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Part 1

May 14, 1975

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

CONFIDENTIAL (FR)

May 14, 1975

SUMMARY AND OUTLOOK

By the Staff
Board of Governors
of the Federal Reserve System

SUMMARY AND OUTLOOK

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. Indications that the economic recession is nearing its bottom have become more widespread over the past month. The inventory overhang was reduced substantially further in March. In April, industrial production declined only fractionally further, and total employment increased somewhat for the first time in over half a year. Retail sales, other than autos, have continued to rise, and the tax rebate checks now being mailed out should add strength to consumer outlays in the months ahead. Continued moderation of inflationary pressures will also provide support to growth in real disposable income and consumer spending. At the same time, weaknesses in auto demand, investment spending, and residential construction raise doubts regarding the timing and vigor of the expected recovery.

The index of industrial production, according to preliminary estimates, declined by 0.4 per cent in April, less than half the drop in March and substantially smaller than the declines of the previous four months. Production of business equipment, steel, and durable materials continued to fall, but consumer goods output rose, largely as a result of increased auto assemblies and a rise in output of non-durables--where inventory positions have improved.

Total employment rose by about a quarter million in April, but the civilian labor force increased even more rapidly, and the unemployment rate rose further to 9.9 per cent. Manufacturing

payroll employment declined, but by substantially less than in other recent months, with the cuts concentrated in the durable-goods sector. The manufacturing workweek--generally a reliable lead indicator of activity--rose by 0.2 hours. Some increase in the unemployment rate is indicated by the further rise in total insured unemployment since the April survey period, although initial claims have continued their downward trend of recent months, reflecting fewer new layoffs.

Retail sales have continued to present a fairly firm tone, with the exception of autos. Excluding autos, retail sales rose by 1.2 per cent in April, about the average pace of growth since the beginning of the year. With consumer prices rising more moderately, this suggests continued real gains.

Sales of domestic-type cars totaled only 5.5 million units, annual rate, in late April--down from the first 20 days. For April as a whole, the annual sales rate was 5.7 million, compared with 6.0 million in March, and about equal to the low of the immediate pre-rebate period. With assemblies up and sales down, auto stocks rose for the first time this year, and producers have started to scale down production plans for the next few months. Sales of foreign cars held up quite well last month at 1.6 million, annual rate, possibly because of the large inventory of models available at 1974 prices.

Residential construction activity has yet to show any recovery, despite the strong inflows of savings to mortgage lenders. Private housing starts were about unchanged in March. Reports suggest

that the 5 per cent tax credit on new homes has thus far had only a moderate effect in clearing the heavy overhang of existing homes, in part because of a reluctance on the part of builders to offer homes at their historically lowest price.

The near-term outlook for business spending remains gloomy. New orders for nondefense capital goods fell further in March, and in real terms are now 37 per cent below the peak last summer. In addition, contracts for commercial and industrial buildings declined another 15 per cent in March to half their level a year earlier. Yet, the most recent surveys of anticipated plant and equipment outlays suggest that businessmen have ceased cutting their spending plans for this year.

The annual rate of inventory liquidation in the GNP accounts appears to have been somewhat larger than the \$18 billion preliminary estimate by Commerce for the first quarter. The book value of manufacturing and trade inventories decreased at a \$23.1 billion annual rate in March; for the first quarter as a whole, the decline is estimated at \$11.6 billion. The dollar value of manufacturers' stocks declined in March for the first time in nearly 4 years, with the liquidation concentrated in nondurable goods.

Both wages and prices have continued to show signs of moderation in recent months. The average hourly earnings index

increased at an annual rate of 6.7 per cent between December and April, compared with an 8.7 per cent rate of increase in the second half of last year. Wholesale farm and food prices rose in April, but industrials were about unchanged, and have risen at only a 2.4 per cent annual rate over the last three months. Consumer prices in March rose by 0.3 per cent, the smallest increase since July 1973.

Outlook. The current staff GNP projection continues to show an economic recovery in the third quarter, but it is now expected to be less vigorous than was depicted in the last Greenbook. Real GNP is now projected to grow about 5 per cent in the four quarters ending second quarter 1976, about half a per cent less than expected a month ago. The general contour of the projection remains similar-- with a small decline in real GNP during the current quarter and a recovery thereafter.

The policy assumptions underlying this projection have changed very little since the preceding Greenbook. On the monetary side, we assume a rate of growth of M_1 over the next year around the midpoint of a 5--7½ per cent range. As before, we assume that short-term interest rates are likely to come under upward pressure as the recovery commences, carrying the bill rate somewhat above 8 per cent by the middle of 1976, and resulting in a moderation of inflows into thrift accounts.

On the fiscal side, we project a FY 1976 unified budget deficit of \$76 billion. Projections of total spending have been increased slightly, with budget outlays now estimated at \$366 billion, or \$1 billion below the recent Congressional target. Estimates of marginal tax rates have been increased somewhat to yield \$4 billion more in revenues, but this still leaves our revenue projection well below Congressional estimates, mainly because of our lower income estimates.

During the current quarter, we expect a decline in real GNP of about 1 per cent, annual rate, compared to the 10½ per cent drop of the first quarter. Inventory liquidation is expected to continue, but at a considerably slower pace than in the first quarter, with little further reduction in nondurable inventories and some backup of auto stocks. This projected slowdown in inventory liquidation provides support to GNP growth. But with consumer durable purchases remaining sluggish and exports declining, final sales in real terms are expected to shrink. Housing starts are now projected to increase by only about 100,000 units in this quarter--to an annual rate of 1.1 million.

The main items expected to bolster GNP growth during the second half of this year are the expansive effects on consumption of tax reductions and larger social security payments, a rise in housing starts to a 1.5 million level by year-end, and a continuing moderation in the pace of inventory liquidation. The expansive thrust of these

sectors is now expected to be somewhat less than we thought a month ago. Business fixed investment is still assumed to decline in real terms through the remainder of 1975. We expect the rate of expansion in real GNP to edge down somewhat in the spring of next year, as the effects of the tax rebate wear off and housing starts level out in response to a projected weakening of savings inflows.

Unemployment is expected to peak at around 9.4 per cent during the third quarter and to edge down slightly thereafter. Our price projection remains essentially unchanged--with the GNP fixed weighted deflator expected to be rising at a $5\frac{1}{2}$ per cent annual rate toward the end of this year and somewhat less by mid-1976.

STAFF GNP PROJECTIONS

	Changes in nominal GNP (\$ billions)		Per cent change, annual rate					
			Real GNP		Gross private product fixed weighted price index		Unemployment rate (per cent)	
1971 <u>1/</u>	77.8	77.8	3.3	3.3	4.3	4.3	5.9	5.9
1972 <u>1/</u>	103.1	103.1	6.2	6.2	3.3	3.3	5.6	5.6
1973 <u>1/</u>	136.9	136.9	5.9	5.9	6.3	6.3	4.9	4.9
1974 <u>1/</u>	102.5	102.5	-2.1	-2.1	11.4	11.4	5.6	5.6
1975	65.9	65.8	-3.9	-4.1	9.3	9.3	9.0	9.1
1973-III <u>1/</u>	31.0	31.0	1.6	1.6	8.4	8.4	4.8	4.8
IV <u>1/</u>	35.1	35.1	2.3	2.3	9.1	9.1	4.8	4.8
1974-I <u>1/</u>	14.8	14.8	-7.0	-7.0	14.1	14.1	5.2	5.2
II <u>1/</u>	25.0	25.0	-1.6	-1.6	12.3	12.3	5.1	5.1
III <u>1/</u>	32.5	32.5	-1.9	-1.9	13.8	13.8	5.5	5.5
IV <u>1/</u>	14.6	14.6	-9.0	-9.0	12.6	12.6	6.6	6.6
1975-I <u>1/</u>	-15.4	-11.7	-11.2	-10.4	8.1	7.6	8.3	8.3
II	20.0	19.8	-.7	-1.2	6.7	6.8	9.1	9.2
III	42.5	37.0	6.5	4.6	5.5	5.7	9.3	9.4
IV	46.0	42.5	6.8	5.7	5.2	5.3	9.2	9.3
1976-I	37.0	39.5	4.9	5.6	4.8	4.8	9.0	9.1
II	35.5	35.0	4.7	4.6	4.5	4.5	9.0	9.1
Change:								
73-IV to								
74-IV	86.9	86.9	-4.9	-4.9	13.0	13.0	1.8	1.8
74-II to								
75-II	51.7	55.2	-5.8	-5.7	10.4	10.4	4.0	4.1
74-IV to								
75-IV	93.1	87.6	.3	-.5	6.6	6.6	2.6	2.7
75-II to								
76-II	161.0	154.0	5.7	5.1	5.0	5.1	-.1	-.1

1/ Actual.

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

	1974		1975				1976	
	III	IV	1p	II	III	IV	I	II
Gross National Product	1416.3	1430.9	1419.2	1439.0	1476.0	1518.5	1558.0	1593.0
Final purchases	1407.6	1413.1	1437.1	1450.5	1484.8	1522.5	1555.5	1588.0
Private	1095.3	1089.3	1104.3	1112.5	1141.0	1168.2	1193.2	1217.9
Excluding net exports	1098.4	1087.4	1098.9	1113.1	1145.0	1175.8	1201.9	1227.8
Personal consumption expenditures	901.3	895.8	916.3	934.7	961.3	985.2	1005.3	1025.5
Durable goods	136.1	120.7	125.5	125.5	130.5	136.0	140.0	142.5
Nondurable goods	389.0	391.7	399.3	408.7	420.5	429.4	436.3	444.7
Services	376.2	383.5	391.5	400.5	410.3	419.8	429.0	438.3
Gross private domestic investment	205.8	209.4	164.6	166.9	174.9	186.6	199.1	207.3
Residential construction	46.2	40.4	35.2	35.6	39.9	44.8	48.3	51.0
Business fixed investment	150.9	151.2	147.4	142.8	143.8	145.8	148.3	151.3
Change in business inventories	8.7	17.8	-18.0	-11.5	-8.8	-4.0	2.5	5.0
Nonfarm	6.6	17.5	-16.6	-10.5	-8.5	-5.0	2.5	5.0
Net exports of goods and services ^{1/}	-3.1	1.9	5.4	-6	-4.0	-7.6	-8.7	-9.9
Exports	143.6	147.5	143.5	135.9	136.3	139.4	144.9	150.2
Imports	146.7	145.7	138.1	136.5	140.3	147.0	153.6	160.1
Gov't. purchases of goods and services	312.3	323.8	332.8	338.0	343.8	354.3	362.3	370.1
Federal	117.2	124.5	127.7	129.0	129.6	134.3	136.4	138.0
Defense	78.4	84.0	85.2	85.7	85.9	89.3	90.4	91.6
Other	38.8	40.6	42.5	43.3	43.7	45.0	46.0	46.4
State & local	195.1	199.3	205.1	209.0	214.2	220.0	225.9	232.1
Gross national product in constant (1958)dollars	823.1	804.0	782.3	779.9	788.8	799.8	810.8	819.9
GNP implicit deflator (1958=100)	172.1	178.0	181.4	184.5	187.1	189.9	192.2	194.3
Personal income	1168.2	1186.9	1193.0	1220.3	1246.2	1274.3	1300.6	1328.9
Wage and salary disbursements	763.0	769.2	764.9	775.7	791.5	808.8	828.2	845.6
Disposable income	993.1	1008.8	1017.4	1082.6	1074.7	1095.7	1112.6	1134.6
Personal saving	65.5	86.5	74.8	122.0	87.2	83.9	80.3	81.6
Saving rate (per cent)	6.6	8.6	7.4	11.3	8.1	7.7	7.2	7.2
Corporate profits & inventory val. adj.	105.8	103.4	93.1	93.1	100.9	111.5	116.8	121.9
Corporate profits before tax	157.0	131.5	99.3	101.5	106.5	116.5	120.5	125.0
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts ^{2/}	302.8	294.7	277.0	241.0	277.7	289.6	305.5	314.6
Expenditures	304.7	319.3	338.0	354.7	360.7	371.6	378.6	386.7
Surplus or deficit (-) ^{2/}	-1.9	-24.5	-61.0	-113.7	-83.0	-82.0	-73.1	-72.1
High employment surplus or deficit (-)	24.7	17.8	9.7	-36.9	-5.9	-9.8	-5.9	-6.2
State and local government surplus or deficit (-), (N.I.A. basis)	2.1	-.1	-2.4	-2.0	-1.4	-.1	.5	-.2
Total labor force (millions)	93.6	94.0	94.0	94.5	94.7	94.8	94.9	95.2
Armed forces "	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Civilian labor force "	91.4	91.8	91.8	92.3	92.5	92.6	92.7	93.0
Unemployment rate (per cent)	5.5	6.6	8.3	9.2	9.4	9.3	9.1	9.1
Nonfarm payroll employment (millions)	78.7	78.3	76.8	76.2	76.1	76.2	76.5	77.0
Manufacturing	20.1	19.6	18.4	17.8	17.7	17.8	17.9	18.1
Industrial production (1967 = 100)	125.4	121.3	111.6	110.1	112.2	114.5	117.1	119.0
Capacity utilization, mfg. (per cent)	79.4	75.7	68.2	67.0	67.7	68.5	69.5	70.0
Major materials (per cent)	88.5	79.1	70.5	70.2	71.4	72.9	74.4	75.2
Housing starts, private (millions, A.R.)	1.21	1.00	.99	1.10	1.33	1.50	1.55	1.50
Sales new autos (millions, A.R.)	10.07	7.38	8.31	7.60	8.25	9.00	9.50	9.50
Domestic models	8.52	6.05	6.60	6.00	6.65	7.40	7.90	7.90
Foreign models	1.55	1.33	1.71	1.60	1.60	1.60	1.60	1.60
^{1/} Net exports of g. & s. (Bal. of paymts)	-1.3 ^{3/}	3.33 ^{3/}	11.63 ^{3/}	5.63 ^{3/}	2.2	-1.4	-2.5	-3.7
Exports	146.8 ^{3/}	151.1 ^{3/}	148.8 ^{3/}	141.2 ^{3/}	141.6	144.7	150.2	155.5
Imports	148.1	147.8	137.2	135.6	139.4	146.1	152.7	159.2

^{2/} Federal government N.I.A. receipts are reduced to reflect the \$8.1 billion rebate of 1974 individual income taxes and \$9.3 billion reduction in 1975 individual income taxes in those quarters. This latter reduction enacted only for 1975, is assumed to be continued in 1976.

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

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1974			1975			1976	
	III	IV	Ip	Projection			I	II
				II	III	IV		
	-----Billions of Dollars-----							
Gross National Product	32.5	14.6	-11.7	19.8	37.0	42.5	39.5	35.0
Inventory change	-4.8	9.1	-35.8	6.5	2.7	4.8	6.5	2.5
Final purchases	37.3	5.5	24.0	13.4	34.3	37.7	33.0	32.5
Private	29.4	-6.0	15.0	8.2	28.5	27.2	25.0	24.7
Net exports	-1.6	5.0	3.5	-6.0	-3.4	-3.6	-1.1	-1.2
Excluding net exports	31.0	-11.0	11.5	14.2	31.9	30.8	26.1	25.9
Personal consumption expenditures	32.2	-5.5	20.5	18.4	26.6	23.9	20.1	20.2
Durable goods	6.6	-15.4	4.8	.0	5.0	5.5	4.0	2.5
Nondurable goods	13.2	2.7	7.6	9.4	11.8	8.9	6.9	8.4
Services	12.4	7.3	8.0	9.0	9.8	9.5	9.2	9.3
Residential fixed investment	-2.6	-5.8	-5.2	.4	4.3	4.9	3.5	2.7
Business fixed investment	1.5	.3	-3.8	-4.6	1.0	2.0	2.5	3.0
Government	7.9	11.5	9.0	5.2	5.8	10.5	8.0	7.8
Federal	2.9	7.3	3.2	1.3	.6	4.7	2.1	1.6
State and local	5.0	4.2	5.8	3.9	5.2	5.8	5.9	6.2
GNP in constant (1958) dollars	-4.0	-19.1	-21.7	-2.4	8.9	11.0	11.0	9.1
Final purchases	-.8	-25.0	.2	-4.1	6.5	7.7	6.1	7.1
Private	-.9	-25.4	-1.8	-4.5	6.7	8.1	7.1	6.6
	-----In Per Cent Per Year ^{1/} -----							
Gross National Product	9.7	4.2	-3.2	5.7	10.7	12.0	10.8	9.3
Final purchases	11.3	1.6	7.0	3.8	9.8	10.6	9.0	8.6
Private	11.5	-2.2	5.6	3.0	10.6	9.9	8.8	8.5
Personal consumption expenditures	15.7	-2.4	9.5	8.3	11.9	10.3	8.4	8.3
Durable goods	22.0	-38.1	16.9	.0	16.9	18.0	12.3	7.3
Nondurable goods	14.8	2.8	8.0	9.8	12.1	8.7	6.6	7.9
Services	14.3	8.0	8.6	9.5	10.2	9.6	9.1	9.0
Gross private domestic investment	-10.9	7.2	-61.8	5.7	20.6	29.6	29.6	17.5
Residential structures	-19.7	-41.5	-42.4	4.6	57.8	58.9	35.1	24.3
Business fixed investment	4.1	.8	-9.7	-11.9	2.8	5.7	7.0	8.3
Gov't purchases of goods and services	10.8	15.6	11.6	6.4	7.0	12.8	9.3	8.9
Federal	10.5	27.3	10.7	4.1	1.9	15.3	6.4	4.8
Defense	9.7	31.8	5.8	2.4	.9	16.8	5.0	5.4
Other	12.2	19.9	20.1	7.7	3.7	12.4	9.2	3.5
State and local	10.9	8.9	12.2	7.8	10.3	11.3	11.2	11.4
GNP in constant (1958) dollars	-1.9	-9.0	-10.4	-1.2	4.6	5.7	5.6	4.6
Final purchases	-.4	-11.7	.1	-2.0	3.4	3.9	3.1	3.6
Private	-.5	-14.3	-1.1	-2.8	4.3	5.1	4.4	4.0
GNP implicit deflator	11.9	14.4 ^{2/}	8.0 ^{2/}	7.0	5.8	6.0 ^{2/}	5.0 ^{2/}	4.5
Private GNP fixed weighted index ^{3/}	13.8	12.6	7.6	6.8	5.7	5.3	4.8	4.5
Personal income	12.4	6.6	2.1	9.5	8.8	9.3	8.5	9.0
Wage and salary disbursements	9.9	3.3	-2.2	5.8	8.4	9.0	9.9	8.7
Disposable income	11.5	6.5	3.5	28.2	-2.9	8.0	6.3	8.2
Corporate profits before tax	62.8	-50.8	-67.5	9.2	21.2	43.2	14.5	15.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	21.2	-10.3	-21.9	-42.7	76.3	18.3	23.8	12.5
Expenditures	19.2	20.6	25.6	21.3	6.9	12.6	7.8	8.8
Nonfarm payroll employment	1.7	-1.7	-7.7	-3.1	-.5	.5	1.6	2.6
Manufacturing	-.6	-10.4	-22.3	-12.4	-2.2	2.3	2.3	4.5
Industrial production	-.3	-12.5	-28.4	-5.2	7.9	8.3	9.6	6.5
Housing starts, private	-60.7	-53.0	-5.1	53.7	113.7	61.8	14.0	-12.3
Sales new autos	45.5	-71.2	60.9	-30.0	38.9	41.6	24.1	.0
Domestic models	33.8	-74.6	41.8	-31.7	50.9	53.3	29.9	.0
Foreign models	138.3	-46.2	173.3	-23.4	.0	.0	.0	.0

^{1/} Percentage rates are annual rates compounded quarterly.

^{2/} Excluding Federal pay increases rates of change are: 1974-IV, 13.7 per cent; 1975-I, 7.8 per cent; 1975-IV, 5.3 per cent; and 1976-I, 4.8 per cent.

^{3/} Using expenditures in 1967 as weights.

May 14, 1975

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

	1972		1973				1974	
	III	IV	I	II	III	IV	I	II
Gross National Product	1169.3	1204.7	1248.9	1277.9	1308.9	1344.0	1358.8	1383.8
Final purchases	1159.1	1193.7	1238.9	1267.2	1297.0	1315.1	1341.9	1370.3
Private	904.0	931.1	969.9	993.9	1020.1	1028.7	1045.6	1065.9
Excluding net exports	908.8	936.4	970.7	993.4	1013.4	1019.4	1034.3	1067.4
Personal consumption expenditures	736.8	757.2	781.7	799.0	816.3	823.9	840.6	869.1
Durable goods	121.2	124.3	132.4	132.1	132.4	124.3	123.9	129.5
Nondurable goods	302.0	310.9	323.3	332.7	343.8	352.1	364.4	375.8
Services	313.6	322.0	325.9	334.2	340.1	347.4	352.4	363.8
Gross private domestic investment	182.1	190.2	199.0	205.1	209.0	224.5	210.5	211.8
Residential construction	54.5	56.7	58.5	58.7	58.1	53.6	48.4	48.8
Business fixed investment	117.5	122.5	130.5	135.6	139.0	141.9	145.2	149.4
Change in business inventories	10.2	11.0	10.0	10.7	11.8	28.9	16.9	13.5
Nonfarm	9.6	10.4	6.5	7.7	7.4	24.0	13.1	10.4
Net exports of goods and services ^{1/}	-4.8	-5.3	-.8	.5	6.7	9.3	11.3	-1.5
Exports	73.3	78.5	88.8	95.4	103.7	113.6	131.2	138.5
Imports	78.1	83.8	89.5	94.9	96.9	104.3	119.9	140.0
Gov't. purchases of goods and services	255.1	262.6	269.0	273.3	276.9	286.4	296.3	304.4
Federal	102.7	105.2	106.4	106.2	105.3	108.4	111.5	114.3
Defense	72.6	74.7	75.0	74.0	73.3	75.3	75.8	76.6
Other	30.1	30.5	31.4	32.2	32.0	33.1	35.7	37.7
State & local	152.4	157.4	162.6	167.1	171.6	177.9	184.8	190.1
Gross national product in constant (1958) dollars	798.1	814.2	832.8	837.4	840.8	845.7	830.5	827.1
GNP implicit deflator (1958 = 100)	146.5	148.0	150.0	152.6	155.7	158.9	163.6	167.3
Personal income	950.3	985.0	1013.6	1039.2	1068.0	1099.3	1112.5	1134.6
Wage and salary disbursements	631.4	647.5	667.6	683.8	698.2	717.0	727.6	745.2
Disposable income	807.2	838.1	869.5	892.1	913.9	939.4	950.6	966.5
Personal saving	49.3	58.9	65.3	69.6	73.2	89.3	84.4	71.5
Saving rate (per cent)	6.1	7.0	7.5	7.8	8.0	9.5	8.9	7.4
Corporate profits & inventory val. adj.	92.9	99.8	103.9	105.0	105.2	106.4	107.7	105.6
Corporate profits before tax	100.2	108.2	120.4	124.9	122.7	122.7	135.4	139.0
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	228.4	235.6	249.1	255.0	261.8	268.3	278.1	288.6
Expenditures	238.2	261.2	260.2	262.4	263.4	270.6	281.0	291.6
Surplus or deficit (-)	-9.8	-25.6	-11.2	-7.4	-1.7	-2.3	-2.8	-3.0
High employment surplus or deficit (-)	1.3	-19.2	-8.5	-3.4	4.6	4.8	14.0	19.6
State and local government surplus or deficit (-), (N.I.A. basis)	9.2	19.1	13.2	10.4	8.4	4.6	3.2	2.0
Total labor force (millions)	89.3	89.6	90.0	90.8	91.3	92.1	92.7	92.9
Armed forces "	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.2
Civilian labor force "	86.9	87.1	87.6	88.5	89.0	89.8	90.5	90.6
Unemployment rate (per cent)	5.6	5.3	5.0	4.9	4.8	4.8	5.2	5.1
Nonfarm payroll employment (millions)	74.0	74.9	75.8	76.5	77.1	77.8	78.0	78.3
Manufacturing	19.2	19.5	19.8	20.0	20.1	20.3	20.2	20.2
Industrial production (1967 = 100)	116.3	120.2	123.1	124.8	126.7	127.0	124.9	125.5
Capacity utilization, mfg. (per cent)	79.4	81.5	82.8	83.3	83.3	82.6	80.5	80.1
Major materials (per cent)	90.6	92.3	93.0	93.4	93.5	92.3	90.2	90.2
Housing starts, private (millions, A.R.)	2.37	2.42	2.39	2.17	2.01	1.62	1.61	1.53
Sales new autos (millions, A.R.)	11.21	11.68	12.18	12.03	11.33	10.15	9.04	9.17
Domestic models	9.59	9.90	10.26	10.17	9.66	8.51	7.49	7.92
Foreign models	1.61	1.78	1.92	1.85	1.67	1.64	1.55	1.25
^{1/} Net exports of g. & s. (Bal. of Paymts.)	-4.8	-5.3	-.7	.5	6.6	10.92 ^{2/}	11.22 ^{2/}	-7.2 ^{2/}
Exports	73.3	78.5	88.8	95.4	103.7	116.02 ^{2/}	132.32 ^{2/}	140.22 ^{2/}
Imports	78.1	83.8	89.5	94.9	97.1	105.1	121.1	140.9

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

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1972		1973				1974	
	III	IV	I.	II	III	IV	I	II
-----Billions of Dollars-----								
Gross National Product	26.3	35.4	44.2	29.0	31.0	35.1	14.8	25.0
Inventory change	2.2	.8	-1.0	.7	1.1	17.1	-12.0	-3.4
Final purchases	24.0	34.6	45.2	28.3	29.8	18.1	26.8	28.4
Private	22.7	27.1	38.8	24.0	26.2	8.6	16.9	20.3
Net exports	2.1	-.5	4.5	1.3	6.2	2.6	2.0	-12.8
Excluding net exports	20.6	27.6	34.3	22.7	20.0	6.0	14.9	33.1
Personal consumption expenditures	16.2	20.4	24.5	17.3	17.3	7.6	16.7	28.5
Durable goods	5.0	3.1	8.1	-.3	.3	-8.1	-.4	5.6
Nondurable goods	4.6	8.9	12.4	9.4	11.1	8.3	12.3	11.4
Services	6.6	8.4	3.9	8.3	5.9	7.3	5.0	11.4
Residential fixed investment	1.6	2.2	1.8	.2	-.6	-4.5	-5.2	.4
Business fixed investment	2.8	5.0	8.0	5.1	3.4	2.9	3.3	4.2
Government	1.3	7.5	6.4	4.3	3.6	9.5	9.9	8.1
Federal	-3.2	2.5	1.2	-.2	-.9	3.1	3.1	2.8
State and local	4.5	5.0	5.2	4.5	4.5	6.3	6.9	5.3
GNP in constant (1958) dollars	11.5	16.1	18.6	4.6	3.4	4.9	-15.2	-3.4
Final purchases	9.7	15.6	20.2	4.1	3.1	-7.0	-5.8	-1.0
Private	11.7	14.4	19.1	4.3	3.3	-9.0	-6.1	-.8
-----In Per Cent Per Year ^{1/} -----								
Gross National Product	9.5	12.7	15.5	9.6	10.1	11.2	4.5	7.6
Final purchases	8.7	12.5	16.0	9.5	9.7	5.7	8.4	8.7
Private	10.7	12.5	17.7	10.3	11.0	3.4	6.7	8.0
Personal consumption expenditures	9.3	11.5	13.6	9.2	8.9	3.8	8.4	14.3
Durable goods	18.4	10.6	28.7	-.9	.9	-22.3	-1.3	19.3
Nondurable goods	6.3	12.3	16.9	12.1	14.0	10.0	14.7	13.1
Services	8.9	11.2	4.9	10.6	7.3	8.9	5.9	13.6
Gross private domestic investment	15.9	19.0	19.8	12.8	7.8	33.1	-22.7	2.5
Residential structures	12.7	17.2	13.3	1.4	-4.0	-27.6	-33.5	3.3
Business fixed investment	10.1	18.1	28.8	16.6	10.4	8.6	9.6	12.1
Gov't. purchases of goods and services	2.1	12.3	10.1	6.5	5.4	14.4	14.6	11.4
Federal	-11.5	10.1	4.6	-.7	-3.3	12.3	11.9	10.4
Defense	-16.3	12.1	1.6	-5.2	-3.7	11.4	2.7	4.3
Other	1.3	5.4	12.3	10.6	-2.5	14.5	35.3	24.4
State and local	12.7	13.8	13.9	11.5	11.2	15.5	16.4	12.0
GNP in constant (1958) dollars	6.0	8.3	9.5	2.2	1.6	2.4	-7.0	-1.6
Final purchases	5.1	8.1	10.4	2.0	1.5	-3.3	-2.8	-.5
Private	7.6	9.2	12.0	2.5	1.9	-5.1	-3.5	-.5
GNP implicit deflator	3.3	4.1	5.5	7.3	8.3	8.6	12.3	9.4
Private GNP fixed weighted index ^{2/}	3.6	3.8	7.4	8.1	8.4	9.1	14.1	12.3
Personal income	8.6	15.4	12.1	10.5	11.6	12.2	4.9	8.2
Wage and salary disbursements	7.5	10.6	13.0	10.1	8.7	11.2	6.0	10.0
Disposable income	9.0	16.2	15.8	10.8	10.1	11.6	4.9	6.9
Corporate profits before tax	18.7	36.0	53.3	15.8	-6.9	.0	48.3	11.1
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	7.9	13.2	25.0	9.8	11.1	10.3	15.4	16.0
Expenditures	-8.7	44.6	-1.5	3.4	1.5	11.4	16.3	16.0
Nonfarm payroll employment	3.6	4.8	5.0	3.9	3.0	3.8	1.0	1.6
Manufacturing	3.3	7.3	6.3	4.4	2.1	3.7	-2.4	-.3
Industrial production	9.1	14.1	10.0	5.6	6.2	1.0	-6.5	1.9
Housing starts, private	25.5	9.1	-5.5	-32.7	-25.3	-58.3	-2.0	-19.1
Sales new autos	22.2	17.9	18.3	-5.0	-21.3	-35.5	-37.1	5.9
Domestic models	20.8	13.4	15.4	-3.5	-18.6	-39.8	-40.0	25.1
Foreign models	30.9	48.0	35.4	-12.9	-35.0	-5.9	-20.0	-57.8

^{1/} Percentage rates are annual rates compounded quarterly.^{2/} Using expenditures in 1967 as weights.

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Expenditures and income figures are billions of dollars)

	1969	1970	1971	1972	1973	1974	1975 Proj.
Gross National Product	930.3	977.1	1054.9	1158.0	1294.9	1397.4	1463.2
Final purchases							
Private	922.5	972.6	1048.6	1149.5	1279.6	1383.2	1473.7
Excluding net exports	712.5	753.1	814.4	893.8	1003.2	1074.0	1131.5
Net exports	710.6	749.5	814.6	899.8	999.3	1071.9	1133.2
Personal consumption expenditures	579.5	617.6	667.1	729.0	805.2	876.7	949.4
Durable goods	90.8	91.3	103.9	118.4	130.3	127.5	129.4
Nondurable goods	245.9	263.8	278.4	299.7	338.0	380.2	414.5
Services	242.7	262.6	284.8	310.9	336.9	369.0	405.5
Gross private domestic investment	139.0	136.3	153.7	179.3	209.4	209.4	173.3
Residential Construction	32.6	31.2	42.8	54.0	57.2	46.0	38.9
Business fixed investment	98.5	100.6	104.6	116.8	136.8	149.2	145.0
Change in business inventories	7.8	4.5	6.3	8.5	15.4	14.2	-10.6
Nonfarm	7.7	4.3	4.9	7.8	11.4	11.9	-10.2
Net exports of goods and services ^{1/}	1.9	3.6	- .2	- 6.0	3.9	2.1	-1.7
Exports	55.5	62.9	65.4	72.4	100.4	140.2	138.8
Imports	53.6	59.3	65.6	78.4	96.4	138.1	140.5
Gov't. purchases of goods and services	210.0	219.5	234.2	255.7	276.4	309.2	342.2
Federal	98.8	96.2	97.6	104.9	106.6	116.9	130.2
Defense	78.4	74.6	71.2	74.8	74.4	78.7	86.5
Other	20.4	21.6	26.5	30.1	32.2	38.2	43.6
State & local	111.2	123.3	136.6	150.8	169.8	192.3	212.1
Gross national product in constant (1958) dollars	725.6	722.5	746.3	792.5	839.2	821.2	787.7
GNP implicit deflator (1958=100)	128.2	135.4	141.4	146.1	154.3	170.2	185.7
Personal income	750.9	808.3	864.0	944.9	1055.0	1150.5	1233.5
Wage and salary disbursements	509.7	542.0	573.0	626.8	691.7	751.2	785.2
Disposable income	634.4	691.7	746.4	802.5	903.7	979.7	1067.6
Personal saving	38.2	56.2	60.5	52.6	74.4	77.0	92.0
Saving rate (per cent)	6.0	8.1	8.1	6.6	8.2	7.9	8.6
Corporate profits & inventory val. adj.	79.8	69.2	78.7	92.2	105.1	105.6	99.7
Corporate profits before tax	84.9	74.0	83.6	99.2	122.7	140.7	106.0
Federal government receipts and expenditures, (N.I.A. basis)							
Receipts	197.3	192.0	198.5	227.2	258.5	291.1	271.3
Expenditures	189.2	203.9	220.3	244.7	264.2	299.1	356.3
Surplus or deficit (-)	8.1	-11.9	-21.9	-17.5	-5.6	-8.1	-84.9
High employment surplus or deficit (-)	8.8	3.7	-4.7	-6.7	- .7	19.4	-10.7
State and local government surplus or deficit (-), (N.I.A. basis)	.7	1.8	3.4	12.3	9.2	1.8	-1.5
Total labor force (millions)	84.2	85.9	86.9	89.0	91.0	93.2	94.5
Armed forces "	3.5	3.2	2.8	2.4	2.3	2.2	2.2
Civilian labor force "	80.7	82.7	84.1	86.5	88.7	91.0	92.3
Unemployment rate (per cent)	3.5	4.9	5.9	5.6	4.9	5.6	9.1
Nonfarm payroll employment (millions)	70.4	70.9	71.2	73.7	76.8	78.3	76.3
Manufacturing	20.2	19.3	18.6	19.1	20.1	20.0	17.9
Industrial production (1967 = 100)	110.7	106.7	106.8	115.2	125.6	124.7	112.1
Capacity utilization, mfg. (per cent)	86.5	78.3	75.0	78.6	83.0	78.9	67.9
Major materials (per cent)	90.0	86.2	85.3	89.6	93.0	87.0	71.3
Housing starts, private (millions, A.R.)	1.47	1.43	2.05	2.36	2.05	1.34	1.23
Sales new autos (millions, A.R.)	9.57	8.40	10.24	10.93	11.44	8.87	8.29
Domestic models	8.46	7.12	8.68	9.32	9.67	7.45	6.66
Foreign models	1.11	1.28	1.56	1.61	1.77	1.42	1.63
^{1/} Net exports of g. & s. (Bal. of Paymts.)	1.3	2.9	- .2	-6.0	4.4	2/ 3.32/	4.52/
Exports	55.0	62.3	65.4	72.4	101.0	144.62/	144.32/
Imports	53.6	59.4	65.6	78.4	96.6	139.4	139.6

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

May 14, 1975

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1969	1970	1971	1972	1973	1974	Proj. 1975
-----Billions of Dollars-----							
Gross National Product	66.1	46.8	77.8	103.1	136.9	102.5	65.8
Inventory change	.7	-3.3	1.8	2.2	6.9	-1.1	-24.8
Final purchases	65.4	50.1	76.0	100.9	130.1	103.6	90.5
Private	55.0	40.6	61.3	79.4	109.4	70.8	57.5
Net exports	-.6	1.7	-3.8	-5.8	9.9	-1.8	-3.8
Excluding net exports	55.6	38.9	65.1	85.2	99.5	72.6	61.3
Personal consumption expenditures	43.3	38.1	49.6	61.9	76.2	71.5	72.7
Durable goods	6.8	.5	12.6	14.5	11.9	-2.8	1.9
Nondurable goods	15.1	17.9	14.6	21.3	38.3	42.2	34.3
Services	21.4	19.9	22.2	26.1	26.0	32.1	36.5
Residential fixed investment	2.5	-1.4	11.6	11.2	3.2	-11.2	-7.1
Business fixed investment	9.7	2.1	4.0	12.2	20.0	12.4	-4.2
Government	10.4	9.5	14.7	21.5	20.7	32.8	33.0
Federal	.0	-2.6	1.4	7.3	1.7	10.3	13.3
State and local	10.4	12.1	13.3	14.2	19.0	22.5	19.8
GNP in constant (1958) dollars	19.0	-3.1	23.8	46.2	46.7	-18.0	33.5
Final purchases	18.7	-.4	-27.5	-44.4	43.0	-15.9	-17.1
Private	20.6	6.2	18.5	46.1	45.2	-17.5	-19.6
-----Per Cent per Year-----							
Gross National Product	7.6	5.0	8.0	9.8	11.8	7.9	4.7
Final purchases	7.6	5.4	7.8	9.6	11.3	8.1	6.5
Private	8.4	5.7	8.1	9.7	12.2	7.1	5.4
Personal consumption expenditures	8.1	6.6	8.0	9.3	10.5	8.9	8.3
Durable goods	8.1	.6	13.8	14.0	10.1	-2.1	1.5
Nondurable goods	6.5	7.3	5.5	7.7	12.8	12.5	9.0
Services	9.7	8.2	8.5	9.2	8.4	9.5	9.9
Gross private domestic investment	10.3	-1.9	12.8	16.7	16.8	.0	-17.2
Residential structures	8.3	-4.3	37.2	26.2	5.9	-19.6	-15.4
Business fixed investment	10.9	2.1	4.0	11.7	17.1	9.1	-2.8
Gov't purchases of goods & services	5.2	4.5	6.7	9.2	8.1	11.9	10.7
Federal	.0	-2.6	1.5	7.5	1.6	9.7	11.4
Defense	.1	-4.8	-4.6	5.1	-.5	5.8	9.9
Other	-.5	5.9	22.7	13.6	7.0	18.6	14.1
State and local	10.3	10.9	10.8	10.4	12.6	13.3	10.3
GNP in constant (1958) dollars	2.7	-.4	3.3	6.2	5.9	-2.1	-4.1
Final purchases	2.7	-.1	3.1	6.0	5.5	-1.9	-2.1
Private	3.7	1.1	3.9	6.7	6.5	-2.6	-2.9
GNP implicit deflator	4.8	5.5	4.6	3.4	5.6	10.3	9.1
Private GNP fixed weighted index ^{1/}	4.7	4.8	4.3	3.3	6.3	11.4	9.3
Personal income	9.0	7.6	6.9	9.4	11.7	9.1	7.2
Wage and salary disbursements	9.6	6.3	5.8	9.3	10.4	8.6	4.5
Disposable income	7.3	9.0	7.9	7.5	12.6	8.4	9.0
Corporate profits before tax	-3.1	-12.8	13.0	18.7	23.7	14.7	-24.7
Federal Government receipts and expenditures (N.I.A. basis)							
Receipts	12.7	-2.7	3.4	14.5	13.8	12.6	-6.8
Expenditures	4.2	7.8	8.0	11.1	8.0	13.2	19.1
Nonfarm payroll employment	3.7	.7	.4	3.5	4.2	2.0	-2.6
Manufacturing	2.0	-4.1	-4.0	2.8	5.0	-.2	-10.5
Industrial production	4.7	-3.6	.1	7.9	9.0	-.7	-10.2
Housing starts, private	-2.7	-2.3	43.2	14.9	-13.2	-34.6	-8.2
Sales new autos	-.6	-12.3	21.9	6.7	4.7	-22.5	-6.5
Domestic models	-1.8	-15.9	21.9	7.4	3.7	-23.0	-10.6
Foreign models	9.0	15.5	21.8	3.3	9.8	-20.1	14.8

1/ Using expenditures in 1967 as weights.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. The relatively tense situation in securities markets that began to develop in late March and continued into April has now evaporated. Expectations of the future course of interest rates have apparently been adjusted to the view that upward interest rate pressures may not develop until later on. The recent shift in expectations was prompted in part by the announcement of the Treasury on May 1 of reduced cash requirements in the remaining portion of the fiscal year. More recently, a small decline in the Federal funds rate and considerably slower growth in the monetary aggregates than in March has erased, at least temporarily, concerns about an increase in the Federal funds rate. At current levels, short-term market rates are 25 to 50 basis points below the levels prevailing at the time of the April FOMC meeting and long-term market rates are 5 to 20 basis points lower.

Given the improved market environment, the Treasury has been able to market readily a sizable amount of issues so far this month. Through May 14, the Treasury has sold \$7 billion of new coupon issues (\$3.8 billion of which was used to refund maturing issues) and has continued to add large amounts to bill auctions. Demands for Treasury securities--especially shorter-term issues--have continued to be quite large by commercial banks, thrift institutions, and other investors who are still in the process of rebuilding liquidity.

In April, commercial bank additions to their Treasury security holdings were the only major area of bank credit expansion, and weekly reporting data for early May indicate continued bank acquisitions. Other security holdings declined slightly last month, while total loans fell at about an 11 per cent annual rate. Loans to businesses and consumers declined considerably. Contributing to the decline in such credit was a probable rapid runoff in business inventories, the large volume of funds raised by businesses in bond and stock markets, the sluggish performance of consumer durable sales, and the maintenance by banks of conservative lending policies. With outstanding bank loans declining and consumer-type savings and time deposits expanding at a strong rate, banks allowed their CD's to decline further.

In the bond and stock markets, flotations of new issues have continued at a brisk pace. With interest rates declining and underwriters in a more comfortable inventory position, much of the \$1.5 billion of issues postponed during late March and early April now have been offered or rescheduled for sale later this month. The present level of stock prices, which is about 47 per cent above the lows late last year, has also encouraged increased issuance of equities. New issues of State and local government securities are also being marketed in volume, but bank demands remain limited and investors in general are quality conscious, particularly in view of the continuing financial problems of New York City.

In the mortgage markets, demands for credit reportedly have picked up significantly in recent weeks, especially on the West Coast. New and outstanding mortgage commitments at S&L's have apparently increased further in April. However, S&L's--as well as other mortgage lenders--continue to behave cautiously; they are rebuilding liquidity, repaying debt, and extending commitments selectively. Under the circumstances, mortgage rates have increased 10 to 30 basis points since mid-April.

Outlook. Barring any marked change in market expectations, it appears likely that demands for funds will not be sufficiently strong to generate upward interest rate pressures over the next month or so. Total business credit demands are likely to remain weak, and these demands are expected to be concentrated in bond and equity markets rather than at banks and in the commercial paper market, as has been the case since autumn of last year. Moreover, while the tax rebate program is expected to increase consumer spending, relatively little strength is anticipated in the auto and other large durable goods categories, which traditionally are associated with heavy consumer financing demands.

The tax rebate program will also tend to boost deposit flows at banks and other institutions in the near-term. These institutions undoubtedly will continue to add to their liquid asset holdings, especially Treasury securities. The Treasury will conduct another

note auction to raise \$1.5 billion of additional new money next week and will continue adding to bill auctions at least through mid-June. But thereafter the Treasury will not place additional net demands on the market until early July.

Assuming short-term market interest rates change little from current levels, there appears to be room for a little further decline in rates on longer-term market instruments. The steepness of the yield curve is likely to persuade some investors to lengthen portfolios, and may persuade some borrowers to seek shorter-term credits. With stability in open market rates, and with continued sizable inflows of funds to thrift institutions, recent upward pressure on mortgage market rates may abate.

INTERNATIONAL DEVELOPMENTS

Summary. Since mid-April the exchange value of the dollar has receded by about 1 percent against a weighted average of leading foreign currencies, but it still remains 1-1/2 percent above its 1975 low (first week of March). Interest in foreign exchange markets in recent weeks, however, focussed less on the dollar than on other currencies.

Both sterling and the Canadian dollar weakened sharply. The depreciation of the pound related to increasing doubts that the British authorities would be able to bring prices and wages under control. The consumer price index now is rising at an annual rate of over 25 percent and various measures included in the recent Budget will speed up this price rise over the next month or so. Wage claims have begun to accelerate in face of these price expectations. The weakening of the Canadian dollar is associated with the deterioration in the Canadian trade balance and the difficulties some new Canadian bond issues have encountered in the New York market.

The continuous strength of the French franc since the beginning of the year gained further impetus in recent weeks and led to the announcement on May 9 that the franc would be rejoining the European snake. The reasons for the long-term strengthening of the franc are not clear given the relative price performance of the

French economy. The recent strengthening may be associated with the weakness of sterling, some inflows from OPEC countries and possible movements of Vietnamese funds into France. A possible association of the Swiss franc with the snake arrangement is currently also under discussion.

The trade balance shifted unexpectedly into a surplus position of about \$5-1/2 billion (annual rate) in the first quarter of 1975 from a deficit of almost \$6 billion in the fourth quarter of 1974. The more than \$11 billion swing (on an annual rate basis) in the U.S. trade position largely reflected cyclical factors. The volume of imports dropped by about 10 percent between the fourth quarter of 1974 and the first quarter of 1975, while that of exports of non-agricultural goods -- the cyclically sensitive part of overseas sales -- fell only by 4 percent. This lesser decrease in export than in import volumes partly reflects the sharper drop in output in the United States as compared with most other countries and the fact that long-lead-time machinery exports are declining relatively slowly since they were last to be affected by the economic downturn abroad. The volume of agricultural exports rose in the first quarter, partly offsetting the decline in other export categories. Consequently, total exports, in real terms, were off by only 1 percent from their fourth quarter, 1974 level.

The general weakness in world demand and the accompanying shrinkage in the volume of world trade were reflected in a slowing in the rate of price increase for traded goods, particularly on the import side. Unit values for U.S. agricultural exports fell, but unit values for other goods continued to rise, perhaps reflecting deliveries of long-lead investment goods.

The strengthening in the U.S. trade balance in the first quarter was accompanied by sharply higher net outflows of private capital through banks and securities transactions and a reduction in the net inflow of foreign official funds. There was a net outflow on bank-reported private transactions of \$5.4 billion in the first quarter compared with only \$0.3 billion in the fourth quarter of 1974. Liabilities to foreigners declined in the first quarter in marked contrast to the inflows of 1974 and lending to foreigners continued large, probably reflecting earlier high commitment activity. The net outflow on securities transactions of about \$1-1/2 billion in the first quarter related to a large increase in new issue activity in the bond markets with U.S. purchasers buying more than \$2 billion worth of newly issued foreign bonds. This increase in sales of foreign bond issues more than offset the revival in foreign interest in U.S. equities. However, the volume of new foreign issues has begun to taper off.

Outlook. Despite the stronger trade performance during the first quarter of this year, the outlook remains for a re-emergence of a trade deficit in the second half of the year. Economic activity in the U.S. is expected to begin to pick up a bit earlier than in other countries, so cyclical factors will no longer support the U.S. trade position. Policy actions in other countries, except in Germany, have lagged behind those taken in the U.S. in strength as well as in timing. But some stimulative action has been taken almost everywhere and there are signs that the recession in other countries may be bottoming out by mid-year.

However, given the structure of U.S. exports, the main effect of an upturn elsewhere on U.S. sales abroad may occur only later in the cycle when investment activity abroad begins to revive. Consequently, non-agricultural exports are projected to continue to fall through the second quarter and revive slowly in the second half of the year. Agricultural exports are likely to fall throughout the year. As imports are expected to pick up faster than exports, the trade balance may well be in a deficit of \$5-6 billion (annual rate) by the fourth quarter of this year.