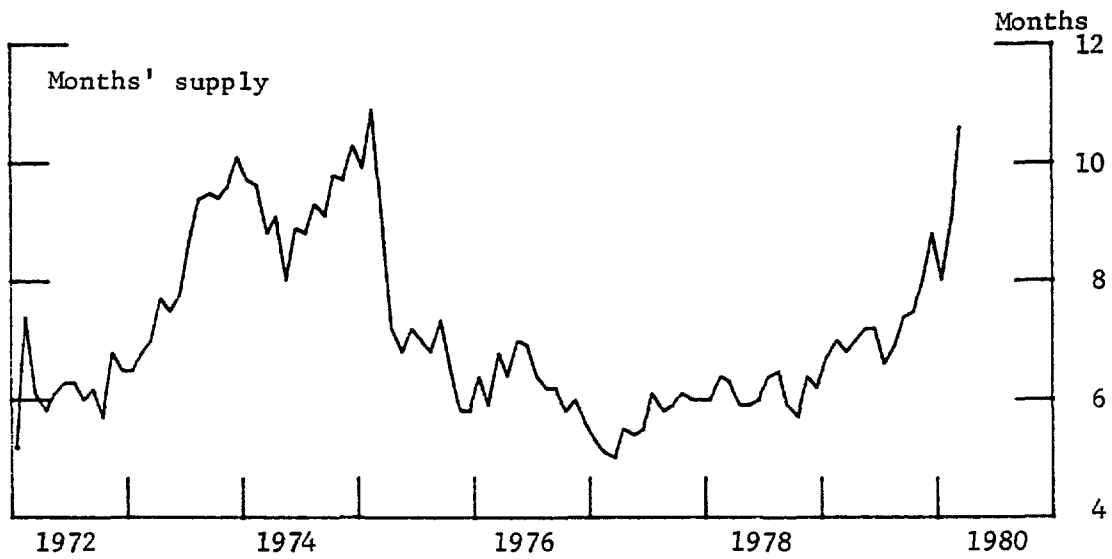
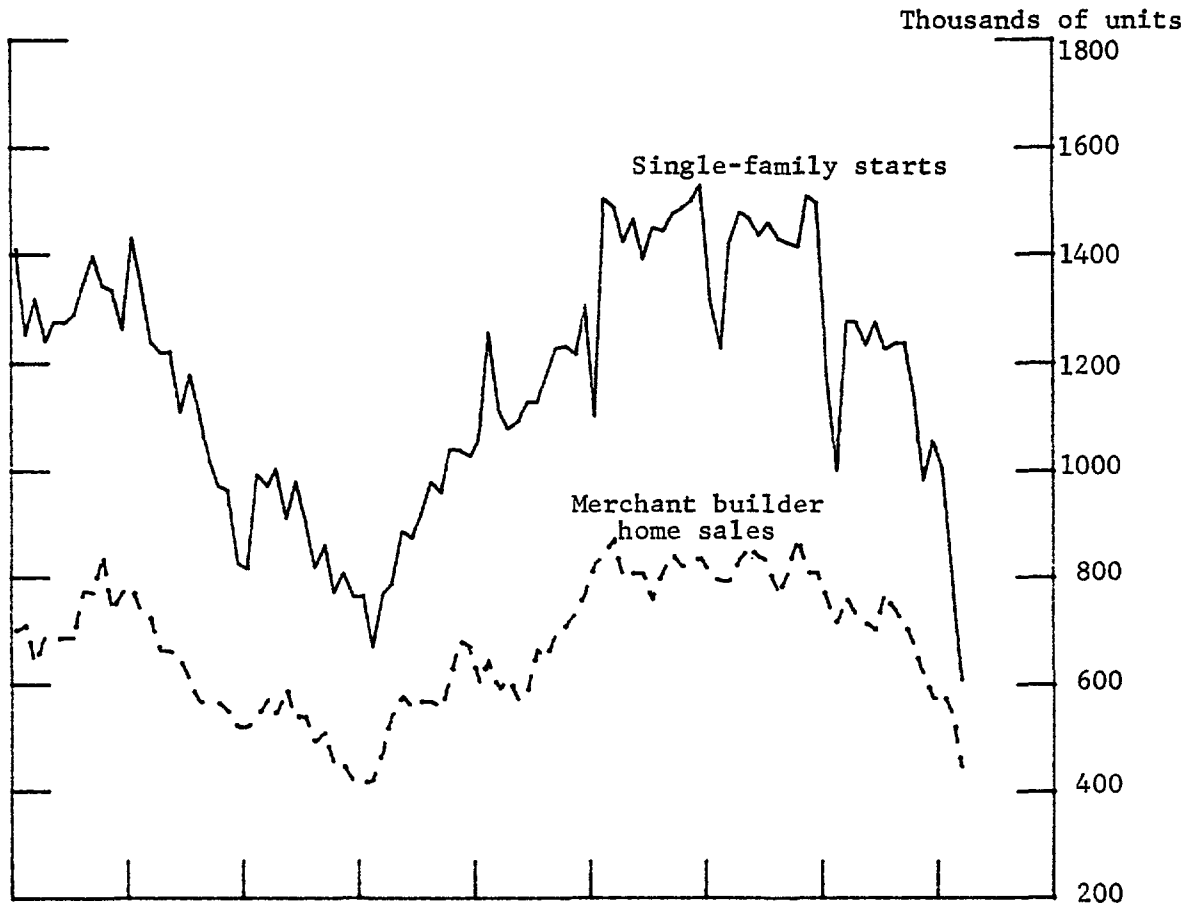
NEW PRIVATE HOUSING ACTIVITY
(Seasonally adjusted annual rates, millions of units)

	1979		1980			
	Annual	Q4	Q1 ¹	Jan.	Feb.	Mar. ¹
All units						
Permits	1.54	1.35	1.12	1.26	1.14	.94
Starts	1.75	1.59	1.26	1.42	1.33	1.04
Single-family units						
Permits	0.97	.82	.66	.76	.70	.53
Starts	1.19	1.06	.80	1.00	.79	.61
Sales						
New homes	.71	.62	.52	.58	.54	.45
Existing homes	3.74	3.56	2.98	3.21	2.99	2.75
Multifamily units						
Permits	.57	.53	.45	.50	.45	.41
Starts	.55	.54	.47	.42	.54	.44
Mobile home shipments	.28	.26	n.a.	.28	.27	n.a.

1. Preliminary estimates.

n.a.--not available.

SINGLE-FAMILY MARKET CONDITIONS



Consistent with the slack in housing markets that developed late last year, increases in house prices have slowed markedly, on balance, in recent months. The volatile average sales price of a new home fell sharply in March to about the December average and was only 6 percent higher than a year earlier--about half the gain of the preceding 12 months. The average price of an existing home sold advanced slightly in March to a level 12-1/2 percent above a year ago.

Facing the prospect of further erosion in single-family housing markets, the administration in April authorized the Federal Housing Administration to issue loan insurance for the financing of completed, unsold units--a measure that should lower the cost to builders of carrying inventories. The administration also has proposed that subsidies for a limited number of mortgages on single-family homes be offered to moderate-income buyers; this recommendation is now under consideration in Congress.

Federal Government Sector

Treasury Department preliminary data indicate that in April the unified budget surplus (not seasonally adjusted) was higher than expected by the staff and the administration. Receipts were higher because of a large-increase in nonwithheld income taxes, which was due in part to a speed-up in the pace at which the IRS processed income tax returns with final settlements on 1979 liabilities. At the same time, however, withheld income tax receipts appear to have been somewhat weaker. Details for the expenditure side of the budget are still incomplete, but preliminary data suggest that outlay growth in April continued at the first quarter's rapid pace.

In response to the surge in layoffs in the automobile industry, the administration has requested an additional \$1.5 billion for trade adjustment assistance (TAA) unemployment benefits (\$1.1 billion in fiscal year 1980 and \$0.4 billion in fiscal year 1981). Upward pressure on spending for TAA and other programs suggests that the budget totals in fiscal year 1980 will be close to the estimates of \$572 billion in outlays and a deficit of \$43 billion contained in the revised budget resolution passed recently by the House of Representatives. For fiscal year 1981, the House resolution sets outlays at \$612 billion and the surplus at \$2 billion (without inclusion of the oil import fee). The Senate's resolution with outlays and revenues at about \$613 billion, calls for a balanced budget in fiscal year 1981, but obtains that balance by including a very small portion of the oil import fee with general revenue. While the overall fiscal positions of the House and Senate resolutions are about the same, the Senate has recommended more spending for defense and less for domestic programs than the House. The differences between the two resolutions will be settled in conference.

State and Local Government Sector

State and local government activity continues to be marked by small employment gains and declining investment outlays. So far this year, state and local government payrolls have increased at only about three-fourths of last year's average monthly pace. In March, however, participation in the CETA public service employment program for the structurally unemployed (Title II) rose slightly, the first increase in CETA enrollments since August 1979.

Investment outlays by state and local governments, as measured by the value of new construction put-in-place, declined 9 percent in March, following a smaller decline in February. A sharp drop in highway construction accounted for more than half of the decrease in March, but spending fell in the the other project categories as well.

Prices

Inflation has continued at a very rapid pace so far this year. Consumer prices rose steadily at a 1.4 percent monthly rate during the first quarter of the year. At the producer level, prices of finished goods increased at a 1-1/2 percent monthly pace over the first quarter, but a sharp drop in food prices held the rise in producer prices in April to 1/2 percent.

Food prices generally have exerted a moderating influence on the rise in overall price measures in recent months, despite a sharp rise in March at the retail level. At the producer level, finished food prices fell 2-3/4 percent in April, following declines averaging about 1-1/4 percent per month over the first quarter. Decreases in April were particularly large for livestock and poultry products, which have been in relatively good supply in recent weeks. These steep drops in wholesale prices should alleviate cost pressures on grocers and permit them some easing of retail price increases over the next few months.

Retail energy price increases in March, although still large, eased noticeably from the extremely high rates posted in January and February, when the bulk of the price hikes for imported crude oil in December was absorbed. At the producer level, energy prices rose in April at only about half the rate registered in the preceding two months.

RECENT CHANGES IN PRODUCER PRICES

(Percentage change at annual rates; based on seasonally adjusted data)¹

	Relative importance ² Dec. 1979	1978	1979	1980		
				Q1	Mar.	Apr.
Finished goods	100.0	9.2	12.6	18.9	16.8	6.0
Consumer foods	24.3	11.9	7.6	-1.2	13.0	-33.9
Consumer nonfood	47.4	8.4	18.0	34.2	22.7	16.3
Energy	10.3	8.0	62.7	109.2	86.7	45.4
Exc. energy	37.0	8.5	9.6	17.4	4.3	6.7
Capital equipment	28.4	8.0	8.8	12.7	9.4	22.3
Intermediate materials ³	94.9	8.3	16.5	23.1	7.9	3.5
Exc. food and energy	81.3	8.9	13.0	17.2	3.3	2.3
Crude food materials	55.4	18.3	11.1	-16.7	-32.9	-73.2
Crude nonfood	44.6	15.6	26.0	21.4	-17.4	-5.9
Exc. energy	16.0	21.0	13.1	6.6	-59.2	-61.0

1. Changes are from final month of preceding period to final month of period indicated. Changes for other than monthly and yearly periods are compounded.

2. Relative importance weights are on a stage of processing basis.

3. Excludes intermediate materials for manufacturing food and animal feed.

RECENT CHANGES IN CONSUMER PRICES¹

(Percentage change at annual rates; based on seasonally adjusted data)²

	Relative importance Dec. 1979	1978	1979	1980		
				Q1	Feb.	Mar.
All items	100.0	9.0	13.3	18.1	16.4	17.2
Food	17.7	11.8	10.2	3.8	-.5	11.8
Energy ³	10.3	8.0	37.4	64.8	61.4	36.3
All items less food and energy ³	72.0	8.5	11.3	15.7	13.6	14.5
Commodities	34.5	7.6	8.8	9.7	6.2	7.4
Services	40.9	9.3	13.7	20.9	18.5	22.4
Memoranda:						
Gasoline	5.6	8.5	52.2	105.7	87.8	47.2
Homeownership	24.9	12.4	19.8	24.1	18.1	24.7

1. Based on index for all urban consumers.

2. Changes are from final month of preceding period to final month of period indicated. Changes for other than monthly and yearly periods are compounded.

3. Energy items: gasoline and motor oil, fuel oil and coal, gas and electricity.

However, if the proposed oil import fee is allowed to become effective, gasoline prices may accelerate again over the next few months, although the extent of the pass-through may be limited somewhat by the record levels of gasoline inventories.

Consumer prices for items other than food and energy rose 1.2 percent in March, about the average monthly increase since late last year. Prices for commodities accelerated slightly, as a sharp rise in apparel prices more than offset a moderate advance in new car prices and a small rise in home prices. New car prices in the April CPI likely will reflect the substantial increases recently announced by the major automakers. Indeed, at the producer level, these hikes in new car prices raised noticeably the prices of consumer finished goods. In addition, price increases jumped sharply last month for most types of capital equipment.

The cost of consumer services accelerated further in March as a sharp increase in mortgage interest rates once again boosted homeownership costs. Moreover, the significant increases in interest rate commitments that occurred earlier this year are likely to push up consumer prices further in coming months. In contrast, a marked slowdown occurred in the rate of increase in charges for medical care.

Declines in the prices of lumber, precious metals, lead, and copper in recent weeks helped to reduce the overall rise in intermediate materials prices during April. However, prices of industrial chemicals and petroleum-based products continued to move up at a rapid rate, largely reflecting the indirect effects of higher crude oil prices. Prices of crude materials other than food and energy fell sharply for the second

LABOR PRODUCTIVITY AND COSTS
 (Percent change compound annual rates;
 based on seasonally adjusted data)¹

	1977	1978	1979	1979		1980
				H1	H2	Q1
<u>Output per hour</u>						
Total private business	1.4	.8	-1.7	-2.3	-.8	.6
Nonfarm business	1.2	1.1	-2.0	-3.2	-.2	-.2
Manufacturing	2.6	1.6	.4	.3	.9	-1.9
Durable	1.9	.9	-.6	.3	-.8	-3.5
Nondurable	3.6	2.6	1.8	.6	3.4	.5
<u>Compensation per hour</u>						
Total private business	7.3	9.1	9.2	10.5	8.1	10.7
Nonfarm business	7.5	9.1	9.0	9.4	9.0	9.7
Manufacturing	8.0	8.7	9.2	10.8	8.3	9.8
Durable	8.3	8.4	8.9	10.7	7.9	11.6
Nondurable	7.1	8.7	9.7	10.9	9.1	6.6
<u>Unit labor costs</u>						
Total private business	5.8	8.3	11.1	13.2	9.1	10.0
Nonfarm business	6.2	7.9	11.3	13.4	9.3	9.9
Manufacturing	5.3	7.1	8.8	10.4	7.3	11.9
Durable	6.2	7.4	9.5	10.5	8.7	15.6
Nondurable	3.4	6.0	7.7	10.4	5.5	6.0

1. Changes are from final quarter of preceding period to final quarter of period indicated.

consecutive month in April, in part because of a substantial drop in scrap metal prices.

Productivity and Labor Costs

Labor cost pressures continued to be intense in early 1980, as compensation increases were substantial and productivity remained sluggish. Output per hour in the private nonfarm business sector edged lower at a one-fourth percent annual rate in the first quarter, following a 2 percent drop over the preceding year. A particularly sharp fall-off in productivity was recorded for the durable manufacturing sector, while output per hour rose slightly at nondurable manufacturing establishments.

Hourly compensation in the nonfarm business sector increased at a 9.7 percent annual rate during the first quarter. This increase in compensation, combined with the small decline in productivity, caused unit labor costs to rise at a 10 percent annual rate in the first quarter. In April, wages for nonfarm production workers, as measured by the volatile index of average hourly earnings, rose at only a 2-1/2 percent annual rate to a level 8-1/4 percent above a year ago. Manufacturing wages increased at a 9-1/2 percent annual rate, slightly below the average gain for this sector so far this year.

Wage increases negotiated in major collective bargaining settlements (1,000 or more workers) accelerated slightly in the first quarter of 1980. For all major contracts, first-year wage increases, excluding potential increases under cost-of-living (COLA) clauses, averaged 7.8 percent in the first 3 months of 1980, compared with a 7.4 percent increase in 1979. In contracts that include COLA provisions, average first-year increases were about the same as the 6 percent rise in 1979. However, in

HOURLY EARNINGS INDEX¹
 (Percent change at compound annual rates;
 based on seasonally adjusted data)²

	1978 ³	1979 ³	Q1 ³	1980	
				Mar.	Apr.
Total private nonfarm	8.4	8.1	9.6	12.5	2.6
Manufacturing	8.4	8.8	9.9	10.5	9.3
Durable	8.5	8.6	10.5	13.5	8.7
Nondurable	8.2	9.2	8.7	5.1	10.4
Contract construction	7.4	6.7	5.2	7.6	-.2
Transportation and public utilities	7.4	9.1	7.6	13.9	4.5
Total trade	9.5	7.6	11.9	10.9	-2.7
Services	7.6	7.7	9.4	14.7	-.3

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

2. Changes for other than monthly and yearly periods are compounded.

3. Changes are from final quarter of preceding period to final quarter of period indicated, except monthly changes which are from preceding month.

agreements without the COLA clauses, the average first-year increase hit 11 percent at an annual rate--substantially higher than the average 9 percent increase last year; this acceleration most likely represents large "catch-up" increases for real income losses last year.

III-T-1
SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data		Net Change from:		
	Period	Level	Month ago	Three months ago	Year ago
	<u>\$ billions</u>		<u>Percent at annual rates</u>		
Monetary and credit aggregates¹					
Total reserves	April	43.4	2.3	1.5	6.1
Nonborrowed reserves	April	41.0	13.3	-10.0	2.4
Money supply					
M-1A	April	370.3	-16.3	-2.5	4.0
M-1B	April	388.4	-11.9	-0.6	5.1
M-2	April	1548.3	-1.5	4.0	7.5
M-3	April	1810.3	0.6	5.6	8.6
CB gross time and savings deposits	April	690.7	16.2	13.3	10.2
Total thrift deposits (S&Ls + MSBs + Credit Unions)	April	670.6	2.0	2.1	5.1
Bank credit	April	1162.8	-5.1	5.4	9.3

		Latest data		Net Change from:		
		Period	Percent or index	Months ago	Three months ago	Year ago
Market yields and stock prices						
Federal funds	wk. endg.	5/7/80	12.96	-6.09	.16	2.70
Treasury bill (90 day)	" "	5/7/80	9.67	-4.87	-2.42	.02
Commercial paper (90-119 day)	" "	5/7/80	11.07	-6.54	-2.00	1.15
New utility issue Aaa	" "	5/9/80	11.35	-1.93	-1.63	--
Municipal bonds (Bond Buyer) 1 day	1 day	5/8/80	7.11	-1.96	.64	-.81
FNMA auction yield (FHA/VA)		4/28/80	14.03	-1.90	.92	3.21
Dividend price ratio (common stocks)	wk. endg.	5/7/80	5.82	-.22	.59	.22
NYSE index (12/31/65=50)	end of day	5/12/80	59.78	.78	-7.73	4.30

		Net Change or Gross Offerings			
		Period	Latest data	Year ago	Year to date 1980 1979
Credit demands					
Business loans at commercial banks ¹		April	-1.3	3.7	10.7 16.5
Consumer instalment credit outstanding ¹		March	1.4	3.6	5.1 10.3
Mortgage debt outstanding (major holders) ^{1 3}		February	6.6	8.5	14.0 17.9
Corporate bonds (public offerings)		March	2.0e	1.9	5.9e 4.5
Municipal long-term bonds (gross offerings)		April	5.0e	3.4	13.1e 13.5
Federally sponsored agcy. (net borrowing)		March	4.3e	2.8	8.1e 6.3
U.S. Treasury (net cash borrowing)		March	11.8	8.0	19.1 10.7

^{1/} Seasonally adjusted.

^{2/} Includes comm'l banks, S&Ls, MSBs, life ins. cos, FNMA and GNMA.

e - Estimated.

DOMESTIC FINANCIAL DEVELOPMENTS

The decline in market interest rates that had begun in early April accelerated after the last FOMC meeting. This further sharp drop in rates has occurred amid accumulating evidence of a contraction in economic activity and an associated slackening in demands for money and credit. Short-term market rates have fallen below levels that prevailed just prior to the System's October 6 actions; although long-term bond yields have not fallen that far, they have retraced their first quarter run-up. Administered rates at banks and thrift institutions have moved down much more slowly, in part reflecting concerns of these institutions about their earnings margins; banks also have sought to constrain loan growth in line with the Board's guidelines.

The relatively high cost of bank credit likely contributed to the sharp falloff in business loans at commercial banks in April. Commercial paper was a less expensive source of funds for businesses, but the pace of issuance moderated from the extraordinary rate of earlier in the year. A number of firms turned to public bond markets as long-term rates fell, the proceeds from many of these debt issues apparently being used to repay short-term borrowings.

Growth of consumer installment credit slowed in March and likely weakened further in April. The credit restraint program reinforced the movement towards reduced credit availability at many lenders; and at the same time, consumers apparently have become more hesitant to use credit. Mortgage market activity also was extremely weak, as high interest rates posted by thrift institutions experiencing sluggish deposit flows

III-2
 SELECTED FINANCIAL MARKET QUOTATIONS
 (Percent)

	1979 ¹	1980 ¹				Change from:		
	FOMC Oct. 5	Early Jan.	Mar-Apr High	FOMC Apr. 22	May 13	Early Jan.	Mar-Apr High	FOMC Apr. 22
Short-term rates								
Federal funds ²	11.91	13.94	19.39	17.56	10.78p	-3.16	-8.61	-6.78
Treasury bills								
3-month	10.70	11.45	16.00	12.25	8.28	-3.17	-7.72	-3.97
6-month	10.63	11.50	15.64	11.78	8.56	-2.94	-7.08	-3.22
1-year	10.28	10.60	14.58	10.92	8.57	-2.03	-6.01	-2.35
Commercial paper								
1-month	11.73	12.93	18.00	15.90	9.51	-3.42	-8.49	-6.39
3-month	11.86	12.90	17.69	15.44	9.48	-3.42	-8.21	-5.96
6-month	11.84	12.36	17.25	14.15	9.38	-2.98	-7.87	-4.77
Large negotiable CDs ³								
1-month	12.09	13.28	17.87	16.29	9.74	-3.54	-8.13	-6.55
3-month	12.50	13.38	18.59	15.50	9.77	-3.61	-8.82	-5.73
6-month	12.80	13.36	18.47	14.55	9.76	-3.60	-8.71	-4.79
Eurodollar deposit ²								
1-month	12.45	14.59	19.04	17.44	10.49	-4.10	-8.55	-6.95
3-month	12.79	14.56	19.60	17.10	11.16	-3.40	-8.44	-5.94
Bank prime rate	13.50	15.25	20.00	19.50	17.50	2.25	-2.50	-2.00
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	10.01	10.62	14.53	11.18	9.29	-1.33	-5.24	-1.89
10-year	9.60	10.51	13.65*	10.82	10.13	-.38	-3.52	-.69
30-year	9.36	10.26	12.85*	10.94	10.29	.03	-2.56	-.65
Municipal (Bond Buyer) ⁴	6.64	7.30	9.44	7.89	7.11	-.19	-2.33	-.78
Corporate Aaa								
New issue ⁵	10.22	11.51	14.22	12.87	11.35p	-.16	-2.87	-1.52
Recently offered ⁶	10.25	11.54	14.12	12.69	11.45p	-.09	-2.67	-1.24
Primary conventional mortgages ⁶	11.35	12.90	16.35	16.35	14.68	1.78	-1.67	-1.67
	FOMC Oct. 5	Early Jan.	Mar-Apr Low	FOMC Apr. 22	May 13	Early Jan.	Mar-Apr Low	FOMC Apr. 22
Stock prices								
Dow-Jones Industrial	897.61	858.96	759.13	789.85	816.89	-42.07	57.76	27.04
NYSE Composite	63.39	63.25	55.30	58.74	60.54	-2.71	5.24	1.80
AMEX Composite	235.15	254.45	215.69	245.03	251.42	-3.03	35.73	6.39
NASDAQ (OTC)	152.29	153.12	124.09	135.71	144.10	-9.02	20.01	8.39

1. One-day quotes except as noted.
 2. Averages for statement week closest to date shown.
 3. Secondary market.
 4. One-day quotes for preceding Thursday.
 5. Averages for preceding week.
 6. One-day quotes for preceding Friday.
- *--Highs reached on Feb. 26.

and earnings pressures discouraged borrowers. Primary mortgage rates remained near peak levels through most of April, but moved down in May.

State and local governments greatly expanded their use of security markets in April. The gross volume of tax-exempt bond issues jumped, as declining rates on municipal bonds allowed many governmental units to issue debt that previously had been restrained by statutory rate ceilings or by a reluctance to borrow at record rates. Treasury financing in April was relatively light.

The monetary aggregates were exceptionally weak in April. Transactions balances fell sharply, and the aggregate of savings and small time deposits grew only moderately. The assets of money market mutual funds changed little through April, as most MMMFs stopped taking new accounts in response to the special deposit requirement announced in mid-March, but fund shares increased considerably in early May.

Monetary Aggregates and Bank Credit

The narrowly defined money stock measures contracted sharply during April. M-1A declined at an 18-1/2 percent annual rate, reflecting both deceleration in growth of the currency component and, for the second consecutive month, a steep fall in demand deposits. Despite acceleration in the growth of ATS and NOW accounts, M-1B declined at a 14-3/4 percent annual rate. Needs for transactions balances fell in response to weakening economic activity, and the run-up of interest rates in the first quarter may well have contributed to the recent contraction in demand deposits. In addition, some of the record drop in April may have been attributable to the faster pace at which the Treasury reportedly processed taxpayers' checks relative to past years.

MONETARY AGGREGATES

(Based on seasonally adjusted data unless otherwise noted)¹

	1979		1980			Apr. '79	to Apr. '80 ^e
	Q3	Q4	Q1 ^P	Feb.	Mar. ^P	Apr. ^e	
---- Percentage change at annual rates ----							
<u>Money stock measures</u>							
1. M-1A	8.8	4.7	5.5	12.2	-3.2	-18.5	3.8
2. M-1B	10.1	5.3	6.0	12.0	-1.8	-14.7	4.8
3. M-2	10.3	7.2	7.3	10.5	3.1	-2.6	7.4
4. M-3	10.3	9.9	8.4	12.6	3.6	0.0	8.6
<u>Selected components</u>							
5. Currency	11.1	8.1	8.7	10.1	7.8	1.1	8.8
6. Demand deposits	8.0	3.4	4.1	12.7	-7.2	-26.1	1.8
7. Other checkable deposits, NSA ²	46.7	15.7	17.6	0.0	29.1	71.0	32.6
8. M-2 minus M-1B (9+10+11+14)	10.4	7.9	7.8	10.0	4.8	1.5	8.3
9. Overnight RPs and Eurodollars, NSA ³	-4.7	-17.3	-4.9	-4.8	-101.6	-206.2	-25.1
10. Money market mutual fund shares, NSA	166.2	120.0	149.9	185.7	80.4	4.0	216.1
11. Commercial banks	10.7	7.4	7.5	8.8	4.1	11.7	9.0
12. savings deposits	-0.4	-15.1	-16.8	-16.1	-34.6	-40.8	-13.3
13. small time deposits	21.5	28.6	28.1	28.6	34.1	49.1	31.8
14. Thrift institutions	5.3	3.6	-0.6	-2.1	2.8	1.5	2.7
15. savings deposits	-2.5	-26.0	-22.7	-28.4	-29.1	-28.7	-17.1
16. small time deposits	10.4	22.3	11.5	11.5	19.2	16.6	15.7
17. Large time deposits	9.5	30.3	19.0	31.9	17.9	18.1	18.4
18. at commercial banks, net ⁴	2.5	22.6	11.2	27.7	17.3	19.4	11.6
19. at thrift institutions	72.2	90.8	71.2	60.2	17.9	10.6	85.4
20. Term RPs, NSA	13.8	5.4	-14.5	-27.7	-81.1	0.0	-1.1
--Average monthly change in billions of dollars--							
<u>MEMORANDA:</u>							
21. Managed liabilities at commercial banks (22+23)	9.5	-1.5	7.6	13.5	5.1	-5.8	3.6
22. Large time deposits, gross	4.3	2.2	3.2	5.9	2.5	5.0	2.2
23. Nondeposit funds	5.2	-3.7	4.4	7.6	2.6	-10.8	1.4
24. Net due to related foreign institutions, NSA	2.9	-2.2	1.2	2.4	2.0	-4.6	0.7
25. Other ⁵	2.2	-1.4	3.3	5.2	-0.7	-6.3	0.7
26. U.S. government deposits at commercial banks ⁶	0.6	-1.0	-0.7	-1.0	-4.0	1.3	0.3

1. Quarterly growth rates are computed on a quarterly average basis.

2. Consists of ATS and NOW balances at all institutions, credit union share draft balances, and demand deposits at mutual savings banks.

3. Overnight and continuing contract RPs issued to the nonbank public by commercial banks, net of amounts held by money market mutual funds, plus overnight Eurodollar deposits issued by Caribbean branches of U.S. member banks to U.S. nonbank customers.

4. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.

5. Consists of nondeposit borrowings of commercial banks from nonbank sources, calculated as the sum of federal funds purchased, security RPs, other liabilities for borrowed money (including borrowings from the Federal Reserve), and loans sold less interbank borrowings.

6. Consists of Treasury demand deposits at commercial banks and Treasury note balances.

e--estimated. p--preliminary.

Despite continuing strength in variable-ceiling small time deposits, the nontransactions component of M-2 grew at only a 1-1/2 percent annual rate in April. Savings deposits at banks and thrift institutions continued to drop at rapid rates, and further declines also occurred in fixed-ceiling small time deposits. Some shifting of deposits into 2-1/2 year variable-ceiling accounts reportedly took place in late April when MMC yields fell and it became clear that the 2-1/2 year rate would soon drop below the 12 percent cap. Overall, savings and small time deposits grew at an 11-3/4 percent annual rate at commercial banks, and at a much lower 1-1/2 percent rate at thrifts.

Among other components of M-2, overnight RPs and Eurodollar deposits fell sharply in April. Meanwhile, the growth of money market mutual funds came to a virtual halt on a monthly average basis. Many of the existing funds stopped accepting new accounts after the imposition of the 15 percent special reserve requirement in March, and aggregate assets of MMMFs declined for four weeks following the action. Such assets increased somewhat during the last two weeks of April, and growth accelerated sharply in early May; "clone" funds accounted for perhaps 20 percent of the increase. In early May, clone funds were returning an average yield near 12 percent; although this rate was substantially below the 15-1/2 percent return yielded by non-clone MMMFs, it was 75 basis points above the effective yield on MMCs offered by depository institutions.¹ Perhaps reflecting in part the reduced availability of MMMFs, noncompetitive tenders during the

1. These MMMF net yields to shareholders, however, include capital gains that resulted from the recent drop in short-term market interest rates. If such gains are excluded, yields would be close to 11 percent for regular MMMFs, and 9-3/4 percent for clone funds.

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

	1979		1980				Apr. '79	to Apr. '80 ^e
	Q3	Q4	Q1	Feb.	Mar.	Apr. ^e		
----- Commercial Bank Credit -----								
1. Total loans and investments at banks ²	15.8	3.4	11.5	18.7	2.6	-5.1	9.3	
2. Investments	8.5	3.5	7.3	14.7	2.1	-4.5	5.5	
3. Treasury securities	1.7	-5.9	3.0	20.6	-3.8	-16.5	-0.9	
4. Other securities	12.1	8.3	9.4	13.1	4.9	1.8	8.8	
5. Total loans ²	18.2	3.4	12.8	19.8	2.7	-5.3	10.6	
6. Business loans	22.7	6.0	16.4	22.2	5.9	-5.1	14.2	
7. Security loans	8.7	-88.5	-32.8	-20.0	-61.0	-35.7	-26.9	
8. Real estate loans	14.7	14.2	11.9	13.2	9.2	2.4	13.2	
9. Consumer loans	7.5	5.5	3.7	4.6	0.0	n.a.	n.a.	
-- Short- and Intermediate-Term Business Credit --								
10. Total short- and intermediate-term business credit (sum of lines 13,14 and 15)	27.4	6.4	22.0	25.0	15.6	n.a.	n.a.	
11. Business loans net of bankers acceptances ¹	21.7	6.3	17.6	19.5	10.6	-7.3	14.1	
12. Commercial paper issued by nonfinancial firms ³	69.7	15.5	76.2	53.5	80.5	37.7	64.1	
13. Sum of lines 11 & 12	25.7	7.0	23.1	22.8	17.6	-2.5	18.1	
14. Finance company loans to business ⁴	9.4	4.0	-2.8	-3.4	3.4	n.a.	n.a.	
15. Total bankers acceptances outstanding ⁴	74.9	4.6	54.1	84.4	19.7	n.a.	n.a.	

1. Average of Wednesdays for domestic chartered banks and average of current and preceding ends of months for foreign-related institutions.

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

3. Average of Wednesdays.

4. Based on average of current and preceding ends of months.

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

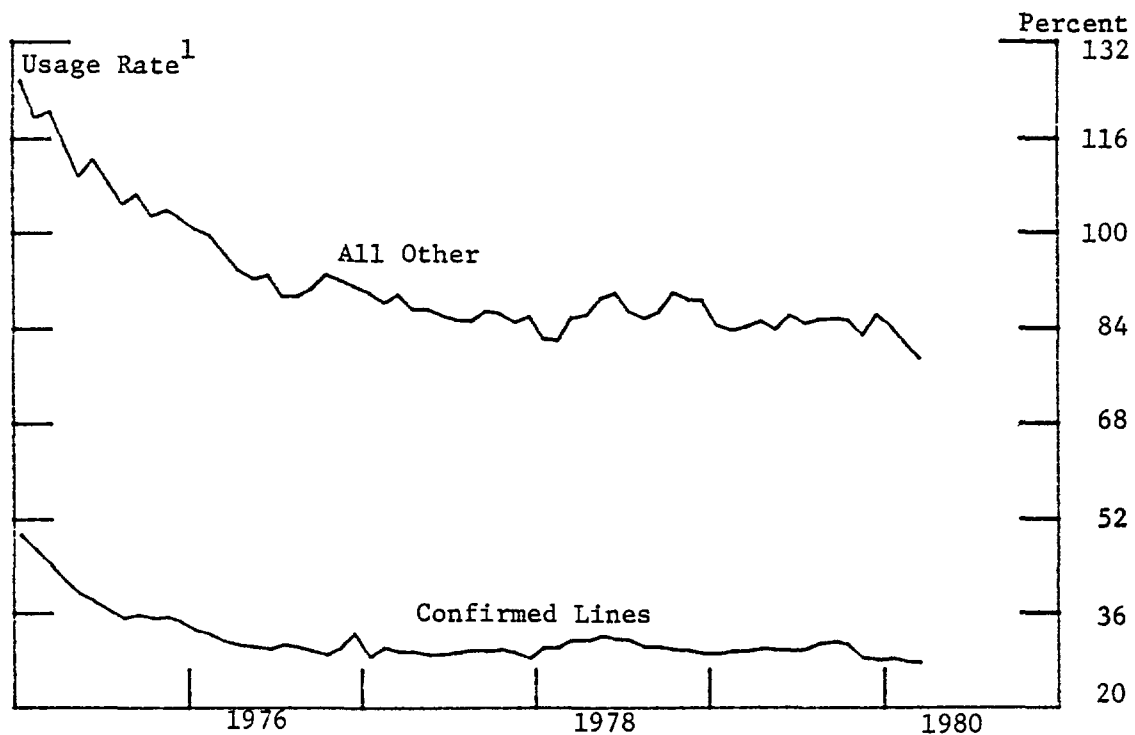
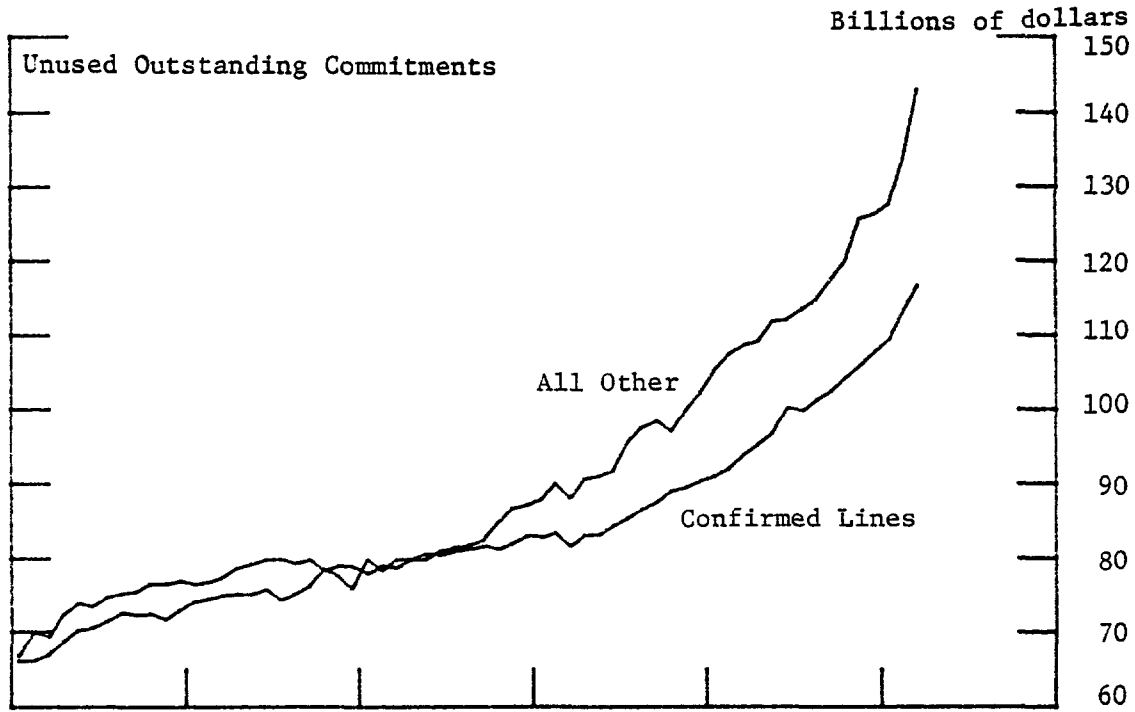
April Treasury bill auctions were extremely large, especially early in the month when yields were near peaks.

Total bank reserves grew at a 2-3/4 percent annual rate in April, somewhat above the average pace from December to March. Following an earlier succession of monthly increases, borrowed reserves declined by \$370 million in April.¹ The decline in borrowing followed the imposition of the surcharge for large banks that borrowed frequently, and was associated with a drop of more than 4 percentage points in the federal funds rate during April. In early May, adjustment borrowing fell even further as the federal funds rate dropped below the discount rate for the first time in three years. Nonborrowed reserves in April increased 13-3/4 percent, at an annual rate, reversing declines registered in the two previous months. Reserves held under the marginal reserves program fell from over \$2 billion in early April to \$1 billion in early May as banks reduced the volume of their managed liabilities above the base levels.

Following a marked slowing in March, bank credit contracted in April at an annual rate of 5 percent, as both loan and investment portfolios shrank. Banks liquidated a large volume of Treasury securities, and acquisitions of other securities slowed. Growth in all bank loan categories weakened in April; business and security loans actually fell. Loan activity generally was weakest at small banks, which appeared to move to a more restrictive posture because of the high cost of funds relative to their returns.

1. By the end of April, no loans had yet been disbursed under the new seasonal borrowing privilege instituted for small banks, although a number of commitments to lend had been made by Reserve Banks.

COMMERCIAL BANK BUSINESS LOAN COMMITMENTS
(Monthly, seasonally adjusted)



1. Outstanding loans made from commitments as a percent of unused commitments outstanding.

Source: Survey of Loan Commitments at Selected Large Commercial Banks, which included 134 banks from its January 1975 inception until July 1979, when one bank stopped reporting; in November a second bank stopped reporting. Last data shown: March 1980.

As loans and investments declined in April, banks reduced their managed liabilities by an estimated \$6 billion. The net reduction reflected a large decline in net Eurodollar borrowings and other nondeposit funds that more than offset a \$5 billion increase in gross large time deposits. A reduction in weekend reserve avoidance activity accounted for about one-quarter of the total reduction in net liabilities due to related foreign institutions.

Business Finance

Total business external financing appears to have moderated in April; in part businesses may have drawn on liquid assets accumulated earlier this year when bank borrowing evidently was accelerated in anticipation of credit controls. Moreover, there was a marked shift in the pattern of business credit demands from short-term to long-term markets. Business loans at commercial banks, net of bankers acceptances, contracted at a 7-1/4 percent annual rate, and commercial paper issuance by nonfinancial firms dropped to roughly half the pace of March--though it remained sizable. At the same time, the volume of publicly offered corporate bonds rose substantially in April to the largest monthly total in nearly a year.

The contraction of bank loans to businesses during April occurred despite two previous months of pronounced expansion in outstanding commitments at sampled large banks (see chart on page III-8). Some of the increased commitments may have been to guard against the possibility of reduced credit availability under credit controls, rather than in anticipation of specific financing needs. In April, moreover, cost considerations--as adjustments in the prime rate lagged substantially behind

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

	1979		1980		
	H1	H2	Q1P	Apr.P	May ^f
----- Seasonally adjusted -----					
Corporate securities--total	4,370	4,160	4,675	4,925	5,950
Publicly offered bonds	2,190	2,110	1,890	2,800	4,350
Privately placed bonds	1,460	875	1,310	800	800
Stocks	720	1,175	1,475	1,325	800
----- Not seasonally adjusted -----					
Publicly offered bonds--total	2,280	2,023	1,950	3,200	3,900
By quality ¹					
Aaa and Aa	1,225	1,120	1,020	1,900	--
Less than Aa ²	1,055	903	930	1,300	--
By type of borrower					
Utility	700	825	1,175	1,030	--
Industrial ³	635	753	440	1,520	--
Financial	945	445	335	650	--

p--preliminary. f--forecast.

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

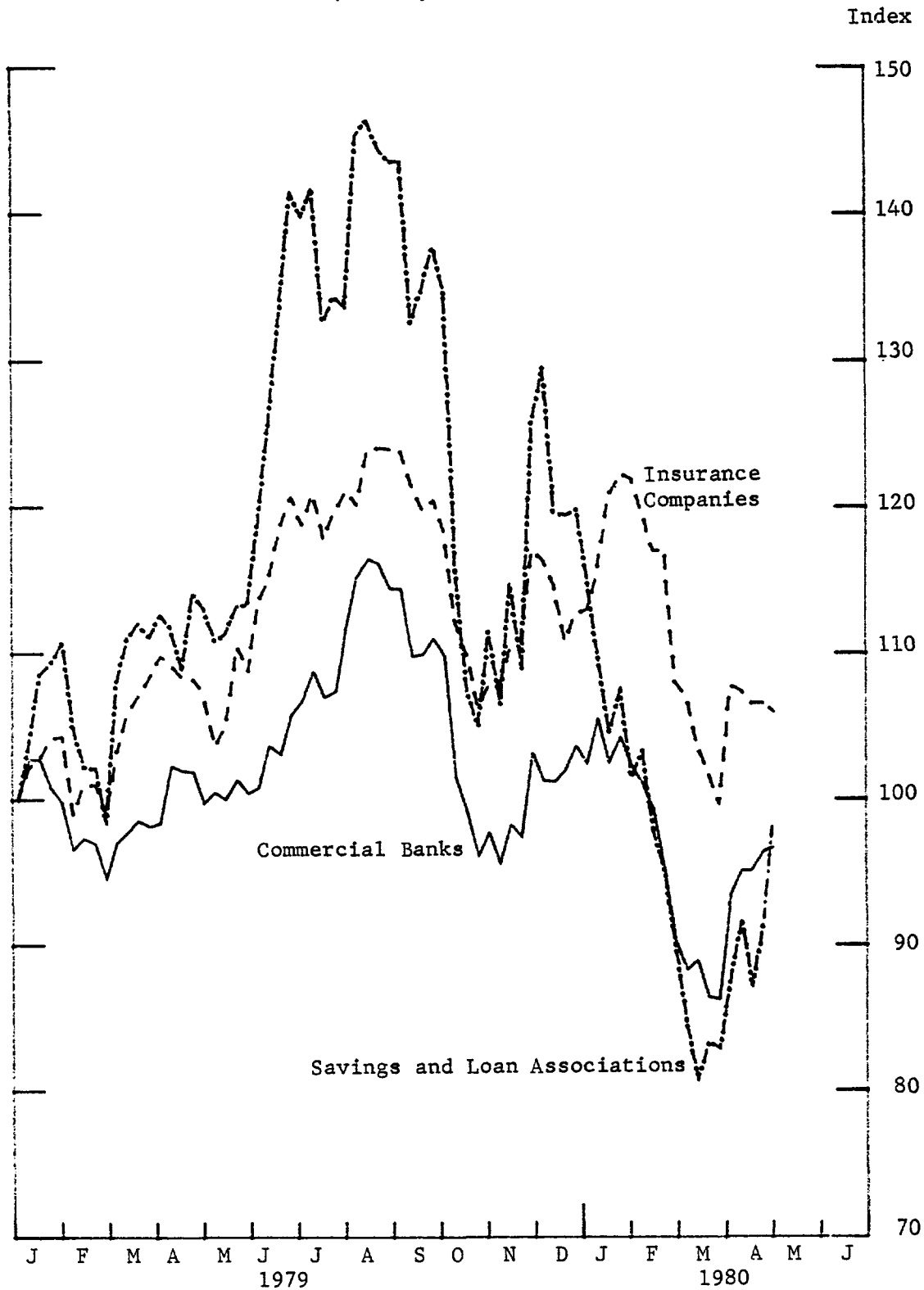
downward movements in other market rates--greatly reduced the attractiveness of this source of funds. At the end of April the bank prime rate exceeded the rate on 3-month commercial paper by more than 7 percentage points. The recent behavior of the prime rate may reflect banks' attempts to maintain earnings margins and to slow loan growth in the face of the Special Credit Restraint Program and rising costs imposed by the increase in marginal reserve requirements.

Although the high prime rate increased the relative attractiveness of commercial paper financing, the volume of paper issuance by nonfinancial firms, particularly industrial firms, moderated on average in April from the first-quarter pace. Paper issuance by financial companies picked up in April, buoyed by issues of insurance companies needing funds to meet increased demands for policy loans and previously made commitments to acquire mortgages and corporate debt obligations.

Gross public offerings of longer-term corporate debt issues rose to \$2.8 billion, seasonally adjusted, in April, a substantial increase over the \$1.7 billion total in March. Nearly half of the April debt volume comprised obligations of industrial concerns, in contrast to earlier months when utilities were the major issuers. The pace of bond issuance is accelerating further in May.

Corporate bond yields have declined 1-1/4 to 1-1/2 basis points since the April FOMC meeting and almost 3 percentage points since their all-time peak in late March. Accompanying the downward movement in rates, measures of risk premia between lower- and higher-rated corporate bonds have narrowed recently from the near-record spreads of early April. These measures narrowed somewhat in the early stages of the two previous recessions, but

SELECTED STOCK PRICE INDEXES OF FINANCIAL INDUSTRIES
(January 3, 1979 = 100)



Latest data shown: April 30, 1980.

widened sharply in the later phases as investors became increasingly concerned about credit quality.

Major stock price indexes have climbed 3 to 6 percent since the April FOMC meeting. Market participants cite the unprecedented decline in interest rates as an important factor accounting for the improvement in stock prices. Interest rate movements may have had a particularly favorable impact on the share prices of financial corporations in recent weeks. The stock prices of these companies declined more than the broad indexes when short-term interest rates rose sharply earlier this year, but a portion of these declines has been retraced since late March (see chart on page III-12). New common and preferred stock financings totaled more than \$1.3 billion, seasonally adjusted, in April; industrial corporations--especially petroleum and natural gas concerns--continued to supplement the relatively large amount of equity offerings by public utilities.

Government Debt Issues

Net Treasury borrowing through marketable debt issues totaled \$1.3 billion (not seasonally adjusted) in April. This total reflects \$2.8 billion raised in note and bond auctions partially offset by net reductions of \$1.5 billion in Treasury bills outstanding. In the mid-quarter refunding an additional \$3.6 billion is being raised--an unusually large amount for the second quarter. The Treasury expects a sizable budget surplus over the quarter, but it has continued to sell marketable debt to offset large redemptions of nonmarketable debt and to build up its cash balances before the end of the period. Total nonmarketable debt issues held by foreigners and by state and local governments fell \$0.9 billion in April, while public holdings of U.S. savings bonds dropped \$1.8 billion.

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

	1979		1980		
	H1	H2	Q1	April ^e	May ^f
----- Seasonally adjusted -----					
State and local government securities, gross offerings					
Total	5.01	5.65	4.72	7.32	5.40
Long-term	3.41	3.82	2.75	5.46	3.50
Short-term	1.60	1.83	1.97	1.86	1.90
U.S. government securities, net offerings					
U.S. Treasury ¹	3.28	2.87	9.55	6.70	10.44
Sponsored agencies	2.22	1.74	2.62	5.56	1.72
----- Not seasonally adjusted -----					
State and local government securities, gross offerings					
Total	5.43	5.82	4.30	9.30	5.70
Long-term	3.55	3.68	2.70	5.00	4.00
Housing revenue bonds	0.75	0.92	0.85	1.43	1.50
Single-family	0.57	0.61	0.75	1.42	1.48
Multi-family	0.18	0.31	0.10	0.01	0.02
Short-term	1.88	2.14	1.60	4.30	1.70
U.S. government securities, net offerings					
U.S. Treasury ¹	1.97	4.16	10.82	1.27	8.64
Bills	-0.35	2.13	7.92	-1.52	-0.16
Coupons	2.32	2.03	2.90	2.79	8.80
Sponsored agencies	2.09	1.92	2.13	5.39	1.96

e--estimate. f--forecast.

1. Marketable issues only.

Borrowing by the federally sponsored credit agencies is estimated to have totaled \$5.6 billion in April, after seasonal adjustment, higher even than the previous record level in March. Of this total, FHLBs raised \$1.3 billion, FNMA raised \$3.3 billion, and the Federal Farm Credit Bank raised \$1 billion. The funds raised by the two housing agencies primarily were intended to finance mortgage acquisitions and advances to member institutions; but the low level of such activities in April enabled the agencies to increase their liquidity and will likely lower their borrowing needs in May.

The sharp decline in interest rates encouraged state and local governments to increase greatly their borrowing in April. Gross offerings of tax-exempt bonds surged to almost \$5.5 billion, seasonally adjusted--double the monthly average pace of the first quarter. Some of the April volume represented issues that had been postponed earlier this year because of unstable market conditions and interest rate ceilings that were below prevailing market rates. Offerings of housing revenue bonds, nearly all of which were earmarked to finance single-family mortgages, increased further and accounted for slightly more than \$1.4 billion (NSA) of total long-term issues in April.

Mortgage Markets

Costs of both short-term construction credit and long-term mortgage loans have fallen since the April FOMC meeting, though average primary mortgage rates have remained quite high relative to other long-term interest rates. Yields in the secondary markets for home mortgages have declined by 1 to 2 percentage points, extending the slide from the peaks

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

Period	Conventional home mortgages			Percent of S&Ls ² with mortgage funds in short supply
	Average rate on new commitments for 80% loans (percent)	Basis point change from month or week earlier	Spread ¹ (basis points)	
1979--High	12.90	--	+174	88
Low	10.38	--	+64	54
1979--Aug.	11.09	0	+160	77
Sépt.	11.30	+21	+143	83
Oct.	11.64	+34	+79	83
Nov.	12.83	+119	+147	86
Dec.	12.90	+7	+132	85
1980--Jan.	12.88	-2	+118	85
Feb.	13.03	+15	-22	84
Mar.	15.28	+225	+139	89
Apr. 4	16.35	+32	+242	88
11	16.35	0	+305	85
18	16.35	0	+366	82
25	16.25	-10	+361	89
May 2	15.90	-35	+385	87
9	14.68	-122	+323	89

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

SECONDARY HOME MORTGAGE MARKET ACTIVITY

Period	FNMA auctions of forward purchase commitments				Yields on GNMA-guaranteed mortgage-backed securities for immediate delivery ²		
	Conventional		Government-underwritten				
	Amount (\$ millions) Offered	Yield to FNMA ¹ Accepted	Amount (\$ millions) Offered	Yield to FNMA ¹ Accepted			
1979--High	454	172	13.97	1,035	448	13.29	11.77
Low	19	18	10.92	37	19	10.42	9.51
1980--Apr. 7							13.40
14	81	42	16.91	285	111	15.18	12.96
21							12.23
28	54	24	15.67	209	89	14.03	11.98
May 5							11.03
12	120	53	13.81	236	101	13.16	11.26

1. Average gross yield before deducting fee of 38 basis points for mortgage servicing. Data, based on 4-month FNMA purchase commitments, reflect the average accepted bid yield for home mortgages, assuming a prepayment period of 12 years for 30-year loan without special adjustment for FNMA commitment fees and related stock requirements. Mortgage amounts offered by bidders relate to total eligible bids received.
2. Average net yields to investors assuming prepayment in 12 years on pools of 30-year FHA-VA mortgages typically carrying the prevailing ceiling rate on such loans.

in late March. Average interest rates on new commitments for conventional home loans at S&Ls have declined by 167 basis points from the record level prevailing during the first three weeks of April, and average rates in the West, which reached 17 percent in April, have fallen by 3 percentage points.

The downturn in mortgage rates apparently reflected the reduced cost of funds to lending institutions and expectations for improved deposit flows which contributed to a desire to increase mortgage market activity from depressed levels in March. At savings and loan associations, new mortgage commitments made in March fell to \$4.6 billion, about half the monthly average volume recorded in the third quarter of last year prior to the firming actions in October. Mortgage commitments outstanding at the end of March amounted to \$24.1 billion, more than one-fourth below the peak last fall; in real terms (deflated by construction costs), outstanding commitments were at their lowest level since early 1975.

A special survey of 126 large S&Ls conducted by the FHLBB indicated that roughly 12 percent of the respondents liberalized loan commitment policies during the first half of April, while 20 percent reported firmer policies. But during the second half of the month, about half reported that they had liberalized their loan commitment policies, primarily through reductions in interest rates.

The outstanding volume of FHLB advances to thrift institutions changed little in April, following a record \$3.6 billion increase in such borrowings in March. Further slowing in mortgage acquisitions, coupled

CONSUMER INSTALLMENT CREDIT¹

	1978	1979	1979 Q4	Q1	1980 Feb.	Mar.
<u>Total</u>						
Change in outstandings						
Billions of dollars	44.8	35.5	23.8	20.4	27.5	17.2
Percent	19.4	12.9	7.9	6.6	8.9	5.5
Bank share (percent)	53.1	37.8	21.4	24.2	34.1	1.2
Extensions						
Billions of dollars	298.4	322.6	319.3	321.6	324.9	319.6
Bank share (percent)	47.8	46.4	44.9	44.1	44.3	42.5
Liquidations						
Billions of dollars	253.5	287.1	295.6	301.2	297.4	302.4
Ratio to disposable income	17.4	17.7	17.6	17.3	17.1	17.3
<u>Automobile credit</u>						
Change in outstandings						
Billions of dollars	19.6	12.6	6.8	9.0	10.6	4.7
Percent	23.6	12.3	6.0	7.7	9.1	4.1
Extensions						
Billions of dollars	89.0	91.9	87.5	90.8	91.9	87.0
<u>Revolving credit</u>						
Change in outstandings						
Billions of dollars	7.8	8.3	7.6	5.9	6.9	7.3
Percent	19.8	17.6	15.1	11.0	13.0	13.9
Extensions						
Billions of dollars	104.6	120.8	124.9	127.9	125.5	132.5

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

with increased issuance of large time deposits by S&Ls during April (end of month basis) apparently reduced their need for borrowed funds.¹

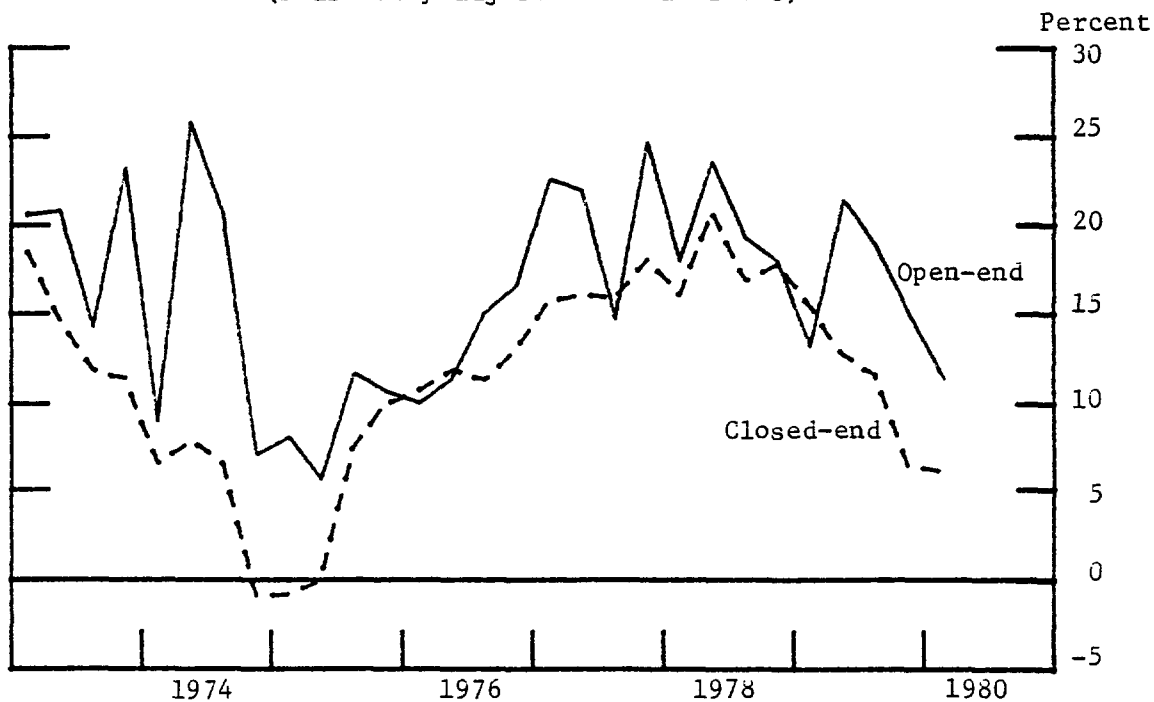
In view of the substantial increases since late March in prices of government-underwritten mortgages traded in the secondary markets, the Administration lowered the ceiling rate for FHA/VA home loans by a full percentage point to 13 percent, effective April 28. In addition, the Administration in mid-April amended the FHA program, to help builders reduce the carrying costs of their unsold inventories by replacing high-rate construction loans; builders are now permitted to get FHA insurance for permanent loans upon completion of a house which may then be rented, rather than sold. The Secretary of HUD also announced Administration support for legislative changes in the Section 235 home ownership program; these changes would make interest subsidies available to middle-income as well as lower-income households.

Consumer Credit

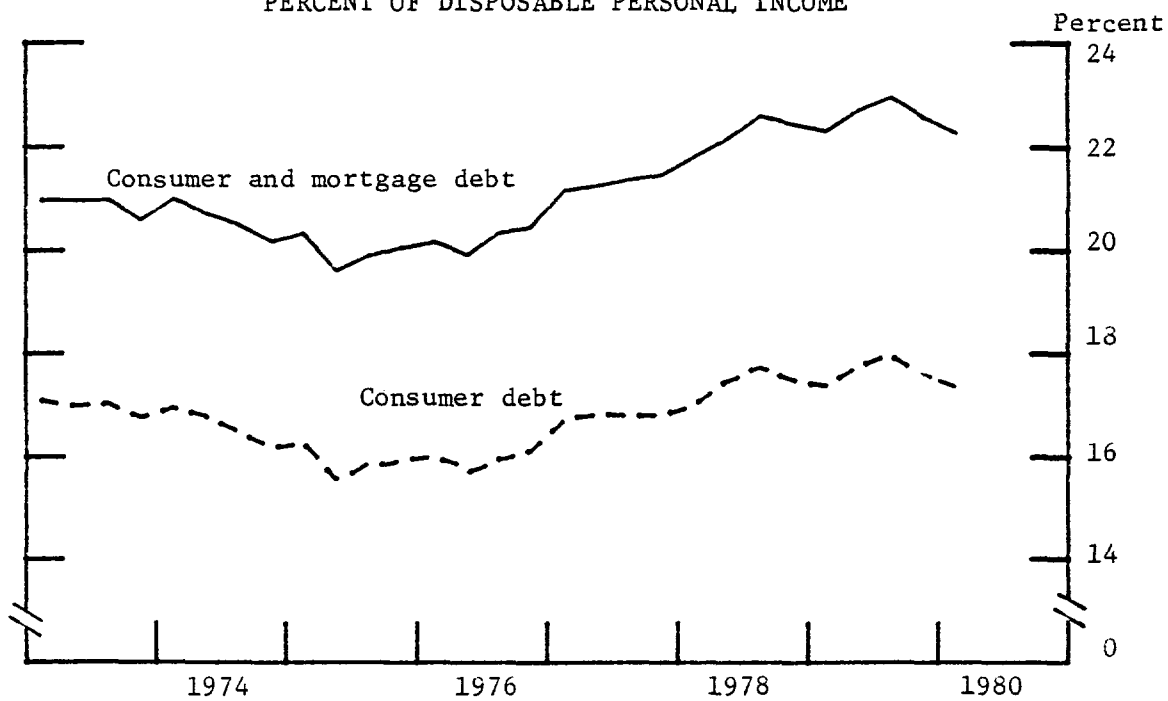
Growth in consumer credit outstanding slowed to a 5-1/2 percent annual rate in March, holding the increase for the quarter to 6-3/4 percent. At its most rapid pace in 1978, consumer credit grew at about a 20 percent rate, but the rate of expansion has trended downward since mid-1979. Finance companies continued to account for the bulk of consumer credit growth in March, as captives of the auto manufacturers, in particular, attempted to offset the impact on their parent companies' sales that might result from the withdrawal of other lenders. Virtually no growth

1. The FHLB recently instituted a Targeted Advances Program to help meet the needs of S&Ls that are facing particularly severe financial difficulties as a result of market forces. Under the program, the Bank Board will provide a 250 basis point subsidy on advances to qualifying associations. No associations are reported to have yet applied for the subsidized advances.

PERCENT CHANGE IN OPEN-END AND CLOSED-END
CONSUMER INSTALLMENT CREDIT
(Seasonally adjusted annual rates)



HOUSEHOLD DEBT REPAYMENTS AS A
PERCENT OF DISPOSABLE PERSONAL INCOME



occurred at commercial banks, and credit unions experienced their sixth consecutive monthly contraction.

Consumer credit controls had been in force for only two weeks by the end of March, and consequently the March figures shed little light on the impact of the controls. Although aggregate statistics are not yet available for April, widespread reports suggest a substantial curtailment of consumer credit usage, particularly card credit, since the credit control package was announced March 14.

Much of the reported deceleration in consumer credit use may be attributed to credit-tightening measures by lenders; in addition many consumers apparently have reduced their use of credit accounts, perhaps in part because of uncertainty concerning how controls would operate. In a special Federal Reserve survey conducted during the second week of May, more than half of the respondent banks indicated that they had adopted more restrictive lending policies for auto loans and credit cards. At the same time, most of the banks and finance companies in the survey reported lessened demand for consumer credit since mid-March.

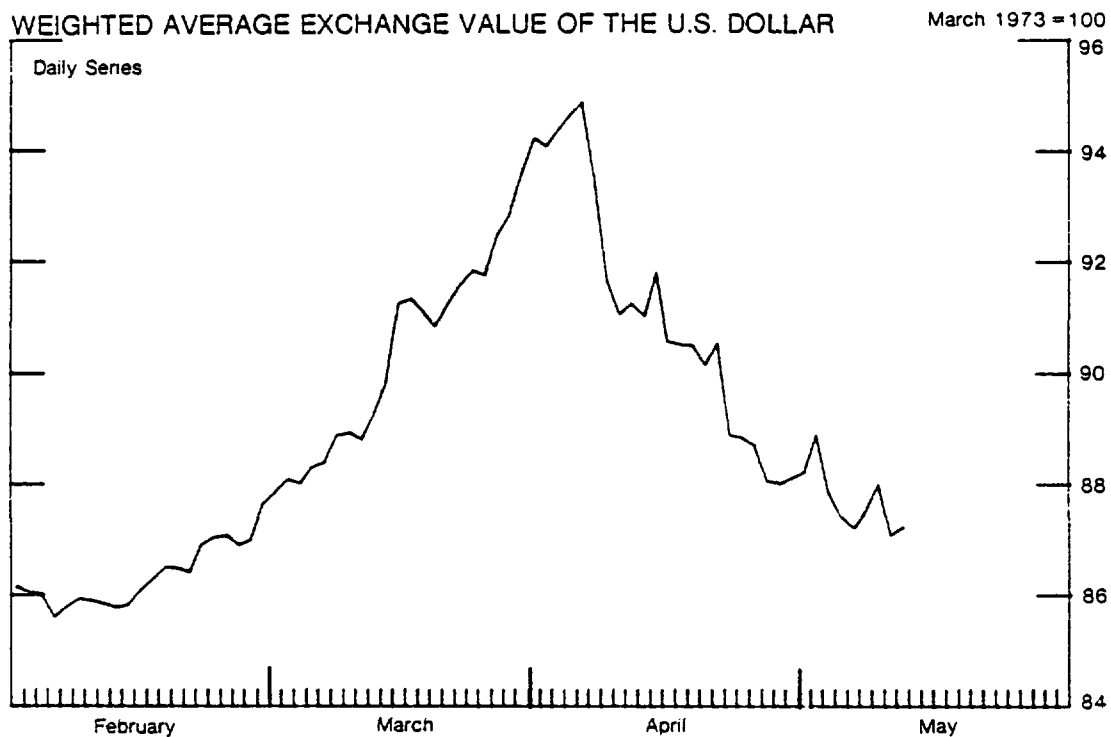
Most recently, as interest rates have dropped, announcements of credit-tightening measures have diminished. Some retailers reported substantial declines in credit sales during April; to reassure their customers that credit lines are still open, many retailers have placed ads in the newspapers, and at least one major chain has sent out letters to its customers.

As consumer credit growth has slowed in recent months, repayments relative to disposable personal income have come down from the 1979-Q3 high (see chart on page III-20). Delinquency rates on closed-end consumer

loans at banks fell off somewhat in the first quarter, with declines greatest for loans to finance autos and mobile homes. In contrast, delinquency rates associated with bank card credit increased further, to near the highs recorded in 1975.

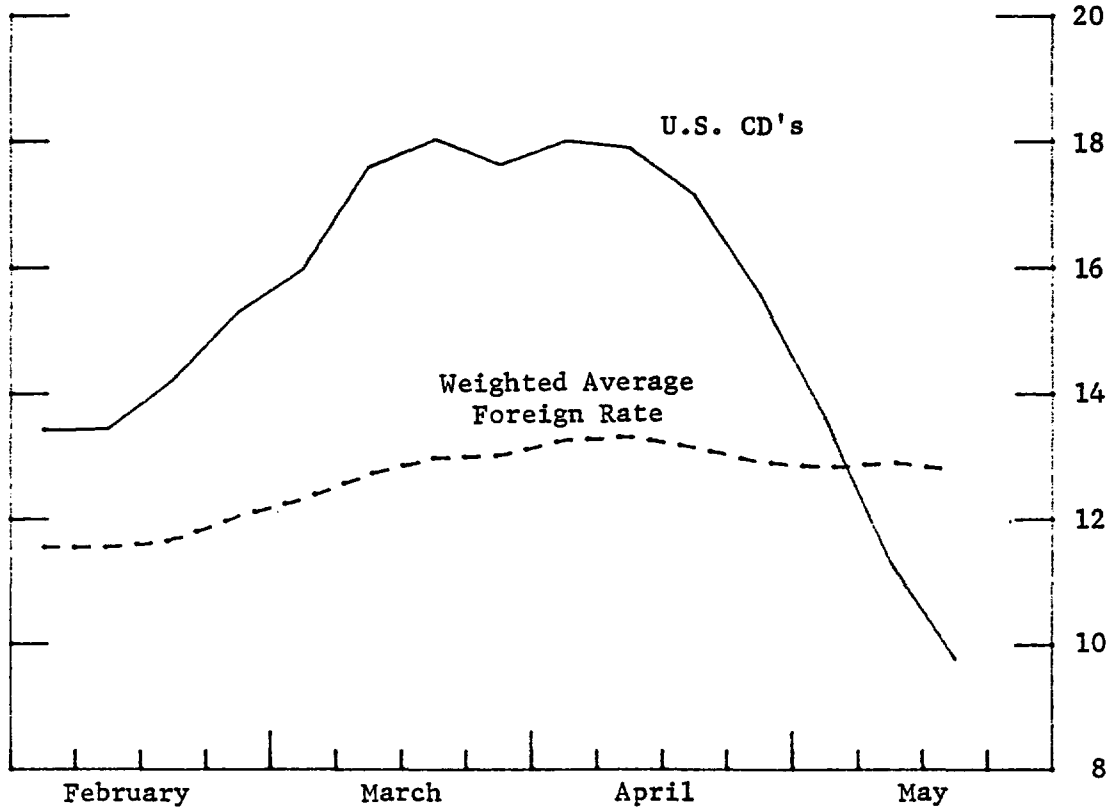
Foreign Exchange Markets. The dollar has been under strong downward pressure over most of the four week period since the last green book. As shown in the top panel of the first chart, the dollar started to drop sharply in the second week of April and since then the dollar's weighted-average exchange value has fallen by 8 percent. This decline has reversed about three-fourths of the dollar's previous sharp rise during February and March.

Movements in the dollar's foreign exchange value in recent months appear to have been triggered by the very sharp fluctuations in U.S. interest rates over this period. As shown in the second chart, during the period of the dollar's strength from early February to early April U.S. interest rates rose sharply, both absolutely and relative to average foreign interest rates. The dollar's subsequent sharp decline coincided with an even larger fall in U.S. interest rates. Both the magnitude and rapidity of these U.S. interest rate changes appear to have been unanticipated by the market, intensifying their impact on exchange rates. In addition, some market participants apparently interpreted the rise in U.S. interest rates as signaling a tightening of U.S. monetary policy and the subsequent fall in rates as a sign of an easing of U.S. monetary policy. In recent weeks, however, the growing evidence of a U.S. recession and the continued decline in the monetary aggregates contributed to a shift in the interpretation of declining U.S. interest rates toward a view somewhat more favorable to the dollar. On a net basis, the dollar's average exchange value has risen by



3-MONTH INTEREST RATES
Weekly Series

Percent per annum



about 1 percent over the past three months despite a net decline in relative short-term interest rates on dollar-denominated assets of about 5 percentage points during this period.

Because U.S. economic developments have dominated exchange rate movements in recent months, fluctuations in the dollar's exchange value relative to individual foreign currencies has been fairly uniform. Over the four week period since the last green book the dollar has depreciated by about 6 percent relative to the Swiss franc, 5 percent against the mark and 4 percent against the pound. The dollar has shown the greatest weakness relative to the Japanese yen over the past month, depreciating by 10 percent. The decline against the Canadian dollar has been only 2 percent with demand for the Canadian currency depressed due to the approach of the May 20 referendum on Quebec's status.

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The Desk provided net intervention support for the dollar totaling \$500 million over the past four weeks. About three-fourths of this total took the form of net sales of marks, with the remainder split about equally between sales of Swiss and French francs. Net mark sales were financed mainly from Treasury balances with the remainder financed by System swap drawings. The Swiss franc sales

were from System balances while swap drawings on the Bank of France financed the French franc sales. Outstanding System swap drawings increased to \$400 million equivalent.

U. S. International Transactions

Despite a U.S. merchandise trade deficit in March that was substantially smaller than in the preceding two months, the first quarter 1980 deficit of \$49 billion at an annual rate (international accounts basis) was nevertheless more than \$14 billion larger than the annual rate deficit of the fourth quarter. Imports in the first quarter increased by about twice as much as exports, but the rise in imports, reflecting in large measure the effects of higher world oil prices on oil imports, masked considerable strength in exports, particularly non-agricultural shipments.

Nonagricultural exports increased nearly \$15 billion at an annual rate in the first quarter, an increase from the fourth quarter in excess of 9 percent. While some of this increase may be attributed to transitory

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

	1979	1979		1980		
	Year	3Q	4Q	1Q	Feb.*/	Mar.*/
<u>EXPORTS</u>	<u>182.1</u>	<u>188.9</u>	<u>202.1</u>	<u>215.7</u>	<u>208.8</u>	<u>224.1</u>
Agric.	35.4	38.3	42.0	41.1	41.0	41.5
Nonagric.	146.7	150.6	160.0	174.6	167.7	182.6
<u>IMPORTS</u>	<u>211.5</u>	<u>217.9</u>	<u>236.4</u>	<u>264.6</u>	<u>269.8</u>	<u>257.2</u>
Petroleum	60.0	66.5	75.4	86.5	92.9	85.6
Nonpetroleum	151.5	151.5	161.0	178.1	176.9	171.6
<u>BALANCE</u>	<u>-29.5</u>	<u>-29.0</u>	<u>-34.4</u>	<u>-48.9</u>	<u>-61.1</u>	<u>-33.1</u>

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

r/ Revised

*/ The monthly international accounts basis figures are only rough estimates and are subject to considerable revision.

silver exports reflecting the run-up in silver prices early in the year, the underlying trend of this export performance has been quite strong for the last three quarters. This strength is due in part to continuing growth in foreign economic activity, particularly in Western Europe, and also reflects the lagged response of exports to exchange rate depreciations experienced over the last several years. Excluding silver, the export growth in the first quarter, buoyed by the March increases, was spread over a broad range of commodity categories including machinery, civilian aircraft, other consumer goods, and other industrial supplies.

Agricultural exports amounted to \$41 billion at an annual rate in the first quarter, a slight decline from the fourth quarter rate. The decline was entirely in volume (primarily grain and soybeans). Exports of wheat, corn, and soybeans to the Soviet Union declined sharply to 95.5 million bushels in the first quarter from 208.7 million bushels in the fourth quarter, principally because of the embargo announced on January 4. The decline in volume attributable to the embargo appears to have been less than that initially anticipated from the embargo order as other countries' agricultural exports to the Soviet Union (principally from Argentina) have increased, and U.S. exports have been diverted towards the markets traditionally supplied by these countries.

Non-oil imports increased by 11 percent in the first quarter. Imports of nonferrous metals accounted for nearly a third of this increase as their prices, particularly those for gold and silver, rose sharply at the end of last year and the beginning of this year. In recent months gold and silver prices have decreased reversing this trend. The remaining increase in non-oil import value was broadly spread between

volume and prices among capital goods, consumer goods, and foreign automotive imports. Average foreign car import prices appear to have risen about 3 percent in the first quarter leaving most of the quarterly rise in value to an increasing volume of car imports. Sales of foreign cars, which were very strong early in the year, eased in March and April and the run-down in stocks appears to have been halted.

Forty percent of the increase in imports in the first quarter was from the rising value of oil imports. Although the volume of oil imports decreased from a fourth quarter level of 8.7 million barrels per day (mbd) to a first quarter level of 8.5 mbd, the increase in quarterly average oil import prices from \$23.67/barrel to \$28.05/barrel resulted in a 15 percent increase in value.

Foreign official assets in the United States declined by \$3 billion in March, and partial data for April and May indicate a further decline of \$3-to-\$4 billion. German, Swiss, and Japanese support for their currencies during the recent strength of the dollar led to a \$7 billion decline in G-10 countries' holdings in March and further declines in April due to delayed settlements and the unwinding in April of swaps between the Bundesbank and commercial banks. In addition, about \$2 billion equivalent of March U.S. intervention purchases of marks were used to repay earlier drawings on the swap line with the Bundesbank; the repayments reduced German holdings in the United States commensurately. (Another billion dollars equivalent of U.S. foreign-currency purchases in March were added to U.S. reserve assets.) Partly offsetting the decline in G-10 countries' holdings was a rise OPEC holdings of \$2.7 billion. Partial data for April indicate a continued inflow of funds from OPEC.

Banks increased their reliance on affiliates in foreign countries during March. Funds from such sources were apparently used by member banks to support credit extensions in the United States, since weekend reserve-avoidance activity, which also results in an increase in net liabilities to foreign branches, declined sharply after mid-March. In April, both member banks and U.S. agencies and branches of foreign banks reduced the amounts of their net liabilities to foreign affiliates. (Recorded balance-of-payments data, as shown on the accompanying table, indicate an outflow of funds through banks in March, after an inflow in February. As noted last month, those apparent flows seem to be related to large transactions -- probably on the books of U.S. agencies and branches of foreign banks -- towards the end of February that were reversed in early March.)

In the first quarter of 1980, as in the last quarter of 1979, there were again quite sizeable capital inflows through other transactions, including those not elsewhere recorded in balance-of-payments accounts.

Euro-dollar CD holdings of open-ended, money-market mutual funds and short-term unit investment trusts were little changed over the period from late February to early May.

RESTRICTED

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

May 14, 1980

	1978	1979	1979				1980		
	Year	Year	Q2	Q3	Q4	Q1	Jan.	Feb.	March
1. Trade balance ^{1/}	-33,759	-29,450	-7,409	-7,248	-8,596	-12,222	-4,375	-5,088	-2,759
2. Merchandise exports	142,054	182,074	42,890	47,235	50,514	53,934	17,861	17,397	18,676
3. Merchandise imports	-175,813	-211,524	-50,299	-54,483	-59,110	-66,156	-22,236	-22,485	-21,435
4. <u>Change in net foreign positions of banking offices in U.S. (excl. liab. to foreign official inst.)</u>	-15,219	15,104	4,909	745	-5,334	8,499	8,078	6,398	-5,977
Through interbank transactions with									
5 a) Own offices in foreign countries	4,775	21,305	6,754	8,303	-9,110	6,392	4,492	6,642	-4,742
6 b) Unaffiliated banking offices in foreign countries	-4,607	3,694	-1,169	-2,344	6,373	2,737	4,075	-1,026	-312
Through nonbank transactions									
7 a) Claims on nonbanks in foreign countries (increase,-)	-16,463	-12,182	-2,036	-5,309	-3,830	-155	552	-165	-542
8 b) Liabilities to private nonbanks in foreign countries (inc. custody liab.)	1,076	2,287	1,360	95	1,234	-475	-1,042	947	-380
9. <u>Private securities transactions, net (excl. U.S. Treas. Oblig.)</u>	-783	-3,350	27	-1,951	-907	1,571	560	729	282
10. Foreign net purchases of U.S. corp. bonds	1,056	268	265	6	20	403	196	146	61
11. Foreign net purchases of U.S. corp. stocks	1,686	1,031	275	143	190	1,997	669	1,080	248
12. U.S. net purchases (-) of foreign securities	-3,525	-4,649	-513	-2,100	-1,117	-829	-305	-497	-27
13. <u>Foreign net purchases of U.S. Treasury obligations ^{2/}</u>	3,866	7,386	-119	1,466	921	3,280	2,129	769	382
14. <u>Change in foreign official reserve assets in U.S. (increase +)</u>	31,400	-13,013	-10,211	5,580	-299	-7,735	-3,523	-994	-3,219
By Area									
15. G-10 countries and Switzerland	30,732	-21,087	-11,628	4,819	-7,182	-10,824	-2,027	-1,754	-7,042
16. OPEC	-1,175	6,523	338	1,624	6,031	3,085	-869	1,279	2,674
17. All other countries	1,843	1,551	1,079	-863	852	4	-627	-519	1,149
By Type									
18. U.S. Treasury securities	23,849	-20,559	-12,853	5,030	-5,769	-5,501	1,726	-944	-6,283
19. Other ^{3/}	7,551	7,546	2,642	550	5,470	-2,234	-5,249	-50	3,064
20. <u>Change in U.S. reserve assets (increase -)</u>	662	-278	412	2,712	-394	-2,520	-2,034 ^{4/}	122	-608
21. <u>All other transactions and statistical discrepancy</u>	13,833	23,601	12,391	-1,304	14,609	9,127	-835	-1,936	11,899
MEMO:									
Current Account (bil. \$ seasonally adj., annual rates)	-13.5	-.3	-.7	-10.9	3.4	n.a.	n.a.	n.a.	n.a.

^{1/} International accounts basis, seasonally adjusted.^{2/} Includes U.S. Treasury notes publicly issued to private foreign residents^{3/} Includes deposits in banks, commercial paper, bankers' acceptances, and borrowing under repurchases agreements.^{4/} Includes newly allocated SDR's of \$1,150 million in January 1980.

IV-10

Foreign Economic Developments. Economic activity abroad remains quite strong. In Japan, industrial production for the first quarter this year was 12 percent more than in last year's first quarter and 4.4 percent more than in the fourth quarter of 1979. In Germany and Italy activity early this year has also been strong. Canadian industrial production rose slightly in January and February, after declining during the fourth quarter of last year. In France, Belgium and the Netherlands the level of activity has remained unchanged from the last quarter of 1979.

Consumer price inflation abroad has accelerated over the last two quarters, reaching an annual rate of 14.5 percent for a weighted average of ten major foreign industrial countries (wholesale prices for Japan) in the first quarter of this year, up from 10 percent in the fourth quarter of last year. In Japan high month-to-month rates continued through April. The most recent price data for Canada show an acceleration, while in Germany and France the most recent data indicate a slight easing of the rate of consumer price inflation.

Japan's current-account deficit has continued to widen during the first quarter of this year to \$5.1 billion, compared with a deficit of \$8.7 billion for the year 1979. The German current-account deficit, similarly, has increased to \$2.8 billion (n.s.a.) for the first quarter this year, after a deficit of \$5.0 billion for all of last year.

There has been some easing of foreign interest rates in April, as pressures from a strong dollar and high U.S. interest rates abated. German and Japanese interest rates were notable exceptions to this trend. The German Bundesbank announced further increases of its discount and

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

		1977	1978	1979	1979				1980	1979			1980		
					Q1	Q2	Q3	Q4	Q1	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Canada:	GNP	2.4	3.4	2.9	1.5	-0.6	1.1	0.2	n.a.	*	*	*	*	*	*
	IP	4.0	5.3	4.7	1.4	-1.2	2.3	-1.0	n.a.	-1.4	-0.4	-2.3	0.4	0.2	n.a.
France:	GDP	3.0	3.5	4.0	0.3	0.4	2.7	0.4	n.a.	*	*	*	*	*	*
	IP	2.0	1.9	3.8	-0.3	0.8	4.8	-2.9	n.a.	-2.2	1.5	0.7	0.0	0.0	n.a.
Germany:	GNP	2.6	3.5	4.3	0.4	2.0	1.1	0.7	n.a.	*	*	*	*	*	*
	IP	2.6	2.3	5.3	-0.3	3.4	1.9	0.0	1.3	0.8	0.0	0.0	0.8	0.8	0.0
Italy:	GDP	2.0	2.6	4.9	1.3	-0.8	1.1	3.9	n.a.	*	*	*	*	*	*
	IP	1.1	1.9	6.3	1.1	-2.6	1.4	7.8	3.5	3.8	0.6	-1.3	1.8	3.8	-0.5
Japan:	GNP	5.4	6.0	5.9	1.5	1.7	1.7	1.3	n.a.	*	*	*	*	*	*
	IP	4.2	6.2	8.3	1.8	2.4	2.0	2.6	4.4	2.6	1.2	-0.2	1.2	5.7	-2.7
United Kingdom:	GDP	1.8	2.7	1.7	-0.7	3.2	-1.7	0.3	n.a.	*	*	*	*	*	*
	IP	3.7	3.8	2.7	-0.2	4.2	-1.4	-0.2	n.a.	0.8	2.2	-1.8	-0.5	-1.3	n.a.
United States:	GNP	5.3	4.4	2.3	0.3	-0.6	0.8	0.5	0.3	*	*	*	*	*	*
	IP	5.9	5.8	4.1	1.0	-0.2	0.2	-0.1	0.0	-0.1	-0.1	0.1	0.3	-0.2	-0.8

* GNP data are not published on monthly basis.

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

	1977	1978	1979	Latest 3 Months from:							Latest Month	
				1978	1979				1980	Previous 3 Months (at Ann. Rate)		Year Ago
				Q4	Q1	Q2	Q3	Q4	Q1			
Canada: CPI	8.0	8.9	9.1	1.6	2.3	2.6	2.0	2.3	2.2	9.2	9.4	Mar.
WPI	7.9	9.2	14.4	3.3	4.9	3.1	2.7	3.6	n.a.	20.0	15.7	Feb.
France: CPI	9.5	9.2	10.6	2.1	2.2	2.8	3.2	2.8	3.8	16.2	13.3	Mar.
WPI	5.6	4.3	13.3	2.9	4.4	3.8	2.8	1.9	3.1	12.9	12.0	Mar.
Germany: CPI	3.9	2.6	4.0	0.1	1.8	1.4	1.2	0.9	1.9	8.9	5.7	Apr.
WPI	1.8	-0.3	7.1	0.1	3.4	3.3	1.7	1.1	3.8	16.3	10.3	Mar.
Italy: CPI	18.4	12.1	14.8	3.0	3.9	3.7	3.5	5.6	6.4	24.5	20.6	Apr.
WPI	17.4	8.4	15.5	2.2	4.4	4.6	4.3	5.6	6.6	29.1	22.8	Mar.
Japan: CPI	8.3	4.3	3.5	0.2	-0.2	2.2	0.9	1.9	2.0	10.3	7.5	Apr.
WPI	1.9	-2.5	7.3	-0.6	1.9	4.1	4.9	4.3	6.4	31.3	22.7	Apr.
United Kingdom: CPI	15.8	8.3	13.4	1.7	3.1	3.7	6.7	2.8	4.7	20.2	19.1	Mar.
WPI	19.8	9.1	12.2	1.7	2.7	4.0	5.0	3.0	5.3	23.1	18.9	Apr.
United States: CPI	6.5	7.6	11.3	2.0	2.5	3.4	3.3	2.9	3.9	16.5	14.3	Mar.
WPI	6.1	7.7	11.0	2.3	3.3	2.5	2.6	3.7	4.0	16.8	13.6	Apr.

TRADE AND CURRENT-ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES^a
(Billions of U.S. dollars; seasonally adjusted)

	1978	1979	1978	1979				1980	1980		
			Q4	Q1	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.
Canada: Trade	3.1	3.4	0.7	0.6	0.6	0.9	1.3	1.6	0.3	0.7	0.6
Current Account	-4.6	-4.3	-1.5	-1.2	-1.3	-0.9	-0.9	n.a.	*	*	*
France: Trade ^b	0.7	-2.4	0.1	0.3	-0.4	-1.4	-1.3	-3.5	-1.1	-1.0	-1.4
Current Account ^b	3.7	1.5	1.3	0.6	0.7	0.1	0.1	n.a.	*	*	*
Germany: Trade	20.6	12.1	5.8	4.4	4.0	2.4	1.4	n.a.	0.7	0.4	n.a.
Current Account ^c	8.9	-5.0	4.8	1.4	-1.1	-4.2	-1.1	-2.8	-1.2	-1.1	-0.5
Italy: Trade	-0.5	-5.3	0.1	-0.1	-0.4	-1.5	-3.3	-4.1	-1.7	-1.4	-1.1
Current Account ^c	6.4	5.2	1.7	1.1	2.1	3.9	-1.9	n.a.	*	*	*
Japan: Trade	24.6	2.0	4.2	2.5	1.9	-1.0	-1.4	-1.9	-0.2	-0.4	-1.2
Current Account	16.5	-8.7	1.7	0.1	-0.7	-3.9	-4.2	-5.1	-1.2	-1.5	-2.4
United Kingdom: Trade	-2.9	-6.9	-0.4	-3.2	-1.0	-1.1	-1.6	-1.6	-0.7	-0.5	-0.4
Current Account	1.8	-5.1	1.1	-2.4	-0.6	-0.5	-1.5	-1.3	-0.6	-0.4	-0.3
United States: Trade	-33.8	-29.4	-6.0	-6.2	-7.4	-7.2	-8.6	-12.2	-4.4	-5.1	-2.8
Current Account	-13.5	-0.3	0.1	0.3	-0.8	1.1	-0.9	n.a.	*	*	*

a The current account includes goods, services, and private and official transfers.

b French annual data are not seasonally adjusted.

c Not seasonally adjusted.

* Comparable monthly current account data are not published.

Lombard rates on April 30. This was followed on May 2 by a discount rate increase by the Netherlands National Bank.

In Germany, economic activity has remained buoyant so far this year. Industrial production through March has increased from the high level of late last year. The rate of unemployment has remained at 3.5 percent in April. There have been several statements recently by German officials indicating a stronger-than-expected performance of economic activity this year.

Inflation through April has continued at a high rate by German standards. The April cost of living index was up 0.5 percent from March and 5.7 percent from April of last year. During the first four months of this year the cost of living rose at an annual rate of above 8 percent. Wholesale and producers prices have accelerated even more rapidly.

For the first quarter of this year, the current-account deficit (n.s.a.) was \$2.8 billion, compared with a \$1.4 billion surplus in the corresponding quarter of 1979.

Effective May 2, the Bundesbank raised its discount rate from 7 to 7-1/2 percent and its Lombard rate from 8-1/2 to 9-1/2 percent. At the same time, about DM 8 billion in liquidity was provided to the banks by a reduction of 8 percent in reserve requirements and an expansion of rediscount quotas. The last increase in Bundesbank rates prior to these measures was on February 28.

Upward pressure on prices in Japan has remained strong in recent months in spite of earlier measures to tighten monetary and fiscal conditions. The wholesale price index registered another very large increase in April and was 24 percent above its year-ago level. In April,

the Tokyo consumer price index moved upward sharply -- in part because of higher utility charges put into effect in early April -- but was still only about 7-1/2 percent above its level in April 1979. Activity in Japan also seems to be relatively unaffected as yet by tighter policies. Although industrial production has moved erratically in recent months, the average level for the first quarter was almost 12 percent above the corresponding level in the first quarter of 1979.

The Japanese current-account deficit widened in March, reaching a monthly deficit of over \$2.4 billion. As a result, the first-quarter deficit was more than \$5.1 billion. The March rise in the deficit was about equally divided between decreased exports and increased imports.

Measures taken earlier to provide support for the yen appear to have achieved some success in April and May, as the yen has strengthened both against the dollar and on a weighted average basis despite adverse current-account developments and recent difficulties with Iran over the price to be paid for imported Iranian oil. The announcement on April 25 of a DM 2.5 billion swap-line agreement (about \$1.4 billion equivalent) with the German central bank, and the announcement of an estimated ¥50 billion per month (\$215 million equivalent) borrowing arrangement with the Saudi Arabian monetary authority, supported this strengthening trend.

Canada, recorded moderate growth in economic activity during 1980-QI. Industrial production rose at a low rate in both January and in February. The trade surplus for the first quarter was more than \$1.5 billion, compared with almost \$3.0 billion for all of 1979. The rate

of consumer price inflation accelerated in March. The monthly increase was 1.1 percent compared with February's 0.9 percent.

On April 21, Deputy Prime Minister and Finance Minister MacEachen in a surprise move announced a "mini-budget" for 1980. This mini-budget includes a 5 percent corporate income tax surcharge as well as higher taxes on cigarettes and liquor -- these measures were previously contained in the Clark Administration's ill-fated 1980 budget. The Liberal government is expected to submit a more comprehensive budget for 1980 sometime this summer. The timing of this budget depends on negotiations with the Province of Alberta on a federal/provincial split of revenues from higher energy prices.

In the United Kingdom real consumer spending rose 2 percent in the first quarter of this year. Part of this increase reflected the stocking of alcoholic beverages ahead of the March 26 Budget, which imposed higher taxes on these items. After increasing in January and February, the volume of retail sales fell 1 percent in March, indicating that consumption spending may be leveling off. Industrial production fell in the first two months of this year, mainly as a result of a strike against the nationalized sector of the steel industry. The unemployment rate, which has been rising continuously since November last year, increased from 5.8 percent in March to 6.0 percent in April (s.a.) bringing the level of unemployment to 1.46 million, the highest in the post-war period.

The rate of inflation in recent months remained high but below the peak rate of January; the rate of increase in wholesale prices for manufactured goods declined from 1.6 percent in February to 1.3 percent in

March (n.s.a.), and the retail price index rose 1.4 percent in March (n.s.a.), the same as in February. Given the large increases in average earnings, and the excise taxes announced in the March 26 Budget, which will raise retail prices about 1 percent, price increases are unlikely to moderate in the near future.

French real GDP growth in the fourth quarter of 1979 slowed to 2.5 percent (s.a.a.r.) from more than 7.5 percent in the previous quarter. Recent industrial production figures and survey data indicate that growth may slow further in the first half of this year, but will probably not stagnate. Entrepreneurs perceive stocks as rising, orders as falling, and a smaller fraction expects production to increase now than did in the last half of 1979. Consumer prices and wholesale prices have surged recently, increasing by 3.8 percent and 3.1 percent respectively in the first quarter over the previous quarter. However, recent monthly figures show some deceleration. In the first quarter this year, France had a trade deficit of \$3.5 billion; the deficit for all of 1979 was \$2.4 billion.

French money growth (M-2) was more than 14 percent in 1979, 3 percent above the 11 percent target. The excessive growth was primarily due to rapid growth in credit to activities not fully integrated into the French credit control system. In an effort to deal with such excessive monetary growth, the Bank of France increased to 50 percent the fraction of formerly excluded credits that must be included in restricted credit. That fraction was only 30 percent in the last quarter of 1979 and 40 percent for the first quarter of this year.

The upswing in economic activity in Italy that characterized the last part of 1979 has continued in the early part of 1980. In 1979Q-IV real GDP increased by 3.9 percent compared with 1.1 percent in the previous quarter. The strong fourth-quarter performance resulted in a growth rate of real GDP of almost 5 percent in 1979. Industrial production in the first two months of 1980 was 9-1/2 percent higher than year-earlier levels. The rate of increase in consumer prices decelerated in February and March following a sharp jump in January, but picked up again in April. In the first quarter the CPI rose almost 6.5 percent from its 1979Q-IV level. The trade deficit has widened substantially in the past few months, with a 1980 first-quarter deficit of \$4.1 billion, compared with a deficit of \$0.1 billion in the first quarter of 1979 (customs basis, imports c.i.f.). This deterioration may reflect not only oil-price increases and stockbuilding, but also a loss of competitiveness resulting from a high rate of inflation in Italy relative to that of its trading partners.

In Belgium and the Netherlands preliminary data have yet to show any reduction in the rate of real activity from 1979Q-IV to 1980Q-I. The unemployment rate remains at the level reached at the end of 1979 in both countries. Consumer price inflation in Belgium rose from 5.8 percent (a.r.) in 1979Q-IV to almost 10 percent in the first quarter of this year. In the Netherlands, the rate was approximately unchanged over this interval at slightly more than 6 percent. In order to maintain the value of the guilder within the EMS and to maintain Dutch interest rates in a balanced relationship with those of other EMS countries, the Netherlands National Bank raised its discount rate from

9.5 percent to 10 percent as of May 2, 1980.

In Sweden, the most serious labor dispute in 70 years ended on May 12 with the acceptance of a mediation proposal by the Swedish employers confederation. On May 2, over 750,000 workers were locked out by employers, and 100,000 others went on strike -- thus, about 25 percent of Sweden's labor force was not at work. A 2.3 percent nominal pay increase proposed by government-appointed mediators was rejected by the private, blue-collar union, which was asking for an 11.3 percent increase. The wage demands and offers were virtually identical in the public sector. New pay offers of 6.8 and 7.2 percent for private and public sector employees, respectively, were finally accepted.

The Danish government mustered a thin parliamentary majority for a supplementary economic program. The most significant part of this austerity program is an increase in the value-added tax effective July 1, from 20.25 to 22 percent. The package also includes new energy taxes, a \$1.25 billion cut in government spending in 1981, and a \$1 billion program to promote industry.