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May 11, 1977

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

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SELECTED DOMESTIC NONFINANCIAL DATA
AVAILABLE SINCE PRECEDING GREENBOOK
(Seasonally adjusted)

	Latest Data			Per Cent Change from		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
						(At annual rate)
Civilian labor force	Apr.	5-6-77	96.8	2.7	5.2	2.5
Unemployment rate (%) ^{1/}	Apr.	5-6-77	7.0	7.3	7.3	7.5
Insured unemployment rate (%) ^{1/}	Apr.	5-6-77	3.7	3.9	4.1	4.2
Nonfarm employment, payroll (mil.)	Apr.	5-6-77	81.6	4.0	5.4	2.9
Manufacturing	Apr.	5-6-77	19.5	5.1	5.6	2.5
Nonmanufacturing	Apr.	5-6-77	62.2	3.7	5.3	3.1
Private nonfarm:						
Average weekly hours (hr.) ^{1/}	Apr.	5-6-77	36.2	36.2	35.8	36.1
Hourly earnings (\$) ^{1/}	Apr.	5-6-77	5.16	5.12	5.07	4.79
Manufacturing:						
Average weekly hours (hr.) ^{1/}	Apr.	5-6-77	40.2	40.4	39.5	39.4
Unit labor cost (1967=100) ^y	Mar.	4-28-77	148.5	3.2	5.7	5.2
Industrial production (1967=100)	Mar.	4-15-77	135.1	16.2	6.0	5.5
Consumer goods	Mar.	4-15-77	143.4	21.3	3.9	5.4
Business equipment	Mar.	4-15-77	145.1	18.5	5.3	8.3
Defense & space equipment	Mar.	4-15-77	79.1	15.4	8.8	2.2
Materials	Mar.	4-15-77	134.0	13.6	6.4	4.5
Consumer prices (1967=100)	Mar.	4-21-77	178.4	7.4	9.6	6.4
Food	Mar.	4-21-77	188.2	7.1	13.9	5.4
Commodities except food	Mar.	4-21-77	163.4	5.2	7.2	6.0
Services	Mar.	4-21-77	189.9	9.6	9.5	7.2
Wholesale prices (1967=100)	Apr.	5-5-77	194.4	13.8	12.6	7.2
Industrial commodities	Apr.	5-5-77	192.9	7.5	8.3	7.3
Farm products & foods & feeds	Apr.	5-5-77	197.7	34.3	28.6	6.6
Personal income (\$ bil.) ^{2/}	Mar.	4-19-77	1485.7	19.9	12.8	10.7
						(Not at annual rates)
Mfrs. new orders dur. goods (\$ bil.)	Mar.	5-2-77	59.6	8.0	4.0	16.5
Capital goods industries	Mar.	5-2-77	17.0	5.3	-6.0	13.6
Nondefense	Mar.	5-2-77	14.7	2.9	4.5	21.2
Defense	Mar.	5-2-77	2.3	24.4	-43.1	-19.2
Inventories to sales ratio: ^{1/}						
Manufacturing and trade, total	Feb.	5-10-77	1.46	1.49	1.52	1.49
Manufacturing	Mar.	5-2-77	1.52	1.59	1.59	1.62
Trade	Feb.	5-10-77	1.34	1.36	1.37	1.34
Ratio: Mfrs. durable goods inventories to unfilled orders ^{1/}	Mar.	5-2-77	.634	.633	.632	.620
Retail sales, total (\$ bil.)	Apr.	5-10-77	59.4	.0	4.8	10.6
GAF	Apr.	5-10-77	14.4	1.3	5.4	11.3
Auto sales, total (mil. units) ^{2/}	Apr.	5-6-77	11.6	-4.3	11.0	11.3
Domestic models	Apr.	5-6-77	9.3	-8.5	5.0	2.9
Foreign models	Apr.	5-6-77	2.4	17.0	42.5	63.9
Housing starts, private (thous.) ^{2/}	Mar.	4-18-77	2,127	17.2	12.6	49.2
Leading indicators (1967=100)	Mar.	4-28-77	129.7	1.4	.8	5.3

^{1/} Actual data used in lieu of per cent changes for earlier periods.

^{2/} At annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Economic activity continued to show considerable strength in April, with substantial gains reported in production and employment. Furthermore, residential construction activity surged during March, and recent data indicate that conditions are favorable for continued growth of business spending. However, prices rose sharply again last month.

Industrial production continues to expand at a vigorous rate; the April growth is estimated tentatively to be about 3/4 per cent. Output increases apparently were widespread among materials and final products with the exception of auto production. Strikes at key GM and Chrysler parts plants limited auto assemblies to a 9.3 million unit rate, 1 per cent below scheduled April production and 3 per cent below March output. Production of business equipment continued to advance, and gains were particularly strong among nondurable materials such as paper, textiles, and chemicals.

As a result of these production advances, capacity utilization in manufacturing is estimated to have risen marginally further in April to 82.4 per cent--about 1-1/2 percentage points above the weather depressed first quarter average. Materials utilization rates appear to be rising somewhat faster than advanced processing, in part because of increased steel production following a period of inventory liquidation. However, current utilization rates for materials industries, at an average of 81 per cent, are still well below historical norms and

CAPACITY UTILIZATION RATES
(Per cent, seasonally adjusted)

Series	1973 High	1975 Low	1976 QIV	1977 QI ^{1/}	March ^{1/}	April ^{e/}
Manufacturing	88.0	69.6	80.6	80.9	82.0	82.4
Primary Processing	93.6	67.8	81.7	80.9	81.8	
Advanced Processing	85.4	70.5	79.9	80.9	82.0	
Materials, total	93.1	69.7	80.2	80.0	80.8	
Durable Goods Materials	92.5	64.3	76.5	76.0	76.9	
Raw Steel	106.8 ^{1/}	69.4	76.8	72.9	77.6	
Nondurable Goods Mat.	94.6	67.8	84.4	84.0	85.1	
Textile Materials	94.4	58.0	79.4	79.2	80.3	
Paper Materials	100.5 ^{1/}	71.8	88.1	88.5	90.6	
Chemical Materials	93.8	64.7	83.1	82.5	83.2	
Energy Materials	94.6	82.7	84.4	85.1	85.5	

^{1/} Output after seasonal adjustment can in individual industries exceed annual capability; however, as shown, such rates are not approached in the aggregate.

CHANGES IN EMPLOYMENT
(Thousands of jobs; seasonally adjusted)

	Apr. 76 to Oct. 76	Oct. 76 to Apr. 77	Recent Months		
			Jan. 77 to Feb. 77	Feb. 77 to Mar. 77	Mar. 77 to Apr. 77
<u>Average monthly change</u>					
<u>Payroll employment</u>					
Total nonagricultural (Strike adjusted)	85 (100)	304 (290)	263 (269)	548 (574)	272 (287)
Manufacturing	-11	90	22	166	82
Durable	0	62	-6	139	23
Nondurable	-12	28	28	27	59
Construction	-6	40	84	101	76
Trade	27	62	86	105	24
Services and finance	59	82	66	104	64
State and local government	13	12	-5	37	11
<u>Household employment</u>					
Total	68	381	404	513	548
Nonagricultural	83	389	404	487	404

12 percentage points below the 1973 peak. The only industry operating near its practical maximum is petroleum refining where stocks are being rebuilt and expanded following the exceptionally cold winter.

The continued vigor of economic activity was also evident in April labor market developments. The establishment survey indicated that nonagricultural payroll employment grew 270,000 in April, the sixth consecutive month of increases greater than 200,000. Over 1-3/4 million workers have been added to nonagricultural payrolls since last October. Although increases were generally widespread in April, gains were especially strong in nondurable manufacturing and contract construction. Average weekly hours for production and nonsupervisory workers were unchanged from March, and the factory workweek showed a mixed picture, as average hours declined somewhat while overtime hours rose.

In the household survey, the unemployment rate dropped to 7.0 per cent in April, its lowest level since December 1974. Total employment grew by more than one half million for the second consecutive month. The decline in unemployment was concentrated among those who had lost their last job.

Earlier gains in employment and hours are reflected in an accelerated rise of personal income, which rose at a 19.9 per cent annual rate in March. The rise of wage and salary income accelerated to a 17.4 per cent annual rate in March, led by manufacturing payrolls which grew at a 23.3 per cent rate. In addition, transfer payments in March were swollen by the payment of earned income credits under the

PERSONAL INCOME

(Per cent change from preceding comparable period at compound annual rate;
based on seasonally adjusted data)

	1976				1977			
	QI	QII	QIII	QIV	QI	Jan. ^{1/}	Feb. ^{1/}	Mar. ^{1/}
<u>Current dollar</u>								
Total personal income	10.1	9.5	7.3	10.7	12.1	1.5	16.8	19.9
Nonagricultural income	12.6	7.8	9.2	11.2	11.0	.9	16.8	18.7
Wage and salary disbursements	12.6	9.4	7.8	10.7	11.4	4.3	15.8	17.4
Private	14.1	10.1	8.2	10.5	12.8	3.9	18.6	20.4
Manufacturing	18.0	10.9	5.7	8.6	14.5	5.8	18.4	23.3
Government	7.2	7.1	6.7	11.5	6.2	5.4	5.4	6.0
Nonwage income	7.2	9.3	6.3	10.7	14.3	.4	18.0	23.4
Transfer payments	14.1	-2.3	10.9	9.0	13.9	8.5	20.5	24.9
Dividends	11.7	16.7	12.1	28.6	-1.1	-103.7	19.5	16.0
<u>Constant dollars^{2/}</u>								
Total personal income	4.7	4.4	1.5	6.1	3.4	-8.1	5.1	12.3
Nonagricultural income	7.1	2.8	3.3	6.6	2.4	-8.6	5.2	11.2
Wage and salary disbursements	7.0	4.4	2.0	6.1	2.8	-5.3	4.2	9.9

Memorandum:								
Real disposable per capita income	5.4	4.0	-.1	2.5	2.6			

^{1/} Per cent change at annual rate, not compounded.

^{2/} Deflated by CPI, seasonally adjusted.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1976				1977	1976	1977	
	QI	QII	QIII	QIV	QI	Apr.	Mar.	Apr.
Total, 16 years and older	7.6	7.4	7.8	7.9	7.4	7.5	7.3	7.0
Men, 20 years and older	5.8	5.7	6.0	6.2	5.6	5.5	5.4	5.0
Women, 20 years and older	7.4	7.1	7.7	7.6	7.1	7.3	7.2	7.0
Teenagers	19.2	18.8	18.8	19.1	18.6	19.3	18.8	17.8
Household heads	5.0	4.9	5.3	5.3	4.8	4.8	4.6	4.4
Married men, spouse present	4.1	4.1	4.4	4.4	3.9	4.0	3.7	3.6
Fulltime workers	7.1	7.0	7.4	7.5	6.8	7.0	6.7	6.6

Total, alternative seasonal adjustment method								
All additive factors	7.8	7.4	7.7	7.8	7.5	7.5	7.4	7.0
1975 Factors	7.8	7.5	7.6	7.9	7.6	7.7	7.5	7.1

Federal income tax law. In April, although the average workweek was unchanged, the reported advances in employment and average hourly earnings suggest continued gains in wage and salary income.

Consumer demand has continued to provide the principal contribution to economic growth. Retail sales excluding autos and mainly nonconsumer items are estimated to have risen 1.1 per cent in April, about the same as in March. Sales of general merchandise advanced 2-1/2 per cent last month.

Auto sales, though somewhat below their advanced March pace, remained strong last month. Unit sales in April were at an 11.6 million annual rate--one half million above the first quarter average. Imports sold at a record rate for the second straight month, taking an appreciably larger share of the total market. The recent surge in foreign model sales has resulted in part from widespread discounts and may have reflected renewed consumer interest in smaller sized foreign cars in anticipation of higher gasoline prices.

Domestic autos sold at a 9.3 million unit rate in April, equal to the selling pace of the first quarter. Interest in large cars continued to dominate, while domestic subcompacts fared poorly in the market. Trade reports suggest that sales of large cars surged following the Administration's proposal to penalize purchases of such models in the near future.

Although the Conference Board survey showed that consumer confidence was slightly lower in late March and early April than in the

RETAIL SALES
(Per cent change from preceding comparable period;
based on seasonally adjusted data)

	1976			1977			
	QIV	QI	Jan.	Feb.	Mar.	Apr.	
<u>Total Sales</u>	3.5	3.6	-2.1	2.7	2.1	0	
(Real) ^{1/}	2.6	1.5	-3.0	1.4	1.7	n.a.	
Total less auto and nonconsumption items	3.2	1.8	-1.6	2.2	1.1	1.1	
GAF	4.3	.1	-3.3	2.6	1.4	1.3	
Durable	3.9	7.1	-3.6	3.9	4.3	-2.3	
Auto	4.3	10.7	-3.4	3.3	4.6	-4.3	
Furniture and appliances	4.1	1.8	-4.1	6.2	2.6	-0.7	
Nondurable	3.3	1.9	-1.4	2.1	1.0	1.2	
Apparel	1.8	-.7	-3.8	4.4	-2.5	-1.4	
Food	2.3	1.6	-2.6	2.8	2.3	.3	
General merchandise	5.1	-.2	-3.0	1.1	2.2	2.5	
Gasoline	4.8	2.3	-.3	0	-1.1	1.8	

^{1/} Deflated by All commodities CPI, seasonally adjusted.

AUTO SALES
(Millions of units; seasonally adjusted)

	1976			1977				
	QII	QIII	QIV	QI	Jan.	Feb.	Mar.	Apr.
Total	10.3	10.2	10.0	11.1	10.5	10.7	12.2	11.6 ^{P/}
Imports	1.4	1.6	1.7	1.8	1.7	1.8	2.0	2.4 ^{P/}
Domestic	8.9	8.6	8.3	9.3	8.8	8.9	10.1	9.3
Large	5.4	4.9	5.2	6.2	5.9	5.9	6.8	n.a.
Small	3.4	3.7	3.1	3.1	3.0	3.1	3.3	n.a.

NOTE: Parts may not add to the total because of rounding.

two previous bimonthly surveys, the index still remains within the range reported over the last 12 months. Moreover, the volatile buying plan index was about unchanged as weaker buying plans for autos and homes were offset by a sharp increase in intentions to buy major appliances.

Along with increased household spending, substantial demand for housing has led to strong advances in residential construction. Private housing starts advanced 17 per cent in March from an upward revised February level, reaching an annual rate of 2.1 million units--the highest since 1973. As a result of the March performance, the weather-induced January slump was offset and the first quarter starts rate held about even with the advanced fourth quarter pace. Single-family starts rose to an extremely high 1.5 million unit annual rate and multifamily starts rose sharply in March from earlier reduced levels. Nearly all of the recent increase came in conventionally financed units, in contrast to the fourth quarter when multifamily starts were boosted by a surge in public funds for subsidized housing. Combined sales of new and existing homes were again vigorous in March and, despite a reduced rate of savings inflows, thrift institutions supplied a substantial volume of mortgage credit at unchanged interest rates.

Conditions appear favorable for further growth of business spending, the principal lagging sector since the recovery began. Real outlays for business fixed investment advanced at a 14.4 per cent rate in the first quarter, with the pattern of gains still affected by

NEW PRIVATE HOUSING UNITS
(Millions of units; seasonally adjusted annual rate)

	1976			1977			Per cent change ^{1/} from:	
	QII	QIII	QIV ^{2/}	QI ^{2/}	Feb. ^{2/}	Mar. ^{2/}	Month ago	Year ago
All Units								
Permits	1.13	1.34	1.53	1.52	1.53	1.71	12	44
Starts	1.44	1.57	1.77	1.78	1.82	2.13	17	49
Under construction ^{2/}	1.06	1.11	1.19	n.a.	1.23	n.a.	2	17
Completions	1.33	1.37	1.39	n.a.	1.62	n.a.	14	24
Single-family								
Permits	.81	.89	1.04	1.07	1.06	1.21	13	37
Starts	1.09	1.19	1.28	1.32	1.43	1.53	7	36
Under construction ^{2/}	.61	.64	.69	n.a.	.72	n.a.	3	23
Completions	.99	1.05	1.05	n.a.	1.21	n.a.	10	27
Multifamily								
Permits	.32	.45	.49	.45	.47	.50	8	64
Starts	.34	.39	.49	.45	.38	.60	57	99
Under construction ^{2/}	.46	.47	.51	n.a.	.51	n.a.	--	10
Completions	.34	.32	.35	n.a.	.41	n.a.	30	17
Memorandum:								
Mobile home shipments	.24	.24	.25	.27	.28	.27	- 4	9

^{1/}Monthly changes are not at annual rates.

^{2/}Seasonally adjusted, end of period.

NOTE: Per cent changes are based on unrounded data. A change of less than 1 per cent is indicated by --.

special factors. The first quarter increase was concentrated in the motor vehicle and farm equipment categories, which had been held back by strikes in the fourth quarter of 1976. Excluding these, real producers durable equipment expenditures were about unchanged from the fourth quarter.

There are signs, however, that components of capital spending other than motor vehicles and farm equipment will be picking up later in the year. The McGraw-Hill spring survey of anticipated plant and equipment expenditures--conducted in late March and early April--shows business planning to increase capital spending by 18 per cent in 1977, with particular strength in durable manufacturing and utilities. This is 3 percentage points greater than the figure reported by a special check-up taken two months earlier and 5 percentage points above the results of their fall survey. These new results are considerably more optimistic than the February Commerce survey which showed business planning an 11.7 per cent increase for 1977. However, the two surveys are not directly comparable; the Commerce survey is based on a more comprehensive sample and is adjusted for systematic anticipations bias.

Capital spending commitments data have also strengthened. New orders for nondefense capital goods rose 2.9 per cent in March, offsetting the February decline and bringing the first quarter rise up to 6.2 per cent. Additionally, construction contracts for commercial

ACTUAL AND ANTICIPATED PLANT AND EQUIPMENT EXPENDITURES
(Per cent change from preceding year)

	1977 ^{2/}				
	1976 ^{1/}	Commerce ^{3/}		McGraw Hill	
		Feb. 1977	Nov. 1976	Feb. ^{4/} 1977	Apr. 1977
All Business	6.8	11.7	13.0	14.9	18
Manufacturing	9.4	12.7	15.4	16.7	19
Durable	8.4	13.5	22.6	23.1	26
Nondurable	10.3	12.1	9.4	11.6	14
Nonmanufacturing	4.9	10.9	11.0	13.4	16
Mining	5.4	7.2	10.1	25.1	22
Railroads	-1.2	.3	18.9	23.0	23
Nonrail Transportation	-1.8	-19.3	8.3	25.9	7
Electric Utilities	10.6	17.0	12.0	11.0	21
Gas Utilities	10.5	23.1	17.1	22.0	34
Communications	4.4	13.2	11.0	16.0	16
Commercial and Other	1.9	11.0	9.0	6.0	9

^{1/} Actual.

^{2/} Anticipated.

^{3/} Corrected for systematic bias.

^{4/} Special check up of November 1976 survey.

COMPOSITION OF BUSINESS FIXED INVESTMENT^{1/}
(Billions of 1972 dollars)

	1972\$ 1977QI	Per cent change, compound annual rate 1976				1977
		QI	QII	QIII	QIV	QI
Business fixed investment	121.9	7.8	8.3	9.6	1.2	14.4
Producers' durable equipment	84.2	9.3	8.3	11.7	-1.0	29.0
Nonelectrical machinery	31.8	-7.2	12.2	4.8	5.7	8.7
Ex. agr. equipment	26.4	-10.3	19.3	3.9	18.9	.4
Agricultural equipment	5.4	7.4	-14.7	9.1	-41.8	64.2
Electrical machinery	12.7	29.7	5.7	23.2	11.3	-6.0
Transportation equipment ^{2/}	26.0	32.2	7.7	24.1	-25.5	118.7
Trucks	12.6	29.4	23.2	74.2	-39.3	167.4
Autos	9.5	61.6	2.8	11.3	-39.9	133.3
Other equipment	13.8	1.1	2.9	-1.2	22.4	3.6
Memorandum:						
PDE ex. motor vehicles	62.1	.9	6.9	3.3	15.5	4.2
Nonresidential structures ^{2/}	37.7	4.7	8.4	5.3	5.8	-11.5
Nonfarm building ^{2/}	18.2	4.4	-11.1	8.8	-1.5	-7.2
Industrial	4.7	-2.2	-27.3	-22.0	-7.2	1.4
Commercial	9.2	2.9	-3.3	12.4	-4.1	.0
Utilities	13.0	10.3	40.0	16.4	11.5	-21.1
Drilling and mining	4.0	-12.5	21.6	-22.5	8.1	10.0

^{1/} Unpublished detailed data are provided to the Board on a confidential basis.

^{2/} Includes data not shown separately.

and industrial building measured by floor space rose over 30 per cent (not an annual rate) in March. For the first quarter as a whole, this volatile series was at its highest level since late 1974.

Recent data suggest a further accumulation of business inventories in the coming months. The book value of manufacturers' stocks rose at an \$8.6 billion annual rate in March, less than in January or February. A sharp rise in shipments may have caused stocks of finished goods to fall. The net addition to stocks was wholly in materials and supplies--usually indicative of increasing production. The inventory-sales ratio for manufacturers fell sharply further in March, indicating that stocks remain lean; the ratio for producers of durable goods declined in March to its lowest level in 11 years. Greater accumulation in April may be suggested by the recent behavior of business loans at commercial banks--a principal means of inventory financing--which remained at a high level.

Another lagging sector has been the spending by State and local governments, and here weakness persists. Value of construction put-in-place rose by \$.8 billion (annual rate) in March following a \$2 billion rate in February. For the quarter as a whole, such spending is estimated to have been \$1.6 billion (annual rate) below the depressed fourth quarter rate. Employment growth registered a moderate gain in April (11,000 jobs) but the increases of the last two months have just barely offset the decreases experienced earlier this year.

COMMITMENTS DATA FOR BUSINESS FIXED INVESTMENT
 (Per cent change from preceding comparable periods;
 based on seasonally adjusted data)

	1976			1977		Mar. 76 to Mar. 77	
	QII	QIII	QIV	QI	Feb.		Mar.
<u>New orders received by manufacturers</u>							
Total durable goods							
Current dollars	5.5	- .8	6.0	5.6	.4	8.0	16.5
1967 dollars ^{1/}	4.4	-2.3	3.6	3.8	-.1	7.2	8.9
Nondefense capital goods							
Current dollars	5.6	5.8	3.4	6.2	-3.0	2.9	21.2
1967 dollars ^{1/}	4.5	4.4	1.6	4.7	-3.2	2.5	14.4
<u>Construction contracts for commercial and industrial building^{2/}</u>							
Current dollars	9.3	-7.1	19.2	-3.5	-12.0	36.8	28.5
Square feet of floor space	8.0	-4.9	4.8	8.5	-4.3	31.6	28.9
<u>Contracts and orders for plant & equip.^{3/}</u>							
Current dollars	-1.3	1.6	7.5	4.4	-2.7	-4.6	5.7
1972 dollars	-2.1	.2	6.3	3.1	-3.4	-5.2	1.8

^{1/} FR deflation by appropriate WPI.

^{2/} Current dollars series obtained from FR seasonal. Floor space is seasonally adjusted by Census.

^{3/} The Commerce Department creates this series by adding new orders for nondefense capital goods to the seasonally adjusted sum of new contracts awarded for commercial and industrial buildings and new contracts awarded for private nonbuildings (e.g., electric utilities, pipelines, etc.).

BUSINESS INVENTORIES
(Change at annual rates in seasonally
adjusted book values; billions of dollars)

	1975	1976				1977		
	QIV	QI	QII	QIII	QIV	QI	Feb.	Mar.
Manufacturing and trade	-.4	23.1	31.5	29.6	10.3	n.a.	24.2	n.a.
Manufacturing	.6	7.5	14.2	15.4	6.5	10.3	11.6	8.6
Durable	-4.4	1.7	6.8	6.7	6.5	7.6	7.9	4.8
Nondurable	5.0	5.8	7.5	8.6	.0	2.7	3.7	3.8
Trade, total	-1.0	15.6	17.3	14.2	3.9	n.a.	12.6	n.a.
Wholesale	-2.0	5.1	9.0	4.3	1.6	8.3	9.4	6.7
Retail	1.0	10.5	8.3	9.9	2.2	n.a.	3.1	n.a.
Auto	-.9	1.1	.1	4.8	1.3	n.a.	-1.7	n.a.

INVENTORY RATIOS

	1974	1975	1976		1977		
	QI	QI	QIII	QIV	QI	Feb.	Mar.
<u>Inventory to sales:</u>							
Manufacturing and trade	1.50	1.66	1.53	1.51	n.a.	1.46	n.a.
Manufacturing	1.65	1.91	1.66	1.65	1.58	1.59	1.52
Durable	2.04	2.43	2.04	2.04	1.93	1.96	1.82
Nondurable	1.22	1.36	1.26	1.24	1.20	1.19	1.18
Trade, total	1.35	1.42	1.38	1.36	n.a.	1.34	n.a.
Wholesale	1.12	1.25	1.22	1.22	n.a.	1.20	n.a.
Retail	1.53	1.56	1.51	1.47	n.a.	1.44	n.a.
<u>Inventories to unfilled orders:</u>							
Durable manufacturing	.519	.579	.640	.632	.634	.633	.634

Federal spending in March was \$34.6 billion in terms of the unified budget--up nearly \$3.7 billion from February's depressed level. Spending for the second quarter is expected to be quite strong. The Administration has revised downward its fiscal year 1977 Federal deficit estimate from \$68 billion to \$49 billion. Approximately \$11.4 billion of this decline is due to the withdrawal of the Administration's rebate proposal and \$6.0 billion is due to smaller-than expected spending in the areas of national defense and grants for education, highways, and waste treatment.

Wholesale and consumer prices have continued to rise rapidly in recent months. Large increases in prices of farm products and foods were mainly responsible for the further sizable rise in the Wholesale Price Index for April. Prices of fresh fruits and vegetables declined with improved supplies in April but prices of soybeans, livestock, manufactured animal feeds, and dairy products rose substantially.

Prices of industrial commodities rose at a 7-1/2 per cent per year rate; the rise is over a percentage point less if fuels and power are excluded--about the average rate of the past 12 months. Among fuels and power, large increases were reported for natural gas and electricity, both of which are reported with a lag. A sizable decline--the second in three months--came in lumber and wood product prices which had soared in late 1976. The March increase in the consumer prices was at about a 7-1/2 per cent annual rate. Food prices

RECENT CHANGES IN WHOLESALE PRICES
 (Per cent changes at compound annual rates; based
 on seasonally adjusted data)^{1/}

	Relative Importance Dec. 76	1975	1976		1977	
			HI	HII	QI	Apr.
All commodities	100.0	4.2	3.9	5.3	10.2	13.7
Farm and food products	21.6	-.3	1.0	-3.2	19.1	34.3
Industrial commodities	78.4	6.0	5.0	7.8	7.9	7.5
Materials, crude and intermediate ^{2/}	49.1	5.4	5.2	8.3	9.1	6.5
Finished goods						
Consumer nonfoods	18.7	6.7	3.3	6.4	8.5	8.5
Producer goods	12.1	8.2	5.8	7.1	5.3	6.6
Special groups:						
Industrial commodities excluding fuels and related products and power	67.7	5.0	5.8	6.4	6.4	6.0
Consumer foods	10.4	5.5	-1.3	-3.2	12.7	29.6

^{1/} Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.

^{2/} Estimated series.

slowed to about a 7 per cent rate as supplies of fresh vegetables began to recover from the cold weather snap and beef and egg prices declined. Coffee prices, however, continued to soar. Energy prices continued to rise at retail, although the increase for gasoline was less than in the previous month. Excluding the food and energy items from the CPI the rise for March was at a 6.3 per cent annual rate--again, about the same as over the last 12 months.

Private business sector unit labor costs increased at a 7.3 per cent annual rate in the first quarter. The small deceleration from the 8.0 per cent rate in the fourth quarter is attributable to improved productivity growth and came despite a larger increase in hourly compensation (10.7 per cent rate). The large rise in hourly compensation in the first quarter was partly due to increased taxes on employers for social security and unemployment insurance, and to minimum wage adjustments in some sectors. Also in the first quarter, first-year wage adjustments in major collective bargaining settlements averaged 7.6 per cent, compared to the 1976 average of 8.4 per cent. There were, however, relatively few negotiations concluded in the first quarter. In April, the average hourly earnings index for production and nonsupervisory workers in the private nonfarm economy rose at a 6.8 per cent annual rate, about the same as the average increase during 1976 as a whole.

HOURLY EARNINGS INDEX^{1/}

(Per cent change from preceding comparable period at a compound annual rate;
based on seasonally adjusted data)

	1976				1977			Apr. 76 to Apr. 77
	QI	QII	QIII	QIV	QI	Mar. ^{2/}	Apr. ^{2/}	
Private nonfarm	6.9	6.7	7.1	6.4	8.2	5.6	6.8	7.0
Construction	5.6	7.4	5.3	3.6	5.7	1.9	5.0	4.7
Manufacturing	7.4	6.4	9.2	6.5	7.9	8.1	5.6	7.4
Trade	5.2	5.7	6.7	8.2	9.2	4.5	7.0	7.6
Transportation and public utilities	9.1	9.3	6.6	4.7	6.1	4.7	11.0	6.8
Services	8.3	6.6	4.8	7.8	11.1	7.9	6.0	7.6

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

2/ Monthly change at an annual rate, not compounded.

RECENT CHANGES IN CONSUMER PRICES
 (Per cent changes at compound annual rates; based
 on seasonally adjusted data)^{1/}

	Relative Importance Dec. 76	1975	1976		1977	
			HI	HII	QI	March
All items	100.0	7.0	5.0	4.8	10.0	7.4
Food	23.7	6.5	.2	.8	14.6	7.1
Commodities (nonfood)	38.8	6.2	4.8	5.6	7.4	5.2
Services	37.5	8.1	8.5	6.3	9.8	9.6
Memoranda:						
All items less food and energy ^{2/3/}	68.9	6.7	6.9	5.5	8.3	6.3
Petroleum products ^{2/}	4.5	10.1	-2.2	9.7	7.1	9.1
Gas and electricity	2.9	14.2	9.8	15.4	10.7	16.5

^{1/} Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.

^{2/} Estimated series.

^{3/} Energy items excluded: gasoline and motor oil, fuel oil and coal, gas and electricity.

PRODUCTIVITY AND COSTS

(Per cent change from preceding quarter at a compound annual rate;
based on seasonally adjusted data)

	1976				1977	1976:QI to 1977:QI
	QI	QII	QIII	QIV	QI	
<u>Output per hour</u>						
Total private business	7.0	2.9	2.9	.3	3.2	2.3
Nonfarm business	5.4	4.4	2.6	-1.2	2.6	2.1
Manufacturing	4.7	7.4	5.7	-.2	-.1	3.1
Durable	3.6	9.9	6.1	-2.1	-1.2	3.0
Nondurable	5.9	4.7	6.3	2.0	1.9	3.7
<u>Compensation per hour</u>						
Total private business	10.4	6.5	7.5	8.2	10.7	8.2
Nonfarm business	9.0	7.7	7.1	7.0	10.2	8.0
Manufacturing	9.2	8.6	6.2	7.9	11.1	8.4
Durable	8.5	9.4	4.3	6.6	10.8	7.8
Nondurable	9.9	6.5	8.6	10.5	11.2	9.2
<u>Unit labor costs</u>						
Total private business	3.1	3.5	4.5	8.0	7.3	5.8
Nonfarm business	3.4	3.2	4.3	8.3	7.3	5.8
Manufacturing	4.3	1.1	.4	8.2	11.2	5.1
Durable	4.8	-.4	-1.7	8.9	12.2	4.6
Nondurable	3.8	1.7	2.2	8.3	9.2	5.3

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SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data		Net change from:		
	Period	Level	Month ago	Three months ago	Year ago
	\$ billions		Per cent at annual rates		
Monetary and credit aggregates 1/					
Total reserves	April	34.69	13.4	-1.0	3.4
Nonborrowed reserves	April	34.62	14.6	-1.0	3.3
Money supply					
M1	April	321.2	19.4	8.8	6.4
M2	April	762.4	13.0	9.3	10.4
M3	April	1279.1	12.2	10.1	12.2
Time and savings deposits (less CDs)	April	441.2	8.8	9.8	13.4
CDs	April	61.6	-0.6 ^{2/}	-1.5 ^{2/}	-9.6 ^{2/}
Thrift deposits (S&Ls + MSBs + Credit Unions)	April	516.7	11.0	11.2	15.1
Bank credit (end of month)	April	810.4	13.9	13.2	8.9

Indicator	Latest data		Net change from:			
	Period	Per cent or index	Month ago	Three months ago	Year ago	
Market yields and stock prices						
Federal funds	wk. endg.	5/4/77	5.15	.45	.45	.12
Treasury bill (90 day)	"	5/4/77	4.65	.09	-.09	-.23
Commercial paper (90-119 day)	"	5/4/77	4.83	.08	.03	-.30
New utility issue Aaa	"	5/6/77	--	--	--	--
Municipal bonds (Bond Buyer)	1 day	5/5/77	5.76	-.03	-.17	-.95
FNMA auction yield (FHA/VA)		5/2/77	8.70	-.02	.18	-.24
Dividend price ratio (common stocks)	wk endg.	5/4/77	4.51	.22	.10	19.60
NYSE index (12/31/65=50)	end of day	5/10/77	54.30	1.10	-1.10	-1.10

Indicator	Net Change or Gross Offerings			
	Period	Latest Data	Year ago	Year to Date 1977 1976
				\$ billions

Credit demands

Business loans at commercial banks 1/	April	1.9	.1	6.4	-2.9
Consumer instalment credit outstanding 1/	1/ March	2.7	1.5	6.7	3.7
Mortgage debt outstanding (major holders)	Feb.	5.3	4.8	10.5	9.6
Corporate bonds (public offerings)	Apr.	1.8e	2.4	8.4e	9.9
Municipal long-term bonds (gross offerings)	Apr.	3.4e	2.2	14.0e	10.9
Federally sponsored agcy. (net borrowing)	Apr.	1.3	.8	2.0	1.1
U.S. Treasury (net cash borrowing)	May	-3.3e	4.1	15.6e	29.6

1/ Seasonally adjusted.

2/ \$ billions, not at annual rates.

e Estimated.

DOMESTIC FINANCIAL DEVELOPMENTS

Aggregate private credit demands continued to strengthen in April while Treasury demands moderated. The maturity composition of private borrowing shortened further, as corporate bond offerings slowed while short-term borrowing by businesses and municipalities rose sharply.

Commercial bank credit expanded substantially further in April, about matching the advanced first quarter rate. An unusually large proportion of the April expansion was financed by demand deposit growth, as M_1 increased at a record rate. Growth of time and savings deposits at commercial banks and nonbank thrift institutions, on the other hand, slowed somewhat further.

Market interest rates have generally increased since the April FOMC meeting, responding to a rise of the Federal funds rate-- from the 4-5/8 to 4-3/4 per cent range into the 5-1/4 per cent area-- which occurred against a background of a sharp acceleration of M_1 growth and evidence of considerable strength in economic activity. Upward pressures on other rates have been tempered, however, as the Treasury has been reducing its indebtedness through paydowns in weekly and monthly bill auctions and in the mid-May refunding, and

has announced its intention to continue allowing bills to run off over the remainder of the quarter. In addition, inventory positions of U.S. Government securities dealers have been quite low, reflecting preparation for the Treasury's May refunding as well as positioning in expectation of rising rates.

On balance, increases in market rates since the last Committee meeting generally have been less than the rise in the Federal funds rate. Specifically, rate on Treasury bills and intermediate-term issues have moved up around 30 to 45 basis points, and commercial paper rates have advanced 25 to 40 basis points. Yields on Treasury and corporate bonds show gains of about 15 to 20 basis points, while those on municipal bonds and home mortgages are up only marginally.

With these recent increases, most short- and long-term market interest rates are now 50 to 70 basis points above their levels near the end of 1976, which were the lowest in recent years. Average yields on municipal bonds, in fact, are still slightly below their December levels, reflecting declining yields on lower-quality issues, and rates on home mortgages in the primary market are only about 15 basis points above their recent low reached in March. Intermediate-term Treasury rates have shown substantially larger gains this year, but this reflects a rebound from the especially sharp decline that occurred in late November and December.

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 SELECTED FINANCIAL MARKET QUOTATIONS
 (Per cent)

	1976 <u>1/</u>		1977 <u>2/</u>				Change from:	
	May-June High	December Low	Mar. FOMC 15	Apr. FOMC 19	May 3	May 10	Dec. Low	Apr. FOMC
<u>Short-term rates</u>								
Federal funds <u>1/</u>	5.58	4.63	4.62	4.71	5.15	5.30 <u>3/</u>	+ .67	+ .59
Treasury bills								
3-month	5.53	4.27	4.57	4.52	4.75	4.94	+ .67	+ .42
6-month	5.93	4.50	4.84	4.75	4.99	5.22	+ .72	+ .47
1-year	6.32	4.62	5.16	5.00	5.23	5.44	+ .82	+ .44
Commercial paper								
1-month	5.65	4.48	4.63	4.63	4.63	4.88	+ .40	+ .25
3-month	5.90	4.63	4.75	4.75	4.88	5.13	+ .50	+ .38
Large negotiable CD's <u>4/</u>								
3-month	5.95	4.60	4.85	4.75	4.85	5.25	+ .65	+ .50
6-month	7.00	4.71	5.13	4.90	5.30	5.70	+ .99	+ .80
Bank prime rate	7.25	6.25	6.25	6.25	6.25	6.25	0	0
<u>Intermediate- and long-term rates</u>								
Corporate								
New AAA <u>5/</u>	8.95	7.93	8.30	8.25	8.31	--	--	--
Recently offered <u>6/</u>	8.84 <u>7/</u>	7.84	8.32	8.16	8.25	8.31p	+ .47	+ .15
Municipal								
(Bond Buyer) <u>8/</u>	7.03 <u>9/</u>	5.83	5.92	5.70	5.68	5.76	- .07	+ .06
U.S. Treasury (constant maturity)								
3-year	7.52	5.64	6.46	6.19	6.48	6.58	+ .94	+ .39
7-year	7.89	6.32	7.16	7.01	7.26	7.33	+1.01	+ .32
20-year	8.17	7.26	7.71	7.61	7.72	7.79	+ .53	+ .18
<u>Stock prices</u>								
	January Low	December High	FOMC Mar 15	FOMC Apr 19	May 3	May 10	Dec. Low	April FOMC
Dow-Jones Industrial	881.51	994.18 <u>10/</u>	965.01	938.77	934.19	936.14	-58.04	-2.63
N.Y.S.E. Composite	49.06	56.96	55.37	54.50	54.21	54.30	-2.66	- .20
AMEX	86.42	107.26	112.06	112.40	113.05	114.25	+6.99	+1.85
Keefe Bank Stock <u>6/</u>	520	664	626	622	608	614	-50	-8

- 1/ Daily average for statement week.
2/ One day quotes except as noted.
3/ Average for first six days of statement week ending May 11.
4/ Highest quoted new issues.
5/ 1977 figures are averages for preceding week.
6/ 1977 figures are one-day quotes for preceding Friday.
7/ High for the year was 8.94 on January 7.
8/ 1977 figures are one-day quotes for preceding Thursday.
9/ High for the year was 7.13 on January 7.
10/ High for the year was 1003.87 in statement week ending 9/29.

Monetary Aggregates and Bank Credit

M_1 increased at a record seasonally adjusted annual rate of 19-1/2 per cent in April. This sharp rise produced an acceleration in M_2 and M_3 growth, despite the continued moderation of interest-bearing deposit inflows to banks and thrift institutions. But the broader measures of money expanded less than M_1 for the first time since money market rates fell below ceiling rates on savings deposits about a year ago.

While a number of special factors ^{1/} contributed to the spurt in demand deposits in April, they cannot account fully for the rapid growth in the narrow money stock. Some of the increase may have been associated with increasing transactions demand for money accompanying the continued gains in economic activity. M_1 growth had been relatively modest in the first quarter, and the April expansion could reflect in part lagged adjustment of transactions balances to strengthening economic activity. Historically, such rapid growth of money balances in one month is usually followed by much slower growth, and early data for May suggest that this pattern is being repeated.

^{1/} Social security checks were distributed earlier than usual because the normal payment date fell on a Sunday; as a result, some portion of the \$6.5 billion April payment lodged in demand balances longer than is customary. A similar development in October 1976 also led to a sharp increase in M_1 in that month. In addition, the Treasury's cash balance declined sharply in late March and early April, tending to stimulate private demand deposits. Finally, mid-April tax payments by individuals were \$2.5 billion larger than in either of the previous two years, and there appears to have been some shift from interest-bearing deposits to demand deposits prior to the tax date and some subsequent delay in processing the large volume of tax payments. Both of these factors led to an increase in private demand balances in the two weeks surrounding the tax date.

MONETARY AGGREGATES ^{1/}
(Seasonally adjusted)

	1976		1977		Year through April	
	QIII	QIV	QI	Mar. Apr.		
<u>Net changes at annual rates, per cent</u>						
<u>Major monetary aggregates</u>						
1. M ₁ (Currency plus demand deposits)	4.4	6.8	4.8	6.1	19.4	8.1
2. M ₂ (M ₁ plus time and savings deposits at commercial banks other than large CDs)	9.1	12.2	9.4	8.2	13.0	9.4
3. M ₃ (M ₂ plus all deposits at thrift institutions)	11.4	14.2	11.0	9.2	12.2	10.4
4. Adjusted bank credit proxy	3.9	8.2	5.4	7.6	8.0	4.3
<u>Bank time and savings deposits</u>						
5. Total time and savings deposits at commercial banks	7.0	11.5	11.3	5.8	6.2	8.0
6. Other than large negotiable CD's	12.8	16.3	12.7	9.7	8.8	10.3
7. Savings deposits	13.4	26.9	20.5	9.8	8.6	13.3
8. Individuals ^{2/}	13.3 ^{e/}	20.6 ^{e/}	14.2 ^{e/}	9.1 ^{e/}	8.6	10.9
9. Other ^{3/}	16.8 ^{e/}	144.5 ^{e/}	109.0 ^{e/}	17.7 ^{e/}	5.4	41.9
10. Time deposits ^{4/}	3.1	1.4	5.0	2.9	4.9	4.4
11. Small time ^{4/}	23.9	27.5	8.8	14.6	16.7	9.6
<u>Deposits at nonbank thrift institutions^{5/}</u>						
12. Savings and loan associations	15.9	18.8	14.7	11.3	11.3	12.9
13. Mutual savings banks	11.4	12.8	9.2	6.5	6.8	7.8
14. Credit unions	16.1	18.8	16.2	18.1	19.4	17.2
<u>Average monthly changes, \$ billions</u>						
<u>Memoranda:</u>						
15. Total U.S. Gov't. deposits	0.7	-0.3	0.0	-0.5	-0.4	-0.1
16. Negotiable CDs	-2.4	0.1	-0.4	-1.1	-0.6	-0.4
17. Nondeposit sources of funds	-0.1	0.3	-0.5	0.2	0.0	-0.4

^{1/} Quarterly growth rates are computed on a quarterly average basis.

^{2/} Savings deposits held by individuals and nonprofit organizations.

^{3/} Savings deposits of businesses, governments, and others, not seasonally adjusted. (Note: the base level for these deposits was very low.)

^{4/} Small time deposits are total time deposits (excluding savings deposits) less large time deposits, negotiable and nonnegotiable, at all commercial banks.

^{5/} Growth rates computed from monthly levels based on averages of current and preceding end-of-month data.

^{e/} Estimated.

Growth of the interest-bearing components of both M_2 and M_3 slowed further in April from their reduced first quarter pace. At commercial banks, some of the recent slowdown in savings and other time deposits has occurred in California, where political subdivisions have been placing a larger share of their liquid assets into a State Pooled Investment Fund, under authority effective January 1977; staff estimates suggest that these shifts may have reduced interest-bearing bank deposits by over \$1 billion by mid-April. At thrift institutions, there appear to have been more widespread cuts in offering rates on longer-term time deposits. ^{1/} More generally, it is likely that a portion of the unusually large personal income tax payments made in April was financed from interest-bearing deposits at banks and thrifts. And, in recent months the rapid increases in consumer expenditures may have been associated with a slowdown in net acquisitions of interest-bearing financial assets.

Managed liabilities of large banks changed little in April. Outstanding negotiable CD's were allowed to run off further, and bank-

^{1/} A survey conducted by the National Association of Mutual Savings Banks in February showed significant declines in the number of banks offering the highest possible interest rates on 4- to 6-year accounts. Discussions with observers of the savings and loan industry suggest that similar developments have occurred in that industry, although data for recent months are not available.

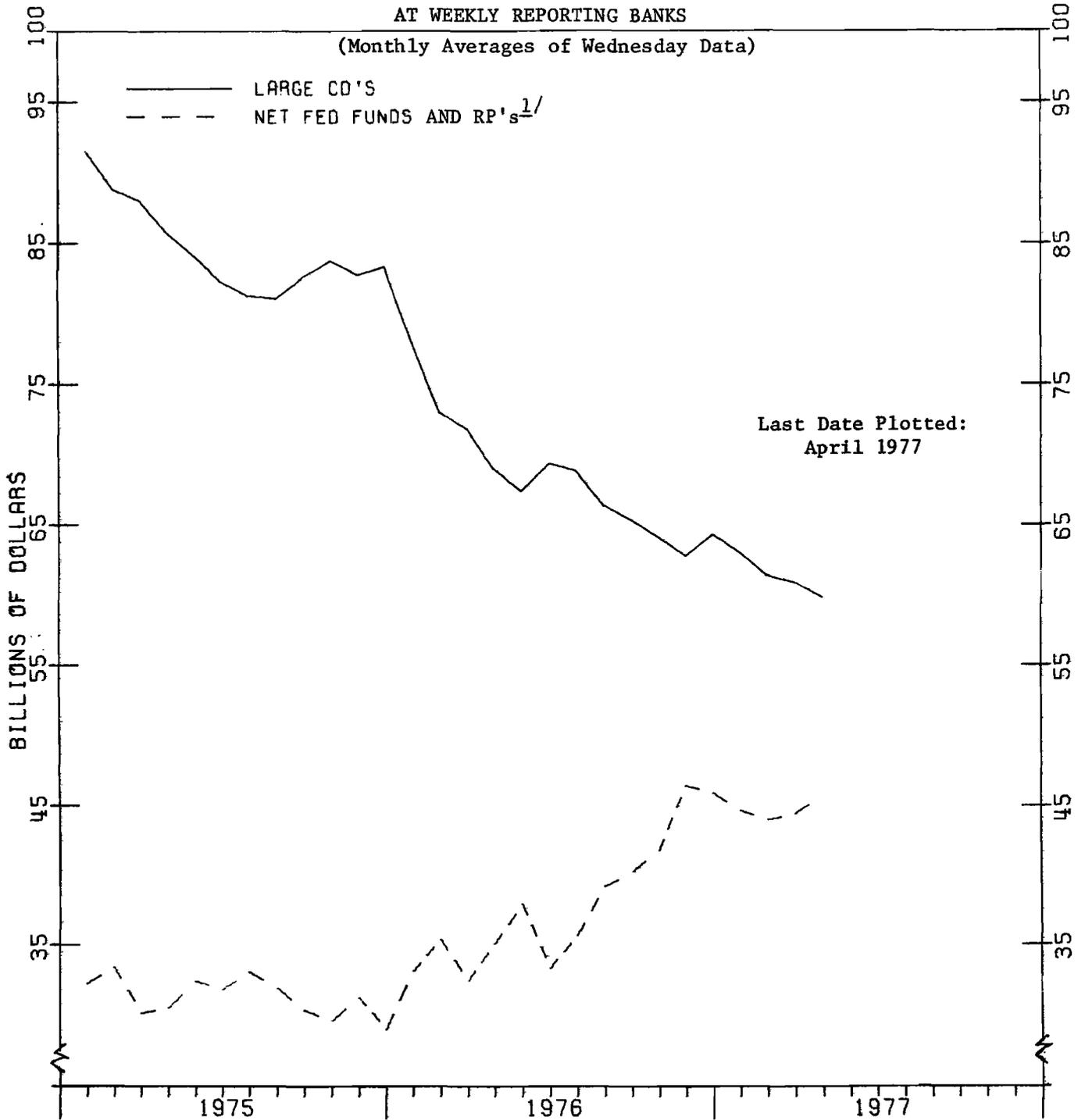
related commercial paper declined by about \$400 million. On the other hand, banks apparently continued to increase their borrowing in the Federal funds and RP markets. As shown in the chart, large CD's of weekly reporting banks have declined with only minor interruptions since the end of 1975. The net increase in borrowings in the Federal funds and RP markets since then has more or less balanced the CD run-off, and the total volume of managed liabilities has changed only slightly, except for a temporary buildup around the end of 1976.

Growth in total bank loans and investments in April (last Wednesday of the month series) advanced further from the relatively rapid first quarter pace. While banks reduced their holdings of U.S. Government issues, in line with the Treasury's paydown of bills, their holdings of tax-exempt securities rose sharply for the first time since November. Although a large portion of these acquisitions reflected tax anticipation notes, particularly those of New York State, banks in most parts of the country increased their holdings of both long- and short-term municipal securities.

All major loan categories at banks showed significant further expansion in April. Real estate loans continued to grow at the advanced March rate, and although April data are not yet available, it is likely that consumer loans at banks rose sharply again last month.

NET FEDERAL FUNDS AND LARGE CERTIFICATES OF DEPOSIT
AT WEEKLY REPORTING BANKS

(Monthly Averages of Wednesday Data)



1/ Federal funds purchased and securities sold under agreements to repurchase less Federal funds sold and securities purchased under agreements to resell.

COMMERCIAL BANK CREDIT
(Seasonally adjusted changes at annual rates, per cent)^{1/}

	1 9 7 6		1 9 7 7			4 months end- ing April p/
	QIII	QIV	QI	March	April p/	
<u>Total loans and investments</u>	5.5	7.9	11.5	10.7	13.9	12.2
Investments	4.0	8.1	8.1	4.8	12.9	9.4
Treasury securities	-1.3	10.6	23.9	23.8	-9.4	15.5
Other securities	7.5	6.5	-2.1	-8.0	28.2	5.4
<u>Total loans</u> ^{2/}	6.2	7.7	13.1	13.5	14.4	13.5
Business loans	4.6	9.7	9.9	11.1	12.3	10.6
Real estate loans	8.7	9.6	11.8	13.5	13.3	12.3
Consumer loans	10.8	10.6	9.9	13.4	n.a.	n.a.
<u>Memoranda:</u>						
1. Commercial paper issued by nonfinancial firms ^{3/}	-38.7	28.9	12.3	-25.8	97.8	36.9
2. Business loans less bankers acceptances held by banks	1.8	5.9	15.0	14.3	11.4	14.1
3. Business loans less bankers acceptances held by banks plus nonfinancial commercial paper	-1.1	7.4	14.9	11.4	17.2	15.6
4. Total business loans plus nonfinancial commercial paper	1.5	11.0	10.1	8.5	18.1	12.4

^{1/} Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.

^{2/} Loans include outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank), and nonconsolidated nonbank subsidiaries of holding companies.

^{3/} Measured from end-of-month to end-of-month.

^{p/} Preliminary

n.a. not available

COMMERCIAL PAPER OUTSTANDING
(Seasonally adjusted, billions of dollars) 1/

	<u>Net change</u>			<u>Outstanding Apr. 30, 1977e</u>
	<u>Feb. 1977</u>	<u>Mar. 1977</u>	<u>Apr. 1977e</u>	
1. Total commercial paper outstanding	*	1.8	2.5	57.0
2. Bank-related	-.1	.5	-.4	7.5
3. Nonbank-related	.1	1.2	2.9	49.5
4. Financial	-.7	1.5	1.8	34.9
5. Nonfinancial	.8	-.3	1.1	14.6
6. Foreign	*	*	.2	1.8

1/ Seasonally adjusted figures are unavailable for bank-related paper. The unadjusted data for bank-related paper are combined with seasonally adjusted nonbank-related data to obtain the total for commercial paper outstanding.

e/ Estimated.

* Less than \pm \$50 million.

NOTE: Components may not add to total due to rounding.

Business Credit

Business firms further reduced their reliance on long-term markets in April and continued to increase their demands for short-term credit. Total gross offerings of bonds and equities (not seasonally adjusted) by corporations in April were almost 20 per cent below the first quarter rate, while short-term borrowing expanded sharply.

Short-term business borrowing. Growth of business loans at banks picked up further in April, following strong increases during the two previous quarters. ^{1/} As in March, however, most of the strength in business loans was at the smaller banks.

The relative weakness of business loans at larger banks accompanied a sharp rise in commercial paper issuance by nonfinancial corporations. Total commercial paper outstanding rose \$2.5 billion in April, the largest increase since January 1974. Nearly three-fourths of this increase was by financial firms (line 4 of the table), and was associated primarily with the financing of autos and a wide variety of consumer goods. But non-financial commercial paper (line 5) also increased by the greatest amount in 2-1/2 years. A number of large industrial corporations are reported to have returned to this market for relatively cheaper short-term funds after long absences during which internal funds

^{1/} Bank holdings of acceptances also increased slightly during April, in contrast to the runoff during the first quarter.

or proceeds from the longer-term debt and equity markets financed their needs. ^{1/}

Total short-term business credit--as measured by total business loans at banks plus nonfinancial commercial paper--rose at an 18 per cent annual rate in April (memoranda item 4 in the table on page III-9). Data on business loans at finance companies are not available beyond March, when such loans increased at a 19 per cent annual rate.

Long-term business credit. Gross public and private corporate bond offerings moderated to about \$3.0 billion in April, 15 per cent below the first quarter pace. As shown in the table, virtually all of the slowdown in bond offerings reflected lower public offerings of bonds. ^{2/} Private placements, on the other hand, are estimated to be continuing at near-record levels. Outstanding bond commitments at life insurance companies--the dominant purchasers of private placements--reached an all-time high at the end of March.

With stock prices continuing low relative to corporate earnings, new stock offerings have been quite modest in recent months. April offerings fell to \$450 million--the smallest monthly total since late 1974.

^{1/} Foreign issues accounted for an estimated \$200 million of the increase in nonfinancial commercial paper during April. In the first quarter, foreign commercial paper outstanding increased by an estimated \$100 million.

^{2/} Moreover, if refunding operations of several major utilities--amounting to \$645 billion--are excluded, seasonally adjusted public offerings of corporate bonds during the January-April period were at the lowest pace since early 1974.

GROSS OFFERINGS OF LONG-TERM CORPORATE SECURITIES

Period	Total	Bonds			Stocks
		Total	Publicly offered	Privately placed	
<u>Seasonally adjusted annual rates</u> (billions of dollars)					
1972	40.2	26.1	17.4	8.7	14.1
1973	32.0	21.0	13.2	7.8	11.0
1974	38.3	32.1	25.9	6.2	6.2
1975	53.7	42.8	32.6	10.2	10.9
1976	53.2	42.1	26.5	15.6	11.1
1974 - Q1	35.1	28.2	21.3	6.9	6.9
Q2	34.1	28.6	21.7	6.9	5.5
Q3	38.8	32.4	26.9	5.5	6.4
Q4	46.2	39.9	34.5	5.4	6.3
1975 - Q1	56.7	48.6	38.7	9.9	8.1
Q2	57.3	44.4	38.3	6.1	12.9
Q3	48.3	38.0	28.6	9.4	10.3
Q4	49.3	37.6	22.7	14.9	11.7
1976 - Q1	52.4	38.6	27.0	11.6	13.8
Q2	52.1	40.9	27.1	13.8	11.2
Q3	56.0	46.7	25.8	20.9	9.3
Q4	52.1	42.5	25.6	16.9	9.6
1977 - Jan.-Apr.	47.0 ^{p/}	39.3 ^{p/}	23.4 ^{p/}	15.9 ^{e/}	7.7 ^{p/}
<u>Not seasonally adjusted</u> (monthly totals or monthly averages, in millions of dollars)					
1977 - Q1 ^{e/}	4,200	3,467	2,200	1,267	733
Mar. ^{e/}	4,850	3,900	2,500	1,400	950
Apr. ^{f/}	3,450	3,000	1,800	1,200	450
May ^{f/}	3,100	2,300	1,300	1,000	800
June ^{f/}	4,000	3,200	2,000	1,200	800

p/ preliminary.

e/ estimate.

f/ forecasted.

Other Securities Markets

Gross offerings of long-term municipal bonds totaled \$3.4 billion in April, the ninth consecutive month in which they have exceeded offerings for the same month of any other year. Underwriters report that large issuers have been borrowing at longer-term in recent months in anticipation of higher rates in the latter part of 1977, ^{1/} and relatively favorable yield levels also have encouraged an unusually large volume of advance refunding of municipal bonds--\$4.8 billion since last September.

Short-term municipal issues in April were the largest on record. The increase was due primarily to issuance of \$3.6 billion in tax anticipation notes by New York State as part of its normal spring financing requirements.

In April and the first half of May, the Treasury repaid a net total of \$1.8 billion of marketable debt on an issuance basis, primarily by paying down bills. Thus, the net change in such debt over this period was roughly equal to the total paydown in marketable debt the Treasury has said that it intends to make over the current quarter. The Treasury's plans over the remainder of the quarter, as publicly announced, include further decreases in bill issuance to be offset by money raised in conjunction with auctions of its regular cycle notes.

^{1/} The issuer can then invest the proceeds in market instruments which, of course, carry taxable yields significantly above those in the tax-exempt market.

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

	1976		QI ^{e/}	Mar. ^{e/}	1977		
	Year	QIV			Apr. ^{e/}	May ^{f/}	June ^{f/}
<u>Gross offerings</u>							
State and local govt. securities--Total	4,772	4,351	4,817	5,300	8,400	5,000	5,000
Long-term	2,948	3,053	3,567	4,100	3,400	3,600	3,400
Short-term	1,824	1,298	1,250	1,200	5,000	1,400	1,600
Foreign securities--Total ^{1/}	850	816	592	565	800	--	--
Publicly offered ^{2/}	520	598	286	125	600	360	250
Privately placed	330	218	306	440	200	--	--
<u>Net offerings</u>							
U.S. Treasury	4,850	5,435	4,703	3,663	-2,400	-1,600	3,400
Note: Issue basis ^{3/}	4,842	4,533	4,618	3,736	236	-4,072	3,400
Sponsored Federal agencies	361	647	666	2,358	5	-604	646

^{1/} Includes offerings of foreign private and official institutions as well as foreign corporations.

^{2/} Classified by original offering date.

^{3/} Classified by issue date.

^{e/} Estimated.

^{f/} Forecasted.

The issues sold in the Treasury's mid-May refunding operation--involving repayment of \$0.4 billion of maturing debt and issuance of \$3.85 billion in new securities--were well received. On May 3, the Treasury auctioned \$2.85 billion of 6-3/4 year notes at an average rate of 7.28 per cent; on May 4, an average rate of 7.77 per cent was set in an auction of \$1 billion of 29-3/4 year bonds. Dealers were awarded about half of the new issues, and noncompetitive tenders totaled \$1.0 billion.

Mortgage Markets

Net mortgage lending during the first quarter of 1977 was near the record rate of the previous quarter. Moreover, indications are that mortgage loan volume remained quite large in April. Issues of GNMA-guaranteed mortgage-backed securities in April remained around the strong pace of the two previous quarters and, as noted earlier, mortgage loans outstanding at commercial banks continued to grow at the advanced March rate. Mortgage commitments outstanding (including loans in process) at all savings and loan associations--the major mortgage lender--at the end of March were about 4 per cent above the December level.^{1/}

Mortgage lending has remained highly concentrated in the single-family housing sector. In the multifamily sector, it has risen only slightly in recent quarters with the uptrend of apartment-house

^{1/} Outstanding commitments declined by \$100 million in January, rose by \$300 million in February, and increased by \$900 million in March. The March surge was partly a reaction to the slowdown earlier in the quarter when severe weather conditions caused delays in construction and home sales.

construction. However, by the end of February (latest data available), outstanding commitments to provide long-term multifamily mortgage funds at major lender groups were 40 per cent above their depressed year-earlier level. While still little more than half the peak reached in 1973, the increase suggests growth in this sector of the mortgage market in the months ahead. Moreover, commitment activity is likely to pick up further, as rental vacancy rates have fallen significantly in many areas of the country, while completions of multifamily units have been quite low.

Average interest rates on new commitments for conventional home mortgages at savings and loan associations have continued to edge up from their cyclical low in early March. Yields in the secondary mortgage market, which had declined significantly in mid-April, have since risen to around the levels prevailing at the end of March. The volume of bids rose sharply in the May 2 FNMA auction of commitments to purchase FHA/VA mortgages in the wake of decreases in prices of GNMA-guaranteed securities.

Consumer Credit Markets

Consumer instalment lending accelerated during the first quarter. The annual growth rate in outstanding credit was 15 per cent for the quarter and 18 per cent for March--up from a steady 10 to 11 per cent pace throughout 1976. The first quarter increase in consumer debt exceeded 2 per cent of disposable personal income for the first time since early 1973.

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

End of period	Average rate on new commitments for 80% loans (Per cent)	Basis point change from month or week earlier	Spread ^{1/} (basis points)	Per cent of S&Ls with funds in short supply
1976--High	9.10	--	+93	11
Low	8.70	--	-17	0
1977--Jan.	8.73	-5	+51	6
Feb.	8.65	-8	+37	6
Mar.	8.70	+5	+48	2
Apr. 1	8.70	0	+44	3
8	8.75	+5	+49	5
15	8.75	0	+50	2
22	8.78	+3	+57	7
29	8.78	0	+47	11
May 6	8.78	0	--	n.a.

^{1/} Average mortgage rate minus average yield on new issues of Aaa utility bonds.

SECONDARY HOME MORTGAGE MARKET ACTIVITY

	FNMA auctions of forward purchase commitments						Yields on GNMA guaranteed mortgage backed securities for immediate delivery ^{2/}
	Conventional			Govt.-underwritten			
	Amount (\$ millions)		Yield to FNMA ^{1/}	Amount (\$ millions)		Yield to FNMA ^{1/}	
	Offered	Accepted		Offered	Accepted		
1977--High	383	255	9.03	723	422	8.72	8.08
Low	143	106	8.81	135	68	8.46	7.56
Apr. 4	196	158	8.97	322	202	8.72	8.01
11							7.99
18	152	122	8.97	135	68	8.62	7.89
25							7.96
May 2	383	255	9.03	723	422	8.70	8.06
9							8.08

^{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 loans, 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 carrying the prevailing ceiling rate on such loans.

About two-fifths of the growth in instalment credit in the first quarter was associated with an expansion in retail sales of goods most frequently purchased with credit (e.g., autos, furniture and appliances). The remaining increase was due to more intensive use of credit by consumers for general expenditures purposes.

Automobile credit paced the March expansion in consumer credit outstanding, and bank-card credit posted its largest gain on record. Commercial bank holdings of all types of consumer instalment credit increased substantially in March, as banks accounted for more than half of the net change in total instalment credit outstanding, compared with about two-fifths in other recent months.

The pickup in instalment credit growth in the first quarter occurred with little change in consumer finance rates. However, auto loan maturities have continued to lengthen. Nearly 40 per cent of all new-car loans granted by banks and finance companies in March had maturities exceeding 36 months, compared with one-fourth a year earlier.

CONSUMER INSTALMENT CREDIT

	1974	1975	1976	1976 ^{1/}	1977 ^{1/}		
				QIV	QI	Feb.	Mar.
<u>Total</u>							
Change in outstandings							
Billions of dollars	9.0	6.8	16.7	18.5	26.6	24.3	32.6
Per cent	6.1	4.4	10.3	10.7	14.9	13.6	18.3
Bank share (per cent)	44.4	41.7	39.7	42.4	42.9	41.0	53.8
Extensions							
Billions of dollars	160.0	163.5	186.6	194.1	209.2	206.2	219.0
Bank share (per cent)	45.5	47.2	47.5	48.0	46.5	46.9	47.7
Liquidations							
Billions of dollars	151.1	156.6	169.8	175.6	182.6	182.0	186.4
Ratio to disposable income	15.4	14.5	14.4	14.4	14.7	14.8	15.0
Extensions/sales ratio (per cent) ^{2/}	68.7	65.5	65.3	65.2	67.0	66.3	68.1
<u>Automobile Credit</u>							
Change in outstandings							
Billions of dollars	0.3	2.6	7.5	8.1	11.4	10.6	14.4
Per cent	0.7	5.2	14.2	13.6	18.8	17.6	23.7
Extensions							
Billions of dollars	43.2	48.1	55.8	57.9	63.2	62.5	67.8
Per cent of sales ^{3/}	46.5	47.1	44.5	44.5	43.7	43.5	45.0
New car loans over 36 months as per cent of total new car loans							
Commercial banks ^{4/}	8.8	14.0	25.4	30.7	36.3	36.3	n.a.
Finance companies	8.6	23.5	33.9	37.4	41.5	41.4	42.9
New car finance rate (APR)							
Commercial banks (36 mo. loans)	10.97	11.36	11.08	11.03	11.03	11.14	10.97
Finance companies	12.61	13.11	13.17	13.21	13.15	13.16	13.15

^{1/} Quarterly and monthly dollar figures and related per cent changes are seasonally adjusted annual rates.

^{2/} Ratio is total instalment credit extensions divided by selected categories of retail sales: auto dealers, general merchandise, apparel, furniture and appliances.

^{3/} Auto sales are Census automobile dealer retail sales series, which include new and used models of both domestic and foreign makes.

^{4/} Series was begun in May 1974, with data reported for the mid-month of each quarter. Figure for 1974 is average of May, August, and November.

n.a.--not available.

U.S. International Transactions
(In millions of dollars, seasonally adjusted 1/)

May 11, 1977

IV - T - 1

	1976			1977		
	YEAR	Q3	Q4	Q1	Feb.	March
1. Merchandise exports	114,692	29,600	29,717	29,668	9,793	10,110
2. Merchandise imports	123,916	32,387	33,291	36,581	12,024	12,905
3. <u>Trade Balance</u>	-9,224	-2,787	-3,574	-6,913	-2,231	-2,795
4. <u>Bank-reported private capital flows</u>	-9,957	-1,590	-4,166	-1,903	-332	-2,014
5. Claims on foreigners (increase -)	-20,927	-3,355	-9,176	3,324	-4	-2,087
6. Long-term	-2,147	-993	-482	-553	-189	-367
7. Short-term	-18,780	-2,362	-8,694	3,877	185	-1,720
8. (of which on commercial banks in offshore centers <u>2/</u>)	(-11,924)	(-2,386)	(-3,603)	(2,070)	(-194)	(-1,341)
9. Liabilities to foreigners (increase +)	10,970	1,765	5,010	-5,227	-328	73
10. Long-term	160	66	222	96	15	31
11. Short-term	10,810	1,699	4,788	-5,323	-343	42
12. to commercial banks abroad	3,080	1,977	2,795	-4,427	-317	-238
13. (of which to commercial banks in offshore centers <u>3/</u>)	(4,148)	(300)	(2,867)	(-3,303)	(-188)	(165)
14. to other private foreigners	2,719	916	1,179	287	570	-147
15. to int'l and regional organizations	11	-1,194	814	-1,183	-596	427
16. <u>Foreign private net purchases (+) of U.S. Treasury securities</u>	2,815	3,026	-56	1,017	710	-701
17. <u>Other private securities transactions (net)</u>	-7,432	-2,675	-2,102	123	-103	0
18. Foreign net purchases (+) of U.S. corp. securities	1,250	68	21	797	380	798
19. (of which stocks)	(853)	(-18)	(-174)	37	(80)	(199)
20. U.S. net purchases (-) of foreign securities	-8,082	-2,743	-2,123	-64	-483	-142
21. (new foreign issues of bonds and notes)	(-9,746)	(-2,311)	(-2,333)	(-1,300)	(-608)	(-327)
22. <u>Change in foreign official res. assets in the U.S.</u>	12,972	1,167	6,073	4,709	859	2,561
23. OPEC countries (increase +)	7,700	1,228	505	2,490	-108	1,083
24. (of which U.S. corporate stocks)	(1,828)	(374)	(308)	(166)	(45)	(19)
25. Other countries (increase +)	6,279	39	5,568	2,219	967	1,478
26. <u>Change in U.S. reserve assets (increase -)</u>	-2,530	-407	228	-409	-11	21
27. <u>Other transactions and statistical discrepancy (net payments (-))</u>	13,349	3,166	3,597	3,376	1,108	2,272
28. Other current account items	9,184	2,726	2,687			
29. Military transactions, net <u>4/</u>	91	264	148			
30. Receipt of income on U.S. assets abroad	22,654	5,795	5,760			
31. Payment of income on foreign assets in U.S.	-12,116	-3,011	-2,760			
32. Other services, net	2,696	860	578			
33. Remittances and pensions	-1,866	-446	-487			
34. U.S. Gov't grants <u>4/</u>	-2,275	-736	-552			
35. Other capital account items	-6,645	-710	-2,353			
36. U.S. Gov't capital, net claims <u>4/</u> (increase -)	154	-372	-95			
37. U.S. direct investment abroad (increase -)	-5,000	-1,447	-1,593			
38. Foreign direct investment in U.S. (increase +)	561	712	155			
39. Nonbank-reported capital, net claims (increase -)	-2,360	397	-820			
40. Statistical discrepancy	10,810	1,150	3,263			
MEMO:						
41. Current account balance	-40	-61	-887	n.a.	n.a.	n.a.
42. Official settlements balance	-10,449	-860	-6,301	-4,300	-848	-2,582
43. O/S bal. excluding OPEC	-3,749	368	-5,796	-1,810	-956	-1,499

NOTES:

- 1/ Only trade and services, U.S. Govt. grants and U.S. Govt. capital are seasonally adjusted.
- 2/ Offshore centers are United Kingdom, Bahamas, Panama and Other Latin America (mainly Cayman Islands and Bermuda).
- 3/ Represents mainly liabilities of U.S. Banks to their foreign branches in offshore centers which are the United Kingdom, Bahamas, Panama and Other Latin America (mainly Cayman Islands and Bermuda).
- 4/ Excludes grants to Israel under U.S. military assistance Acts and exports financed by those grants.
- */ Less than \$50,000.

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. The dollar showed little net change on a weighted-average basis during the past four weeks, with a rise against the Japanese yen about offset by a slight decline against the snake currencies, and with little movement against other major currencies.

In mid-April, the yen dropped more than 2 per cent against the dollar, abruptly reversing its fairly steady 9 per cent appreciation since last December. The sudden decline in the yen was precipitated by news of a U.S. Customs Court ruling against Japanese consumer electronic products. The announcement took place in an atmosphere of market concern about the implications for Japan's trade position of growing protectionist pressures in its major industrial trading partners. Another, and perhaps more important factor stimulating the yen's decline was a 1 percentage point cut in the Bank of Japan's discount rate, which was soon followed by declines in other short-term Japanese interest rates.

The dollar fluctuated in a fairly wide range against the snake currencies during the past four weeks, ending the period down 1/4 per cent, on average. The major factor contributing to the dollar's weakness against these currencies during this period was the announcement of a

record U.S. trade deficit for March and the first quarter. This announcement was made at about the same time that data were released showing the continuation of a large trade surplus for Germany. The dollar later recovered partially from the news of the U.S. trade deficit, with the rise in U.S. short-term interest rates.

Within the snake, there was substantial upward pressure on the guilder against the mark.

. The pressure on the guilder arose mainly from speculation in the market that the guilder would be revalued within the snake, based on the Netherlands' relatively strong current account position. There was also a flow of funds into long-term Dutch assets at relatively attractive interest rates, which were expected to decline and yield a capital gain to investors. The pressure on the guilder eased late last week after the Netherlands Bank lowered its discount rate from 4-1/2 per cent to 3-1/2 per cent.

The Swiss franc declined slightly against the dollar, on balance, during the past four weeks. The Swiss franc came under strong but temporary downward pressure following news reports of large loan losses by the Swiss Credit Bank, one of Switzerland's three largest commercial banks.

. U.K. wholesale price inflation rose in April, and Britain's trade unions have indicated a reluctance to agree to a continuation of that country's incomes policy. There have also been several further reductions in Britain's Minimum Lending Rate, totalling 1 percentage point during the past four weeks. The MLR now stands at 8-1/4 per cent.

In mid-April, the United Kingdom sold nearly \$700 million equivalent of foreign-currency-denominated bonds to holders of official sterling balances. This amounted to nearly 1/5 of total foreign official holdings of sterling. Of the total official sterling balances outstanding at that time, about half were considered by the Bank of England to be relatively stable "working balances" of foreign central banks.

The System has sold small to moderate amounts of marks and guilders in support of the dollar to counter disorderly market conditions on several occasions during the past four weeks. These operations totalled \$22 million equivalent. The System has also made repayments on the Swiss franc swap debt totalling \$42.5 million, reducing the outstanding debt to \$849 million.

The price of gold has fluctuated in a range between \$146 and \$152 an ounce during the past four weeks. It ended the period at \$147.50, down \$2.20 from the end of the previous green book reporting period. At the IMF's ninth gold auction on May 4, the average price of successful bids was \$148.02 an ounce, down \$1.16 from the price at last month's auction.

OPEC investment flows. The OPEC current account surplus appears to have been about \$10 billion in the first quarter of 1977, not much different from the revised estimate for the fourth quarter of 1976. The average price of OPEC oil increased in the first quarter, by an estimated 8-1/2 per cent. However, oil production declined because of lower demand early in the quarter, bad weather in the Persian Gulf that hampered loadings, and the reduced number of days in the quarter. The investible surplus (current account surplus less net credits to oil companies due to the settlements lag) appears to have been about \$9-1/2 to \$10 billion -- higher than in any of the quarters of 1976 when OPEC credits to oil companies ran larger than in early 1977 and cut more deeply into the investible surpluses. The estimate of the 1976 investible surplus has been revised downward sharply to about \$30 billion as a result of both a downward revision of the current account balance and an upward revision of the amount of net credits extended to the oil companies.

OPEC investments (official and private) in bank deposits and securities in the United States came to \$2.6 billion in the first quarter, more than the \$2.1 billion comparable inflow in the entire second half of 1976. But the share of this total that consisted of longer-term assets continued to decline. Purchases of longer-term assets fell to \$0.9 billion in the first quarter, compared with an average of \$1.35 billion per quarter in the second half of last year (and a higher rate in the first half of 1976 when proceeds of some direct disinvestment were being reinvested). Net OPEC

Estimated Disposition of OPEC Surpluses
(in billions of dollars)

	<u>1974</u>	<u>1975</u>	<u>1976</u>		<u>1977</u>	
	<u>Year</u>	<u>Year</u>	<u>Year</u>	<u>1st Half</u>	<u>2nd Half</u>	<u>Q-1</u>
I. In the United States	12.0	10.0	11.5	7.1	4.4	2.6
A. Short-term assets ^{1/}	9.3	0.3	0.3	0.9	-0.6	1.7
B. Other deposits and securities	1.5	6.0	7.5	4.8	2.7	0.9
C. Other investments ^{2/}	1.2	3.7	3.7	1.4	2.3	n.a.
II. In the United Kingdom	7.2	0.2	-1.1	-0.8	-0.3	0.3 ^{3/}
A. Liquid sterling assets	5.3	0	-2.4	-1.6	-0.8	0.3 ^{3/}
B. Other loans and investments	1.9	0.2	1.3	0.8	0.5	0.3 ^{3/}
III. In Euro-currency Markets	22.8	9.1	12.6	3.7	8.9	3.3 ^{3/}
A. United Kingdom	13.8	4.1	5.6	2.2	3.4	2.3 ^{3/}
B. Other centers ^{4/}	9.0	5.0	7.0	1.5	5.5	1.0 ^{3/}
IV. International and Regional Institutions	3.8	4.3	1.8	1.8	0	5/
A. IBRD bonds	1.5	0.9	0.5	0.4	0.1	5/
B. IMF Oil Facility	1.8	2.6	1.1	1.2	-0.1	0
C. Other	0.5	0.8	0.2	0.2	0	n.a.
V. Other Investments	11.7	7.8	5.4	2.9	2.5	n.a.
VI. Total = Investible Surplus	57.5	31.4	30.2	14.7	15.5	9.7
VII. Net Credits to Oil Companies	12.4	0.1	7.4	3.3	4.1	0.5
VIII. OPEC Grant Aid	2.5	2.6	2.2	1.2	1.0	0.8
IX. Surplus on Goods and Services	72.4	34.1	39.8	19.2	20.6	11.0

^{1/} Treasury bills, bank deposits and CD's, repurchase agreements.

^{2/} Direct investment, import prepayments, debt repayments, real estate, and miscellaneous.

^{3/} January - February only.

^{4/} Including domestic currency deposits outside U.S. and U.K.

^{5/} Less than \$50 million.

purchases of U.S. equities and of corporate and Federal agency bonds have both declined sharply this year from levels in the second half of 1976, while purchases of Treasury bonds have held up quite well.

Total OPEC investment in the United States in the first quarter presumably exceeded the \$2.6 billion of banking and portfolio acquisitions, since other types of investments have been sizable in the past and are estimated to have totalled \$3.7 billion in each of the years 1975 and 1976. However, estimates of these latter flows in the first quarter of 1977 are not yet available.

In January and February the OPEC countries ceased to draw down further their liquid sterling assets in the United Kingdom. Such withdrawals had amounted to \$1.1 billion last year, almost all of them occurring before the fourth quarter. In April the British Government sold £ 394 million (\$678 million equivalent) of foreign-currency-denominated (mostly dollar) bonds to official holders of sterling balances, and OPEC governments were presumably important purchasers.

Among other OPEC investments in the first quarter, estimated net placements in the Euro-currency markets in January-February were substantial at \$3.3 billion, while lending to international institutions continued to be very small.

The \$30 billion OPEC investible surplus now estimated for 1976 reflects substantial changes in previous estimates of many components of the current account. Compared with earlier figures, the latest data show higher levels of merchandise imports (especially in the second half), of net imports of services, and of OPEC grant aid than was previously estimated. These changes result in a significantly lower figure of about \$37-1/2 billion for the current account balance as measured with oil receipts on an accrual basis. Further reducing the investible surplus from levels estimated earlier is the larger figure for net credit to oil companies, now estimated for 1976 as a whole at close to \$7-1/2 billion. These net credits arose because, in consequence of the settlements lag, cash receipts from oil sales during 1976 did not fully reflect increases between the fourth quarter of 1975 and the fourth quarter of 1976 of about 26 per cent in the volume of oil exports and 0.6 per cent in average oil prices.

U.S. International Transactions in the first quarter resulted in a considerable increase in the trade deficit, to a rate three times the quarterly average of 1976. Private bank and security market transactions in the first quarter generated a capital outflow considerably smaller than the quarterly average in 1976. Foreign official capital transactions were dominated by an increase in U.K. reserve assets in the United States; reserve accumulations by OPEC were also large-- at a rate well above that of the second half of 1976.

U.S. Merchandise Trade ^{1/}
(Seasonally adjusted annual rates)

	Year	1976				1977		
	1976	Q1	Q2	Q3	Q4	Q1	Feb.	Mar.
VALUE (Bil.\$, SAAR)								
Exports, total	<u>114.7</u>	<u>108.0</u>	<u>113.5</u>	<u>118.4</u>	<u>118.9</u>	<u>118.7</u>	<u>117.5</u>	<u>121.3</u>
Agricultural	23.4	21.5	23.1	25.3	23.7	24.4	24.6	26.2
Nonagricultural	91.3	86.5	90.5	93.1	95.2	94.2	92.9	95.1
Imports, total	<u>123.9</u>	<u>113.3</u>	<u>119.7</u>	<u>129.5</u>	<u>133.2</u>	<u>146.3</u>	<u>144.3</u>	<u>154.9</u>
Fuels	37.1	32.5	35.3	40.1	40.7	46.6	44.1	56.9
Nonfuels	86.8	80.8	86.4	89.5	92.5	99.7	100.1	98.0
Trade Balance	-9.2	-5.3	-6.1	-11.1	-14.3	-27.7	-26.8	-33.5
UNIT VALUES (1974=100)								
Exports - Agric.	92.0	91.6	91.0	92.8	92.5	96.7		
- Nonagric.	123.8	121.0	122.7	123.9	127.4	127.3		
Imports - Fuels	109.7	108.2	109.1	109.7	111.6	117.1		
- Nonfuels	111.8	108.7	111.2	113.1	114.0	117.9		
VOLUME (1974=100)								
Exports - Agric.	113.4	104.7	113.1	121.6	114.4	112.6		
- Nonagric.	97.2	94.1	97.2	99.0	98.4	97.5		
Imports - Fuels	123.0	109.2	117.6	132.8	132.5	144.7		
- Nonfuels	101.9	97.5	99.6	103.8	106.6	110.9		

^{1/} International accounts basis.

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

The U.S. deficit on merchandise trade was \$28 billion (seasonally adjusted annual rate) in the first quarter, compared with a fourth quarter deficit of \$14 billion. The March trade deficit was \$33.5 billion.

The value of nonagricultural exports declined slightly in the first quarter. The decline was in volume, as prices were unchanged, and was largely concentrated in exports of civilian aircraft. Contributing factors to the continued sluggish behavior of U.S. non-agricultural exports were the persistence of substantial unused productive capacity in the industrialized countries and the continuation of a period of slower economic growth among most of the major developing countries.

The value of agricultural exports increased in the first quarter of 1977 by 3 per cent over the fourth-quarter rate to \$24.4 billion. In March, agricultural exports were 10 per cent above the fourth quarter rate. The rise in the volume and value of cotton, tobacco, and soybean shipments offset reduced volumes of grain shipments. The sharp surge in soybean export prices -- \$7.79 per bushel in March compared with \$6.81 per bushel in December, 1976-- reflects the shortfall of the actual from the anticipated world supply of fats and oils, including soybeans.

The value of imports in the first quarter rose by almost \$13 billion over the fourth-quarter rate to \$146 billion. Slightly over half of the increase was in nonfuel imports, which rose by

9 per cent. The largest increases were in imports of foods (\$2.5 billion), consumer durables (\$1.7 billion), and American-type cars from Canada (\$1.2 billion). Higher prices and volumes of coffee imports accounted for most of the rise in food imports -- the value of coffee imports increased by \$1.8 billion. The increase in the volume of coffee imports may well have reflected the stockpiling efforts of domestic roasters who were expecting further increases in the price of coffee. The rise in non-automotive consumer durable products was largely from Japan and the developing countries in Asia.

Imports of fuel were \$57 billion in March (S.A.A.R.) and \$47 billion in the first quarter of 1977. Petroleum imports were 9.3 million barrels per day in the first quarter, 1 million barrels per day above the rate in the fourth quarter of 1976. The rise of petroleum imports in the first quarter reflected increased current domestic consumption and stock replenishment due to the severe cold winter -- including probably the involuntary substitution by industry of imported petroleum for natural gas -- and a continued decline in domestic production. In addition, about one-fifth of the first-quarter increase in the volume of petroleum imports may represent an acceleration in the importing of distillate fuel to take advantage of a February/March FEA import subsidy of 5 cents per gallon.

Bank-reported private capital transactions resulted in a net outflow of \$2 billion dollars in March. The net outflow for the first quarter was \$1.9 billion, well below the \$4.2 billion outflow in the

U.S. Bank-reported Capital Flows
(Billions of dollars; increases in assets, -)

	<u>1975</u> Year	<u>1976</u> Year	<u>1976</u>				<u>1977</u>		
			Q1	Q2	Q3	Q4	Q1	Feb.	Mar.
Change in net foreign private assets of banks	-12.9	-10.0	-3.0	-1.0	-1.8	-4.2	-1.9	-.3	-2.0
Net change vis-à-vis banks abroad	-11.0	-7.5	-2.2	-1.1	-0.8	-3.4	-0.5	-0.1	-1.2
Loans to official and other foreigners	-3.3	-3.2	-.3	-0.7	-0.5	-1.7	0.6	0.2	-0.1
Acceptances and collections <u>1/</u>	0.1	-1.9	0.1	-0.8	*	-1.2	-1.2	-0.4	-1.0
Liabilities to private nonbank foreigners (including international and regional organizations)	1.2	2.7	-0.5	1.6	-0.4	2.1	-0.8	*	.3

1/ Includes small amount of claims denominated in foreign currencies

* Less than \$50 million

fourth quarter.

The \$1.2 billion increase in March in U.S. banking offices' net claims on foreign banks occurred as the U.S. offices of Canadian and Swiss banks took advantage of profitable interest arbitrage opportunities that coincided with a stabilization of Canadian interest rates and an upward movement in Swiss interest rates relative to U.S. interest rates. The sharp upturn in Swiss call rates in the latter part of March took place because the Swiss National Bank, concerned about monetary growth above its target in the first two months, chose to limit the availability of the swap facilities, contrary to previous practice. The swap facilities are provided by the Swiss National Bank to aid banks in meeting their end-of-quarter liquidity requirements.

Bank-reported acceptance and collection claims on foreigners increased by \$1 billion in March. The increase in banker's acceptances reflects the hedging behavior of Japanese trading companies who by borrowing dollars protected themselves from an expected sharp appreciation of the yen.

Foreign private net purchases of U.S. Treasury securities provided an inflow of \$1 billion in the first quarter. The inflow largely reflected portfolio restructuring by the World Bank, which sold CDs, other short-term bank liabilities, and Treasury bills to purchase long-term Treasury issues.

Other private securities transactions resulted in a \$100 million net inflow during the first quarter, a swing of \$2.3 billion from the outflow recorded in the fourth quarter. New issues of foreign securities in the United States of \$1.3 billion were \$1 billion less than the fourth quarter. New issues in the second quarter are likely to be between \$1.7 and \$2.2 billion -- including a World Bank issue of \$600 million. Foreign net purchases of U.S. stocks (excluding OPEC purchases) continued at a moderate rate in March. Amounting to \$100 million, they brought first quarter net purchases of U.S. stocks by foreigners to slightly under \$400 million.

OPEC reserve assets in the United States increased by \$2.5 billion in the first quarter,

Foreign official reserve assets in the United States (excluding OPEC) increased by \$2.2 billion in the first quarter.

Economic Activity in Foreign Industrial Countries. Economic activity abroad has increased only moderately since the spurt in the first quarter of last year, although activity appears to have accelerated somewhat in the fourth quarter in Germany, Italy and the United Kingdom. Private investment spending remains weak in virtually all countries, with recent gains in output stemming mainly from increases in consumption and -- in the case of Japan -- export growth. In none of the major countries abroad are there currently signs of a vigorous upswing in economic activity.

Table I summarizes recent movements in industrial production for the six major foreign countries. Only two of the six countries (Germany and Italy) have surpassed their pre-recession peak-month in industrial output. While France and Japan are close to their peaks, the United Kingdom and Canada are still substantially below their peaks.

Table II shows national accounts data through the fourth quarter of last year. Except for Canada (where a large increase in the external deficit contributed to negative growth in the fourth quarter of 1976), all of the countries (excluding France, for which data are not yet available) experienced higher rates of growth in real GNP/GDP in the fourth quarter than in the third quarter. Preliminary data for Japan indicate that real GNP increased at an annual rate of 5.2 per cent in the first quarter of this year, as compared with 2.4 per cent in the previous quarter.

Table I

Industrial Production in Major Industrial Countries
(Percentage change from previous period, S.A.)

								Levels (1970 = 100)		
	1975		1976				1977	Peak	Trough	Latest
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	(Quarterly)	Month	
France	-0.3	3.9	5.8	1.4	3.0	-0.8	0.0 ^{2/}	126.7 (74.III)	110.3 (75.III)	127.0 (Feb.)
Germany	0.7	4.2	3.1	1.2	0.3	2.1	0.9	113.7 (73.IV)	103.0 (75.II)	115.0 (Mar.)
Italy	-2.1	5.6	4.5	3.5	-0.4	6.2	4.1 ^{2/}	123.0 (74.II)	104.6 (75.III)	130.7 (Feb.)
United Kingdom	-0.6	0.9	1.5	0.5	-0.9	1.7	0.9 ^{2/}	110.7 (73.III)	99.7 (75.III)	104.0 (Feb.)
Canada	-0.5	1.3	3.0	1.6	-0.2	0.1	2.3 ^{2/}	128.3 (74.I)	120.3 (75.III)	122.8 (Feb.)
Japan	2.0	0.9	6.1	4.4	1.7	1.7	0.1	131.9 (73.IV)	105.9 (75.I)	128.7 (Mar.)
Major Foreign Countries <u>1/</u>	0.3	2.7	4.3	2.3	0.9	1.6	0.9	121.2 (73.IV)	107.7 (75.II)	122.4 (Feb.)
United States	5.5	2.4	3.0	1.8	1.2	0.6	1.3	122.2 (74.III)	105.0 (75.I)	125.3 (Mar.)
Major Industrial Countries <u>1/</u>	2.7	2.6	3.7	2.1	1.0	1.1	1.1	121.5 (73.IV)	106.9 (75.II)	123.0 (Feb.)

1/ Weighted by 1975 real GNP/GDP.

2/ Three months ending in February over previous three months.

National Sources: Latest data are preliminary.

Table II

Real GNP and Components in Major Foreign Countries^{1/}
(Percentage change from previous period, S.A.)

	Q1	Q2	Q3	Q4	1976
Germany - GNP	1.7	0.8	0.3	1.8	5.6
Private Consumption	0.8	0.1	0.4	1.7	3.4
Public Consumption	1.8	-0.4	0.0	0.0	2.9
Fixed Investment	0.9	1.4	-1.1	2.9	4.9
Foreign Balance	0.0	-0.1	0.3	-0.5	0.1
United Kingdom - GDP ^{2/}	1.7	-0.7	0.2	1.0	1.1
Private Consumption	0.6	-0.9	1.1	1.1	0.2
Public Consumption	-0.1	1.0	0.2	0.7	2.8
Fixed Investment	-0.7	-4.4	3.6	-6.5	-6.0
Foreign Balance	0.6	-0.6	-0.4	1.3	0.7
Japan - GNP	3.2	1.3	0.4	0.6	6.3
Private Consumption	2.1	0.3	0.8	0.4	4.4
Public Consumption	2.7	-0.8	0.0	1.1	4.4
Fixed Investment	4.9	2.2	-0.2	-1.7	4.8
Foreign Balance	1.0	0.5	-0.6	0.4	1.7
Canada - GNP	3.1	0.4	0.5	-0.6	4.6
Private Consumption	0.7	2.4	1.2	1.6	6.3
Public Consumption	3.8	-0.4	1.6	-1.1	3.0
Fixed Investment	-1.5	1.3	-5.6	2.3	0.8
Foreign Balance	-0.1	0.4	1.0	-1.7	-0.1
Italy - GDP ^{3/}	2.3	1.4	0.2	1.9	5.6
France - GDP ^{3/}	1.6	1.3	0.8	n.a.	n.a.

^{1/} The quarter-to-quarter change in the foreign balance is expressed as a per cent of GNP/GDP in previous period.

^{2/} "Average" estimate by Central Statistical Office.

^{3/} Component details not available.

National Sources: 1976 Q4 data are preliminary.

Although there have been moderate gains in the number of employed workers in most countries since early 1976, the labor force has also grown, so that unemployment rates have remained high by historical standards. But, since the rate of increase in prices is still at unacceptably high levels in most countries, governments have been cautious in undertaking expansionary measures.

At the recent London summit meeting, it was agreed that the seven countries would continue to adhere to economic policies aimed at reducing the rate of inflation and achieving their stated growth targets. The leaders also agreed to expand their efforts to create more jobs and to encourage international trade, free of protectionist tendencies.

Recent forecasts of real growth in the major countries predict rather moderate rates of growth in the first half of this year and some acceleration in growth in the second half of 1977.

The German economic performance has been irregular since the spring of last year. Real GNP increased 5.7 per cent in 1976 over the previous year, and most forecasts for this year call for a rate of growth in the 4 to 5 per cent range. Several factors have contributed to the decline in optimism regarding German economic activity this year. There are now signs that the upward trend in exports may be levelling off. New orders data have been weak for the last several months, although new foreign orders rose during the first quarter. Also, various surveys indicate that there has been no substantial improvement in consumer or business attitudes, which suggests that a surge in investment spending is unlikely. The rate of capacity utilization has remained at about 82 per cent, compared with an optimal rate of about 92 per cent.

The German authorities remain concerned about the rise in prices and want to lower the rate further. Consumer prices in April were 3.8 per cent higher than in April 1976. Recent wage increases of about 7 per cent, have been somewhat higher than the Government would like. The average rate of unemployment during 1977 is expected to be about 4.5 per cent, or only slightly lower than last year.

The main policy initiative in recent months has consisted of the Medium-Term Infrastructure Program calling for DM 16 billion (\$6.7 billion) in public works expenditures. The program, which is likely to be passed by the Bundestag this month, is to be spread over several years and is not expected to have much of an impact on the rate of real GNP growth in 1977.

In France, industrial production has moved erratically since last autumn, with no clear trend. French real GDP is estimated to have increased by 5 per cent in 1976, and forecasts indicate a growth of 3 to 4 per cent for 1977.

Although wage increases have decelerated, price increases have again accelerated with the ending of the government's price freeze in January and increases in public sector prices in April. The rate of unemployment has continued to rise moderately.

Government policies remain moderately restrictive within the framework of the stabilization program announced last October, but some modest measures to stimulate employment and investment were announced in April. These measures include some additional state loans to enterprises, and a FF 3.3 billion (\$667 million) increase in government expenditures in the next twelve months to assist families and the aged, to aid the employment of youth, and to subsidize the return of unemployed foreign workers in France to their own countries.

Economic activity in the United Kingdom has been sluggish, but with some evidence recently of a mild upturn. Real GDP increased 1.1 per cent last year in contrast to a 2.1 per cent decline in 1975. Fourth quarter real GDP increased at an annual rate of 4 per cent, but is expected to increase at a rate of only about 2 per cent this year, with most of the growth coming from exports and manufacturing investment. Fixed investment in manufacturing increased at an annual rate of 6.7 per cent in the fourth quarter, and the volume of exports, after increasing at an annual rate of 20 per cent in the fourth quarter, fell slightly in the first quarter of 1977. As real average earnings declined, the volume of retail sales leveled out in July-November and then declined through March. The tax cuts contained in the March budget are expected to add only moderately (about a half percentage point) to real GDP growth this year. Additional tax cuts may be announced later this year, but the United Kingdom is restrained by the conditions agreed upon with the IMF as to the size of the public sector deficit, so little additional stimulus can be expected.

The level of economic activity in Italy was unexpectedly strong in the fourth quarter of last year as a result mainly of a rise in consumption and investment. This produced a rise in real GDP of 5.6 per cent for the year as a whole over 1975. Total employment also increased about one per cent last year over the previous year. During the first two months of this year, however, output has been roughly stable, with industrial production remaining at about the same high level as last December.

A low growth rate is anticipated this year as Italy implements the various policy measures adopted in connection with the April IMF stand-by arrangement. Specific actions taken so far include a one-year extension of the ceilings on bank credit to March 1978 and an agreement between the Government and the labor unions to ease the pressure of wages on prices. In a move to reduce the large public sector deficit, Italy has also raised both indirect taxes and public utility charges, and has increased other government revenues, the total increase being equivalent to 3-1/2 per cent of GDP.

The Canadian economy is not yet showing signs of a sustained recovery, although industrial production advanced at an annual rate of over 9 per cent in the three months through February. Real GNP rose 4.6 per cent in 1976 over the previous year, reflecting primarily increases in private and public consumption. The investment sector remains weak and the Finance Minister is forecasting only a 4.0 per cent increase in real GNP this year.

Although Canadian consumer prices rose less rapidly in 1976 than in the previous year, they accelerated during the first quarter of this year. In April the unemployment rate increased to a record high of 8.3 per cent. The federal government's budget, announced at the end of March, calls for a reduction in the tax burden in order to stimulate investment and a moderate increase in government expenditures, which is partly aimed at reducing unemployment in the economically-depressed regions.

Economic activity in Japan has slowed substantially since the second quarter of last year, with industrial production in the first quarter of this year being only 3.5 per cent above the level in the second quarter of 1976. Real GNP growth also slowed in the second half of 1976, although the year-to-year gain in 1976 was 6.3 per cent.

Most of the strength in GNP growth has been in exports and government expenditures. Fourth quarter export volume was 11-1/2 per cent higher than during the same period a year earlier. Real fixed investment declined during the last half of 1976 and is expected to remain sluggish this year. This mainly reflects the continuing large amount of excess capacity in the economy, as well as the lackluster outlook for consumption expenditures. The current round of spring wage negotiations is resulting in a roughly 9 per cent increase in wages, which is about the same as the increase in consumer prices in the past year and last year's wage increase. The number of employed has increased slightly in the past year.

Major policy actions since late last year have included three fiscal packages aimed primarily at accelerating residential housing construction and public works expenditures. Monetary policy has also been eased, with the Bank of Japan's discount rate being lowered on March 12 from 6.5 to 6.0 per cent, and again on April 19 to 5.0 per cent. The authorities hope that lowering of the level of interest rates will stimulate business borrowing and fixed investment. This year's central government budget, which calls for a 21 per cent increase in expenditures over the previous fiscal year, contains a cut

in personal income taxes of about \$2 billion. The Government has stated its intention to take further stimulative measures, if necessary, in order to achieve its goal of a 6.7 per cent increase in real GNP in the fiscal year ending March 1978.

APPENDIX A
A Summary of Recent Fiscal Legislation*

Since the last Greenbook, Congress has approved a number of the fiscal proposals that were advanced by President Carter in late January.

A. The House and the Senate have passed THE TAX REDUCTION AND SIMPLIFICATION ACT OF 1977, and thereby have agreed to tax cuts totalling \$2.6 billion in fiscal 1977 and \$17.8 billion in fiscal 1978.

Business Tax Reductions -- The Act rejects President Carter's original recommendation that businesses be allowed to take an income tax credit equal to 4 per cent of social security taxes paid or an additional 2 per cent investment tax credit (12 per cent rather than 10 per cent). Instead Congress approved a tax provision that permits firms to take an employment tax credit equal to 50 per cent of the first \$4,200 paid to new workers in 1977 and 1978. Employers are only allowed a maximum \$100,000 in credits per year, representing some 47 new workers. Moreover, the bill allows the credit in 1977 only if the employer's 1977 unemployment insurance wages are 3 per cent (or more) above the level reported in the previous year (1976). To the extent the wages are covered by the credit, they cannot be reported as costs for income tax purposes. This limitation lowers the effective employment credit to between \$630 and \$1,806 per employee depending on the employer's tax bracket.

Personal Tax Cuts -- The Act raises the standard deduction for most taxpayers (47 million) by setting a flat \$2,200 deduction for single persons and \$3,200 for couples filing a joint return. The previous deductions ranged from \$1,700 to \$2,400 for single individuals, and \$2,100 to \$2,800 for couples. As these figures indicate, a few single individuals will pay more taxes than before. This cut in personal taxes totals around \$5-1/2 billion per year and is retroactive to January 1, 1977. Withholding rates, however, will not be adjusted to capture the full year's tax cut in the forthcoming June through December period in order to avoid increasing withholding rates on January 1, 1978. Refunds, therefore, are expected to be somewhat higher in early 1978.

Extension of the 1976 Tax Cuts -- The legislation extends through 1978 the corporate and personal tax reductions first enacted in 1975 and scheduled to expire at the end of this year. These include the \$35 per person general tax credit, the 10 per cent earned income credit for families with dependent children, and lower tax rates on the first \$50,000 of corporate taxable income.

* Prepared by James S. Fralick, Division of Research and Statistics.

Miscellaneous -- The bill also made some modifications to the recent Tax Reform Act by restoring the deduction for intangible drilling expenses incurred by independent oil and gas producers; restoring for 1976 the sick pay exclusion for workers; granting one year's relief from the tighter tax treatment imposed on employees of U.S. companies working abroad; and allowing taxpayers 65 years and older to choose -- for one year -- between the retirement income credit as it existed before and after "1976 Tax Reform Act."

B. The Congress by means of the ECONOMIC STIMULUS APPROPRIATIONS ACT OF 1977 has agreed to fund most of President Carter's original spending requests. An interesting feature of this bill was the full funding of the public works and jobs programs in order to eliminate any uncertainty -- on the part of states and localities -- regarding future Federal spending.

The Public Service Employment Program -- Both the House and the Senate agreed to the Administration's proposal to increase the number of Federally-funded jobs under the Comprehensive Employment Training Act (CETA) from 310,000 now to 600,000 by the end of the current fiscal year and to 725,000 by the first quarter of fiscal year 1978. The appropriation bill fully funds the program for fiscal years 1977 and 1978, and this action was designed to insure success in meeting the specified employment targets.

The Local Public Works Program -- The Congress voted to extend and expand by \$4 billion a local public works' grant program that was initiated late last year for the purpose of creating construction jobs in areas of high unemployment. The Carter Administration's original budget request was for \$2 billion in both fiscal 1977 and fiscal 1978. The full funding of this program should accelerate the flow of Federal grants to State and local governments for public works construction.

Employment and Training -- The appropriation bill also provides \$1.4 billion for a "Rural Youth Service Corps" modelled after the Job Corps, a "Skill Training Program" designed to aid permanently displaced workers, and a "Retraining Program" aimed at providing jobs for Vietnam-era veterans.

Countercyclical Revenue Sharing -- The Congress funded, for the third and fourth quarters of fiscal year 1977, the antirecession financial assistance program for State and local governments. This appropriation totals \$632 million and triggers whenever the national unemployment rate exceeds 6 per cent in a given quarter.

Enactment of the Tax Reduction and Simplification Act of 1977 and the "Economic Stimulus" bill therefore complete Congressional action on the major items (excluding the rebate) contained in the original Carter fiscal package.