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Confidential (FR)

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# Part 1

June 11, 1975

## CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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### **Summary and Outlook**

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

CONFIDENTIAL (FR)

June 11, 1975

SUMMARY AND OUTLOOK

By the Staff  
Board of Governors  
of the Federal Reserve System

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## **SUMMARY AND OUTLOOK**

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DOMESTIC NONFINANCIAL DEVELOPMENTS

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Summary. There have been further indications recently of an early upturn in economic activity. Industrial production in May was about unchanged from April, and employment increased for the second successive month. Stocks of business inventories have been reduced sharply further, and consumer outlays have strengthened considerably. The sharp April increase in durable new orders offers hope of a near-term increase in production and employment.

However, weakness in auto sales and in residential construction casts doubt on the vigor of the expected recovery. Also, recent survey results suggest no significant pickup in business fixed investment for the remainder of this year.

The stability of industrial production in May follows two months of progressively smaller declines. Last month, consumer goods output rose, including auto assemblies, although auto production exceeded sales and dealers' stocks--already large--were increased somewhat further. The rise in consumer goods production was offset by further declines in business equipment and metals.

Nonfarm payroll employment rose by 60,000 in May, with increases in more than half of all industries. Manufacturing employment was about unchanged, as gains in nondurable industries--where the inventory adjustment appears near completion--were offset by continued declines in durables. The factory workweek held its gain of the preceding month. Employment increases also occurred in

trade, services and State and local government. Total employment (household survey) rose by over 300,000, reflecting a sharp jump in farm jobs. However, the labor force increased very substantially and the unemployment rate rose to 9.2 per cent, with increased joblessness among adult males and teenagers.

Consumer surveys report an improvement in attitudes recently, and consumer spending has also strengthened. Probably reflecting mainly the income tax rebates mailed beginning May 9th, retail sales picked up strongly in May, extending the increases evident since the beginning of the year. Exclusive of autos and nonconsumption items, the increase last month was 1-3/4 per cent. Gains were particularly evident in general merchandise.

Unit sales of domestic-type autos have shown small but steady gains over the past three 10-day sales periods, reaching a 6.4 million seasonally adjusted annual rate in the last 10 days of May. For May as a whole, sales totaled 6.2 million, annual rate, half a million above April. Nevertheless, May sales, seasonally adjusted, were still only slightly better than the level in December before the price rebates. Sales of foreign models edged off to a 1.5 million annual rate in May, but were still a fifth above a year earlier.

Housing starts rose only fractionally in April, but residential building permits were up sharply, and thus an upturn

in residential construction activity seems imminent. Backlogs of new unsold units have declined, and savings flows to major lenders continue strong, improving the environment for a recovery in housing starts.

There have also been hints recently of a bottoming-out of business demands for fixed capital but, as usual around turning points, the evidence remains contradictory. New orders received by manufacturers of nondefense capital goods rose by 9 per cent in April, and contracts for commercial and industrial buildings were up by over 40 per cent. The level of both series, however, remains relatively low. Also, the recent Commerce survey of 1975 plant and equipment expenditures calls for only small current dollar increases in the third and fourth quarters of this year, and capital appropriations of major manufacturing companies fell by 9.4 per cent in the first quarter, following a drop of 26 per cent in the fourth.

Liquidation of business inventories continued at a substantial pace in April; the book value of manufacturers' stocks declined by \$13.8 billion, annual rate, and wholesalers' stocks were down at a \$6 billion rate. Continuing the recent pattern, most of the factory liquidation was in nondurables, but at wholesale there was a reduction of durable goods inventories in both March and April.

Both wages and prices continue to show signs of moderation. The average hourly earnings index has risen at a 7 per cent annual rate so far this year, compared to a 8-3/4 per cent rate in the previous half year. Wholesale prices rose .4 per cent, seasonally adjusted, in May. Industrial commodity price increases have continued to be

small--only .1 to .2 per cent per month during the past three months. At retail, a reversal of food prices resulted in a somewhat sharper increase in the CPI in April, but so far this year the average rise for the index has been 6 per cent, annual rate, about half of that in 1974.

Outlook. In addition to the usual monthly revision, the staff GNP projection has been extended to cover the last half of 1976. The chief characteristic of the current projection is a steady, but moderate, recovery in economic activity--with real GNP increasing at an annual rate of around 5-1/2 per cent over the next six quarters. The rate of inflation is projected to moderate steadily, although revised energy assumptions have led to an upward adjustment of 0.8 per cent in the projected increase of the gross private product fixed-weighted price index.

With regard to energy, we have assumed that Congress will not reverse the further increase in the import fee of \$1 per barrel on imported oil which commenced on June 1st. In addition, we have incorporated an OPEC-initiated increase in world-market prices of crude oil of \$1 per barrel in September. We anticipate that both increases will be reflected in price hikes for unregulated domestic oil, gas and coal, but we assume that the price control legislation for old oil will be continued beyond the end of August when it is currently scheduled to expire. Finally, we assume a partial lifting in the ceiling prices on regulated natural gas, in response to developing scarcities. This set of assumptions increases domestic costs by \$11 billion in 1976. A portion of the \$11 billion accrues to foreign oil exporters and to the U.S. Treasury, but there is also a boost of some \$6 billion in the revenues of domestic fuel producers.

The other fiscal assumptions in this projection do not differ significantly from the previous Greenbook. Federal spending in FY 1976 now is shown at \$367 billion, equal to the Congressional target, but \$8 billion above the President's mid-year Budget Review. In the last half of 1976, Federal spending grows by 9-1/2 per cent (NIA, annual rates).

On the monetary side, we assume a rate of growth of  $M_1$  averaging about 6-1/4 per cent over the next six quarters. Associated with a growth rate in nominal GNP in the range of 10 to 12 per cent, the monetary assumptions imply upward pressures on short-term interest rates, and the bill rate is assumed to rise to about 7-1/2 per cent in late 1975, and to about 8-3/4 per cent by the fourth quarter of 1976.

For the current quarter our projection has been strengthened somewhat since the last Greenbook. We now expect no further decline in real GNP in this quarter, as consumption appears stronger than estimated a month ago.

The general outline of the projected recovery thereafter is similar to that shown in the preceding Greenbook. The recovery is initiated by an acceleration of consumption (spurred by the recent tax actions), an increase in residential construction activity, and a deceleration of inventory liquidation. Real growth remains moderate, however, mainly because of a less-than-normal cyclical rise in housing starts and auto purchases.

Weakness in business fixed investment seems likely to exert a drag on real growth until early 1976. Then, however, an upturn is expected, and over the course of 1976 growth in business fixed investment is expected to about offset the reduced stimulus projected to come from housing and the inventory sector. Our housing projection has starts climbing to an annual rate of 1.5 million units by the fourth quarter of 1975, and then rising gradually to 1.65 million units by the second half of next year. The rate of inventory liquidation is projected to decelerate substantially over the remainder of 1975. While inventory stockpiling turns positive by the first quarter of 1976, the net stimulus to economic activity slows progressively thereafter. Gains in consumption are also projected to moderate as the effects of the tax rebate wear off, but increases in real terms remain sizable in 1976, as price pressures ease, real incomes rise, and consumer confidence improves.

Unemployment is now expected to continue at about its current level of 9.2 per cent for another quarter and then to edge down slowly. While employment is projected to increase by more than 2 million from its current level until the end of 1976, the labor force increases by more than 1-1/2 million. Thus by year-end 1975, unemployment remains close to 9 per cent and decreases only to 8-1/2 per cent by late 1976.

The GNP fixed weighted price index is projected to moderate gradually from an estimated 7 per cent in the current quarter to 4.6 per cent toward the end of 1976. Some easing in wage rate increases, improvements in productivity, and more ample food supplies are the prospective factors that moderate price increases. A countervailing force is the increase in fuel costs, discussed earlier, which is expected to have its largest effect on prices between now and mid-1976.

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## 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)	
	5/14/75	6/11/75	5/14/75	6/11/75	5/14/75	6/11/75	5/14/75	6/11/75
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	65.8	71.4	-4.1	-4.0	9.3	9.3	9.1	8.9
1976	n.a.	163.5	n.a.	5.2	n.a.	5.4	n.a.	8.7
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>	-11.7	-13.8	-10.4	-11.3	7.6	7.7	8.3	8.3
II	19.8	25.9	-1.2	.3	6.8	7.0	9.2	9.2
III	37.0	42.0	4.6	5.4	5.7	6.3	9.4	9.2
IV	42.5	45.0	5.7	5.7	5.3	5.6	9.3	9.0
1976-I	39.5	41.5	5.6	5.6	4.8	5.3	9.1	8.9
II	35.0	40.0	4.6	5.4	4.5	4.9	9.1	8.8
III	n.a.	40.0	n.a.	5.4	n.a.	4.7	n.a.	8.6
IV	n.a.	43.0	n.a.	5.3	n.a.	4.6	n.a.	8.5
Change:								
74-II to 75-II	55.2	59.2	-5.7	-5.6	10.4	10.2	4.1	4.1
74-IV to 75-IV	87.6	99.1	- .5	- .3	6.6	6.6	2.7	2.4
75-II to 76-II	154.0	168.5	5.1	5.5	5.1	5.5	- .1	- .4
75-IV to 76-IV	n.a.	164.5	n.a.	5.4	n.a.	4.9	n.a.	- .5

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.)

	1975				1976			
	I	II	III	IV	Projected I	II	III	IV
Gross National Product	1417.1	1443.0	1485.0	1530.0	1571.5	1611.5	1651.5	1694.5
Final purchases	1436.3	1454.5	1493.8	1533.0	1567.5	1603.5	1642.0	1683.5
Private	1104.7	1118.0	1150.1	1177.9	1204.4	1232.8	1263.7	1293.9
Excluding net exports	1095.4	1113.7	1146.3	1178.6	1207.1	1236.9	1267.4	1297.8
Personal consumption expenditures	913.2	934.1	961.9	987.4	1009.0	1031.6	1054.7	1078.0
Durable goods	124.9	125.0	129.5	135.0	140.0	143.5	147.5	151.5
Nondurable goods	398.8	409.6	421.9	430.7	436.5	444.4	452.3	460.4
Services	389.5	399.5	410.5	421.7	432.5	443.7	454.9	466.1
Gross private domestic investment	163.1	168.1	175.6	188.2	202.1	213.3	222.2	230.8
Residential construction	35.3	35.6	39.9	44.7	48.4	51.6	54.5	55.6
Business fixed investment	146.9	144.0	144.5	146.5	149.7	153.7	158.2	164.2
Change in business inventories	-19.2	-11.5	-8.8	-3.0	4.0	8.0	9.5	11.0
Nonfarm	-17.8	-10.5	-8.5	-4.0	4.0	8.0	9.5	11.0
Net exports of goods and services <sup>1/</sup>	9.3	4.3	3.8	-.7	-2.7	-4.1	-3.7	-3.9
Exports	143.4	136.4	138.4	141.3	146.7	151.7	157.1	162.2
Imports	134.1	132.1	134.6	142.0	149.4	155.8	160.8	166.1
Gov't. purchases of goods and services	331.6	336.5	343.7	355.1	363.1	370.7	378.3	389.6
Federal	126.5	127.5	129.4	134.8	136.8	138.2	139.9	145.7
Defense	84.7	84.8	86.1	90.1	91.2	92.2	93.1	97.1
Other	41.8	42.7	43.3	44.7	45.6	46.0	46.8	48.6
State and local	205.1	209.0	214.3	220.3	226.3	232.5	238.4	243.9
Gross national product in constant (1958) dollars	780.2	780.7	791.1	802.0	812.9	823.7	834.5	845.3
GNP implicit deflator (1958=100)	181.7	184.8	187.7	190.8	193.3	195.6	197.9	200.5
Personal income	1193.4	1221.9	1248.5	1279.0	1305.9	1338.0	1370.2	1403.4
Wage and salary disbursements	765.1	776.5	793.5	813.5	833.0	853.3	873.3	896.6
Disposable income	1015.5	1081.4	1074.3	1097.3	1116.4	1142.9	1168.1	1195.2
Personal saving	75.9	121.2	86.0	83.2	80.2	83.6	85.2	88.5
Saving rate (per cent)	7.5	11.2	8.0	7.6	7.2	7.3	7.3	7.4
Corporate profits & inventory val. adj.	93.4	97.8	107.8	118.2	125.6	131.4	137.4	143.3
Corporate profits before tax	100.3	109.5	116.0	125.0	131.0	135.5	140.5	145.5
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts <sup>2/</sup>	283.8	251.3	290.0	301.4	315.8	324.1	333.9	343.1
Expenditures	338.5	354.8	361.2	372.7	379.9	388.6	396.9	407.8
Surplus or deficit (-) <sup>2/</sup>	-54.7	-103.5	-71.2	-71.3	-64.1	-64.5	-63.0	-64.7
High employment surplus or deficit (-)	9.2	-36.5	-4.3	-8.2	-4.1	-4.6	-2.6	-4.0
State and local government surplus or deficit (-), (N.I.A. basis)	-1.7	-1.4	-1.8	-.3	.6	.8	.3	.8
Total labor force (millions)	94.0	94.9	95.1	95.3	95.6	96.0	96.4	96.8
Armed forces "	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Civilian labor force "	91.8	92.7	92.9	93.1	93.4	93.8	94.2	94.6
Unemployment rate (per cent)	8.3	9.2	9.2	9.0	8.9	8.8	8.6	8.5
Nonfarm payroll employment (millions)	76.8	76.4	76.8	77.1	77.5	77.9	78.4	78.9
Manufacturing	18.4	18.0	18.0	18.1	18.2	18.4	18.6	18.9
Industrial production (1967 = 100)	111.6	110.2	112.6	114.5	116.9	118.8	120.7	122.6
Capacity utilization, mfg. (per cent)	68.3	67.0	67.7	68.4	69.3	69.9	70.4	71.0
Major materials (per cent)	70.5	69.0	70.5	72.2	74.0	75.2	76.0	76.8
Housing starts, private (millions, A.R.)	.99	1.10	1.33	1.50	1.55	1.60	1.65	1.65
Sales new autos (millions, A.R.)	8.31	7.60	8.10	8.88	9.65	9.69	9.98	10.50
Domestic models	6.60	6.00	6.50	7.25	8.00	8.00	8.25	8.75
Foreign models	1.71	1.60	1.60	1.63	1.65	1.69	1.73	1.75
<sup>1/</sup> Net exports of g. & s. (Bal. of paymts)	12.6 <sup>3/</sup>	7.5 <sup>3/</sup>	7.0 <sup>3/</sup>	2.5 <sup>3/</sup>	.5	-.9	-.5	-.7
Exports	147.2 <sup>3/</sup>	140.2 <sup>3/</sup>	142.2 <sup>3/</sup>	145.1 <sup>3/</sup>	150.5	155.5	160.9	166.0
Imports	134.7	132.7	135.2	142.6	150.0	156.4	161.4	166.7

<sup>2/</sup> Federal government N.I.A. receipts in 1975-II reflect the \$8.1 billion rebate of 1974 individual income taxes and in 1975-III and following quarters the \$9.3 billion reduction in 1975 individual income taxes; this latter reduction, enacted only for 1975, is assumed to be continued in 1976.

<sup>3/</sup> Includes \$.3 billion, annual rate of shipments of military equipment and supplies to Israel which are not included in GNP exports.

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1975				Projected		1976	
	I	II	III	IV	I	II	III	IV
	-----Billions of Dollars-----							
Gross National Product	-13.8	25.9	42.0	45.0	41.5	40.0	40.0	43.0
Inventory change	-37.0	7.7	2.7	5.8	7.0	4.0	1.5	1.5
Final purchases	23.2	18.2	39.3	39.2	34.5	36.0	38.5	41.5
Private	15.4	13.3	32.1	27.8	26.5	28.4	30.9	30.2
Net exports	7.4	-5.0	-.5	-4.5	-2.0	-1.4	.4	-.2
Excluding net exports	8.0	18.3	32.6	32.3	28.5	29.8	30.5	30.4
Personal consumption expenditures	17.4	20.9	27.8	25.5	21.6	22.6	23.1	23.3
Durable goods	4.2	.1	4.5	5.5	5.0	3.5	4.0	4.0
Nondurable goods	7.1	10.8	12.3	8.8	5.8	7.9	7.9	8.1
Services	6.0	10.0	11.0	11.2	10.8	11.2	11.2	11.2
Residential fixed investment	-5.1	.3	4.3	4.8	3.7	3.2	2.9	1.1
Business fixed investment	-4.3	-2.9	.5	2.0	3.2	4.0	4.5	6.0
Government	7.8	4.9	7.2	11.4	8.0	7.6	7.6	11.3
Federal	2.0	1.0	1.9	5.4	2.0	1.4	1.7	5.8
State and local	5.8	3.9	5.3	6.0	6.0	6.2	5.9	5.5
GNP in constant (1958) dollars	-23.8	.5	10.4	10.9	10.9	10.8	10.8	10.8
Final purchases	-1.2	-1.8	8.6	6.6	4.9	8.3	9.8	9.6
Private	-2.6	-2.1	8.2	8.0	7.2	8.1	9.5	9.1
	-----In Per Cent Per Year <sup>1/</sup> -----							
Gross National Product	-3.8	7.5	12.2	12.7	11.3	10.6	10.3	10.8
Final purchases	6.7	5.2	11.3	10.9	9.3	9.5	10.0	10.5
Private	5.8	4.9	12.0	10.0	9.3	9.8	10.4	9.9
Personal consumption expenditures	8.0	9.5	12.4	11.0	9.0	9.3	9.3	9.1
Durable goods	14.7	.3	15.2	18.1	15.7	10.4	11.6	11.3
Nondurable goods	7.4	11.3	12.6	8.6	5.5	7.4	7.3	7.4
Services	6.4	10.7	11.5	11.4	10.6	10.8	10.5	10.2
Gross Private domestic investment	-63.2	12.8	19.1	31.9	33.0	24.1	17.8	16.4
Residential structures	-41.7	3.4	57.8	57.5	37.5	29.2	24.4	8.3
Business fixed investment	-10.9	-7.7	1.4	5.7	9.0	11.1	12.2	16.1
Gov't purchases of goods and services	10.0	6.0	8.8	13.9	9.3	8.6	8.5	12.5
Federal	6.6	3.2	6.1	17.8	6.1	4.2	5.0	17.6
Defense	3.4	.5	6.3	19.9	5.0	4.5	4.0	18.3
Other	12.4	8.9	5.7	13.6	8.3	3.6	7.1	16.3
State and local	12.2	7.8	10.5	11.7	11.3	11.4	10.5	9.6
GNP in constant (1958) dollars	-11.3	.3	5.4	5.7	5.6	5.4	5.4	5.3
Final purchases	-.6	-.9	4.4	3.3	2.4	4.2	4.9	4.7
Private	-1.6 <sup>2/</sup>	-1.3	5.2	5.0 <sup>2/</sup>	4.5 <sup>2/</sup>	4.9	5.8	5.5 <sup>2/</sup>
GNP implicit deflator	8.5 <sup>2/</sup>	7.2	6.4	6.7 <sup>2/</sup>	5.4 <sup>2/</sup>	4.9	4.7	5.5 <sup>2/</sup>
Private GNP fixed weighted index <sup>3/</sup>	7.7	7.0	6.3	5.6	5.3	4.9	4.7	4.6
Personal income	2.2	9.9	9.0	10.1	8.7	10.2	10.0	10.0
Wage and salary disbursements	-2.1	6.1	9.0	10.5	9.9	10.1	9.7	11.1
Disposable income	2.7	28.6	-2.6	8.8	7.1	9.8	9.1	9.6
Corporate profits before tax	-66.2	42.1	25.9	34.8	20.6	14.5	15.6	15.0
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	-14.0	-38.5	77.3	16.7	20.5	10.9	12.7	11.5
Expenditures	26.3	20.7	7.4	13.4	8.0	9.5	8.8	11.4
Nonfarm payroll employment	-7.7	-1.9	2.1	1.6	2.1	2.1	2.6	2.6
Manufacturing	-22.3	-8.2	.0	2.2	2.2	4.5	4.4	6.6
Industrial production	-28.4	-4.9	8.9	7.1	8.7	6.7	6.5	6.6
Housing starts, private	-3.9	51.8	113.7	61.8	14.0	13.5	13.1	.0
Sales new autos	60.9	-30.0	29.0	44.4	39.5	1.7	12.5	22.5
Domestic models	41.8	-31.7	37.7	54.8	48.3	.0	13.1	26.5
Foreign models	172.4	-23.4	.0	7.7	5.0	10.1	9.8	4.7

1/ Percentage rates are annual rates compounded quarterly.

2/ Excluding Federal pay increases rates of change are: 1975-I, 8.3 per cent; 1975-IV, 5.6 per cent; 1976-I, 5.3 per cent; and 1976-IV, 4.6 per cent.

3/ Using expenditures in 1967 as weights.

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

	1973				1974			
	I	II	III	IV	I	II	III	IV
Gross National Product	1248.9	1277.9	1308.9	1344.0	1358.8	1383.8	1416.3	1430.9
Final purchases	1238.9	1267.2	1297.0	1315.1	1341.9	1370.3	1407.6	1413.1
Private	969.9	993.9	1020.1	1028.7	1045.6	1065.9	1095.3	1089.3
Excluding net exports	970.7	993.4	1013.4	1019.4	1034.3	1067.4	1098.4	1087.4
Personal consumption expenditures	781.7	799.0	816.3	823.9	840.6	869.1	901.3	895.8
Durable goods	132.4	132.1	132.4	124.3	123.9	129.5	136.1	120.7
Nondurable goods	323.3	332.7	343.8	352.1	364.4	375.8	389.0	391.7
Services	325.9	334.2	340.1	347.4	352.4	363.8	376.2	383.5
Gross private domestic investment	199.0	205.1	209.0	224.5	210.5	211.8	205.8	209.4
Residential construction	58.5	58.7	56.1	53.6	48.4	48.8	46.2	40.4
Business fixed investment	130.5	135.6	139.0	141.9	145.2	149.4	150.9	151.2
Change in business inventories	10.0	10.7	11.8	28.9	16.9	13.5	8.7	17.8
Nonfarm	6.5	7.7	7.4	24.0	13.1	10.4	6.6	17.5
Net exports of goods and services <sup>1/</sup>	-.8	.5	6.7	9.3	11.3	-1.5	-3.1	1.9
Exports	88.8	95.4	103.7	113.6	131.2	138.5	143.6	147.5
Imports	89.5	94.9	96.9	104.3	119.9	140.0	146.7	145.7
Gov't. purchases of goods and services	269.0	273.3	276.9	286.4	296.3	304.4	312.3	323.8
Federal	106.4	106.2	105.3	108.4	111.5	114.3	117.2	124.5
Defense	75.0	74.0	73.3	75.3	75.8	76.6	78.4	84.0
Other	31.4	32.2	32.0	33.1	35.7	37.7	38.8	40.6
State & local	162.6	167.1	171.6	177.9	184.8	190.1	195.1	199.3
Gross national product in constant (1958) dollars	832.8	837.4	840.8	845.7	830.5	827.1	823.1	804.0
GNP implicit deflator (1958 = 100)	150.0	152.6	155.7	158.9	163.6	167.3	172.1	178.0
Personal income	1013.6	1039.2	1068.0	1099.3	1112.5	1134.6	1168.2	1186.9
Wage and salary disbursements	667.6	683.8	698.2	717.0	727.6	745.2	763.0	769.2
Disposable income	869.5	892.1	913.9	939.4	950.6	966.5	993.1	1008.8
Personal saving	65.3	69.6	73.2	89.3	84.4	71.5	65.5	86.5
Saving rate (per cent)	7.5	7.8	8.0	9.5	8.9	7.4	6.6	8.6
Corporate profits & inventory val. adj.	103.9	105.0	105.2	106.4	107.7	105.6	105.8	103.4
Corporate profits before tax	120.4	124.9	122.7	122.7	135.4	139.0	157.0	131.5
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	249.1	255.0	261.8	268.3	278.1	288.6	302.8	294.7
Expenditures	260.2	262.4	263.4	270.6	281.0	291.6	304.7	319.3
Surplus or deficit (-)	-11.2	-7.4	-1.7	-2.3	-2.8	-3.0	-1.9	-24.5
High employment surplus or deficit (-)	-8.5	-3.4	4.6	4.8	14.0	19.6	24.7	17.8
State and local government surplus or deficit (-), (N.I.A. basis)	13.2	10.4	8.4	4.6	3.2	2.0	2.1	-.1
Total labor force (millions)	90.0	90.8	91.3	92.1	92.7	92.9	93.6	94.0
Armed forces "	2.4	2.3	2.3	2.3	2.3	2.2	2.2	2.2
Civilian labor force "	87.6	88.5	89.0	89.8	90.5	90.6	91.4	91.8
Unemployment rate (per cent)	5.0	4.9	4.8	4.8	5.2	5.1	5.5	6.6
Nonfarm payroll employment (millions)	75.8	76.5	77.1	77.8	78.0	78.3	78.7	78.3
Manufacturing	19.8	20.0	20.1	20.3	20.2	20.2	20.1	19.6
Industrial production (1967 = 100)	123.1	124.8	126.7	127.0	124.9	125.5	125.4	121.3
Capacity utilization, mfg. (per cent)	82.8	83.3	83.3	82.6	80.5	80.1	79.4	75.7
Major materials (per cent)	93.0	93.4	93.5	92.3	90.2	90.2	88.5	79.1
Housing starts, private (millions, A.R.)	2.39	2.17	2.01	1.62	1.61	1.53	1.21	1.00
Sales new autos (millions, A.R.)	12.18	12.03	11.33	10.15	9.04	9.17	10.07	7.38
Domestic models	10.26	10.17	9.66	8.51	7.49	7.92	8.52	6.05
Foreign models	1.92	1.85	1.67	1.64	1.55	1.25	1.55	1.33
<sup>1/</sup> Net exports of g.& s. (Bal. of Paymts.)	-.7	.5	6.6	10.92 <sup>2/</sup>	11.22 <sup>2/</sup>	-1.72 <sup>2/</sup>	-1.32 <sup>2/</sup>	3.32 <sup>2/</sup>
Exports	88.8	95.4	103.7	116.02 <sup>2/</sup>	132.32 <sup>2/</sup>	140.22 <sup>2/</sup>	146.82 <sup>2/</sup>	151.12 <sup>2/</sup>
Imports	89.5	94.9	97.1	105.1	121.1	140.9	148.1	147.8

<sup>2/</sup> Includes shipments of military equipment and supplies to Israel which are not included in GNP exports; amounts in billions of dollars at annual rates are 1973-IV, \$2.4; 1974-I, \$.3; 1974-II, \$.4, 1974-III, \$.3; and 1974-IV, \$.3.

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1973				1974			
	I	II	III	IV	I	II	III	IV
	-----Billions of Dollars-----							
Gross National Product	44.2	29.0	31.0	35.1	14.8	25.0	32.5	14.6
Inventory change	-1.0	.7	1.1	17.1	-12.0	-3.4	-4.8	9.1
Final purchases	45.2	28.3	29.8	18.1	26.8	28.4	37.3	5.5
Private	38.8	24.0	26.2	8.6	16.9	20.3	29.4	-6.0
Net exports	4.5	1.3	6.2	2.6	2.0	-12.8	-1.6	5.0
Excluding net exports	34.3	22.7	20.0	6.0	14.9	33.1	31.0	-11.0
Personal consumption expenditures	24.5	17.3	17.3	7.6	16.7	28.5	32.2	-5.5
Durable goods	8.1	-.3	.3	-8.1	-.4	5.6	6.6	-15.4
Nondurable goods	12.4	9.4	11.1	8.3	12.3	11.4	13.2	2.7
Services	3.9	8.3	5.9	7.3	5.0	11.4	12.4	7.3
Residential fixed investment	1.8	.2	-.6	-4.5	-5.2	.4	-2.6	-5.8
Business fixed investment	8.0	5.1	3.4	2.9	3.3	4.2	1.5	.3
Government	6.4	4.3	3.6	9.5	9.9	8.1	7.9	11.5
Federal	1.2	-.2	-.9	3.1	3.1	2.8	2.9	7.3
State and local	5.2	4.5	4.5	6.3	6.9	5.3	5.0	4.2
GNP in constant (1958) dollars	18.6	4.6	3.4	4.9	-15.2	-3.4	-4.0	-19.1
Final purchases	20.2	4.1	3.1	-7.0	-5.8	-1.0	-.8	-25.0
Private	19.1	4.3	3.3	-9.0	-6.1	-.8	-.9	-25.4
	-----In Per Cent Per Year <sup>1/</sup> -----							
Gross National Product	15.5	9.6	10.1	11.2	4.5	7.6	9.7	4.2
Final purchases	16.0	9.5	9.7	5.7	8.4	8.7	11.3	1.6
Private	17.7	10.3	11.0	3.4	6.7	8.0	11.5	-2.2
Personal consumption expenditures	13.6	9.2	8.9	3.8	8.4	14.3	15.7	-2.4
Durable goods	28.7	-.9	.9	-22.3	-1.3	19.3	22.0	-38.1
Nondurable goods	16.9	12.1	14.0	10.0	14.7	13.1	14.8	2.8
Services	4.9	10.6	7.3	8.9	5.9	13.6	14.3	8.0
Gross private domestic investment	19.8	12.8	7.8	33.1	-22.7	2.5	-10.9	7.2
Residential structures	13.3	1.4	-4.0	-27.6	-33.5	3.3	-19.7	-41.5
Business fixed investment	28.8	16.6	10.4	8.6	9.6	12.1	4.1	.8
Gov't. purchases of goods and services	10.1	6.5	5.4	14.4	14.6	11.4	10.8	15.6
Federal	4.6	-.7	-3.3	12.3	11.9	10.4	10.5	27.3
Defense	1.6	-5.2	-3.7	11.4	2.7	4.3	9.7	31.8
Other	12.3	10.6	-2.5	14.5	35.3	24.4	12.2	19.9
State and local	13.9	11.5	11.2	15.5	16.4	12.0	10.9	8.9
GNP in constant (1958) dollars	9.5	2.2	1.6	2.4	-7.0	-1.6	-1.9	-9.0
Final purchases	10.4	2.0	1.5	-3.3	-2.8	-.5	-.4	-11.7
Private	12.0	2.5	1.9	-5.1	-3.5	-.5	-.5	-14.3
GNP implicit deflator	5.5	7.3	8.3	8.6	12.3	9.4	11.9	14.4
Private GNP fixed weighted index <sup>2/</sup>	7.4	8.1	8.4	9.1	14.1	12.3	13.8	12.6
Personal income	12.1	10.5	11.6	12.2	4.9	8.2	12.4	6.6
Wage and salary disbursements	13.0	10.1	8.7	11.2	6.0	10.0	9.9	3.3
Disposable income	15.8	10.8	10.1	11.6	4.9	6.9	11.5	6.5
Corporate profits before tax	53.3	15.8	-6.9	.0	48.3	11.1	62.8	-50.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	25.0	9.8	11.1	10.3	15.4	16.0	21.2	-10.3
Expenditures	-1.5	3.4	1.5	11.4	16.3	16.0	19.2	20.6
Nonfarm payroll employment	5.0	3.9	3.0	3.8	1.0	1.6	1.7	-1.7
Manufacturing	6.3	4.4	2.1	3.7	-2.4	-.3	-.6	-10.4
Industrial production	10.0	5.6	6.2	1.0	-6.5	1.9	-.3	-12.5
Housing starts, private	-5.5	-32.7	-25.3	-58.3	-2.0	-19.1	-60.7	-53.0
Sales new autos	18.3	-5.0	-71.3	-35.5	-37.1	5.9	45.5	-71.2
Domestic models	15.4	-3.5	-18.6	-39.8	-40.0	25.1	33.8	-74.6
Foreign models	35.4	-12.9	-35.0	-5.9	-20.0	-57.8	138.3	-46.2

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

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

	1969	1970	1971	1972	1973	1974	1975 Projected	1976
Gross National Product	930.3	977.1	1054.9	1158.0	1294.9	1397.4	1468.8	1632.3
Final purchases	922.5	972.6	1048.6	1149.5	1279.6	1383.2	1479.4	1624.1
Private	712.5	753.1	814.4	893.8	1003.2	1074.0	1137.7	1248.7
Excluding net exports	710.6	749.5	814.6	899.8	999.3	1071.9	1133.5	1252.3
Personal consumption expenditures	579.5	617.6	667.1	729.0	805.2	876.7	949.2	1043.3
Durable goods	90.8	91.3	103.9	118.4	130.3	127.5	128.6	145.6
Nondurable goods	245.9	263.8	278.4	299.7	338.0	380.2	415.3	448.4
Services	242.7	262.6	284.8	310.9	336.9	369.0	405.3	449.3
Gross private domestic investment	139.0	136.3	153.7	179.3	209.4	209.4	173.8	217.1
Residential construction	32.6	31.2	42.8	54.0	57.2	46.0	38.9	52.5
Business fixed investment	98.5	100.6	104.6	116.8	136.8	149.2	145.5	156.5
Change in business inventories	7.8	4.5	6.3	8.5	15.4	14.2	-10.6	8.1
Nonfarm	7.7	4.3	4.9	7.8	11.4	11.9	-10.2	8.1
Net exports of goods and services <sup>1/</sup>	1.9	3.6	-.2	-6.0	3.9	2.1	4.2	-3.6
Exports	55.5	62.9	65.4	72.4	100.4	140.2	139.9	154.4
Imports	53.6	59.3	65.6	78.4	96.4	138.1	135.7	158.0
Gov't. purchases of goods and services	210.0	219.5	234.2	255.7	276.4	309.2	341.7	375.4
Federal	98.8	96.2	97.6	104.9	106.6	116.9	129.6	140.2
Defense	78.4	74.6	71.2	74.8	74.4	78.7	86.4	93.4
Other	20.4	21.6	26.5	30.1	32.2	38.2	43.1	46.8
State & local	111.2	123.3	136.6	150.8	169.8	192.3	212.2	235.3
Gross national product in constant (1958) dollars	725.6	722.5	746.3	792.5	839.2	821.2	788.5	829.1
GNP implicit deflator (1958=100)	128.2	135.2	141.4	146.1	154.3	170.2	186.3	196.8
Personal income	750.9	808.3	864.0	944.9	1055.0	1150.5	1235.7	1354.4
Wage and salary disbursements	509.7	542.0	573.0	626.8	691.7	751.2	787.2	864.1
Disposable income	634.4	691.7	746.4	802.5	903.7	979.7	1067.1	1155.7
Personal saving	38.2	56.2	60.5	52.6	74.4	77.0	91.6	84.5
Saving rate (per cent)	6.0	8.1	8.1	6.6	8.2	7.9	8.6	7.3
Corporate profits & inventory val. adj.	79.8	69.2	78.7	92.2	105.1	105.6	104.3	134.4
Corporate profits before tax	84.9	74.0	83.6	99.2	122.7	140.7	112.7	138.1
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	197.3	192.0	198.5	227.2	258.5	291.1	281.6	329.2
Expenditures	189.2	203.9	220.3	244.7	264.2	299.1	356.8	393.3
Surplus or deficit (-)	8.1	-11.9	-21.9	-17.5	-5.6	-8.1	-75.2	-64.1
High employment surplus or deficit (-)	8.8	3.7	-4.7	-6.7	-.7	19.1	-9.9	-3.9
State and local government surplus or deficit (-), (N.I.A. basis)	.7	1.8	3.4	12.3	9.2	1.8	-1.3	.6
Total labor force (millions)	84.2	85.9	86.9	89.0	91.0	93.2	94.8	96.2
Armed forces "	3.5	3.2	2.8	2.4	2.3	2.2	2.2	2.2
Civilian labor force "	80.7	82.7	84.1	86.5	88.7	91.0	92.6	94.0
Unemployment rate (per cent)	3.5	4.9	5.9	5.6	4.9	5.6	8.9	8.7
Nonfarm payroll employment (millions)	70.4	70.9	71.2	73.7	76.8	78.3	76.8	78.2
Manufacturing	20.2	19.3	18.6	19.1	20.1	20.0	18.1	18.5
Industrial production (1967=100)	110.7	106.7	106.8	115.2	125.6	124.7	112.2	119.8
Capacity utilization, mfg. (per cent)	86.5	78.3	75.0	78.6	83.0	78.9	67.9	70.2
Major materials (per cent)	90.0	86.2	85.3	89.6	93.0	87.0	70.6	75.5
Housing starts, private (millions, A.R.)	1.47	1.43	2.05	2.36	2.05	1.34	1.23	1.61
Sales new autos (millions, A.R.)	9.57	8.40	10.24	10.93	11.44	8.87	8.22	9.96
Domestic models	8.46	7.12	8.68	9.32	9.67	7.45	6.59	8.25
Foreign models	1.11	1.28	1.56	1.61	1.77	1.42	1.64	1.71
<sup>1/</sup> Net exports of g. & s. (Bal. of Paymts.)	1.3	2.9	-.2	-6.0	4.42/	3.32/	7.42/	-.4
Exports	55.0	62.3	65.4	72.4	101.02/	142.62/	143.72/	158.2
Imports	53.6	59.4	65.6	78.4	96.6	139.4	136.3	158.6

<sup>2/</sup> Includes shipments of military equipment and supplies to Israel which are not included in GNP exports; amounts in billions of dollars are: 1973: \$ .6; 1974, \$ .325; and 1975, \$ .3.

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1969	1970	1971	1972	1973	1974	Projected	
							1975	1976
-----Billions of Dollars-----								
Gross National Product	66.1	46.8	77.8	103.1	136.9	102.5	71.4	163.5
Inventory change	.7	-3.3	1.8	2.2	6.9	-1.1	-24.8	18.7
Final purchases	65.4	50.1	76.0	100.9	130.1	103.6	96.2	144.7
Private	55.0	40.6	61.3	79.4	109.4	70.8	63.7	111.0
Net exports	-.6	1.7	-3.8	-5.8	9.9	-1.8	2.1	7.8
Excluding net exports	55.6	38.9	65.1	85.5	99.5	72.6	63.7	118.8
Personal consumption expenditures	43.3	38.1	49.6	61.9	76.2	71.5	72.5	94.1
Durable goods	6.8	.5	12.6	14.5	11.9	-2.8	1.1	17.0
Nondurable goods	15.1	17.9	14.6	21.3	38.3	42.2	35.1	33.1
Services	21.4	19.9	22.2	26.1	26.0	32.1	36.3	44.0
Residential fixed investment	2.5	-1.4	11.6	11.2	3.2	-11.2	-7.1	13.6
Business fixed investment	9.7	2.1	4.0	12.5	20.0	12.4	-3.7	11.0
Government	10.4	9.5	14.7	21.5	20.7	32.8	32.5	33.7
Federal	.0	-2.6	1.4	7.3	1.7	10.3	12.7	10.6
State and local	10.4	12.1	13.3	14.2	19.0	22.5	19.9	23.1
GNP in constant (1958) dollars	19.0	-3.1	23.8	46.2	46.7	-18.0	-32.7	40.6
Final purchases	18.7	-.4	-22.5	-44.4	43.0	-15.9	-16.0	27.2
Private	20.6	6.2	18.5	46.1	45.2	-17.5	-17.8	29.9
-----Per Cent Per Year-----								
Gross National Product	7.6	5.0	8.0	9.8	11.8	7.9	5.1	11.1
Final purchases	7.6	5.4	7.8	9.6	11.3	8.1	7.0	9.8
Private	8.4	5.7	8.1	9.7	12.2	7.1	5.9	9.8
Personal consumption expenditures	8.1	6.6	8.0	9.3	10.5	8.9	8.3	9.9
Durable goods	8.1	.6	13.8	14.0	10.1	-2.1	.9	13.2
Nondurable goods	6.5	7.3	5.5	7.7	12.8	12.5	9.2	8.0
Services	9.7	8.2	8.5	9.2	8.4	9.5	9.8	10.9
Gross private domestic investment	10.3	-1.9	12.8	16.7	16.8	.0	-17.0	24.9
Residential structures	8.3	-4.3	37.2	26.2	5.9	-19.6	-15.4	35.0
Business fixed investment	10.9	2.1	4.0	11.7	17.1	9.1	-2.5	7.6
Gov't purchases of goods & services	5.2	4.5	6.7	9.2	8.1	11.9	10.5	9.9
Federal	.0	-2.6	1.5	7.5	1.6	9.7	10.9	8.2
Defense	.1	-4.8	-4.6	5.1	-.5	5.8	9.8	8.1
Other	-.5	5.9	22.7	13.6	7.0	18.6	12.8	8.6
State and local	10.3	10.9	10.8	10.4	12.6	13.3	10.3	10.9
GNP in constant (1958) dollars	2.7	-.4	3.3	6.2	5.9	-2.1	-4.0	5.1
Final purchases	2.7	-.1	3.1	6.0	5.5	-1.9	-2.0	3.4
Private	3.7	1.1	3.9	6.7	6.5	-2.6	-2.7	4.6
GNP implicit deflator	4.8	5.5	4.6	3.4	5.6	10.3	9.5	5.6
Private GNP fixed weighted index <sup>1/</sup>	4.7	4.8	4.3	3.3	6.3	11.4	9.3	5.4
Personal income	9.0	7.6	6.9	9.4	11.7	9.1	7.4	9.6
Wage and salary disbursements	9.6	6.3	5.8	9.3	10.4	8.6	4.8	9.8
Disposable income	7.3	9.0	7.9	7.5	12.6	8.4	8.9	8.3
Corporate profits before tax	-3.1	-12.8	13.0	18.7	23.7	14.7	-19.9	22.5
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	12.7	-2.7	3.4	14.5	13.8	12.6	-3.3	16.9
Expenditures	4.2	7.8	8.0	11.1	8.0	13.2	19.3	10.2
Nonfarm payroll employment	3.7	.7	.4	3.5	4.2	2.0	-1.9	1.8
Manufacturing	2.0	-4.1	-4.0	2.8	5.0	-.2	-9.5	2.2
Industrial production	4.7	-3.6	.1	7.9	9.0	-.7	-10.1	6.7
Housing starts, private	-2.7	-2.3	43.2	14.9	-13.2	-34.6	-8.2	30.9
Sales new autos	-.6	-12.3	21.9	6.7	4.7	-22.5	-7.3	21.2
Domestic models	-1.8	-15.9	21.9	7.4	3.7	-23.0	-11.5	25.2
Foreign models	9.0	15.5	21.8	3.3	9.8	-20.1	15.5	4.3

1/ Using expenditures in 1967 as weights.

DOMESTIC FINANCIAL DEVELOPMENTS

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Summary. Interest rates in securities markets have changed little on balance since the last FOMC meeting. In short-term markets, continued sizable additions to Treasury bill auctions have been absorbed readily, given the strong demands for liquid assets, weak private demands for short-term credit, and the outlook for seasonal reductions in bill supply over the closing weeks of the fiscal year. In long-term markets, corporate bond yields have been relatively stable despite exceptionally large flotations of new issues. While municipal yields edged a little higher--near historic peaks--reflecting mainly concerns about the rapidly unfolding financial problems of New York City, most recently the market tone has improved with the creation of the Municipal Assistance Corporation to assist New York City.

Stability in securities markets during the past month has been accompanied by a slight downward drift in mortgage interest rates, although such rates still remain a little above the lows reached earlier this year. New mortgage commitments at S&L's rose briskly in April and reportedly have continued to rise strongly since then. Deposit inflows to the nonbank thrift institutions accelerated in May--probably related in part to the disbursement of a large volume of income tax rebates.

Growth in consumer-type time and savings deposits at commercial banks also spurted in May, while large CD's declined

further. Banks again added to their security holdings in May, but with loan demands on banks continuing weak, total loans declined for the fourth consecutive month. Loans to businesses were particularly weak, and businesses reduced sharply their borrowings in the commercial paper market as well; the combined total of business loans and nonfinancial commercial paper declined at a 14 per cent annual rate. Business needs for short-term credit have been held down by the runoff in business inventories and the huge volume of funds raised in capital markets, including the issuance of stocks as well as bonds. Given the weak credit demands on banks and the level of market interest rates, many banks recently have reduced their prime loan rates one-quarter percentage point to 7 per cent and one major bank has posted a 6-3/4 per cent rate.

In the State and local government securities market, sales of short- and long-term new issues were large in May and early June. The pick up in volume appears related partly to shortfalls in expected tax revenue because of reduced economic activity. Commercial bank interest in municipal securities remains low because of limited tax liabilities and concerns about the implications of the New York City situation--concerns shared by other investors. Consequently, yields in the municipal market remain at relatively high levels, especially for issues of New York City, New York State, or other governmental units viewed as weak by market participants.

Outlook. While interest rates are expected to rise over the GNP projection period as a whole, demands for and supplies of funds seem likely to remain fairly well balanced at present rate levels over the next month or so. As has been the case since the fall of last year, demands for credit are expected to be focussed principally on long-term markets. However, in July corporate issues of bonds and stocks are expected to begin receding a bit from the present rapid pace, in view of the large amount of debt restructuring already completed. Some of the pressures on the municipal market might abate, assuming the New York City difficulties are in fact resolved for awhile. Thus, there may develop some tendency for bond yields to edge somewhat lower over the near-term, particularly since the steeply sloped yield curve continues to provide banks and other investors an incentive for lengthening their portfolios.

The Treasury probably will make net debt repayments of about \$2-3/4 billion in the latter half of June, but will once again face substantial financing requirements in July. Additions to the weekly bill auctions in July could satisfy the bulk of the Treasury's near-term needs. Projections of the cash deficit for July vary quite widely, however, and it is possible that the Treasury may also need to issue as much as \$3 billion of coupon issues by late July.

With interest rates at current levels, deposit flows at banks and other depository institutions are expected to remain strong, although somewhat below the accelerated pace recently as the special influence of the tax rebate subsides. These institutions likely will continue to add to their security holdings given relatively weak consumer and business credit demands. The nonbank thrift institutions probably will become more aggressive mortgage lenders in this environment and mortgage rates could edge downward further.

INTERNATIONAL DEVELOPMENTS

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Summary and outlook. The exchange value of the dollar has changed little against a weighted average of ten leading foreign currencies since mid-May with major foreign central banks purchasing around \$3/4 billion in the past four weeks. On balance, exchange markets have been very quiet.

The U.S. trade balance continued in surplus in April, although this surplus, at a \$2-1/4 billion annual rate, was about one-half that registered in the first quarter of this year. During the first quarter, monthly changes were dominated by large variations in fuel imports, while the trade balance excluding fuel remained relatively stable.

Cyclical factors continued to be the main underlying determinants of the trade balance. Import volumes in January-April, 1975 were 12 percent below the level registered in the last four months of 1974 with declines widely spread across all categories of demand. The demand for imports, like the demand for domestic goods, continued to be affected by the inventory adjustment process.

Exports of non-agricultural goods fell by about 4 percent in volume between September-December, 1974 and January-April, 1975. In contrast, export orders for durable goods (excluding military, motor vehicles and aircraft) have strengthened slightly since the end of last year. Nevertheless, order backlogs continue to be drawn down.

The drop in the volume of exports of non-agricultural goods was partially offset by a rise in agricultural shipments. Consequently, total export volumes declined by only about 2 percent on average in the first four months of this year as compared with the last four months of 1974. Export volumes in the first quarter of this year constituted a record 12 percent of goods GNP as compared with an average 8 percent for the 1961-1971 pre-devaluation period.

Price developments in foreign trade also were heavily influenced by cyclical factors: world trade prices for raw and industrial materials declined or stabilized, while those of finished goods -- still reflecting the large price increases of preceding months -- continued to rise. On average, U.S. terms of trade remained about unchanged as a large fall in prices of agricultural exports more than offset rises in export prices of finished goods. The resulting fall in overall export prices about equalled the decline in import prices. Consequently, the \$11.2 billion change in the trade surplus in current dollars in January-April from the preceding four months period reflected primarily volume changes.

The fall in overseas demand has affected U.S. exports to Canada and Japan most sharply. Exports to other areas continued to increase. In particular, exports to developing countries, other than oil producers, which constitute 28 percent of total U.S. exports, have remained surprisingly strong.

Banks' lending to foreigners appears to have slowed in April as outstanding claims reportedly increased by less than \$1 billion. The increase in lending appears to have been more than offset by heavier bank borrowing abroad -- in contrast with first quarter transactions, when banks' liabilities to private foreigners were reduced. The increase in liabilities to foreigners in April was influenced primarily by interest rate developments and only slightly by the reduction in reserve requirements against Euro-dollar borrowings from foreign branches early in the month. In May, liabilities to foreign branches appear to have changed little on balance. New foreign bond issues continued at a fairly heavy rate in April and May, although they no longer maintained the unusually high level reached in the first quarter. Thus, long-term borrowing in U.S. capital markets may well have offset the greater interest foreigners have continued to take in U.S. stocks.

In foreign countries, there are some signs that the recession may be bottoming out, especially in Germany and Japan, where both industrial production and new orders appear to have begun to stabilize or even to rise a little. Nevertheless, month-to-month changes are still inconclusive, activity levels remain low, and an actual upturn is not likely to occur before the late summer of this year. Accordingly, monetary authorities in a number of countries have made some further moves to ease monetary conditions. Thus, discount rates recently have

been reduced by the national banks of Germany, France, Japan, Italy, Austria, Belgium and Denmark and in some cases cuts were accompanied by other easing measures. Reportedly some fiscal moves are being contemplated in a number of countries, in particular in Canada and Japan, as investment intention surveys continue to come in weak in most countries. However, recent survey results in a number of major industrial countries, with the exception of Britain, indicate some improvement in consumer confidence.

With inventory adjustments apparently having run their course in a number of countries, import demand for industrial materials may begin to revive slowly in the second half of the year. Exports of such goods constitute about one-third of total U.S. exports; however, a large part of material shipments abroad goes to non-industrial countries. In these countries demand has held up surprisingly well, as noted above, but is likely to decline in coming months. Thus, improvements in demand in industrial countries may well be offset by a fall in demand elsewhere. Strength from the foreign sector is not likely to materialize to any substantial extent until foreign investment demand begins to pick up. Since activity rates in the United States are expected to strengthen earlier and rather more in the second half of this year than those abroad, imports are likely to begin to exceed exports. The trade balance is projected to be in deficit by about \$4 billion by the end of the year with the deficit rising further in 1976.