

Prefatory Note

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

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

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

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

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

February 9, 1972

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

	<u>Section</u>	<u>Page</u>
DOMESTIC NONFINANCIAL SCENE	I	
Summary and GNP outlook.		- 1
Industrial production.		- 7
Retail sales		- 8
Consumer durables.		- 9
Consumer credit.		-11
Census consumer buying survey.		-12
Construction and real estate		-13
Manufacturers' orders.		-16
Inventories.		-16
Cyclical indicators.		-17
Capital spending plans for 1972.		-19
Labor market		-20
Productivity		-22
Earnings		-24
Collective bargaining.		-25
Industrial relations		-26
Wholesale prices		-28
Consumer prices.		-31
 DOMESTIC FINANCIAL SITUATION	 II	
Summary and outlook.		- 1
Monetary aggregates.		- 4
Bank credit.		- 6
Other financial institutions and mortgage markets.		- 8
Short-term markets		-12
Long-term securities markets		-13
Federal finance.		-18
 INTERNATIONAL DEVELOPMENTS	 III	
Outlook.		- 3
Balance of payments.		- 5
Foreign exchange markets		- 8
Business situation in Western Europe and Japan		-10

DOMESTIC NONFINANCIAL SCENE

February 8, 1972

I -- T - 1

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	1971			1972	Per Cent Change* From		
	Oct.	Nov.	Dec.	Jan.	1 mo. ago	3 mos. ago	Year ago
Civilian labor force (mil.)	84.8	85.1	85.2	85.7	0.6	1.1	2.4 ^{4/}
Unemployment rate (%)	5.8	6.0	6.0	5.9	--	--	6.1 ^{4/}
Insured unempl. rate (%) ^{5/}	4.5	4.2	3.8	n.a.	--	--	4.0 ^{4/}
Nonfarm employment, payroll (mil.)	70.8	71.0	71.2	71.4	0.3	0.8	1.4
Manufacturing	18.6	18.6	18.6	18.6	0.2	0.3	-0.7
Nonmanufacturing	52.3	52.4	52.6	52.8	0.4	1.0	2.1
Industrial production (1967=100) ^{5/}	106.4	107.0	107.8	n.a.	0.7	1.5	3.1
Final products, total	105.0	106.3	106.4	n.a.	0.1	1.7	4.1
Consumer goods	116.0	117.9	117.8	n.a.	-0.1	2.4	6.3
Business equipment	97.3	97.8	98.5	n.a.	0.7	0.7	3.0
Materials	105.8	105.6	107.5	n.a.	1.8	1.2	2.0
Capacity util. rate, mfg. ^{5/}	74.1	74.0	73.9	n.a.	--	--	n.a.
Wholesale prices (1967=100) ^{1/ 5/}	114.4	114.5	115.4	n.a.	0.8	0.8	4.0
Industrial commodities (FR)	114.8	114.7	115.2	n.a.	0.4	0.3	3.4
Sensitive materials (FR)	115.4	115.3	116.1	n.a.	0.7	-0.2	6.7
Farm products, foods & feeds	113.0	113.6	115.9	n.a.	2.0	2.6	6.0
Consumer prices (1967=100) ^{1/ 5/}	122.4	122.6	123.1	n.a.	0.4	0.7	3.4
Food	118.9	119.0	120.3	n.a.	1.1	1.0	4.3
Commodities except food	118.0	118.1	118.1	n.a.	0.0	0.6	2.3
Services	130.0	130.4	130.8	n.a.	0.3	0.8	4.1
Hourly earnings, pvt. nonfarm (\$)	3.48	3.48	3.51	3.53	0.6	1.4	6.0
Hourly earnings, mfg. (\$)	3.60	3.60	3.68	3.68	0.0	2.2	5.7
Weekly earnings, mfg. (\$)	143.57	144.72	147.81	147.78	0.0	2.9	6.0
Net spend. weekly earnings, mfg. (3 dependents 1967 \$) ^{1/ 5/}	102.49	102.78	105.81	n.a.	2.9	3.5	5.3
Personal income (\$ bil.) ^{2/ 5/}	871.2	874.9	883.8	n.a.	1.0	1.6	7.7
Retail sales, total (\$ bil.) ^{5/}	35.0	35.6	34.6	n.a.	-2.6	-1.6	9.1
Autos (million units) ^{2/}	10.2	9.5	7.8	8.6	10.1	-16.1	4.0
GAAF (\$ bil.) ^{3/ 5/}	9.1	9.3	9.0	n.a.	-3.0	-0.3	7.4
12 leaders, composite (1967=100) ^{5/}	129.3	130.5	133.4	n.a.	2.2	4.4	15.0
Selected leading indicators:							
Housing starts, pvt. (thous.) ^{2/ 5/}	2,031	2,303	2,517	n.a.	9.3	25.7	22.5
Factory workweek (hours)	39.8	40.1	40.3	39.9	-1.0 ^{6/}	0.3 ^{6/}	0.3 ^{6/}
Unempl. claims, initial (thous.) ^{5/}	313	304	268	n.a.	11.7 ^{6/}	17.9 ^{6/}	8.2 ^{6/}
New orders, dur. goods, (\$ bil.) ^{5/}	31.1	32.6	32.1	n.a.	-1.3	3.6	6.6
Capital equipment	8.1	8.4	8.5	n.a.	0.9	6.3	8.1
Common stock prices (41-43=10)	97.29	92.78	99.17	103.30	4.2	6.2	10.5

* Based on unrounded data. ^{1/} Not seasonally adjusted. ^{2/} Annual rates.^{3/} Gen'l. merchandise, apparel, and furniture and appliances. ^{4/} Actual figures.^{5/} Per cent calculated to December 1971. ^{6/} Sign reversed.

DOMESTIC NONFINANCIAL SCENE

Summary and GNP outlook. Real GNP increased at an annual rate of around 6 per cent in the fourth quarter, according to present estimates, following significant downward revisions of the rate of expansion in the middle quarters of the year. Industrial production in the fourth quarter increased at an annual rate of about 4 per cent.

In January, industrial production is tentatively estimated to be about the same as in December. New orders for capital equipment increased in December for the third consecutive month, and for the quarter were up 6 per cent.

Consumer spending continues to rise at a moderate pace. Unit sales of domestic--and also of imported--autos picked up strength in January after a poor December, although sales were still well below the performance during the 90 day freeze. Total retail sales are estimated to have risen somewhat in January, with some strength in furniture and appliances and nondurable goods. The exceptionally large rise in housing starts in December reflected mainly a year-end bulge in Government sponsored programs.

Nonfarm payroll employment increased substantially further in January. In manufacturing, however, the increase was small and the workweek declined after several months of rise. The increase in average hourly earnings for the private nonfarm economy slowed in January, following the post-freeze December bulge. The unemployment rate edged down to 5.9 per cent from 6.0 per cent in December.

The latest available price indexes relate to December, when both consumer and industrial prices spurted, as expected, following the end of the freeze. But prices of farm products and foods--largely uncontrolled--rose very sharply, and available information suggests that such prices at retail may still be adjusting to the higher wholesale quotations.

Gross national product--outlook. The staff has shaded down its GNP projection for the year 1972. Nominal GNP is now projected to increase \$96 billion (rather than \$100 billion) and real GNP 5.6 per cent (rather than 6.0 per cent). The staff continues to assume relatively successful Phase II policies and a moderation in the rate of increase of the GNP price measures to under 3 per cent in the second half of the year. Employment gains are projected to be substantial but in view of prospective increases in the labor force and in productivity, the decline in the unemployment rate is expected to be moderate--from 5.9 per cent in the fourth quarter of 1971 to 5.4 per cent in the fourth quarter of this year. For purposes of this projection, monetary policy is assumed to involve expansion in M_1 in a 6-7 per cent range and no substantial increase on balance in long-term rates during at least the first half of the year.

The quarterly GNP pattern has been modified somewhat, as may be seen in the table. In the current quarter, however, current dollar GNP is projected to increase \$30.0 billion and real GNP at an annual rate of 5.9 per cent; these are virtually identical with our preceding projections.

GNP PROJECTIONS

	Change in Nominal GNP \$ billion		Per cent increase, annual rate					
			Real GNP		Private GNP fixed weight price index		Unemployment rate	
	1/7/72	Current	1/7/72	Current	1/7/72	Current	1/7/72	Current
1971-IV	19.5	19.6	5.7	6.1	1.6	1.6	6.0	5.9
1972-I	29.9	30.0	5.8	5.9	4.0	4.0	5.9	5.8
1972-II	27.0	26.5	6.6	6.5	3.1	3.1	5.8	5.7
1972-III	28.0	25.5	6.9	6.1	2.9	2.9	5.6	5.6
1972-IV	28.0	27.6	6.8	6.7	2.8	2.8	5.4	5.4

Smaller prospective increases in personal and disposable income have led the staff to scale down a little further the projected increase over the year in consumer spending. This also seems consistent with the moderate nature of recent advances in consumer spending--along with surveys that indicate continued consumer cautiousness.

The expansive thrust expected over the next year from net exports of goods and services has been cut back. This has been done principally because the benefits of the currency realignments for the U.S. current account are now judged to take longer to be realized than earlier assumed.

Federal purchases of goods and services, in line with the recent Budget message, are projected to show an increase of about \$6 billion from late 1971 to late 1972. This is about the same as in the last projection. But the quarterly pattern has been modified. A

bunching in expenditures is now projected for the second quarter, followed by some decline in the second half of the year, rather than a leveling out, as in the last projection. On the other hand, State and local spending has been boosted in the second half of the year, on the assumption that the proposed revenue sharing measure will be effective on July 1 (but not retroactive to January 1) and that it will have a perceptible effect on spending.

Residential construction activity is projected to increase rapidly further early in the year, but then to decline somewhat as starts fall off in response to less urgent demands for new rental housing. Business fixed investment is expected to increase steadily this year, with a rise of 9 per cent for 1972 as a whole. This is about the same as in the last projection and is consistent with the latest Commerce-SEC survey for the year. With stock-sales ratios now in better shape and final sales still projected to rise fairly strongly, we continue to expect a sizable increase in inventory investment as the year progresses.

CONFIDENTIAL - FR

February 9, 1972

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

	1971p	1972 Proj.	1971		1972			
			III	IVp	Projected			
			I	II	III	IV		
Gross National Product	1046.8	1142.5	1053.4	1073.0 ^{1/}	1103.0	1129.5	1155.0	1182.6
Final purchases	1044.7	1135.3	1054.6	1071.2 ^{1/}	1098.7	1124.3	1146.8	1171.4
Private	811.6	878.7	820.8	830.3 ^{1/}	849.8	869.1	888.1	908.0
Excluding net exports	810.9	878.2	820.8	832.3	850.6	868.6	886.9	906.8
Personal consumption expenditures	662.2	713.5	668.9	677.7	690.8	705.3	720.5	737.4
Durable goods	100.4	109.6	102.9	103.2	105.0	108.0	111.0	114.5
Nondurable goods	278.8	299.3	280.2	283.9	289.5	295.8	302.3	309.5
Services	283.0	304.6	285.8	290.6	296.3	301.5	307.2	313.4
Gross private domestic investment	150.8	171.9	150.8	156.5 ^{1/}	164.1	168.5	174.6	180.6
Residential construction	40.6	46.8	42.7	44.2	46.9	47.4	47.0	46.0
Business fixed investment	108.2	117.9	109.3	110.4 ^{1/}	112.9	115.9	119.4	123.4
Change in business inventories	2.1	7.2	-1.2	1.9 ^{1/}	4.3	5.2	8.2	11.2
Nonfarm	1.5	7.1	-2.0	1.0 ^{1/}	3.8	5.0	8.2	11.2
Net exports of goods and services	0.7	0.5	0.0	-2.0 ^{1/}	-0.8	0.5	1.2	1.2
Exports	65.5	72.5	68.2	61.2 ^{1/}	70.3	71.6	73.1	74.9
Imports	64.8	72.0	68.2	63.2 ^{1/}	71.1	71.1	71.9	73.7
Gov't. purchases of goods & services	233.1	256.6	233.8	240.9	248.9	255.2	258.7	263.4
Federal	97.6	106.8	97.6	100.6	105.5	108.2	107.2	106.4
Defense	71.4	75.8	70.2	71.5	75.0	76.5	75.9	75.9
Other	26.2	31.0	27.4	29.2	30.5	31.7	31.3	30.5
State & local	135.4	149.7	136.2	140.3	143.4	147.0	151.5	157.0
Gross national product in constant (1958) dollars	739.5	781.2	740.7	751.7 ^{1/}	762.8	775.1	786.9	800.1
GNP implicit deflator (1958 = 100)	141.6	146.2	142.2	142.7	144.6	145.7	146.8	147.8
Personal income	857.0	919.5	864.6	876.6	894.9	909.7	927.8	945.7
Wage and salary disbursements	574.2	621.5	577.3	586.9	604.0	615.5	626.5	640.0
Disposable income	741.2	795.2	748.5	754.8	770.4	787.5	803.9	818.8
Personal saving	60.4	62.6	61.0	58.4	60.7	63.2	64.2	62.1
Saving rate (per cent)	8.1	7.9	8.2	7.7	7.9	8.0	8.0	7.6
Corporate profits before tax	85.2	97.0	85.8	85.0 ^{2/}	89.0	94.0	99.0	100.0
Corp. cash flow, net of div. (domestic)	80.8	95.4	82.4	84.7 ^{2/}	89.0	93.1	97.2	102.2
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	198.7	215.1	197.8	203.1 ^{2/}	211.6	211.5	215.7	221.4
Expenditures	222.0	248.2	224.6	229.4 ^{2/}	239.5	248.5	251.9	253.4
Surplus or deficit (-)	-23.3	-31.1	-26.7	-26.3 ^{2/}	-27.9	-37.0	-36.2	-32.0
High employment surplus or deficit(-)	2.7	-6.4	2.3	6.9	0.8	-7.6	-10.0	-8.8
Total labor force (millions)	86.9	88.9	87.0	87.7	88.4	88.6	89.0	89.5
Armed forces "	2.8	2.5	2.8	2.7	2.6	2.5	2.5	2.5
Civilian labor force "	84.1	86.4	84.2	85.0	85.8	86.1	86.5	87.0
Unemployment rate (per cent)	6.0	5.6	6.0	5.9	5.8	5.7	5.6	5.4
Nonfarm payroll employment (millions)	70.7	72.2	70.6	71.0	71.5	71.9	72.3	72.9
Manufacturing	18.6	18.9	18.5	18.6	18.7	18.8	18.9	19.1
Industrial production (1967 = 100)	106.3	112.8	105.9	107.1	109.0	111.6	114.0	116.5
Capacity utilization, manufacturing (per cent)	78.2	75.9	73.9	74.0	74.6	75.4	76.2	77.2
Housing starts, private (millions, A.R.)	2.05	2.11	2.16	2.28	2.20	2.15	2.10	2.00
Sales new autos (millions, A.R.)	10.13	10.51	10.27	10.43	10.10	10.40	10.65	10.90
Domestic models	8.68	9.09	8.74	9.18	8.75	9.00	9.20	9.40
Foreign models	1.46	1.42	1.53	1.25	1.35	1.40	1.45	1.50

^{1/} Data now available suggest that net exports of goods and services will be revised to show a deficit in the fourth quarter of about \$4.5 billion, annual rate, (a downward revision of \$2.5 billion) and that inventory accumulation will be shown to be larger than is now indicated by the figures for the fourth quarter by about as much as the downward revision in net exports. Thus, these revisions taken together would not change the preliminary estimate of GNP, but total and private final purchases would be lower. New data for other sectors may also result in revisions in the preliminary estimates.

^{2/} Estimated.

CONFIDENTIAL - FR

February 9, 1972

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1971p	1972 Proj.	1971		1972 Projected			
			III	IVp	I	II	III	IV
-----Billions Of Dollars-----								
Gross National Product	72.7	95.7	13.4	19.6	30.0	26.5	25.5	27.6
Inventory change	-0.7	5.1	-5.8	3.1 ^{1/}	2.4 ^{1/}	0.9	3.0	3.0
Final purchases	73.4	90.6	19.2	16.6 ^{1/}	27.5 ^{1/}	25.6	22.5	24.6
Private	59.7	67.1	15.0	9.5 ^{1/}	19.5 ^{1/}	19.3	19.0	19.9
Excluding net exports	62.6	67.3	15.1	11.5	18.3	18.0	18.3	19.9
Net exports	-2.9	-0.2	-0.1	-2.0 ^{1/}	1.2 ^{1/}	1.3	0.7	0.0
Government	13.7	23.5	4.2	7.1	8.0	6.3	3.5	4.7
GNP in constant (1958) dollars	19.5	41.7	4.9	11.0	11.1	12.3	11.8	13.2
Final purchases	19.8	37.6	9.5	8.7 ^{1/}	9.2 ^{1/}	11.6	9.3	10.7
Private	19.9	30.9	6.9	5.4 ^{1/}	7.9 ^{1/}	9.3	9.4	10.2
-----In Per Cent Per Year-----								
Gross National Product	7.5	9.1	5.2 ^{2/}	7.7 ^{2/}	11.2	9.6	9.0	9.6
Final purchases	7.6	8.7	7.4	6.3	10.3	9.3	8.0	8.6
Private	7.9	8.3	7.4	4.6	9.4	9.1	8.7	9.0
Personal consumption expenditures	7.5	7.7	7.0	5.3	7.7	8.4	8.6	9.4
Durable goods	13.3	9.2	15.3	1.2	7.0	11.4	11.1	12.6
Nondurable goods	5.3	7.4	3.5	5.3	7.9	8.7	8.8	9.5
Services	7.8	7.6	7.6	6.7	7.8	7.0	7.6	8.1
Gross private domestic investment	11.5	14.0	-5.5	15.1	19.4	10.7	14.5	13.7
Residential construction	33.6	15.3	27.0	14.1	24.4	4.3	-3.4	-8.5
Business fixed investment	6.0	9.0	3.7	4.0	9.1	10.6	12.1	13.4
Gov't. purchases of goods & services	6.2	10.1	7.3	12.1	13.3	10.1	5.5	7.3
Federal	0.4	9.4	6.7	12.3	19.5	10.2	-3.7	-3.0
Defense	-5.3	6.2	-6.7	7.4	19.6	8.0	-3.1	0.0
Other	19.6	18.3	45.5	26.3	17.8	15.7	-5.0	-10.2
State & local	10.8	10.6	7.8	12.0	8.8	10.0	12.2	14.5
GNP in constant (1958) dollars	2.7	5.6	2.7 ^{2/}	6.1 ^{2/}	5.9	6.5	6.1	6.7
Final purchases	2.8	5.1	5.2	4.7	4.9	6.1	4.8	5.5
Private	3.4	5.2	4.6	3.6	5.2	6.0	6.0	6.4
GNP implicit deflator ^{3/}	4.6	3.3	2.5 ^{2/}	1.5 ^{2/}	5.2	3.1	2.9	2.8
Private GNP fixed weight index ^{3/}	5.2	3.2	3.6 ^{2/}	1.5 ^{2/}	4.0	3.1	2.9	2.8
Personal income	6.6	7.3	5.2	5.6	8.4	6.6	8.0	7.7
Wage and salary disbursements	6.1	8.2	4.4	6.7	11.7	7.6	7.1	8.6
Disposable income	7.8	7.5	4.8	3.4	8.3	8.9	8.3	7.4
Corporate profits before tax	14.0	13.8	-5.1	-3.7	18.8	22.5	21.3	28.3
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	3.8	8.2	0.2	10.7	16.7	-0.2	7.9	10.6
Expenditures	8.2	11.8	5.8	8.5	17.6	15.0	5.5	2.4
Nonfarm payroll employment	0.1	2.1	-0.2	2.2	2.7	2.2	2.2	3.3
Manufacturing	-3.9	1.4	-2.4	0.9	2.6	2.1	2.1	4.2
Industrial production	-0.4	6.3	-3.4	4.5	7.1	9.5	8.6	8.8
Housing starts, private	43.4	2.9	36.5	22.2	-14.0	-9.1	-9.3	-19.0
Sales new autos	21.3	3.8	19.0	6.2	-12.7	11.9	9.6	9.4
Domestic models	21.9	4.7	22.7	20.1	-18.7	11.4	8.9	8.7
Foreign models	18.6	-2.1	-1.0	-73.2	32.0	14.8	14.3	13.8

^{1/} The changes in this table are based on figures shown on the preceding table. Changes in items to be revised as noted in footnote 1 on the preceding table in billions of dollars for '71-IV and '72-I, respectively, are as follows: inventory change, 5.6, -0.1; final purchases, 14.1, 30.0; private final purchases, 7.0, 22.0; and net exports, -4.5, 3.7.

^{2/} At compound rates.

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

Industrial production. Industrial production is tentatively estimated to have changed little in January. Available weekly production data for January indicate that output of paperboard, crude oil, and petroleum products was maintained while production of raw steel and trucks increased. Auto assemblies for the month, however, declined from an 8.6 million unit rate in December to an 8.1 million rate in January. Production schedules for February and March reportedly are at an 8.4 and 8.3 million unit rate, respectively.

Production worker manhours in manufacturing declined 0.3 per cent in January. But the decline is being partially discounted because of the unusually large rise in average weekly hours from September to December, 0.8 hours, followed by the decline in January. And the number of manufacturing production workers increased by 43,000 from December to January.

INDUSTRIAL PRODUCTION
1967=100, annual averages

	1969	1970	p1971	Per cent change	
				1969-1971	1970-1971
Total index	110.7	106.7	106.3	-4.0	-.4
Consumer goods	111.1	110.3	115.3	3.8	4.5
Autos	111.4	86.6	108.3	-2.8	25.1
Home goods	111.6	107.6	111.6	.0	3.7
Apparel & staples	110.1	112.4	115.7	5.1	2.9
Business equipment	107.9	101.1	96.2	-10.8	-4.8
Defense equipment	103.2	87.9	77.6	-24.8	-11.7
Intermediate products	112.0	111.9	112.8	.7	.8
Construction products	113.0	110.6	112.9	-.1	2.1
Materials, total	112.4	107.8	106.7	-5.1	-1.0
Durable	112.2	103.4	100.8	-10.2	-2.5
Steel	113.0	105.3	96.5	-14.6	-8.4
Nondurable	112.8	112.5	113.4	.5	-.8

p--preliminary

Retail sales. Judging by weekly data through January 29, total retail sales in January are estimated to have increased 1/2 per cent from December. Excluding the automotive group and nonconsumer items, the increase apparently amounted to about 3/4 per cent. Sales of durable goods as a whole declined around 1/2 per cent, with a rise in sales of furniture and appliances of nearly 2 per cent offsetting part of a drop in the automotive group. Sales of nondurable goods rose 1 per cent, led by a 2 per cent rise in general merchandise outlets.

Census revised estimates indicate that total sales in November and December were somewhat lower than originally reported. Total sales in December are now shown to be down 2.6 per cent from November--instead of 2.1 per cent--and November sales from October were up 1.7 per cent--instead of 1.9 per cent. The December downward revisions were fairly evenly divided between durable and nondurable goods.

RETAIL SALES
Percentage changes from previous month

	1971			1972
	Oct	Nov	Dec	Jan*
Total sales	- .7	1.7	-2.6	.5
Durable goods	-1.2	1.6	-5.2	- .5
Automotive	-3.5	2.0	-8.4	-1.5
Furniture & appliances	5.7	- .5	3.0	1.8
Nondurable goods	- .5	1.8	-1.3	1.0
Food	-1.7	1.1	- .4	.8
General merchandise	- .9	2.4	-4.8	2.0
GAAF	.5	2.2	-3.0	2.0
Total, excluding automotive & nonconsumer items	- .1	1.4	- .9	.8
<u>Total, real</u>	<u>- .6</u>	<u>1.6</u>	<u>-3.0</u>	

* Estimated by FRB on the basis of weekly data.

Consumer durables. January sales of new domestic-type cars were at a 8.6 million unit annual rate, up 10 per cent from December and 4 per cent from a year ago. Sales were progressively stronger for each 10 days of the month, ending with a 9.0 million unit rate for the final period. Preliminary estimates placed dealer inventories at a 55 days supply at the end of January, 9 per cent above a year earlier, but 15 per cent less than last month. The recent drop was caused mainly by the higher selling rate in January.

Sales of foreign cars in January were at an annual rate of 1.6 million units, up 42 per cent from December and 9 per cent from a year ago. The import share of total sales rose to 15 per cent, from 12 per cent in December and 14 per cent for the year 1971.

Based on three weeks data unit sales of TVs to dealers in January retained the sharp increases from a year earlier characteristic of the last several months, primarily because of the strength of color sets. Sales of major home appliances in the first three weeks of January were also, in general, above the levels of last year. Only sales of washers and driers were about the same as last year.

UNIT SALES OF SELECTED HOME GOODS^{1/}
Per cent change from a year earlier^{1/}

	November 1971	December 1971	January 1972
TVs and radios ^{2/}			
TVs	18	27	23
Color	37	40	35
Monochrome	-1	19	8
Radios	27	25	2
Home appliances			
Washers	25	25	-1
Driers	33	25	0
Dishwashers	52	35	31
Electric Ranges	24	40	32
Refrigerators	28	38	13
Freezers	15	-3	9

^{1/} Based on seasonally unadjusted data. Data for January are for the first three weeks only which contain one less selling day than in 1971. Sales data are purchases by dealers.

^{2/} Includes foreign made units sold under US brand names. These percentages of foreign-made sales in 1971 were approximately: Monochrome TVs 55 per cent, Color TVs 20 per cent, and radios 70 per cent. (Inclusion of foreign brands sold under foreign names would of course raise the foreign share of total U.S. sales.)

Consumer credit. Consumer instalment credit outstanding rose \$10.8 billion in December, seasonally adjusted annual rate, down from the extraordinary \$15.2 billion annual rate increase in November. For the full year 1971, instalment credit rose \$8.4 billion, compared with only \$3.0 billion in 1970. The record annual increase--\$9.0 billion--occurred in 1968.

Both extensions and repayments of instalment credit decreased from November to December, after seasonal adjustment. Lower extensions reflected a decline in new car sales and a less than seasonal advance in personal loans. Repayments were down slightly in December for all types of credit, except automotive.

NET CHANGE IN CONSUMER INSTALMENT CREDIT OUTSTANDING
(Billions of dollars)

	Total	Automobile	Other consumer goods	Personal loans
1965	8.6	3.7	2.2	2.6
1966	6.2	1.9	2.4	1.8
1967	3.4	.2	1.4	1.8
1968	9.0	3.4	2.5	2.9
1969	8.3	2.5	2.7	3.0
1970	3.0	-1.1	2.3	1.7
1971	8.4	2.8	2.5	2.8
QIV	12.4	4.5	4.0	3.5

Census consumer buying survey. The January Census survey indicated no important change in consumer confidence from the generally pessimistic levels of previous reports. On the favorable side, plans to purchase houses were up from both October and a year earlier, but not up to the 1967 base. Plans to buy furniture and carpets and major appliances were higher than a year ago but not greatly changed from October.

On the less favorable side, buying plans for new autos slipped to 98.8 (January-April 1967 = 100) from 103.4 in October and 107.9 a year earlier. Income expectations remain around the low recorded in the previous survey and there was a decrease in the number of families reporting higher current income.

SELECTED CENSUS SURVEY RESULTS

	1971				1972
	Q I	Q II	Q III	Q IV	Q I
Indexes of expected unit purchases: ^{1/} (seasonally adjusted; average of January-April 1967 = 100)					
New cars	107.9*	104.7	94.8	103.4	98.8
Houses	96.3	101.7	97.7	95.5	98.9
Expectations to buy furniture, appliances, and home improvements within 12 months ^{2/}					
Number of major appliances likely to be bought per 100 households	24.4	26.1	24.1	26.1	25.6
Per cent of household reporting probable major expenditures on:					
Furniture and carpets	25.1	28.4	24.4	26.1	26.7
Home improvements	8.5	9.7	8.0	7.4	8.0
Mean probability of substantial in- come increase in next 12 months ^{2/}	17.2	19.9	17.0	15.7	15.9

^{1/} Based on average of 6 and 12 month mean purchase probabilities.

^{2/} Census considers seasonal adjustment unnecessary.

Construction and real estate. Seasonally adjusted outlays for new construction, revised upward by 2 per cent for December, advanced to another new high in January--\$117.0 billion. The increase from December was concentrated almost entirely in outlays for private residential construction, spurred in part by the further upthrust in starts late last year. Higher costs are estimated to have accounted for half of the year-to-year rise in total dollar outlays.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	January 1972	Per cent change from	
	\$ billions <u>1/</u>	December 1971	January 1971
Total	117.0	+2	+16
Private	86.7	+2	+23
Residential, inc. farm	48.7	+6	+37
Nonresidential	37.9	-2	+ 8
Public	30.3	+1	+ 1

1/ Seasonally adjusted annual rates, preliminary. Data for January are confidential Census Bureau extrapolations. In no case should public reference be made to them.

Private housing starts capped the year 1971 with a 9 per cent further rise in December to an unprecedented seasonally adjusted annual rate of 2.3 million units in the fourth quarter as a whole, and a yearly total above 2 million units for the first time on record. The 1971 total was 43 per cent above 1970 and 7 per cent higher than the previous record established in 1950. Moreover, mobile home shipments, which accounted for an additional record 1/2 million units in 1971, were insignificant in 1950.

Some decline in starts is indicated for January in view of the unsustainably high year-end rate of starts under the major subsidy programs. Even so, the advanced level of permits and commitments already outstanding, suggests that starts in the first quarter as a whole may hold close to the exceptional fourth quarter 1971 rate.

PRIVATE HOUSING STARTS, PERMITS AND COMPLETIONS
(Seasonally adjusted annual rates, in millions of units)

	1971				
	QII	QIII	QIV(p)	Nov. (p)	Dec. (p)
Starts	1.96	2.16	2.28	2.30	2.52
1-family	1.13	1.19	1.28	1.28	1.41
2-or-more family	.83	.97	1.00	1.02	1.11
Permits	1.80	1.99	2.12	1.95	2.23
Completions	1.63	1.73	1.78 ^{1/}	1.79	n.a.
<u>MEMORANDUM:</u>					
Mobile home shipments	.41	.48	.54 ^{1/}	.55	n.a.

^{1/} October-November average only.

Vacancy rates in the fourth quarter of last year continued generally low, particularly for home-owner units. While vacancy rates in the sensitive rental sector were the highest for any fourth quarter since 1967, they were unchanged from the third quarter and well below the recent fourth quarter peak in 1965. Demands for shelter have remained strong, with sales of single-family units by speculative builders apparently at a new high for the fourth quarter and sales of existing homes also holding substantially above year-earlier levels.

RESIDENTIAL VACANCY RATES
(Per cent)

	Average for fourth quarter of:			
	1965	1967	1970	1971
Rental units	7.7	5.6	4.8	5.3
Northeast	5.1	3.9	2.3	3.2
North Central	6.6	5.1	5.2	5.7
South	8.4	6.4	6.3	6.9
West	11.7	7.4	5.4	5.1
Home-owner units	1.4	1.2	1.0	.9

Manufacturers' orders. New orders for durable goods declined 1.3 per cent (preliminary) in December, following a 4.6 per cent rise in November. The bulk of the decline was in the motor vehicle group, with relatively small changes elsewhere. Capital equipment orders (FR grouping) rose for the third successive month, and for the quarter as a whole were 6 per cent above the third quarter rate.

MANUFACTURERS' NEW ORDERS FOR DURABLE GOODS
Per cent change

	1971 (preliminary)	
	Dec. from Nov.	QIV from QIII
Durable goods, total	-1.3	1.1
Excluding steel and defense	-1.2	1.0
Primary metals	.1	7.4
Motor vehicles and parts	-8.1	-9.4
Household durables	-1.9	6.3
Defense products	-3.0	-6.3
Capital equipment	.9	6.3
All other durables	.0	.2

Unfilled orders for durable goods rose about half a per cent in December for the second month in a row, with much of the increase in the defense products group.

In January, there may have been some temporary stimulus to steel orders and shipments in anticipation of the February 1 price increases for cold rolled sheet.

Inventories. Book value of business inventories was virtually unchanged in November. In December, manufacturers' stocks

continued little changed, but wholesale trade inventories shot up at a \$9 billion annual rate, apparently reflecting dislocations resulting from dock strikes.

For the fourth quarter as a whole, wholesale stocks rose at more than twice the third-quarter rate, and accumulation by manufacturers, though moderate, was at the highest rate of the year.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
Seasonally Adjusted Annual Rate, \$ Billions

	1971				
	Q III	Q IV (Prel.)	October	November (Rev.)	December (Prel.)
Manufacturing and trade	6.1	n.a.	6.5	.2	n.a.
Manufacturing, total	-1.1	2.0	5.7	.6	-.5
Durable	-1.0	-.8	-.8	-1.1	-.4
Nondurable	-.0	2.7	6.5	1.8	-.1
Trade, total	7.2	n.a.	.8	-1.4	n.a.
Wholesale	1.9	4.7	1.4	3.7	9.1
Retail	5.2	n.a.	-.5	-5.1	n.a.

NOTE: Detail may not add to total because of rounding.

The inventory-sales ratio for manufacturing and trade declined in November to its lowest point since July 1968. In December, the manufacturing ratio remained at November's reduced level; the wholesale trade ratio rose but was still below the December 1970 level. The ratio of inventories to unfilled orders at durable goods manufacturers declined in December for the second month in a row.

Cyclical indicators. The preliminary Census composite index of leading indicators rose 2.2 per cent in December after an

upward-revised 0.9 per cent increase in November. Series increasing were the workweek, initial claims for unemployment insurance (inverted), housing permits, and common stock prices. There were declines (relatively small) in new orders for durable goods and contracts and orders for plant and equipment (both based on the advance report) and in industrial materials prices and the ratio of price to unit labor cost.

The preliminary coincident composite, which is compiled before manufacturing and trade sales are available, rose 0.8 per cent in December. A new series, a deflated coincident index--with the same components but using constant-dollar data for income and sales--also rose 0.8 per cent in December and was 7 per cent above the cycle trough, compared with a 13 per cent recovery in the 13 months following the February 1961 trough. The lagging composite also rose 0.8 per cent.

CHANGES IN COMPOSITE CYCLICAL INDICATORS
DECEMBER 1971 (Preliminary)

	Per cent change from:	
	Previous month	Three months earlier
12 Leading (trend adjusted)	2.2	4.4
12 Leading, prior to trend adjustment	1.9	3.3
5 Coincident	.8	1.7
5 Coincident, deflated	.8	1.6
6 Lagging	.8	.7

Capital spending plans for 1972. The Commerce-SEC December survey of planned spending for new plant and equipment indicates a rise of 9 per cent in 1972 as compared with 2 per cent in 1971. Manufacturers plan a 4 per cent rise as opposed to a 6 per cent decline in 1971. Nonmanufacturers plan to spend 12 per cent more in 1972 with strength continuing in utilities, communications and commercial and recovery in transportation.

A special survey released by Rinfret-Boston in early January indicates that 1972 capital spending plans would be little affected by the new economic policies. Only 22 per cent of respondents reported upward revision due to the investment tax credit and about 10 per cent (or less) revised plans upward as a result of the other components of the NEP.

PLANS FOR NEW CAPITAL SPENDING

	1971 ^{1/}	1972			
		Comm- SEC	McGraw- Hill ^{2/}	Lionel D. Edie ^{3/}	Rinfret- Boston ^{4/}
	-----Per cent change from prior year-----				
All business	2.2	9.1	7	9	8.5
Manufacturing	-5.5	4.0	8	8	7.8
Durable goods	-9.6	5.1	9	8	9.1
Nondurable goods	-1.4	3.0	8	9	6.7
Nonmanufacturing	7.3	12.1	6	9	8.8
Transportation	-18.7	18.3	13	23	15.5
Electric utilities	20.2	16.1	2	10	
Communications	7.8 ^{5/}	12.8 ^{5/}	10	6	8.9
Commercial and other	9.2 ^{5/}	7.3 ^{5/}	4	6	7.0

^{1/} Based on the Commerce-SEC November survey.

^{2/} Fall survey, released November 5, 1971.

^{3/} Fall survey.

^{4/} Fall survey, released January 7, 1972.

^{5/} Confidential, not published separately.

Labor market. The unemployment rate edged lower in January to 5.9 per cent from a downward revised 6.0 per cent rate in December. (All of the 1971 data from the household survey now incorporate the regular annual revisions in the seasonal adjustment factors.) Declines were reported for both men and women 25 years and over, but a sharp rise occurred in teenage joblessness. The unemployment rate for blue-collar workers, which has been fluctuating widely in recent months, dropped in January, while the white-collar rate held steady. Unemployment rates for both white and Negro workers were little changed in January; the rate for white workers was slightly below the year-earlier level, while that for Negroes was appreciably above.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1971			1972
	January	July	December	January
Total	6.0	5.9	6.0	5.9
Men aged:				
20 to 24 years	10.4	10.2	10.5	10.4
25 and over	3.5	3.4	3.5	3.2
Women, aged 20 and over	5.7	5.7	5.8	5.5
Teenagers	17.5	16.5	17.3	17.8
White-collar workers	3.5	3.5	3.6	3.6
Blue-collar workers	7.6	7.2	7.5	7.1
White workers	5.5	5.4	5.4	5.3
Negroes and other races	9.5	10.0	10.4	10.6

The decline in unemployment during January reflected a seasonally adjusted increase in total employment of 240,000 and a rise in the civilian labor force of about 150,000. The increase in employment was among part time workers, and there was no change in employment among adult males. In recent months the civilian labor force has been growing at a substantial rate as a result of a pick-up in the labor force participation of women and young men. (The published data for household employment and civilian labor force in January reflect the introduction of new population benchmark data derived from the 1970 Census, which raise both series by about 300,000. All of the adjustment to the new benchmark was included in the January 1972 figures.)

Nonfarm payroll employment also increased by a substantial 240,000 in January. The largest gains were posted in contract construction (which had dropped sharply in the previous month) and in manufacturing, with moderate gains in other major categories. Between September and January payroll employment increased by 550,000 and was up 940,000 from a year earlier. Virtually all of the growth occurred in service activities, which have been increasing on average by about 100,000 per month over the year. Employment in manufacturing has remained at reduced levels, and at 18.6 million seasonally adjusted in January, was still 1.6 million below the July 1969 peak.

NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted: in thousands)

	Change to January 1972 from:		
	Jan. 1971*	Sept. 1971	Dec. 1971
Total	940	554	240
Goods producing	-114	53	127
Manufacturing	-131	3	45
Mining	-13	-5	5
Contract construction	30	55	77
Service producing	1,054	501	113
Transportation & p.u.	-15	32	28
Trade	317	86	34
Services and finance	406	176	25
Government	346	207	26
Federal	6	-7	0
State and local	340	214	26

* Not seasonally adjusted.

The average workweek, which had been rising since October, declined 0.3 hours in January in private nonfarm industries. In manufacturing, the workweek dropped 0.4 hours to about the level of a year earlier; declines were widespread, with large reductions in machinery and metals, which had reported large increases the preceding month.

Productivity. Output per manhour in the private nonfarm economy rose in the fourth quarter at an annual rate of 4.9 per cent, based on preliminary GNP data. This strong performance raised the increase for 1971 to 3.4 per cent as compared with only a 0.7 per cent rise in 1970. (The year-to-year comparison is, however, affected by the decline in productivity resulting from the auto strike in the fourth

quarter of 1970 and the subsequent rebound in the first quarter of 1971.) Manufacturing productivity rose by 2.4 per cent (annual rate) in the fourth quarter, somewhat below the long run average, reflecting slower output growth than in the nonmanufacturing sector; but for the year as a whole manufacturing productivity was up 3.6 per cent.

Reflecting, in part, wage controls, growth of compensation per manhour in the fourth quarter slowed to an annual rate of 5.1 per cent in the private nonfarm sector. Compensation per manhour increased 6.9 per cent in 1971, down slightly from the 7.2 per cent rise in 1970. However, the substantial improvement in productivity led to a sharply reduced rate of increase in unit labor costs, from 6.3 per cent in 1970 to 3.4 per cent in 1971.

PRODUCTIVITY, COMPENSATION AND UNIT LABOR COSTS
(Seasonally adjusted; per cent change from previous
quarter at annual rate)

	<u>Output per manhour</u>		<u>Compensation per manhour</u>		<u>Unit labor costs</u>	
	Private		Private		Private	
	Private	nonfarm	Private	nonfarm	Private	nonfarm
1971: I ^{r/}	6.2	6.6	8.5	8.6	2.1	1.9
II ^{r/}	1.9	2.7	6.2	6.6	4.1	3.8
III ^{r/}	4.0	2.3	6.1	5.3	2.1	3.0
IV ^{p/}	3.5	4.9	4.3	5.1	.8	.2
Annual average	3.6	3.4	6.9	6.9	3.2	3.4

^{r/} revised.

^{p/} preliminary.

Earnings. The post-freeze surge in earnings slowed in January. Average hourly earnings of production workers on private nonfarm payrolls increased 2 cents, or 0.6 per cent, after rising 3 cents in December. Average earnings of factory workers were unchanged in January--due, in part, to reductions in the workweek--and were up 2.2 per cent over the two months. Over the year, manufacturing wage rates have risen 5.7 per cent; the growth rate has been much higher in transportation, mining and construction, but considerably less in services and trade.

AVERAGE HOURLY EARNINGS OF PRODUCTION
AND NONSUPERVISORY WORKERS

	Per cent change from:		
	<u>Nov. 1971-Jan. 1972</u>	<u>Jan. 1971-Jan. 1972</u>	
	Gross hourly earnings	Gross hourly earnings	Hourly earnings index*
Private nonfarm	1.4	6.0	6.2
Manufacturing	2.2	5.7	5.7
Mining	9.7	8.0	9.2
Construction	1.2	8.1	7.9
Transportation & p.u.	2.8	9.7	9.5
Trade	1.4	5.3	5.4
Finance	2.1	6.0	5.7
Services	1.7	5.1	5.0

* Adjusted for inter-industry shifts, and, in manufacturing only, for overtime hours.

Collective bargaining. Wage rate increases in major collective bargaining settlements during 1971 averaged 8.1 per cent over the life of the contract, as compared to an 8.9 per cent average in 1970. The decline reflected substantially lower first-year and deferred increases in the nonmanufacturing sector, particularly in construction. The continued high overall rate of first-year increases reflected the "catch-up" in the manufacturing sector. When wages and benefits are combined, the 1971 average increases were little changed from the previous year.

WAGE AND BENEFIT CHANGES
IN MAJOR COLLECTIVE BARGAINING SETTLEMENTS
Mean percentage adjustments

	1969	1970	1971
<hr/>			
Wage rate increases: ^{1/}			
First-year			
Private nonfarm	9.2	11.9	11.7
Manufacturing	7.9	8.1	10.8
Nonmanufacturing	10.8	15.2	12.7
Construction	13.1	17.6	13.3
Averaged over life of contract			
Private nonfarm	7.6	8.9	8.1
Wages and benefits combined ^{2/}			
Private nonfarm			
First-year changes	10.9	13.1	13.1
Averaged over life of contract	8.2	9.1	8.7

1/ Covers settlements affecting 1,000 workers or more.

2/ Limited to settlements for 5,000 workers or more.

Settlements included in the 1971 tabulation covered 3.4 million workers, substantially fewer than the nearly 4.8 million whose contracts were scheduled to reopen in 1970. In part, the smaller number reflects the fact that the Pay Board had yet to act on contracts reached after November 13 covering at least 500,000 workers. Relatively few contracts, covering about 200,000 workers, were negotiated in the fourth quarter, mostly during the freeze period. Average wage increases for the quarter thus reflected selective actions by the Pay Board and were dominated by the bituminous coal agreement and the tandem relationship of smaller steel settlements with the major steel agreement.

Industrial relations. A tentative agreement, providing for substantial wage and fringe benefits has been reached between the West Coast longshoremen and employers. If approved by the union membership, the contract will be subject to review by the Pay Board. Ratification of the settlement is needed to end the strike, which was resumed on January 17, three weeks after expiration of the 80-day injunction. On the East Coast, the tentative master agreement reached in early January by six North Atlantic ports, which provided wage increases totaling 32.6 per cent over three years, has not yet been signed awaiting settlements at South Atlantic and Gulf ports. The Taft-Hartley strike injunction, which halted the East Coast 60-day strike November 26, expires February 14, but it appears the union does not plan to strike on the expiration date.

The Pay Board disapproved in early January five aerospace contracts covering more than 100,000 workers and providing a first-year wage increase of 51 cents, or 12 per cent; but indicated it would approve a 34 cent, or 8 per cent first-year increase. The Board approved in late January a 5 per cent wage increase effective on April 1 and October 1, 1972 for 140,000 members of the United Transportation Workers union. In return the union agreed to put into effect work rule changes which are expected to reduce costs.

Wholesale prices. Wholesale prices rose at a seasonally adjusted annual rate of 8.9 per cent between November and December primarily as a result of an exceptionally large increase in farm and food products. Industrial commodities increased at a rate of 3.2 per cent, with higher prices reported for motor vehicles, textile products, coal, and hides and skins and leather.

WHOLESALE PRICES
(Percentage changes, seasonally adjusted annual rates)

	Pre-stabilization period		Phase I	Phase I & II	Phase II
	Dec. 1970	June 1971	Aug. 1971	Aug. 1971	Nov. 1971
	to June 1971	to Aug. 1971	to Nov. 1971	to Dec. 1971	to Dec. 1971
All commodities	5.0	5.7	- .8	1.6	8.9
Farm & food ^{1/}	7.2	2.1	.0	6.4	28.2
Industrial commodities	4.1	7.7	-1.3	- .2	3.2
Crude materials ^{2/}	4.7	1.0	1.0	1.5	3.0
Inter. materials ^{3/}	5.5	10.4	-1.0	- .3	2.1
Finished goods ^{4/}	2.3	4.1	-1.6	.2	5.8
Producer	3.3	4.7	-2.7	- .5	6.3
Consumer	1.8	3.8	-1.1	.5	5.5

^{1/} Farm products and processed foods and feeds.

^{2/} Excludes foods, plant and animal fibers, oilseeds, and leaf tobacco.

^{3/} Excludes intermediate materials for food manufacturing and manufactured animal feeds.

^{4/} Excludes foods.

For the 231 industrial product classes compiled monthly by the BLS, the number showing increases was much larger than in recent months but was still considerably below the number usually reported prior to the freeze.

WHOLESALE PRICES

Per cent distribution of monthly
changes in 231 industrial product classes

	1970 ^{1/}		1971			
	Sept.-Nov. Average	Dec.	Jan.-June Average	July and August	Sept.-Nov. Average	Dec.
Total changes	100	100	100	100	100	100
Increases	45	45	51	49	21	32
Decreases	18	21	17	14	22	18
No changes	37	34	32	37	57	50

^{1/} 228 product classes.

The January WPI, the release of which has been delayed, will include a net increase of about 3 per cent for steel mill products, and will also include price increases for some aluminum fabricated products and copper products. The January WPI is likely to show increases for several agricultural commodities as well, particularly livestock, meat, cotton, and raw sugar. Prices of hides and lumber and plywood will probably also show further increases as a result of strong market demand and reduced supply.

In February, the index will reflect a rise in the price of lead, effective in early February, higher prices of some aluminum products, and increases in passenger car prices owing to the introduction of newly required safety equipment.

In December, the Price Commission announced "a simplified approach to price increase approvals" for firms that have sales of \$100 million or more. This new approach has been designated term limit

pricing (TLP). Under TLP, firms receive approval to raise prices by an average of up to 2 per cent over a year if the higher prices can be justified by cost increases and if other general criteria specified under the Commission's guidelines are met. Approval for increases in prices of individual products is not required; firms thus have flexibility in changing prices for individual products.

As of January 21, 1972, a month after the announcement of the inauguration of TLP, 50 of the approximately 100 firms expected to ask for coverage under TLP had been granted agreements. Chemical firms and firms with chemicals as a major product line account for about one-half of these, with firms manufacturing machinery and equipment, the next largest group.

Consumer prices. Consumer prices rose in December at an annual rate of 4.7 per cent, seasonally adjusted. As in November, food prices rose sharply--at an annual rate of over 8 per cent--while other commodity prices and service costs registered advances of 4.2 per cent and 3.7 per cent, respectively. Items exempt from regulation account for half the (unadjusted) increase.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	Dec. 1970 to June 1971	June 1971 to Aug. 1971	Aug. 1971 to Nov. 1971	Nov. 1971 to Dec. 1971
All items	4.0	3.3	1.7	4.7
Food	6.2	1.0	1.7	8.3
Commodities less food	3.0	2.6	.0	4.2
Services <u>1/</u>	4.2	5.7	3.1	3.7
Addendum:				
All items less mortgage costs <u>2/</u>	5.0	3.5	1.3	5.0
Services less home finance <u>1/</u> <u>2/</u>	7.4	4.9	1.9	3.8

1/ Not seasonally adjusted.

2/ Confidential: Home financing costs excluded from services reflect property taxes and insurance rates as well as mortgage costs, which in turn move with mortgage interest rates and house prices. The index for property taxes rose nearly 6 per cent between June and December.

Fresh vegetable prices soared in response to certain supply shortages, but contraseasonal increases for beef and pork also contributed substantially to the total advance. Rising meat prices are expected to continue according to USDA reports.

Outside the food component, car prices rose 1.5 per cent (seasonally adjusted), gasoline recovered part of the November decline, and gas and electricity rates jumped 1.7 per cent.

During the last two months special guidelines have been issued covering the following services: rents, medical care services, and insurance and utility rates. The objective for medical care is to cut the rate of rise by nearly one-half; the CPI index for medical services rose 7.4 per cent in the year ending last August. In view of the complexity of the sector and enforcement problems, only partial achievement of this goal seems likely.

Utility rates may well continue to rise at least as much as the 7 - 8 per cent advances over the year preceding the freeze. Widespread requests for substantial rate increases are pending, and several, in particular for telephones, have already been granted. The requests are generally attributed to past inflation in costs and expansion and anti-pollution requirements. There is still considerable uncertainty over the impact of rent regulations, but it seems unlikely that the advance in rents will be reduced much below the rate before the freeze-- about 4.8 per cent.

DOMESTIC FINANCIAL SITUATION

SELECTED DOMESTIC FINANCIAL DATA

	1971					1972
	Averages					Week ended
	QII	QIII	QIV	Dec.	Jan.	Feb. 2
Interest rates, per cent						
Federal funds	4.56	5.47	4.75	4.14	3.50	3.23
3-mo. Treasury bills	4.26	5.01	4.22	4.01	3.38	3.40
3-mo. Federal agencies	4.43	5.29	4.40	4.22	3.59	3.57
3-mo. Euro-dollars	6.72	7.77	6.41	6.37	5.37	5.01
3-mo. finance co. paper	4.74	5.52	4.88	4.60	3.95	3.88
4-6 mo. commercial paper	5.05	5.74	5.04	4.74	4.08	3.95
Bond buyer municipals	5.74	5.75	5.16	5.21	5.12	5.29
Aaa corporate-new issues	7.83	7.68	7.19	7.09	7.07	7.19
20-year Treasury bonds	6.24	6.24	5.93	6.00	6.01	6.09
FHA mortgages, 30-year	7.67	7.91	7.65	7.59	n.a.	--

	1971				1972
	QII	QIII	QIV	Dec.	Jan.
	Change in monetary aggregates (SAAR, per cent)				
Total reserves	6.6	10.4	-1.1	5.1	28.3
Nonborrowed reserves	5.3	10.8	2.8	16.0	28.9
Credit proxy	11.8	8.1	10.0	17.7	11.7
Credit proxy + nondep. funds	8.4	7.6	9.7	13.1	11.5
Money supply	10.6	3.7	1.1	2.6	3.5
Time and savings deposits	14.7	8.2	15.9	20.8	21.5
Deposits at S&L's and MSB's	17.4	12.8	11.5	11.7	n.a.
Bank credit, end-of-month <u>1/</u>	10.3	9.7	8.7	11.2	17.5
Treasury securities	11.1	-18.5	2.7	28.5	-9.9
Other securities	17.4	12.0	17.7	22.3	20.8
Total loans <u>1/</u>	8.3	14.7	7.0	4.5	21.6
Business <u>1/</u>	4.2	15.7	-1.0	--	4.1

	1971				1972
	QII	QIII	QIV	Dec.	Jan.
	Change in commercial paper (\$ millions)				
Total (SA)	-874	96	1,623	1,716	n.a.
Bank-related (NSA)	41	167	74	-56	109

	1970		1971			1972
	QI	Jan.	Half-I	QI	Jan.	Jan.
	New security issues (NSA, \$ millions)					
Total corp. issues	7,977	2,636	23,844	12,190	3,115	3,350 e
Public offerings	6,715	2,120	20,605	10,675	2,522	2,650 e
State and local government bond offerings	4,109	1,340	12,912	6,642	2,732	1,700 e
Fed. sponsored agency debt (change)	3,635	682	-1,955	-1,031	-171	9 e
Fed. govt. debt (change)	1,981	-194	3,190	1,575	660	600 e

n.a. - Not available.

e - Estimated.

p - Preliminary.

SAAR - Seasonally adjusted annual rate.

NSA - Not seasonally adjusted.

1/ Adjusted for loans sold to bank affiliates.

DOMESTIC FINANCIAL SITUATION

Summary and outlook. Yields in long-term securities markets have risen 25 to 35 basis points since the last Committee meeting, largely in reflection of a steady stream of announcements of new issues in the corporate sector, as well as market reaction to indications that Federal borrowing will be larger than many had previously expected. On the other hand, strong private domestic and foreign official demands for short-term instruments, along with an easing of money market conditions induced by aggressive System reserve-supplying operations, contributed to a declining level of short-term yields.

The low level and further decline in short-term market rates were an important factor in the acceleration of inflows to "thrift" accounts at commercial banks and savings and loan associations in January to a pace only slightly below the record set in early 1971. A special survey of large member banks suggests that not only individuals, but also pension funds and businesses, are shifting from negotiable CD's and other money market assets to savings and time accounts in order to obtain higher rates. While there is little indication of reduced offering rates on deposits at nonbank thrift institutions, the survey of large commercial banks indicates a number of reductions in rates on both passbook savings and time accounts. In addition, some banks have placed size limitations on these deposits to stem the large inflow.

Commercial banks continued in January to purchase tax-exempt bonds in large volume and their total loans increased sharply. The

latter expansion reflected not only the continued high rate of growth of consumer and real estate loans, but also a bulge in security and nonbank financial loans. Business loans, although rising for the first time in three months, expanded quite modestly and banks again cut their prime rate.

Outlook. In the next two or three months, total financing demands are likely to intensify. Although private credit demands in short-term markets are expected to be little, if any, changed from the modest level of recent months, demands in capital markets by corporations are projected to remain large while Treasury demands for funds rise.

Treasury net cash borrowing in the months ahead will be unusually large for this time of year. From February through April, the staff expects such borrowing to be \$4 to \$5 billion, mainly in the short-term area, as compared with an average net repayment of \$1.2 billion over the comparable period of the last four years. Beyond April, the size of Treasury cash needs is more uncertain, depending mainly on whether official budget estimates are realized. However, near-term Treasury issues, coupled with market anticipations of increased Federal borrowing throughout 1972, is likely to place upward pressure on short-term interest rates.

Modest private short-term credit demands are likely to offset part of this upward rate pressure. Although inventory accumulation is projected to rise this quarter and next, business liquidity and the volume of funds raised in long-term markets is expected to keep business short-term borrowing in the commercial paper market and at banks relatively small. In turn, banks should continue to be unaggressive bidders for funds in the CD market, and reductions in bank offering rates on time and savings deposits can be expected to spread.

In contrast to modest private demands in the short-term markets, current financing schedules, and issues in the active negotiation stage, suggest that corporate demands in the capital markets will continue large by historical standards. Underwriters are reported to have been advising their clients to accelerate their financing in the belief that long-term yields may have already reached their cyclical lows. Given the anticipatory nature of a significant share of prospective corporate bond financings, actual offerings are likely to be extremely sensitive to interest rate movements. But even if, as in late January, upward interest rate movements lead to postponements, the volume of issues then on the sidelines would be a factor moderating possible subsequent rate declines.

In the tax-exempt sector of the capital market, there are no indications of a potential build-up in volume and bank demands for municipal securities continue high. Nevertheless, large dealer positions and general market concern about the future of long-term rates may limit any reversal of the recent run-up of rates in this market.

The balancing of credit demands and supplies over the next few months seems likely to entail some upward movements in short-term rates under the pressure of Treasury financing. Longer-term rates could also advance somewhat, although the recent increase in yields may have already anticipated, at least in part, the sizable flow of bonds expected to be marketed and the impact of the Federal budget. In addition, the large cash flow at the depository institutions should keep long-term rate pressures, should they develop further, from spreading to the primary market for home mortgages.

Monetary aggregates. Preliminary estimates indicate that M_1 increased at an annual rate of about 3.5 per cent in January, a somewhat stronger rate of advance than in December. Inflows of funds into thrift deposits at banks and other intermediaries strengthened much more. M_2 and M_3 expanded at annual rates of 14.5 per cent and 19.4 per cent respectively, in each case substantially above the already rapid growth rates recorded in December.

MONETARY AGGREGATES
(Seasonally adjusted changes)
(Annual percentage rates)

	1 9 7 1				Dec.	1972
	QI	QII	QIII	QIV		Jan.p
1. M_1 (Currency plus private demand deposits)	9.1	10.6	3.7	1.1	2.6	3.5
2. M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	18.1	12.4	4.4	8.0	10.2	14.5
3. M_3 (M_2 plus savings deposits at mutual savings banks and S&L's)	19.0	14.7	7.4	9.6	11.0	19.4
4. Adjusted bank credit proxy	10.9	8.4	7.6	9.7	13.1	11.5
5. Time and savings deposits at commercial banks						
a. Total	28.8	14.7	8.2	15.9	20.8	21.5
b. Other than large CD's	27.5	14.0	5.3	14.7	17.0	25.5

p - Preliminary and partially estimated.

January expansion in consumer-type time and savings deposits at commercial banks was near the record pace of early 1971 as depositors

continued to respond to the attractive rate advantage produced by the downtrend in market interest rates since late summer. The January growth in bank thrift accounts was broadly based geographically and both savings deposits and consumer CD's showed sharp gains. Inflows of bank thrift deposits began to accelerate in early September and have increased at an annual rate of 15 per cent (or by more than \$13 billion) in the last four months.

Information obtained by Reserve Banks in an informal survey of about 80 large commercial banks provides confirmation of press reports which have indicated that banks are introducing measures to moderate inflows of funds into savings deposits and time certificate accounts. Except for one district where banks had already cut rates in either the spring or fall of last year, the survey found that a number of large banks had cut rates on passbook savings deposits and/or certificate accounts. Most of the remaining banks surveyed indicated that rate cuts were under consideration.

Banks in eight districts also indicated that they were receiving large blocks of funds seeking placement in either savings or certificate accounts; in some instances, the source of these funds was reported as switches from large CD's and other money market investments in order to obtain higher yields. Small businesses, pension funds and large individual investors were mentioned as the types of depositors involved. In reaction to these large blocks of funds, banks in a majority of districts have instituted measures to limit the size of such accounts, with the size of these limitations ranging from \$10,000 to \$50,000.

Despite the advance in time deposits other than large CD's, growth in the adjusted credit proxy slowed somewhat in January, as outstanding large CD's declined moderately and U.S. Treasury deposits remained essentially unchanged on average. This is in contrast to December when both deposit categories rose markedly. The average volume of funds obtained from nondeposit sources in January remained essentially at the same level as in December.

Bank credit. The end-of-month all commercial bank credit series rose substantially further in January. Banks continued acquiring securities in large volume as a modest selloff of Treasury holdings--following the December buildup--was substantially offset by a further large expansion of purchases of other securities--mainly municipals. In addition, loan portfolios rose sharply, after having increased at a modest pace during the last two months of 1971.

Both real estate loans and consumer loans continued to expand at historically high rates in January to account for a major share of the advance in total loans. Exceptionally large gains were also recorded in security loans and loans to nonbank financial institutions. Growth in security loans primarily reflects the happenstance that System RP's were large at the end of December and were reduced to zero at the end of January leading to opposite movements in dealer borrowing from banks. The growth in loans to nonbank financial institutions was apparently produced in part by further loan origination activity by mortgage brokers on behalf of other investors as well as by stockpiling in anticipation of further yield reductions and in preparation for

COMMERCIAL BANK CREDIT ADJUSTED FOR LOANS
 SOLD TO AFFILIATES 1/
 (Seasonally adjusted percentage changes at annual rates)

	1 9 7 1			1972
	QIII	QIV	December	January
Total loans & investments <u>2/</u>	9.7	8.7	11.2	17.5
U.S. Treasury securities	-18.5	2.7	28.5	-9.9
Other securities	12.0	17.7	22.3	20.8
Total loans <u>2/</u>	14.7	7.0	4.5	21.6
Business loans <u>2/</u>	15.7	-1.3	.0	4.1
Real estate loans	13.7	13.2	13.5	13.3
Consumer loans	13.3	14.4	15.6	13.2

1/ Last-Wednesday-of-month series.

2/ Includes outstanding amounts of loans reported as sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

packaging and sale of GNMA mortgage-backed securities. Loans to sales finance companies also strengthened for reasons that are not clear. In contrast to the strengthening in most loan categories, loans to foreign commercial banks declined perceptibly, probably reflecting repayment of loans originated during the recent period of foreign exchange adjustments.

While business loans in January expanded somewhat for the first time since October, loan demands by nonfinancial corporations continued weak--particularly at the largest banks. In response to continued weakness in loan demand, the sustained strong inflows of deposits, and the competitive pressures created by previous rate cuts at banks that tie their base rate to market rates, banks still operating with a discretionary prime rate cut their rates in two quarter-point steps to

4-3/4 per cent in January. By month-end "tied" prime rates had been reduced to 4-1/2 per cent, and banks with discretionary rate policies were again under pressure to reduce their rates.

Other financial institutions and mortgage markets. Deposit inflows to nonbank thrift institutions in January were exceptionally strong. The estimated combined growth rate for the month is comparable to--although not quite so rapid as--the record high rates experienced last January and in the early months of 1971. Undoubtedly, the widened spread of deposit rates over yields on market securities contributed to this step-up of flows into thrift claims, although much of the acceleration in deposit growth from the November-December pace occurred during the earliest part of January, before the bulk of the further January decline in short-term market yields had occurred.

DEPOSIT GROWTH AT NONBANK THRIFT INSTITUTIONS
(Seasonally adjusted annual rates)

	Mutual Savings	Savings and Loan	Both	
	Banks (per cent)	Associations (per cent)	Growth Rates (per cent)	Net Inflows (\$ billions)
1971 - 1st half	16.0	22.1	20.1	43.5
2nd half <u>p/</u>	10.2	15.0	13.5	32.2
QIII	9.6	15.7	13.7	32.8
QIV <u>p/</u>	10.5	13.9	12.8	31.6
November*	10.0	12.1	11.4	28.4
December* <u>p/</u>	12.1	14.3	13.6	34.3
1972 - January * <u>e/</u>	14.0	24.5	21.2	53.9

* Monthly patterns may not be significant because of difficulties with seasonal adjustment.

p/ Preliminary.

e/ Estimate.

Savings and loan associations have used some of their surplus inflows to repay FHLB advances. At the end of December \$3.8 billion of the total \$7.9 billion advances outstanding were prepayable without penalty. During the month of January about \$700 million in total were repaid, of which about \$250 million was in the San Francisco district where inflows were particularly strong and apparently well in excess of immediate credit demands. In some cases, however, repayments to the FHLB, were simply replaced with commercial bank loans at a much lower interest rate. In addition to these repayments of borrowed money, S&Ls increased their liquid asset positions by about \$800 million in January. They apparently did not increase their new commitment activity during the month, possibly because they view the surge in net inflows as temporary.

Bolstered by earlier strong support from nonbank thrift institutions, residential mortgage credit continued to increase during the fourth quarter of last year at a record seasonally adjusted annual rate exceeding \$40 billion, according to preliminary estimates. However, growth of mortgage credit outstanding on all types of properties--at a seasonally adjusted annual rate of about \$52 billion--was a little slower than in the third quarter, due to some slackening in expansion of commercial mortgage credit. This was the first decline in seven quarters in the growth rate of total mortgage credit.

Continuance of record net flows of funds into residential mortgages has been accompanied by relatively little decline in returns on this type of investment. In the primary market, average contract interest rates on new-home mortgages dropped for the third consecutive

month in December--by only 5 basis points. Press reports indicate that rates were cut in some places during January, but comprehensive data are not yet available. In the FNMA secondary market auction through early February, yields averaged only 1 basis point below the reduced level reached in mid-December.

In anticipation of greater improvement in secondary-market mortgage prices over the weeks ahead, mortgage companies continue to hold an unusually large volume of mortgages against which purchase commitments have not yet been obtained from permanent investors. According to field reports, the mortgage bankers hope to sell some of their uncommitted mortgages over-the-counter to savings and loan associations; others may be used for pools against which GNMA-guaranteed securities may be issued.

AVERAGE RATES AND YIELDS ON NEW-HOME MORTGAGES

	Primary market: Conventional loans		Secondary market: Government-underwritten loans		
	Level (per cent)	Yield Spread (basis points)	Level (per cent)	Yield Spread (basis points)	Discount (points)
<u>1971</u>					
Low	7.55	-36	7.36	-25	1.4
High	7.95	71	8.02	58	8.1
<u>Month of:</u>					
October	7.80	51	7.84	55	6.8
November	7.75	56	7.71	52	5.8
December	7.70	61	7.62	53	5.1
<u>1972</u>					
January	--	--	7.61	54	5.0
<u>Week of:</u>					
January 10	--	--	7.61	61	5.0
24	--	--	7.61	60	5.0
February 7	--	--	7.61	39	5.0

NOTE: FHA series for interest rates on conventional first mortgages (excluding additional initial fees and charges) is rounded to the nearest 5 basis points. Federal Reserve series for Government-underwritten mortgages is based on FNMA auctions of short-term purchase commitments, after allowance for commitment fee and required purchase and holding of FNMA stock, assuming prepayment period of 15 years for 30-year mortgages. Rates and returns shown are gross, before deduction of any fees paid by investors to servicers. Gross yield spread is average mortgage return minus average yield on new issues of high-grade corporate bonds with 5-year call protection.

Short-term markets. Short-term market interest rates have experienced mixed changes since the last Committee meeting. Day-to-day money market rates have dropped about a half percentage point in response to the ample availability of reserves, and rates on private market instruments are down about a quarter of a percentage point. Yields on short-term Treasury and Federal agency debt, on the other hand, in some cases show net increases for the period. Following the Budget revelation of a much deeper anticipated deficit for fiscal 1972, both Treasury and agency yields backed up rather significantly. But quotes on shorter maturities have since dropped off again. The yield on 90-day Treasury bills, for example, has most recently traded about at the level which prevailed at the time of the last Committee meeting.

Recent foreign purchases of bills and continued strong demand for bills by other investors have contributed to this improved situation at the short end of the bill market. Additional demand for bills is also expected when holders of maturing issues in the recent Treasury refinancing receive their cash payments in mid-February. Although the Treasury announced plans yesterday to add \$300 million to its weekly bill auctions, starting next Monday, this had only a minor initial impact on bill yields.

SELECTED SHORT-TERM INTEREST RATES
(daily quotations)

	Jan. 12	Feb. 2	Feb. 9	Change	
				(Jan. 12-Feb. 2)	(Jan. 12-Feb. 7)
Federal funds <u>1/</u>	3.71	3.23	3.25e	-.48	-.46
Treasury bills					
3-month	3.23	3.40	3.19	+.17	-.04
1-year	3.70	4.11	4.04	+.41	+.34
Federal Agency, 1-year	4.44	4.55	4.51	+.11	+.07
90-119 day commercial paper	4.00	3.88	3.75	-.12	-.25
60-89 day CD's	3.69	3.44	n. a.	-.25	n. a.

e/ Estimate.

1/ Federal funds rate is the weekly average for weeks ending 1/12 and 2/2, and an estimated weekly average for the week ending 2/9.

In the refinancing the Treasury offered a 4-1/4-year, 5-3/4 per cent note and a 10-year 6-3/8 per cent bond in exchange for issues maturing on February 15, 1972. In addition the Treasury undertook an advance refunding--an exchange of some issues maturing in 1974 for the bond. Subscriptions for the notes amounted to about \$2.25 billion, and the bond subscriptions totalled a surprisingly large \$1.6 billion. Dealer exchanges in the new securities were relatively modest--given the type of financing--and amounted to only about \$600 million. Instead of covering attrition in the financing with a cash offering of short-term issues, the Treasury elected to run-down its still relatively high balance.

Long-term securities markets. Treasury efforts to lengthen debt in the refinancing, market concern about the relatively high

level of other bond financing, and uncertainties about future rate movements generated by the changed figures on the Treasury deficit were all reflected in long-term debt markets over the recent period. Bond yields generally in early February were about 25-35 basis points above their January lows. Rising rates led to some postponements and reschedulings in late January, particularly in the corporate market.

SELECTED LONG-TERM INTEREST RATES
(Per cent)

	New Aaa Corporate bonds 1/	Long-term State and Local bonds 2/	U. S. Gov't (10-year constant maturity)
<u>1971</u>			
Low	6.76 (1/29)	4.97 (10/21)	5.42 (3/26)
High	8.23 (5/21)	6.23 (6/24)	6.89 (7/30)
<u>Month of:</u>			
December 1971	7.09	5.21	5.93
January 1972	7.07	5.12	5.95
<u>1972</u>			
<u>Week of:</u>			
January 7	7.00	5.03	5.91
14	6.86	4.99	5.87
21	7.01	5.17	5.95
28	7.19	5.29	6.04
February 2	7.22	5.35	6.09

1/ With call protection (includes some issues with 10-year protection).

2/ Bond Buyer (mixed qualities).

Public corporate bond offerings in January were approximately \$1.8 billion, and scheduled issues for February indicate a volume of about \$1.9 billion. Several large bond offerings have not been assigned a specific date, however, and the prospective borrowers have indicated that, since their fund needs are not pressing, the timing of the issues will depend on market conditions. At present the staff estimates that total corporate security volume in early 1972 will remain at about the same monthly average level as in the latter part of 1971.

Takedowns of private placements in January and February are estimated at levels above the 1971 average. Life insurance companies continue to have large flows of investible funds, and have accordingly been maintaining a large forward commitment volume with particular emphasis on corporate direct placements. Furthermore, they have been directing one-half to three-quarters of a billion dollars each quarter into common stock as a result of their rapidly growing separate account business.

CORPORATE AND MUNICIPAL SECURITY OFFERINGS
(Monthly or monthly averages in millions of dollars)

	1971			1972	
	Annual Average ^{e/}	Nov.	Dec. ^{e/}	Jan. ^{e/}	Feb. ^{e/}
Corporate Securities - Total	3,728	3,665	3,375	3,350	3,500
Public bonds	2,068	2,003	1,225	1,750	1,900
Privately placed bonds	567	390	800	700	600
Stocks	1,093	1,271	1,350	900	1,000
State and Local Governments					
Long-term bonds	2,081	2,264	2,068	1,700	1,700
Net short-term issues	343	496	- 312	394	n.a.

^{e/} Estimated.

NOTE: Long-term offerings are gross. Short-term offerings are Federal Reserve Board estimates of net sales.

The staff estimates that new equity issues will remain close to the \$1 billion level in both January and February, with public utilities still accounting for a large proportion of the volume. Rising stock prices have apparently also encouraged new equity issues by a wide variety of industrial and commercial firms. After a slight pause in mid-January, the stock market rally which began after Thanksgiving resumed its upward momentum. All sectors of the market have advanced, although recently the strongest gains have been observed in the AMEX and OTC markets. Trading volume remained at relatively high levels in December and January, averaging 17.6 million shares daily on the NYSE.

MAJOR STOCK INDICES

	Nov. 26 1971	Dec. 31 1971	Feb. 2 1972	Per cent change from Nov. 26 to Feb. 2	Per cent change from Dec. 31 to Feb. 2
NYSE	50.57	56.43	58.12	15.1	3.0
AMEX	23.63	25.59	27.33	15.7	6.8
NASDAQ	105.44	114.12	120.47	14.3	8.2
D-J Industrial	856.02	890.20	905.85	5.8	1.8

State and local government long-term bond offerings in January were about \$100 million lower than previous staff estimates, as interest rate-induced postponements occurred late in the month. February volume is also projected at \$1.7 billion, but there are several large revenue bond offerings tentatively listed for either February or March which could boost the volume. Nevertheless, it appears that early this year volume will average significantly below the \$2.0 billion monthly average for 1971. It is not clear to what extent this lower volume is an evidence of expectations of future rate declines or of reduced need for long-term funds. Recent court decisions challenging the use of property tax revenues for school financing have resulted in some slowdown in the issuance of school bonds, but this probably only accounts for about a \$100 million reduction in the January total.

Federal Finance. The new Federal budget for fiscal 1973 indicates that on a unified budget basis there will be an actual deficit of \$25.5 billion and a high employment surplus of \$0.7 billion. Outlays are projected to increase by \$9.7 billion to \$246.3 billion--a relatively modest growth of 4.1 per cent. Receipts are expected to rise by \$23 billion.

In addition to proposals for fiscal 1973, the new budget includes a significant revision in the budget for the current fiscal year. The deficit for fiscal year 1972 is estimated at \$38.8 billion, about \$3 billion more than projected by the Staff in the preceding Greenbook. About \$6.0 billion of this difference reflects higher outlays, implying a sharp increase in the rate of spending over the remaining five months of the fiscal year. The high employment budget (unified budget basis) is officially estimated to show a deficit of \$8.1 billion in the FY 1972.

The Administration estimate of outlays for the current fiscal year, \$236.6 billion, includes \$2.3 billion for general revenue sharing. This estimate assumes that Congress will approve revenue sharing retroactive to January 1, 1972. In addition, the budget document includes a \$1.0 billion advance payment to the states, planned in June, for public assistance grants, which are to be "repaid" by the states in FY 1973. Because of the relatively sluggish rate of spending for defense procurement in the first six months of the current fiscal year, it may take considerable effort for the Administration to attain the projected level of outlays for defense procurement for the full year, especially since faster prepayments on outstanding contracts seem to be precluded by Defense Department regulations.

The staff estimates FY 1972 outlays at \$234.4 billion--\$2.2 billion below the budget document figure for the fiscal year--on the assumption that general revenue sharing will not be effective until fiscal 1973. Our estimate of FY 1972 receipts, \$199.3 billion, is \$1.5 billion above the Administrative estimate, largely because the staff assumes that people will not adjust their declared exemptions for withholding--in response to the recent changes in withholding schedules--as quickly as the Administration projection assumes.

In regard to fiscal 1973, the new budget includes a number of proposals that would significantly affect budget outlays, including, among other things: (1) general revenue sharing, costing \$5.3 billion annually; (2) a 5 per cent social security benefit hike and other social security liberalization, effective July 1, 1972, costing \$3.5 billion in FY 1973; (3) a 4.9 per cent federal pay raise effective January 1973, costing \$1.2 billion for six months; and (4) about \$0.5 billion for start-up costs connected with the proposed family assistance program which would become effective in FY 1974. Staff estimates for the last half of calendar year 1972 include the effects of all of these proposals. The legislative success of general revenue sharing is conjectural even for fiscal 1973. Even so, the inclusion of this item in staff estimates may not overstate total spending because there may be overruns in other programs. For instance, there is a possibility of larger than projected social security benefit increases.

Proposed tax changes would increase FY 1973 receipts by about \$3 billion. The largest proposed tax changes are: (1) an increase in the social security taxable earnings base from \$9,000 to \$10,200,

FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS
(In billions of dollars)

	Fiscal 1972 e/		FY 1973 e/	Calendar Years		Calendar Quarters				
	Jan.	F.R.	Jan.	1971	1972	F.R.B Staff Estimates				
	Budget	Board	Budget	Actual	F.R.Be/	1972				
						IV*	I	II	III	IV
<u>Federal Budget</u>										
(Quarterly data, unadjusted)										
Surplus/deficit	-38.8	-35.1	-25.5	-24.8	-39.0	-10.6	-11.6	-5.1	-9.9	-12.4
Receipts	197.8	199.3	220.8	194.0	208.0	44.6	46.2	59.9	53.3	48.6
Outlays	236.6	234.4	246.3	218.8	247.0	55.2	57.8	65.0	63.2	61.0
Means of financing:										
Net borrowing from the public	39.5	32.0	27.5	24.8	32.4	12.5	4.1	6.3	8.9	13.1
Decrease in cash operating balance	--	1.8	--	-3.2	4.3	-1.3	6.1	-1.8	--	--
Other <u>1/</u>	-.7	1.3	-2.0	3.2	2.3	-.6	1.4	.6	1.0	-.7
Cash operating balance, end of period	8.8.	7.0	8.8	11.3	7.0	11.3	5.2	7.0	7.0	7.0
Memo: Net agency borrowing <u>2/</u>	n.a.	5.6	n.e.	1.1	n.e.	1.4	1.0	1.6	n.e.	n.e.
<u>National Income Sector</u>										
(Seasonally adjusted annual rate)										
Surplus/deficit	-35.0	-29.5	-28.0	-23.2	-33.3	-26.3	-27.9	-37.0	-36.2	-32.0
Receipts	202.8	206.0	227.9	198.8	215.1	203.1 ^{e/}	211.6	211.5	215.7	221.4
Expenditures	237.8	235.5	255.9	222.0	248.3	229.4	239.5	248.5	251.9	253.4
High employment surplus/deficit (NIA basis) <u>3/</u>	n.a.	.6	n.a.	2.7	-6.4	6.9	.8	-7.6	-10.0	-8.8

III - 20

* Actual e--projected n.e.--not estimated n.a.--not available

1/ Includes such items as deposit fund accounts and clearing accounts.

2/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

3/ Estimated by F.R. Board Staff.

retroactive to January 1, 1972, yielding \$2.3 billion revenues in FY 1973 and (2) an increase from 10.4 to 10.8 per cent in the social security tax rate, effective January 1, 1973. It should be noted, however, that present law calls for an increase in the employment tax rate to 11.3 per cent early in 1973, so that this proposed tax rate change involves a decrease relative to current law.

The Administration's budget figures shown in the preceding table, indicate a somewhat faster growth (7.6 per cent) in NIA expenditures in FY 1973 than the unified budget outlays figures (4.1 per cent), since the NIA accounts tend to smooth out some of the bulge in spending implied by the unified budget. The staff's estimate of the Federal Sector NIA accounts, shown in the next table, suggests even faster growth in FY '73 because no revenue sharing is included in the staff's estimate until July 1972.

The staff projection indicates a sharp rise in Federal expenditures in calendar 1972, especially in the first half of the year when the increase is about \$17 billion. A good part of this increase in the first half of the year is accounted for by non-recurring items as follows:

<u>Expenditure Category</u>	<u>Billions of dollars</u> <u>Annual Rates</u>
Special military pay raise	1.9
General military and civilian pay raises	2.2
Faster defense and nondefense procurement	3.5
Advance of public assistance grant	2.0
13-week extension of unemployment compensation	<u>1.0</u>
Total	10.6

STAFF ESTIMATE OF FEDERAL SECTOR IN THE
NATIONAL INCOME ACCOUNTS
(Billions of dollars)

	Calendar Half Years*			
	1971		1972	
	I	II	I	II
A. Amounts				
Receipts	197.0	200.4	211.6	218.5
Expenditures	217.1	227.0	248.6	252.7
Surplus/Deficit	-20.1	-26.6	-37.0	-34.2
B. Changes				
Receipts	6.7	3.4	11.2	6.9
Tax Structure changes <u>1/</u>	-5.2	-1.5	--	-6.6
Growth in tax base	11.9	4.9	11.2	13.5
Expenditures	8.8	9.9	17.0	8.7
Purchases	.2	2.9	7.7	--
Defense	-1.3	-1.5	4.9	.1
Other	1.5	4.5	2.8	-.2
Transfers to person	7.6	4.0	3.2	4.5
Grants in aid <u>2/</u>	3.0	2.7	5.6	3.2
Other	-1.7	.2	.6	.9

* Half year figures are annual rates.

1/ Includes January 15, 1972 change in withholding schedules, assuming a lag in taxpayers' adjustments of their withholding exemptions.

2/ Includes general revenue sharing beginning in the second half of 1972.

In the second half of calendar 1972, projected expenditure growth--reflecting the budget projection of a slower growth in outlays in FY 1973--is reduced to levels below that attained in the first and second halves of calendar 1971.

According to the staff estimates, the high employment budget on a NIA basis (see table entitled "Staff Estimate of High Employment Budget") shows an \$3.0 billion shift (annual rates) toward deficit in the first half of calendar 1972 followed by a further \$6.1 billion shift toward deficit in the second half of the year. For the calendar year 1972 the high employment deficit is about \$6.5 billion compared to a \$2.7 billion surplus in 1971. While there is a clear shift toward fiscal stimulus in CY 1972, the change in the first half of the year seems to be overstated by the shift in the high employment deficit because of some of the non-recurring expenditure increases mentioned above. Some of these changes in expenditures--such as the advance in public assistance grants--may be reversed in the next half year while others may result mainly in adjustments of business inventories. On the other hand, most of the effect on personal incomes of the large increase in the social security wage base will be felt in the second half of the calendar year and, in this respect, there is more stimulation in the first half than the NIA-based estimates of the full-employment surplus indicate. Stimulus in the second half of the year may also be overstated to some extent, since the general revenue sharing program is not likely to have an immediate impact on state and local spending.

The shift toward the high employment deficit in Calendar 1972 also reflects the tax law changes recently enacted. Structural changes

STAFF ESTIMATE OF THE HIGH EMPLOYMENT
SURPLUS/DEFICIT, NIA BASIS
(Billions of dollars, annual rates)

Calendar Half Years	Surplus/Deficit
1969 I	5.1
II	5.6
1970 I	2.4
II	1.5
1971 I	.8
II	4.6
1972 I	-3.4
II	-9.5

in taxes from CY 1971 to CY 1972 are expected to reduce high employment receipts by \$4.6 billion this calendar year, but a portion of this stimulus is expected to be offset since taxpayers are not likely to fully adjust their declared exemptions in response to the new withholding schedules. The changes in high employment receipts from the corporate sector are timed to reflect tax liabilities and probably do not adequately capture the lagged stimulative impact of recently enacted tax incentives, such as the investment tax credit and accelerated depreciation.

The new budget projects total net borrowing from the public of \$39.5 billion in the current fiscal year. The staff estimate is about \$7 billion less because our projected deficit is \$3.7 billion smaller and because we expect that the Treasury will find other means

of reducing current fiscal year borrowing, such as a rundown in the cash balance at the end of the year. A recent statement by Undersecretary Volker suggests that the Treasury may raise \$4-5 billion of net new cash through April. If this is done, the Board staff would expect May and June net borrowing to total about \$5.5 billion. This staff estimate of net cash borrowing for the current half-year, \$10.5 billion, compares to \$3.2 billion in the same period last year.

The end-of-January Treasury cash balance was \$11.1 billion, about \$3 billion above the level projected in the last Greenbook. Preliminary data for January indicate that expenditures continue to be weaker and receipts significantly stronger than projected. The Treasury's February 3 report on the results of the quarterly refunding did not reveal plans for raising additional cash. Board staff projections assume that the Treasury may raise \$6.0 billion through June by adding \$300 million to weekly bill auctions beginning in mid-February. On this basis the cash balance at the end of February would be \$6.1 billion. Assuming Congressional approval of the requested increase in the debt ceiling, the staff expects additional Treasury borrowing in early March to tide the Treasury's cash position over its mid-March low and further borrowing would probably be required in late March or early April.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Jan.	Feb.	March	Apr.
<u>Total net borrowing</u>	.6	0.0	3.5	.9
Weekly and monthly bills	--	.6	1.5	1.2
Tax bills	--	--	--	-4.0
Coupon issues	--	--	--	--
As yet unspecified new borrowing	--	--	2.0	3.7
Other (debt repayments, etc.)	.6	-.6	--	--
Plus: <u>Other net financial sources</u> ^{a/}	1.8	-1.0	.6	.5
Plus: <u>Budget surplus or deficit (-)</u>	-2.6	-3.6	-5.4	2.2
Equals: <u>Change in cash balance</u>	-.2 ^{b/}	-4.6	-1.3	3.6
Memoranda: Level of cash balance end of period	11.1 ^{b/}	6.5	5.2	8.8
Derivation of budget surplus or deficit:				
Budget receipts	16.3	15.5	14.4	22.3
Budget outlays	18.9	19.1	19.8	20.1
Maturing coupon issues held by public	--	3.7	--	--
Net agency borrowing	*	0.4	0.5	0.4

^{a/} Checks issued less checks paid and other accrual items.

^{b/} Actual.

* Less than fifty million dollars.

INTERNATIONAL DEVELOPMENTS

2/9/72

III -- T - 1
U.S. Balance of Payments
In millions of dollars; seasonally adjusted

	1 9 7 1 P/				
	Year ^{2/}	I	II	III	IV ^{2/}
<u>Goods and services, net</u> ^{1/}	-57	1,139	-5	-39	-1,152
Trade balance ^{2/}	-2,906	248	-1,061	-560	-1,533
Exports ^{2/}	42,753	11,016	10,706	11,466	9,565
Imports ^{2/}	-45,659	-10,768	-11,767	-12,026	-11,098
Service balance	2,849	891	1,056	521	381
<u>Remittances and pensions</u>		-342	-355	-388	
<u>Govt. grants & capital, net</u>		-1,026	-1,060	-883	
<u>U.S. private capital</u> (- = outflow)		-2,237	-2,183	-3,575	
Direct investment abroad		-1,370	-1,393	-1,399	
Foreign securities	-875	-353	-388	-224	90
Bank-reported claims -- liquid	-589	-90	35	-405	-129
" " " other	-2,572	-42	-345	-1,203	-982
Nonbank-reported claims -- liquid		-225	55	-115	
" " " other		-157	-147	-229	
<u>Foreign capital (excl. reserve trans.)</u>		-2,261	-8	-2,228	
Direct investment in U.S.		92	-16	-319	
U.S. corporate stocks	740	79	-3	231	433
New U.S. direct investment issues		317	263	181	
Other U.S. securities (excl. U.S. Treas.)		164	-63	153	
Liquid liabilities to:	-6,398	-2,714	-39	-2,292	-1,353
Commercial banks abroad	-6,595	-3,065	-92	-2,078	-1,360
Of which liab. to branches	(-4,948)	(-2,085)	(-117)	(-1,817)	(-929)
Other private foreign	-477	72	-145	-370	-34
Intl. & regional institutions	674	279	198	156	41
Nonliquid liab. to banks and others		-200	-150	-182	
<u>Foreign official reserve claims</u>	27,281	4,851	5,072	10,949	6,409
<u>U.S. monetary reserves (increase, -)</u>	3,065	862	838	1,373	-8
Gold stock	866	109	456	300	1
Special drawing rights ^{3/}	468	125	196	150	-3
IMF gold tranche	1,350	255	252	851	-8
Convertible currencies	381	373	-66	72	2
<u>Errors and omissions</u>		-1,017	-2,330	-5,204	
<u>BALANCES (deficit -) ^{3/}</u>					
Official settlements, S.A.		-5,713	-5,910	-12,322	-6,401
" " " , N.S.A.	-30,346	-5,435	-6,462	-12,701	-5,748
Net liquidity, S.A.		-2,684	-5,961	-9,510	n.a.
" " " , N.S.A.	n.a.	-2,560	-6,596	-10,076	n.a.
Liquidity, S.A. ^{4/}		-2,999	-5,871	-10,030	-5,048
" " " , N.S.A.	-23,948	-2,901	-6,586	-10,596	-3,865

* Monthly, only exports and imports are seasonally adjusted.

^{1/} Equals "net exports" in the GNP, except for latest revisions.

^{2/} Balance of payments basis which differs a little from Census basis.

^{3/} Excludes allocation of \$717 million of SDRs on 1/1/71.

^{4/} Measured by changes in U.S. monetary reserves, all liabilities to foreign official reserve agencies and liquid liabilities to commercial banks and other foreigners.

INTERNATIONAL DEVELOPMENTS

Despite a sharp speculative flurry against the dollar in the past week, there has been a small net surplus in the U.S. balance of payments on the official reserve transactions basis over the seven-week period beginning shortly after the Smithsonian meeting. Thus, in this period, any deficit on current account and normal capital transactions has been offset by capital inflows of types identified with the abnormal outflows of 1971.

Exchange rates for most major currencies against the dollar were still near their floors at the beginning of January, but they have risen considerably by now and on average are somewhat above the central values.

Data on U.S. foreign trade, available through December, indicate no significant change. Both exports and imports were unusually large in December because of resumption of East Coast port operations under a Taft-Hartley injunction. The trade deficit for the month -- contrary to some expectations -- was larger than it had been in November, although only slightly larger than the April-November average.

The fourth-quarter balance on goods and services ("net exports" in the GNP accounts) is now estimated by the Commerce Department at an annual rate of minus \$4-1/2 billion, nearly double our estimate of a month ago. The revision reflects the large December trade deficit, and also takes account of preliminary indications that the balance on services was relatively unfavorable in the fourth quarter.

Noteworthy developments in capital transactions since mid-December include a large outflow of bank loans and acceptance credits to foreign banks and nonbanks before the year-end, which was only partially reversed in January. On the other side of the accounts there was large rebuilding of foreign commercial banks' balances at their branches and agencies in the United States. Foreigners have made substantial purchases of U.S. corporate stocks. There appears to have been a sizable year-end slackening in direct investment outflows (before seasonal adjustment) despite the 2-month postponement of the normal OFDI deadline for program compliance; complete data, however, will not be available for some time.

Abroad, industrial production in October-November showed a continuing advance in Canada and France and an upturn in Italy, but virtually no change from the third-quarter level in Germany, Britain, and Japan.

Monetary and fiscal policy measures since mid-December have included discount rate reductions in Germany, Japan, France, the Netherlands, and Belgium. A highly expansionary budget was approved by the Japanese Cabinet on January 12, and the German Economics and Finance Minister, Mr. Schiller, announced on January 27 that large amounts of funds frozen at the Bundesbank will be released within the next six months for public capital expenditures and surtax refunds. Other expansionary measures have been taken in Britain, France, and Italy.

Outlook. Forecasts of real GNP in European countries made for the OECD Economic Policy Committee by the OECD Secretariat add up, for the four largest countries, to a 3-1/2 per cent increase from the year 1971 to the year 1972. Projected growth would be greater than that in Britain and Italy, a good deal less in Germany. A shift from absolute decline in inventories to positive investment is counted on to power the resumption of growth. The inventory shift will be stimulated on the continent mainly by public expenditures together with consumer expenditures generated by budgetary actions, while in Britain a pick-up in business fixed capital investment will also play a role. For Europe as a whole, the rise in activity is expected to be relatively slow during the first half of the year. In Japan, too, expansion is unlikely to get going rapidly.

Relatively slack demand abroad for capital equipment and the existence of more spare capacity in materials-producing industries abroad than in 1969-70 will work against any very rapid expansion of U.S. exports this year. The benefits of the currency realignment -- and of any differential movement of costs and prices that might favor the U.S. competitive position -- are not likely to be fully realized before the latter part of 1973 or even later. Projections for 1972 recently made by an interagency group put the value of U.S. exports of goods in the fourth quarter of this year 15 per cent above the 1971 average level. But since the rise in value of imports -- accentuated by

the initial price-raising effect of exchange rate changes -- would be 14 per cent, the merchandise trade deficit would remain near a \$3 billion rate throughout 1972. (This compares with a \$4.2 billion average in the past three quarters.)

Net exports of goods and services, which averaged a minus \$2.4 billion annual rate in the second half of 1971, are projected to be less depressed in the current quarter, at minus \$1 billion. The difference reflects mainly the expected improvement in the merchandise trade balance. (In judging the significance of this improvement it is well to disregard recent quarterly fluctuations in the trade balance, because those fluctuations reflected mainly a massive bunching of exports at the end of the third quarter in anticipation of the East Coast dock strike which began in October.) In addition, there will be a decline in interest payments to foreigners in the current quarter, due to the recent drop in interest rates.

For the over-all balance of payments there is a very wide range of possibilities this year. If there were no reversal of the abnormal capital outflows of 1971, the official settlements deficit could reach an \$8-to-9 billion range. Conceivably this could be fully offset by abnormal inflows (including an unwinding of leads and lags registered in the Errors and Omissions account and further large foreign purchases of U.S. corporate equities).

Present interest rate relationships are inhibiting the reversal of last year's abnormal capital outflows that were motivated largely by exchange rate expectations. Recent tendencies of interest rates abroad to decline may be expected to continue over the near future, though monetary authorities are unlikely to exert pressure in that direction as they wait to see whether expansive fiscal and monetary policy actions already taken, and additional fiscal measures already announced, will produce the desired results.

Balance of payments. Data now available indicate an official settlements deficit of \$2-3/4 billion in December, making a deficit of \$5-3/4 billion before seasonal adjustment in the fourth quarter as a whole. With seasonal adjustment, the fourth-quarter deficit was at a \$26 billion annual rate. The total for the year was over \$30 billion.

As in earlier quarters, there were large capital outflows in the fourth quarter. With the goods and services balance in that quarter now estimated as a deficit of \$4-1/2 billion, annual rate, with remittances and pensions probably running at a \$1-1/2 billion rate, and with U.S. Government grants and credit outflows near a \$4 billion annual rate, the net outflow of private capital (together with unidentified transactions) evidently exceeded a \$15 billion rate. Expressed as an actual quarterly amount, and excluding normal errors and omissions, this was about \$3-1/2 billion, seasonally adjusted.

Only fragmentary information is available on the breakdown of this \$3-1/2 billion figure. One major component was an outflow of bank loans and acceptance credits to foreign banks and nonbanks. Bank-reported claims on foreigners increased by about \$1-1/2 billion unadjusted, or about \$1 billion seasonally adjusted. Another large component was a reduction of U.S. banks' borrowings from their foreign branches and in balances due to other foreign commercial banks, amounting in all to about \$2 billion unadjusted, or about \$1-1/2 billion seasonally adjusted. Partly counterbalancing these outflows through banks, net purchases of U.S. corporate stocks jumped sharply in December to the extraordinary amount of \$480 million, a figure more than half as large as total net purchases had been in the 23 months since the beginning of 1970.

Other private capital flows, for which data are not available, include the direct investment outflows of U.S. corporations. These outflows had been running in the first three quarters at a \$5-1/2 billion rate, or nearly \$1-1/2 billion a quarter. Although the OFDI postponement of yearend compliance deadlines would have tended to enlarge the net outflow in the fourth quarter, present indications are that a slackening of at least the usual seasonal proportions may have occurred.

If attention is focussed on the period since the Smithsonian meeting of December 17-16, it is clear that there has been a small

over-all balance of payments surplus on the official settlements basis (of the order of magnitude of half a billion dollars in seven weeks), but it is impossible to go very far toward identifying the components. Presumably the underlying position was still one of substantial deficit. Among the offsetting capital flows, foreign purchases of U.S. corporate stocks continued sizable in January. Some of the December bank credit outflow was reversed in January; from January 5 to February 2 there was about a \$400 million reduction in loans to foreigners identifiable in the weekly member bank statistics. Finally, a major factor was a rebuilding of liabilities to foreign commercial banks, especially the liabilities of foreign bank branches and agencies to their head offices. In the six weeks from December 22 to February 2 the latter liabilities rose by \$1 billion. In the same period, liabilities of U.S. banks to their foreign branches changed relatively little on balance; there was a buildup in early January as some banks borrowed in order to preserve reserve free bases, but over the six-week period there was a net decline of \$240 million.

In the four-week computation period ended January 19, U.S. banks' liabilities to branches plus assets sold subject to Regulation M averaged about \$1/2 billion less than in the preceding period. Although Eurodollar interest rates have declined since the beginning of the year, they have remained until very recently enough above comparable U.S. rates to make Eurodollar borrowing relatively unattractive for U.S.

banks. In the past week, however, overnight Eurodollars have averaged about 3 percent -- below the Federal funds rate.

Foreign exchange markets. Since the first of the year, exchange market activity has been marked by a general uneasiness. The dollar has depreciated by about 2 percent against major European currencies and the Japanese yen, moving below its central rate against most of these currencies. A burst of speculative sales of dollars in the week ended February 4 resulted in a particularly sharp drop in exchange rates and the purchase by major central banks of around \$400 million.

The dollar reached its lower limit only against the Belgian franc, and the Belgian central bank purchased nearly \$50 million, mostly on a swap basis (buying dollars spot and selling them forward). Other central banks purchasing dollars included those of the U.K., Japan, Italy, and Germany, the latter in the amount of around \$280 million. These central banks purchased dollars at rates well above its floor against their currencies with the avowed object of stabilizing their markets. Following the central bank's exchange purchases, money market interest rates in Germany and Belgium eased noticeably, aided in the latter case by a 1/2 percent discount rate reduction, and those two currencies eased against the dollar in the exchange markets.

In the forward markets discounts on the dollar have narrowed as the spot dollar moved away from its ceiling and toward its lower limit.

Gold markets experienced considerable speculative activity in recent weeks, with the price rising from less than \$44.00 at year-end to a peak of just over \$49.00 on February 2. The Treasury's announcement that it would send a "clean" gold price bill to Congress this week, seemed to take some of the steam out of speculative demand for gold, and the free market price dropped back to around \$48.00 as of February 9.

Business situation in Western Europe and Japan. The possibility of a cumulative downturn in economic activity in the industrial countries outside North America has diminished. A recession of 1966-67 proportions is not likely in Europe, and the Japanese recession appears to have touched bottom at the end of last year.

Latest surveys of business sentiment show a significant improvement in confidence as compared with earlier months. The change is partly explained by the alleviation of post-August uncertainties about the international economic climate, but also by the fact that demand management policies in virtually all countries are now clearly expansionary (some smaller countries, such as Austria, Belgium and the Netherlands are exceptions).

The favorable shift in confidence is not yet discernible in the movement of the latest economic indicators: new orders in October-November continued to lag behind deliveries (except in the United Kingdom), industrial production remained flat (except in France and Italy), and unemployment continued to rise. While there may be only a moderate pick-up in activity over the next few months, it now appears likely that the end of the present slowdown will be reached in the current quarter.

In assessing the current situation it must be remembered that in no Western European country, with the exception of the

United Kingdom, Italy and Sweden, is the margin of unused capacity currently very large. Unemployment-to-job-vacancy ratios remain near top-of-cycle levels (except in the United Kingdom). (See table.) A moderate upturn during 1972, bringing growth rates back to about trend levels by the end of the year would be consistent with some further rise in unemployment, since growth in output would initially stem mainly from increases in productivity.

RATIOS OF REGISTERED JOB APPLICANTS TO VACANCIES
(seasonally adjusted)

	Belgium	France	Germany	Italy ^{a/}	Nether-lands	United Kingdom
Preceding cycle:						
peak	<u>b/</u>	1.8	0.2	n.a.	0.2	0.8
trough	<u>b/</u>	6.5	2.1	n.a.	1.2	2.5
Recent cycle:						
1970--I	1.3	2.5	0.2	3.6	0.4	2.3
II	1.3	2.7	0.2	2.8	0.4	2.4
III	1.3	2.8	0.2	3.2	0.3	2.6
IV	1.3	3.2	0.2	3.1	0.3	2.6
1971--I	1.4	2.9	0.2	3.5	0.4	3.5
II	1.4	2.4	0.3	2.9	0.5	4.7
III	1.4	2.5	0.4	3.0	0.6	5.4
IV	n.a.	3.1	0.4	3.0	0.8	5.9

a/ Not seasonally adjusted.

b/ Data not comparable.

Source: OECD Main Economic Indicators.

The slowdown in the increase in aggregate demand during the past year resulted primarily from slower growth -- in some countries a decline -- in private fixed investment demand coupled with an inventory recession. (See table.) The latter seems to have run its course by now. Expansionary budget programs indicate that a major stimulus to growth in 1972 is likely to come from public sector investment expenditures. This is particularly true for Japan and France, and, given recent policy statements, probably also for Germany.

Private consumption and foreign demand, coupled with an increase in the proportion of total demand met out of domestic production, were major sustaining factors for the level of economic activity during 1971. However, these are not expected to contribute to an acceleration in rates of growth in coming months.

CONTRIBUTION OF SELECTED COMPONENTS TO TOTAL REAL DEMAND
IN FOUR MAJOR EUROPEAN COUNTRIES 1/
(Change as per cent of previous year total GNP)

	1970	1971e	1972 Forecast
1. Consumer expenditures	3.2	2.7	2.4
2. Government current expenditures	0.4	0.6	0.5
3. Fixed investment	1.7	0.6	0.4
4. Inventory change	-0.1	-0.9	0.4
5. (1-4) Total domestic demand	<u>5.2</u>	<u>3.0</u>	<u>3.7</u>
6. Plus exports	<u>2.0</u>	<u>1.6</u>	<u>1.2</u>
7. Total demand	<u>7.2</u>	<u>4.6</u>	<u>4.9</u>
8. Minus imports	<u>2.5</u>	<u>1.5</u>	<u>1.4</u>
9. GNP	<u>4.7</u>	<u>3.1</u>	<u>3.5</u>

1/ Source: OECD CPE (72)1. Countries included are France, Germany, Italy and the United Kingdom.
e - Estimated.

The volume of private consumption has been growing more slowly in recent quarters, reflecting the continued rapid rise in consumer prices, some loss in consumer confidence, and smaller increases in disposable incomes associated with a deceleration in wage increases and stagnant employment. Except in the United Kingdom, where recent policy measures are stimulating consumer spending, these conditions are likely to continue at least until mid-year. Progress in slowing the rates of price increases, currently apparent at the wholesale price level almost everywhere, but notably in Germany, may help to enhance the growth of real consumption, as would a restoration of confidence, especially given the current high rates of saving. In Germany, the large addition to disposable incomes expected this summer with the repayment of the income tax surcharge collected earlier (the repayments amount to just over 1 per cent of annual net income from wages, salaries and transfers) may turn consumption demand into an important expansionary factor in the second half of the year.

The expansion of net foreign demand (exports minus imports of goods and services) in 1972 will vary from country to country, reflecting both effects of the currency realignment and of differing cyclical positions. In all four of the largest European countries, the contribution of net exports to the expansion of economic activity is expected to be somewhat less in 1972 than in 1971.

The main factor in the slowing of growth rates of final domestic demand in 1971 was the sluggishness of private investment

demand, and this will continue to act as a drag well into this year. But it should be kept in mind that the current slowdown in investment proceeded from exceptionally high levels. The investment boom of 1969-70 brought the share of private investment in GNP to an extraordinarily high level in virtually all industrial countries, but particularly in Germany and Japan. The present slowdown is likely to restore the average relationships which existed in the 1960's only sometime during the current year, and an upturn in private investment therefore seems unlikely in the near future. Consequently, current policy measures aimed at expanding public sector investment and at maintaining disposable incomes would seem to provide an appropriate basis for the resumption of balanced growth towards the end of the year. However, whether balanced or even adequate growth will materialize in fact depends largely upon the future restoration of business confidence as well as the continuation of expansionary policies. Particularly in Germany it is not clear whether the shift in fiscal policy will be supported by an expansionary monetary policy.