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Content last modified 6/05/2009.

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

April 12, 1972

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

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SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	1971 Nov.	1971 Dec.	1972 Jan.	1972 Feb.	Per Cent Change* From 1 mo. ago	3 mos. ago	Year ago
Civilian labor force (mil.) 5/	85.2	85.7	85.5	86.3	0.9	1.3	3.4
Unemployment rate (%) 5/	6.0	5.9	5.7	5.9	--	--	6.0 4/
Insured unempl. rate (%)	4.2	3.8	3.4	3.5	--	--	3.8 4/
Nonfarm employment, payroll (mil.) 5/	71.2	71.6	71.7	72.0	0.4	1.1	2.1
Manufacturing	18.6	18.6	18.7	18.8	0.5	1.1	0.8
Nonmanufacturing	52.6	53.0	53.0	53.2	0.4	1.1	2.6
Industrial production (1967=100)	107.0	107.6	108.2	109.0	0.7	1.9	3.1
Final products, total	105.9	105.6	106.0	106.7	0.7	0.8	3.6
Consumer goods	118.2	117.7	118.3	119.0	0.6	0.7	5.4
Business equipment	97.0	97.0	97.6	98.3	0.7	1.3	2.4
Materials	106.0	107.5	108.4	109.7	1.2	3.5	2.7
Capacity util. rate, mfg.	73.7	73.8	74.0	74.2	--	--	74.9 4/
Wholesale prices (1967=100) 1/ 5/	115.4	116.3	117.3	117.4	0.1	1.7	3.9
Industrial commodities (FR)	115.2	115.8	116.4	116.8	0.3	1.4	3.7
Sensitive materials (FR)	116.1	117.8	119.6	121.4	1.5	4.6	9.3
Farm products, foods & feeds	115.9	117.4	119.6	119.1	-0.4	2.8	5.0
Consumer prices (1967=100) 1/	122.6	123.1	123.2	123.8	0.5	1.0	3.7
Food	119.0	120.3	120.3	122.2	1.6	2.7	5.4
Commodities except food	118.1	118.1	117.7	117.8	0.1	-0.3	2.3
Services	130.4	130.8	131.5	131.8	0.2	1.1	4.1
Hourly earnings, pvt. nonfarm ($) 5/	3.52	3.54	3.55	3.58	0.8	1.7	6.2
Hourly earnings, mfg. ($) 5/	3.68	3.69	3.72	3.74	0.5	1.6	6.3
Weekly earnings, mfg. ($) 5/	147.81	148.55	150.22	151.17	0.6	2.3	7.9
Net spend. weekly earnings, mfg. (3 dependents 1967 $) 1/	102.78	105.81	105.34	105.55	0.2	2.7	4.1
Personal income ($ bil.) 2/	874.9	883.9	892.0	896.9	0.5	2.5	7.7
Retail sales, total ($ bil.) 5/	34.9	34.9	35.1	36.0	2.5	3.2	8.2
Autos (million units) 2/	7.8	8.6	8.7	8.7	0.5	12.3	2.1
GAAF ($ bil.) 3/ 5/	9.2	9.3	9.4	9.6	1.6	4.4	9.1
12 leaders, composite (1967=100)	131.1	132.7	134.0	134.7	0.5	2.7	12.2
Selected leading indicators:							
Housing starts, pvt. (thous.) 2/	2,228	2,457	2,471	2,678	8.4	20.2	49.3
Factory workweek (hours) 5/	40.3	40.0	40.5	40.4	-0.2	0.2	1.5
Unempl. claims, initial (thous.)	304	268	264	261	0.9 6/	14.1 6/	7.9 6/
New orders, dur. goods, ($ bil.)	32.6	32.1	35.1	34.4	-1.9	5.7	10.8
Capital equipment	8.4	8.5	8.8	8.9	1.6	6.1	12.6
Common stock prices (41-43=10) 5/	99.17	103.30	105.08	107.69	2.5	8.6	8.1

* Based on unrounded data. 1/ Not seasonally adjusted. 2/ Annual rates.
3/ Gen'l. merchandise, apparel, and furniture and appliances. 4/ Actual figures.
5/ Data are for December, January, February and March. 6/ Sign reversed.

DOMESTIC NONFINANCIAL SCENE

Summary and outlook. Real GNP is estimated by the staff to have risen at an annual rate of about 5-1/2 per cent, and nominal GNP by $30 billion, in the first quarter. These increases are somewhat smaller than those projected four weeks ago, mainly because of shortfalls in net exports of goods and services and in Federal purchases. The underlying situation appears as expansive as it did then, however, with larger than previously anticipated increases estimated for business fixed investment, residential construction and consumer spending. Our estimate of the rise in disposable income has been reduced appreciably, as the new withholding tax schedules bit even more deeply than anticipated into wages and salaries. The GNP deflator is still indicated to have risen at a rapid pace in the first quarter.

Retail sales increased sharply in March, according to the advance report, following a generally sluggish performance since last November. Moreover, recent surveys have indicated a significant improvement in consumer attitudes. Sales continued very strong at furniture and appliance stores, and moved up sharply at nondurable goods stores. In March, unit sales of new domestic-type autos were at an 8.8 million annual rate, about the same as in February.

Industrial production increased 0.6 per cent further in March, with the advance in the three months since December at an annual rate of about 7.5 per cent. New orders for capital equipment also rose further in February and for January-February combined averaged 6 per cent above the fourth quarter of 1971. The rise in book value of inventories for manufacturing and trade was quite small in February, and the overall stock-sales ratio remained at the January level, the lowest in over five years.

Demands for labor strengthened appreciably further in March, even though the unemployment rate edged up. The rise in unemployment was associated with an unusually sharp advance in the labor force. Increases in nonfarm payroll employment in March were widespread, with manufacturing up significantly. The manufacturing workweek in March was little changed from February and close to its highest level in over two years. Average hourly earnings in the private nonfarm economy rose at an annual rate of 6 per cent from December to March; earlier data were revised up and a large increase was reported for March.

The rise in wholesale prices slowed abruptly in March as prices of farm products and foods declined. The increase in prices of industrial commodities slowed a little, but was still relatively rapid. Consumer prices had also advanced sharply in February, in large part because of food prices.

Gross national product outlook. The staff GNP projection for 1972 as a whole is little changed from four weeks ago, but there have been some significant revisions in the quarterly pattern, particularly for net exports and Federal purchases. A slightly smaller increase in both real and nominal GNP in the first half and a somewhat more rapid pace in the second half of the year now appear likely. But real GNP growth is still projected at around 6.5 per cent from fourth quarter 1971 to fourth quarter 1972. The unemployment rate is expected to move down to 5.4 per cent in the fourth quarter.

GNP PROJECTIONS

	Change in Nominal GNP $ billion		Per cent increase, annual rate: Real GNP		Per cent increase, annual rate: Private GNP fixed weight price index		Unemployment rate	
	3/15/72	Current	3/15/72	Current	3/15/72	Current	3/15/72	Current
1971-IV[1/]	19.5	19.5	5.8	5.8	1.8	1.8	5.9	5.9
1972-I	31.1	30.0	5.9	5.6	4.4	4.3	5.8	5.8
1972-II	27.0	27.0	6.3	6.2	3.2	3.5	5.7	5.7
1972-III	26.5	30.0	6.5	7.4	2.8	3.2	5.6	5.5
1972-IV	27.5	29.0	6.7	6.9	2.8	3.0	5.4	5.4

1/ Published Commerce estimate.

For the second quarter we expect a stepped-up pace of consumer spending, in part reflecting a much sharper rise in disposable income than in the first quarter when the new tax withholding schedules exerted their major dampening impact. Business fixed investment is projected to increase further but not as rapidly as in the first quarter, in line with recent surveys. The rise in residential construction outlays is expected to slow, as starts begin to decline from the record first quarter pace. But some improvement is anticipated in net exports and inventory investment is expected to rise further in view of relatively low stock/sales ratios and continued expansion in final demands.

In the second half of the year, both defense purchases and net exports are now projected to rise more rapidly than earlier assumed. Defense purchases are expected to make up a large part of the shortfall apparently developing in the first half. The realignment of exchange rates is expected to have a more favorable effect on the trade balance. Consumer spending and business fixed and inventory investment are about as expansive as in the previous projection, while residential construction activity is still expected to level off.

The rate of price increase, as measured by the GNP price deflator, is projected to slow to an annual rate of about 3 per cent in the fourth quarter. This compares with a 2.8 per cent fourth quarter rise projected last time. The anticipated slowing in the rate of price increase reflects the large projected rise in real product and associated productivity gains--particularly after mid-year--the expectation that food will add relatively little to higher prices in the second half of the year, and the judgment that controls will result in smaller over-all rates of price increase in the economy once the "first-round" advances permitted by the system are largely completed.

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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)

	1971	1972 Proj.	1971 III	1971 IV	1972 Projected I	1972 Projected II	1972 Projected III	1972 Projected IV
Gross National Product	1046.8	1145.4	1053.4	1072.9	1102.9	1129.9	1159.9	1188.9
Final purchases	1044.5	1138.2	1054.6	1070.4	1098.9	1124.9	1151.9	1177.2
Private	811.5	881.8	820.8	829.6	851.4	871.4	892.1	912.3
Excluding net exports	811.5	883.9	820.8	834.2	856.2	874.4	892.6	912.5
Personal consumption expenditures	662.1	712.7	668.8	677.2	689.2	704 3	719.8	737.3
Durable goods	100.5	111.6	102.8	103.6	107.0	109.9	112.9	116.4
Nondurable goods	278.6	296.6	280.2	283.3	286.2	292 9	299.7	307.5
Services	282.9	304.5	285.8	290.3	296.0	301.5	307.2	313.4
Gross private domestic investment	151.6	178.4	150.8	159.4	171.0	175.1	180.8	186 9
Residential construction	40.6	49.3	42.7	44 4	49.1	49.7	49.8	48 8
Business fixed investment	108.7	121.9	109.3	112.6	117.9	120.4	123.0	126.4
Change in business inventories	2.2	7.2	-1.2	2.4	4.0	5.0	8.0	11.7
Nonfarm	1.7	7.1	-2.0	2.0	3.6	5.0	8.0	11.7
Net exports of goods and services 1/	0.0	-2.1	0.0	-4.6	-4.8 1/	-3.0	-0.5	-0.2
Exports	65.3	71.0	68.2	60.4	68.6	69.3	71.9	74.2
Imports	65.3	73.1	68.2	65.0	73.4	72.3	72.4	74.4
Gov't. purchases of goods and services	233.0	256.4	233 8	240.8	247.5	253.5	259.8	264.9
Federal	97.6	105.8	97.6	100.3	103.5	105.5	107.3	106.9
Defense	71.4	75.3	70.2	71.4	74.0	75.0	76.0	76.4
Other	26.2	30.5	27.4	28.9	29.5	30.5	31.3	30.5
State & local	135.5	150.6	136.2	140.5	144.0	148.0	152.5	158 0
Gross national product in constant (1958) dollars	739.4	781.3	740.7	751.3	761.8	773.7	788 0	801.7
GNP implicit deflator (1958 = 100)	141.6	146.6	142.2	142.8	144.8	146.0	147.2	148.3
Personal income	857.0	923.4	864.6	876.7	897.0	913.3	932.8	950.5
Wage and salary disbursements	574.2	626.5	577.3	587.0	606.8	619.6	633.0	646.5
Disposable income	741.3	795.2	748.5	755.0	767.4	786.4	805.2	821.6
Personal saving	60.5	63.2	61.0	59.0	59.2	62 9	66.0	64.7
Saving rate (per cent)	8.2	7.9	8.2	7.8	7.7	8.0	8.2	7.9
Corporate profits before tax	85.5	100.4	85.8	86.2	90.0	95 5	104 0	112.0
Corp. cash flow, net of div. (domestic)	81.0	96.9	82.4	85.6	89.0	93.6	99 7	105.2
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	198.8	220.4	197.8	203.1	217.2	217.0	221.4	226.0
Expenditures	221.9	246.7	224.6	228.7	236.5	245.4	251.4	253.3
Surplus or deficit (-)	-23.1	-26.3	-26.7	-25.6	-19.3	-28.4	-30.0	-27.3
High employment surplus or deficit (-)	2.9	-0.5	1.3	6.6	9.5	-0.8	-6.7	-4.3
Total labor force (millions)	86.9	89.0	87.0	87.7	88.4	88.7	89.2	89.7
Armed forces "	2.8	2.5	2 8	2.7	2.5	2.5	2.5	2.5
Civilian labor force "	84.1	86.5	84.2	85 0	85 9	86.2	86.7	87.2
Unemployment rate (per cent)	5.9	5.6	6.0	5.9	5.8	5.7	5.5	5.4
Nonfarm payroll employment (millions)	70.7	72.6	70.6	71.0	71.8	72.3	72.9	73 4
Manufacturing	18.6	18.9	18.5	18.6	18.7	18.8	18.9	19.0
Industrial production (1967 = 100)	106.3	112.7	105.9	107.0	108 9	111.2	113.9	116.6
Capacity utilization, manufacturing (per cent)	74.4	75.6	73.9	73.8	74.3	75.0	76.0	77.1
Housing starts, private (millions, A.R.)	2.05	2 27	2.11	2.23	2.48	2 30	2.20	2.10
Sales new autos (millions, A.R.)	10.13	10.44	10.27	10.43	10.24	10.25	10.50	10.75
Domestic models	8.68	8 92	8.74	9.18	8.67	8.75	9.00	9.25
Foreign models	1.46	1.52	1.53	1.25	1.57	1.50	1.50	1.50

1/ The projected GNP exports and imports of goods and services, and their net, are based on quarter-to-quarter changes projected in balance of payments exports and imports, shown below. These are consistent with revised '71-IV figures not yet incorporated in the GNP accounts.

	1971	1972 Proj.	1971 III	1971 IV	1972 I	1972 II	1972 III	1972 IV
Net exports of goods and services	0.7	0.4	0.2	-2.1	-2.3	-0.5	2 0	2.3
Exports	65 9	73 3	68 3	62.7	70.9	71.6	74.2	76 5
Imports	65.2	72 9	68 1	64.8	73.2	72.1	72 2	74.2

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1971	1972 Proj.	1971 III	1971 IV	1972 Projected I	1972 Projected II	1972 Projected III	1972 Projected IV
	-----Billions Of Dollars-----							
Gross National Product	72.7	98.6	13.4	19.5	30.0	27.0	30.0	29.0
Inventory change	-0.6	5.0	-5.8	3.6	1.6	1.0	3.0	3.7
Final purchases	73.2	93.7	19.2	15.8	28.5	26.0	27.0	25.3
Private	59.6	70.3	15.0	8.8	21.8	20.0	20.7	20.2
Excluding net exports	63.2	72.4	15.1	13.4	22.0	18.2	18.2	19.9
Net exports	-3.6	-2.1	-0.1	-4.6	-0.2	1.8	2.5	0.3
Government	13.6	23.4	4.2	7.0	6.7	6.0	6.3	5.1
GNP in constant (1958) dollars	19.4	41.9	4.9	10.6	10.5	11.9	14.3	13.7
Final purchases	19.6	38.2	9.5	7.7	9.9	10.7	12.0	10.7
Private	19.8	32.8	6.9	4.1	10.2	9.2	10.2	9.8
	-----In Per Cent Per Year-----							
Gross National Product	7.5	9.4	5.2[1/]	7.6[1/]	11.2	9.8	10.6	10.0
Final purchases	7.5	9.0	7.4	6.0	10.7	9.5	9.6	8.8
Private	7.9	8.7	7.4	4.3	10.5	9.4	9.5	9.1
Personal consumption expenditures	7.5	7.6	7.0	5.0	7.1	8.8	8.8	9.7
Durable goods	13.4	11.0	14.9	3.1	13.1	10.8	10.9	12.4
Nondurable goods	5.3	6.5	3.5	4.4	4.1	9.4	9.3	10.4
Services	7.8	7.6	7.6	6.3	7.9	7.4	7.6	8.1
Gross private domestic investment	12.0	17.7	-5.5	22.8	29.1	9.6	13.0	13.5
Residential construction	33.6	21.4	27.0	15.9	42.3	4.9	0.8	-8.0
Business fixed investment	6.5	12.1	3.7	12.1	18.8	8.5	8.6	11.1
Gov't. purchases of goods & services	6.2	10.0	7.3	12.0	11.1	9.7	9.9	7.9
Federal	0.4	8.4	6.7	11.1	12.8	7.7	6.8	-1.5
Defense	-5.3	5.5	-6.7	6.8	14.6	5.4	5.3	2.1
Other	19.6	16.4	45.5	21.9	8.3	13.6	10.5	-10.2
State & local	10.9	11.1	7.8	12.6	10.0	11.1	12.2	14.4
GNP in constant (1958) dollars	2.7	5.7	2.7[1/]	5.8[1/]	5.6	6.2	7.4	6.9
Final purchases	2.7	5.2	5.2	4.2	5.3	5.7	6.2	5.5
Private	3.4	5.5	4.6[1/]	2.7[1/]	6.7	6.0	6.5	6.2
GNP implicit deflator	4.7	3.5	2.5[1/]	1.7[1/][3/]	5.5[4/]	3.5	3.2	3.0
Private GNP fixed weight index[2/]	5.3	3.5	3.6[1/]	1.8[1/]	4.3	3.5	3.2	3.0
Personal income	6.6	7.7	5.2	5.6	9.3	7.3	8.5	7.6
Wage and salary disbursements	6.1	9.1	4.4	6.7	13.5	8.4	8.7	8.5
Disposable income	7.8	7.3	4.8	3.5	6.6	9.9	9.6	8.1
Corporate profits before tax	13.4	17.4	-5.1	1.9	17.6	24.4	35.6	30.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	3.8	10.8	0.2	10.7	27.8	-0.4	8.1	9.3
Expenditures	8.2	11.2	5.8	7.3	13.6	15.1	9.8	3.0
Nonfarm payroll employment	0.1	2.7	-0.2	2.3	4.5	2.8	3.3	2.7
Manufacturing	-3.9	1.3	-2.4	2.2	2.2	2.1	2.1	2.1
Industrial production	-0.4	6.0	-3.4	4.2	7.1	8.1	9.8	9.5
Housing starts, private	43.4	10.7	36.5	22.7	44.8	-29.0	-17.4	-18.2
Sales new autos	21.3	2.7	19.0	6.2	-7.3	0.4	9.8	9.5
Domestic models	21.9	2.3	22.7	20.1	-22.2	3.7	11.4	11.1
Foreign models	18.7	5.0	-1.0	-73.2	102.4	-17.8	0.0	0.0

1/ At compound rates.

2/ Using expenditures in 1967 as weights.

3/ Excluding the first $1.2 billion, annual rate, of the volunteer army pay increase, 1.2 per cent per year.

4/ Excluding the remaining $1.2 billion, annual rate, of the volunteer army pay increase and the general Federal employees pay increase, 4.3 per cent per year.

Industrial production. Industrial production rose .6 per cent further in March and at 109.6 per cent was 4 per cent above a year earlier but still 2 per cent below the 1969 high. (For release Friday afternoon.) Since last December, industrial production has increased at an annual rate of about 7.5 per cent compared with a rise of 3 per cent in the 12 months ending December 1971. In March, gains were widespread among consumer goods, business equipment, and materials. Production of defense equipment declined about 1 per cent.

Output of carpeting, household furniture, and consumer staples rose and production of household appliances was off slightly from the advanced February level. Auto assemblies declined 1.5 per cent in March, mainly because of a G.M. strike, to an annual rate of 8.3 million units. April auto schedules have been revised down from an 8.7 million rate to 8.0 million, but the May-June output schedules remain at an 8.8 million rate. Output of most business equipment industries increased further in March, with the total up 4.5 per cent from the May 1971 low. Output of steel, textiles, paper, and construction materials rose.

INDUSTRIAL PRODUCTION
(1967=100, seasonally adjusted)

	1971		1972	Per cent change to QI 72	
	QI	QIV	QI	from QI 71	from QIV 71*
Total index	105.5	107.0	108.9	3.2	7.1
Consumer goods	112.8	117.7	119.1	5.6	4.8
Autos	109.7	108.8	104.6	-4.6	-15.4
Home goods	107.1	113.6	118.3	10.5	16.5
Apparel & staples	113.8	118.4	119.6	5.1	4.1
Business equipment	95.1	97.0	97.9	2.9	3.7
Defense equipment	78.5	75.1	74.6	-5.0	-2.7
Intermediate products	111.8	113.9	115.5	3.3	5.6
Construction products	111.9	113.6	115.8	3.5	7.7
Materials, total	106.8	106.4	109.5	2.5	11.7
Durable	101.7	100.0	103.8	2.1	15.2
Steel	105.6	85.4	95.6	-9.5	47.8
Nondurable	111.9	115.8	116.3	3.9	1.7

*Annual rates.

Unit sales, consumer durables. March sales of new domestic-type autos were at an 8.8 million unit rate, about the same as in February. For the first quarter, sales averaged an 8.7 million unit rate, about 4 per cent above a year earlier. Dealer inventories at the end of March represented a 55-day supply, the same as the preceding 2 months and also March last year.

Sales of foreign cars in March were at an annual rate of 1.6 million units, little changed from February and from March of last year with the import share of total sales continuing at about 15 per cent.

March unit sales of major home appliances to dealers remained at the February level and were 14 per cent above March 1971, according to preliminary staff estimates. Slight increases in March in sales of washers, driers and dishwashers were offset by slight decreases in air conditioners, ranges, freezers, and refrigerators. TV sales were 16 per cent above a year ago, with color sets up 22 per cent.

UNIT PURCHASES OF HOME GOODS BY RETAILERS
(Seasonally adjusted, 1967=100)

	1971	1972			Per cent change	
	Mar.	Jan.	Feb.	Mar.(p)	Month ago	Year ago
TV's 1/	96	113	110	112	2	16
Radios	93	75	87	87	0	-6
Home appliances 2/	128	143	146	146	0	14

Note: Indexes are subject to change as weights and seasonal factors are not final.
(p) Preliminary.
1/ Includes foreign-made units sold under U.S. brand names. Foreign-made percentages are approximately: monochrome TVs 55 per cent, color TVs 20 per cent, and radios 70 per cent. Foreign-made under foreign brands not included. TVs are unweighted combination of monochrome and color sets.
2/ Unweighted average of indexes for air-conditioners, dishwashers, driers, freezers, electric ranges, refrigerators, and washing machines.

Value of retail sales. Following an upward revision for February, total sales in March rose 2.5 per cent, an exceptionally sharp rise. The increase was general but was especially rapid in durable goods which increased 4.6 per cent, with the automotive group up 4.9 per cent and furniture and appliance up 3.5 per cent. Nondurable goods sales increased 1.4 per cent with food expenditures rising somewhat more and general merchandise somewhat less than that. First quarter sales were 0.5 per cent above the fourth quarter of 1971 and 8 per cent above a year earlier.

RETAIL SALES
(Seasonally adjusted)

	Per cent change from previous period			
	January	February	March	1 Q 1972 from IV Q 1971
Total sales	.0	.7	2.5	.5
Durable	1.2	-1.1	4.6	- .6
Auto	- .9	.2	4.9	-4.4
Furniture & appliance	5.5	- .4	3.5	9.6
Nondurable	- .6	1.6	1.4	1.1
Food	-1.8	2.7	1.6	1.3
General merchandise	2.1	1.6	1.1	2.0
GAAF	1.8	.8	1.6	2.8
Total, less autos and nonconsumer items	- .3	1.3	1.6	1.5

Consumer surveys. A significant improvement in consumer attitudes was indicated in the latest surveys by the Michigan Survey Research Center and the Conference Board. The Michigan Survey index of sentiment, based on a survey in the last two weeks of February, increased more than 5 percentage points from the October-November level. The recent rise in this index was largely attributable to notably more favorable expectations for business conditions during the next year and the next five years. Responses to whether it is a good time to buy large durables remained at a high level.

The Conference Board also reported an improvement in evaluations of present business conditions as well as the job market in its January-February survey. Fewer respondents expected business conditions to be worse in 12 months time. Moreover, income expectations were very much improved with 28 per cent of respondents expecting an income increase, compared with 25 per cent in the previous survey and 23 per cent a year earlier.

However, inflationary expectations appear to have increased since the end of the freeze. In November 1971, only 37 per cent of all families believed that prices had gone up since controls were introduced; in February 1972, this proportion, at 77 per cent, had more than doubled. Moreover, the proportion anticipating price increases of 5 per cent or more rose from 28 per cent in November to 34 per cent in February.

Given the past association of inflationary expectations with high saving propensities, it may be premature to equate the improvement in attitudes with the likelihood of an imminent surge in spending and the buying intention data reported by the Conference Board indicated cautious purchase plans for cars and household durables.

Buying plans for automobiles declined to 7.7 per cent of all households in the January-February survey from 8.1 per cent in November-December and 7.9 per cent a year earlier. Buying plans for major appliances were essentially unchanged from the previous survey although up from a year earlier. In contrast, home purchase plans rose strongly from the previous survey and, at 3.8 per cent of households, were 1.2 percentage points above a year earlier.

<u>Construction and real estate</u>. Seasonally adjusted outlays for new construction put in place--which were revised upward by 1 per cent for February and other recent months--increased somewhat further in March to another record annual rate of more than $122 billion. Led by the unprecedented pace of housing starts this winter, outlays for private residential construction continued to dominate the advance, at a rate in March that was more than three-fourths above the low in July of 1970.

On a year-to-year basis, outlays for total construction were up 18 per cent in March. However, in real terms, as measured by the Census Bureau, the year-to-year advance amounted to 10 per cent and was accounted for entirely by residential activity.

NEW CONSTRUCTION PUT IN PLACE
(Seasonally adjusted annual rates, in billions of dollars)

	1971		1972		
	QI	QIV	QI 1/	Feb.p/	Mar.1/
Total	102.0	115.7(r)	120.9	120.3	122.1
Private	71.4	84.6(r)	89.4	89.0	91.0
Residential	36.6	46.9(r)	51.6	51.7	53.3
Nonresidential	34.8	37.6	37.8	37.3	37.7
Public	30.6	31.1	31.5	31.3	31.1
State and local	26.8	27.0	27.1	26.9	26.9
Federal	3.8	4.1	4.4	4.4	4.2

1/ Data for and/or including March 1972 are confidential Census Bureau extrapolations. In no case should public reference be made to them.

Within the market for single-family homes, demands have apparently continued exceptionally strong this year, with sales of new homes by merchant builders in January and February running a tenth above the already advanced rate reached a year earlier and transactions in existing homes up more than a fifth in the same period. Median prices of new and existing homes sold in February were $26,400 and $25,570, respectively--both about 6 per cent above February a year earlier. In each case, the average 1971 increase in such prices was 8 per cent. (Data for new homes confidential until Thursday noon.

<u>Cyclical indicators</u>. The preliminary Census trend adjusted composite index of leading indicators rose 0.5 per cent in February, following a downward-revised 1 per cent increase in January. This index has now risen eight months in a row. Series rising in February were the workweek, unemployment insurance claims (inverted), housing permits, industrial materials prices, and common stock prices. There were declines in new orders for durable goods and contracts and orders for plant and equipment, reflecting the fall-back from January's high defense shipbuilding orders, and in the ratio of price to unit labor cost. The preliminary index does not include the change in consumer installment debt, which rose in February, or inventory change, which declined.

Preliminary coincident and lagging composites also increased further in February.

CHANGES IN CYCLICAL COMPOSITE INDEXES
February 1972 (Preliminary)

	Per cent change from: Previous month	Three months earlier
12 Leading (trend adjusted)	.5	2.7
12 Leading, prior to trend adjustment	.2	1.7
5 Coincident	.9	3.2
5 Coincident, deflated	.5	2.6
6 Lagging	.8	2.5

In March, common stock prices and industrial materials prices rose further, but hours of work declined.

Manufacturers' orders and shipments. New orders for durable goods declined a relatively small 1.9 per cent in February (preliminary), following a January increase of 9.2 per cent. The major factor was the cutback of defense orders from their high January level.

New orders for the January-February period are considerably above the fourth-quarter average. Orders were strong for capital equipment and construction and other durable goods, as well as defense and primary metals. In addition, orders for motor vehicles and parts recovered from a reduced fourth-quarter level.

Durable goods shipments increased 1.2 per cent in February and unfilled orders rose 0.6 per cent. It was the fourth month of increase for the order backlog.

MANUFACTURERS' NEW ORDERS FOR DURABLE GOODS
Per cent change

	February 1972 from January 1972	Jan.-Feb. 1972 average from 1971-IV average
	------------Preliminary------------	
Durable goods, total	-1.9	8.8
Excluding primary metals & defense	2.4	7.4
Primary metals	1.1	11.4
Motor vehicles and parts	13.8	15.7
Household durables	-2.4	1.2
Defense products	-44.3	20.2
Capital equipment	1.6	6.1
Construction and other durables	-1.3	6.2

Inventories. Book value of manufacturing and trade inventories rose at a $1.2 billion annual rate in February (preliminary), well below the January rate of $6.3 billion. Trade inventories continued to expand but durable goods manufacturers reduced inventories.

The decline in durable manufacturers' stocks was in materials and goods in process rather than finished goods and occurred despite a favorable inventory/shipments ratio in January--the lowest in more than five years. The decline may reflect the fact that the ratio of inventories to the order backlog, while declining, remained quite high. Durable manufacturers' shipments and unfilled orders increased further in February.

Overall, the business inventory-sales ratio was unchanged at a five-year low, as an increase in the wholesale trade ratio offset declines at manufacturing and retail.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
(Seasonally adjusted annual rate, $ billions)

	1971		1972	
	Q III	Q IV	January (Revised)	February (Preliminary)
Manufacturing and trade	6.1	4.1	6.3	1.2
Manufacturing, total	-1.1	1.1	3.9	-1.0
Durable	-1.0	-1.3	5.8	-1.2
Nondurable	.0	2.4	-1.8	.2
Trade, total	7.2	2.9	2.4	2.2
Wholesale	1.9	4.4	1.6	.9
Retail	5.2	-1.5	.8	1.2
Durable	4.4	-2.6	-2.3	.3
Automotive	4.2	-3.1	-3.6	.3
Nonautomotive	.1	.5	1.2	.1
Nondurable	.9	1.1	3.1	.9

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

INVENTORY RATIOS

	1971		1972	
	January	February	January (Revised)	February (Preliminary)
<u>Inventories to sales</u>:				
Manufacturing and trade	1.60	1.57	1.50	1.50
Manufacturing, total	1.81	1.77	1.64	1.63
Durable	2.16	2.11	1.93	1.90
Nondurable	1.39	1.36	1.30	1.30
Trade, total	1.37	1.37	1.34	1.36
Wholesale	1.25	1.26	1.19	1.24
Retail	1.45	1.44	1.45	1.44
Durable	2.07	2.07	2.00	2.02
Automotive	1.63	1.62	1.72	1.72
Nonautomotive	2.67	2.73	2.37	2.45
Nondurable	1.18	1.16	1.18	1.16
<u>Inventories to unfilled orders</u>:				
Durable manufacturing	.827	.822	.845	.839

Labor market. Although employment strengthened markedly, the unemployment rate in March edged up 0.2 percentage points to 5.9 per cent, seasonally adjusted, reflecting a sharp rise in the labor force. Nonfarm payroll employment increased by 275,000 in March, and the February estimate was revised upward. The factory workweek in March was little changed and in the last two months was at its highest point in over two years. Factory layoffs continued to edge down in February.

CHANGES IN NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted, in thousands)

	Change from previous quarter				
	1971				1972
	I	II	III	IV	I
Total	315	234	-38	388	730
Manufacturing	20	-31	-114	41	108
Production workers	81	20	-80	38	110
Mining	1	-2	-14	-56	62
Contract construction	-49	26	-38	53	-13
Transportation & public util.	26	-10	-53	-7	57
Trade	124	73	88	69	202
Services and finance	99	86	100	138	149
Federal government	0	-3	-3	16	2
State and local government	95	94	-3	134	165

Demand for labor has increased appreciably in recent months. For the first quarter of 1972 as a whole, nonfarm payroll employment rose sharply and gains were widespread. The manufacturing increase of over 100,000 was particularly noteworthy, in light of the stagnation of factory employment during most of 1971. In the service-type industries--

trade, services and State and local government--employment expansion has continued at even faster rates than in 1971.

Unemployment and labor force. After declining in February, the labor force increased by 775,000 in March, while total employment rose by 620,000. The increases in both employment and labor force took place among full-time workers. Unemployment rates for young men (aged 20-24) and women rose in March, while the volatile teenage rate fell.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1971		1972	
	March	September	February	March
Total	6.0	6.0	5.7	5.9
Men aged				
20 to 24 years	10.2	10.2	9.2	10.4
25 and over	3.5	3.5	3.2	3.2
Women, aged 20 and over	5.8	5.7	5.0	5.4
Teenagers	17.5	16.9	18.8	17.9
Married men	3.2	3.3	2.8	2.8
White workers	5.5	5.4	5.1	5.3
Negroes & other minority races	9.5	10.4	10.5	10.5

The March labor force increase was unusually large, but continued a pattern of rapid growth evident since mid-1971, reflecting a rebound in rates of labor force participation, particularly among adult men. In contrast, during the first half of last year the labor force showed little change.

<u>Earnings</u>. Seasonally adjusted average hourly earnings for private nonfarm workers rose rather sharply, by 3 cents, in March. In addition, revised earnings data indicate that wages increased more rapidly in January and February than originally reported. It is now estimated that average hourly earnings of production workers on private nonfarm payrolls (adjusted for inter-industry shifts) increased at an annual rate of 6.0 per cent from December to March following an initial post-freeze surge from November to December; during the pre-freeze months of 1971 earnings rose at an annual rate of 6.7 per cent. Factory wage rates have increased at a 5.6 per cent annual rate since December, compared with a 6.1 per cent rate from January to August of 1971.

HOURLY EARNINGS INDEX FOR
PRODUCTION AND NONSUPERVISORY WORKERS*
(Per cent change, seasonally adjusted, annual rate)

	1971				
	Jan.-Aug.	Aug.-Nov.	Nov.-Dec.	Dec. 1971-March 1972	March 1971-March 1972
Private nonfarm	6.7	1.9	17.8	6.0	6.5
Manufacturing	6.1	.7	23.7	5.6	6.3
Mining	8.0	-9.3	-62.3	6.1	8.3
Construction	9.0	5.6	4.8	7.4	7.8
Transportation	8.0	6.9	25.0	9.2	9.8
Trade	6.5	1.0	16.2	4.2	5.8
Finance	7.6	-1.6	14.3	3.2	4.6
Services	4.4	2.7	10.5	6.7	5.3

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

The Pay Board has announced that the cumulative weighted average of approved wage increases through March 31 for category I cases (5,000 or more employees) was 5.1 per cent for the 3.9 million workers involved. With regard to pending cases, the average increase requested from the Pay Board, based on an unpublished sample of category I cases awaiting action, is estimated at 7.2 per cent for new agreements (effective after November 13, 1971); for contracts existing prior to November 13 the average requested increase is 6.3 per cent.

Industrial relations. The West Coast longshoremen have not as yet accepted the Pay Board decision which reduced their settlement to 15 per cent and have remained on the job under their old contract. Union leaders appear to be waiting for the Pay Board decision on the East Coast dock settlement before determining whether or not to strike. The East Coast settlement provides a first year increase in wages and fringes of about 15.2 per cent. A decision by the Pay Board is expected by May 4. If the dock workers on either coast decide to strike again, new strike legislation would be required to halt the walk-out.

An April 1 strike of two railroad unions, United Transportation Union and Sheetmetal Workers, was averted with presidential appointment of two emergency mediation boards which will forestall action for sixty days. The UTU has been unwilling to accept changes in work rules at Penn Central which would phase out about 6,000 jobs. The Sheetmetal Workers have demanded wage increases of about $1 an hour more than other railroad unions have settled for. About 6,000 workers are affected.

The UAW strike at GM's Lordstown, Ohio Vega plant was settled March 26 after a three week walkout involving 7,800 workers. GM's Norwood, Ohio assembly plant was struck April 10 by 4,000 workers of the UAW in a dispute over work standards and a new local contract.

Wholesale prices. The increase in wholesale prices slowed substantially between February and March as the index of farm and food products declined for the first time in six months. Industrial commodity prices increased at an annual rate of 4.1 per cent, in large part as a result of higher prices for metals, hides, leather, lumber, and paper products.

WHOLESALE PRICES
(Percentage changes at seasonally adjusted annual rates)

	Pre-stabilization	Phase I	Phase II		
	Dec. 1970 to Aug. 1971	Aug. 1971 to Nov. 1971	Nov. 1971 to Mar. 1972	Dec. 1971 to Mar. 1972	Feb. 1972 to Mar. 1972
All commodities	5.2	- .8	6.0	5.1	1.3
Farm and food 1/	5.9	.0	12.0	7.0	-3.0
Industrial commodities	5.0	-1.3	4.2	4.5	4.1
Crude materials 2/	3.8	1.0	10.6	13.2	14.2
Intermediate materials 3/	6.7	-1.0	3.4	3.8	3.1
Finished goods 4/	2.8	-1.6	4.2	3.7	3.2
Producer	3.7	-2.7	5.5	5.2	3.1
Consumer	2.3	-1.1	3.5	2.9	3.3

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 food.

The index of consumer nonfoods rose as important increases for footwear and gasoline were posted. Prices of producer finished goods increased at a slower rate than in February but substantial increases were reported for machinery and railroad equipment.

Further advances by metals and metal products and lumber and plywood accounted for much of the increase in the index of intermediate materials, and higher prices for scrap metals and hides and skins were largely responsible for the sharp rise in the crude materials index.

Prices of lumber and plywood rose further in March. During Phase II lumber prices have increased at an an annual rate (seasonally unadjusted) of about 24 per cent and prices for plywood at about a 38 per cent rate. (During the "freeze," prices of lumber and plywood declined.) Since mid-March, however, prices have stabilising.

LUMBER AND WOOD PRODUCTS
(Percentage changes at annual rates, not seasonally adjusted)

	Phase I	Phase II	
	Aug. 1971 to Nov. 1971	Nov. 1971 to Mar. 1972	Feb. 1972 to Mar. 1972
Lumber and wood products	-9.5	19.9	16.9
Lumber	-12.5	23.9	17.2
Plywood	-14.4	37.6	43.2

Prices of hides, skins, and footwear have risen rapidly since last August, and have accelerated since mid-February to levels higher than those reached in 1959 and 1966. Prices quoted in the press, however, reflect prices paid for hides for export which are not controlled and mirror increased foreign demand, in large part a result of quotas imposed last May by Argentina on hide exports. In addition, hide prices which are considered to be "volatile" prices by the Price Commission are permitted to be raised to reflect significant market price increases in exempted raw materials; this is responsible, in part, for raising prices to current levels.

HIDES, SKINS, LEATHER, AND RELATED PRODUCTS
(Percentage change at annual rates, not seasonally adjusted)

	Phase I Aug. 1971 to Nov. 1971	Phase II Nov. 1971 to Mar. 1972
Hides, skins, leather and related products	2.5	22.0
Hides and skins	33.1	181.5
Leather	- 3.1	44.8
Footwear	.0	7.9

Meat prices. Retail beef and pork prices rose further in March, according to preliminary 5-week estimates compiled by the Department of Agriculture from chain store reports. Even in February, beef prices were at record highs--9.5 per cent above last August at retail.

The advance in beef prices since 1967 and since last August has reflected rising farm level prices for livestock as well as a substantial widening in the dollar-and-cents spread between the farm and retail price levels. The rise since 1967 of over 40 per cent in this spread has been much larger than the general increase in costs and prices in the economy, suggesting that--with consumer demand strong--middlemen's profit margins on beef have risen. Most recently, however, prices at the farm--and apparently at retail, also--have been declining.

The spread between farm and retail prices on pork also widened in March, according to preliminary data, as compared to the depressed February level, but the increase in spread was much less than for beef.

A rise in dollar-and-cents spreads when farm prices rise is not inconsistent with price regulations requiring that percentage mark-ups over cost not be increased. A constant percentage mark-up by middlemen can result in large increases in the dollar spread when farm prices rise sharply. (It should be noted, however, that corresponding reductions in these spreads would result when farm-level prices drop if constant percentage mark-ups are used).

BEEF AND PORK-ESTIMATED PRICES AND MARGINS

	Indexes 1/ (1967=100)					Percentage change 1/	
	1971			1972			
	First half	Aug	Nov	Feb	March 2/	Aug 1971 to Feb 1972	Feb to March 1972 2/
Beef							
Retail value	124.1	128.0	128.7	140.2	140.8	9.5	0.4
Carcass value 3/	125.5	130.1	130.6	139.1	133.0	6.9	-4.4
Net farm value	125.6	131.3	132.6	141.5	138.9	7.8	-1.8
Spread:							
Farm-retail	121.5	122.0	121.6	137.8	144.3	13.0	4.7
Carcass-retail	120.5	122.4	123.7	143.1	160.8	16.9	12.4
Pork							
Retail value	102.7	106.5	106.2	121.0	122.8	13.6	1.5
Wholesale value	97.2	101.2	105.6	122.5	117.9	21.0	-3.8
Net farm value	86.9	96.0	97.4	132.8	121.8	38.3	-8.3
Spread:							
Farm-retail	119.6	117.9	115.7	108.3	123.8	-8.1	14.3
Wholesale-retail	120.7	119.1	108.3	115.9	138.9	-2.7	19.8

1/ Calculated from USDA dollars-and-cents estimates for choice beef and pork, with percentage change based on index.
2/ Not for publication; preliminary estimates based on chainstore sample for retail prices. (Dept. of Agriculture).
3/ Average wholesale price multiplied by "carcass equivalent" (the average carcass weight required per pound of retail beef sold).

While beef and pork were the major factors in both the total and food price increases in February, sharply rising fresh vegetable prices also contributed. Food is priced too early in the month for the March drop in wholesale meat prices to affect the March index. However, if the large decline in fresh fruit and vegetable prices at wholesale enters the index in March, much of the rise in other food prices may be offset. It is quite possible, though, that the decline in both meat and produce prices will not appear in the index until April.

Among nonfood commodities, the increase for apparel was offset by declines for used cars and gasoline. When used cars and home purchase are excluded, nonfood commodities show about a 2 per cent rate of rise, instead of the 1 per cent rate of decline in February.

Service costs rose only moderately as major advances were delayed for utility rates and rents, including a significant proportion of those authorized retroactive to January 1 on rent-controlled units in New York.

Consumer prices. Consumer prices rose in February at a seasonally adjusted annual rate of 6.6 per cent as food prices soared. Other commodity prices were down slightly and service costs rose at an annual rate of under 3 per cent. Since November, consumer prices have risen at a 5 per cent rate, with the food component up at a 9 per cent rate. Nonfood commodity and service prices have increased more slowly than foods, and the rate of rise has remained in general below that in recent periods antedating the freeze. But in view of lags arising from regulatory measures--including delay in increases for utility rates and rents--and the construction of the index, these rates cannot yet serve as conclusive indicators of the effect of the stabilization program.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	Pre-stabilization period		Phase I	Phase II	
	Dec 1970 to June 1971	June 1971 to Aug 1971	Aug 1971 to Nov 1971	Nov 1971 to Feb 1972	Jan 1972 to Feb 1972
All items	4.0	3.3	1.7	4.9	6.6
Food	6.2	1.0	1.7	9.3	23.1
Commodities less food	3.0	2.6		1.7	-1.0
Services 1/	4.2	5.7	3.1	4.4	2.8
Addendum:					
All items less mortgage costs 2/	5.0	3.5	1.3	4.3	6.0
Services less home finance 1/ 2/	7.4	4.9	1.9	4.1	2.0
Commodities less food, used cars, home purchase 3/	3.0	2.1		2.8	2.1

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.
3/ Confidential.

DOMESTIC FINANCIAL SITUATION

SELECTED DOMESTIC FINANCIAL DATA

	Averages 1971 QIII	QIV	1972 QI	Feb.	Mar.	Week ended April 8
Interest rates, per cent						
Federal funds	5.47	4.75	3.55	3.29	3.83	4.16
3-mo. Treasury bills	5.01	4.22	3.44	3.20	3.73	3.82
3-mo. Federal agencies	5.29	4.40	3.56	3.35	3.86	4.08
3-mo. Euro-dollars	7.77	6.41	5.66	5.03	5.20	5.44
3-mo. finance co. paper	5.52	4.88	3.92	3.78	4.03	4.38
4-6 mo. commercial paper	5.74	5.04	4.06	3.93	4.17	4.50
Bond buyer municipals	5.75	5.16	5.24	5.29	5.31	5.40
Aaa corporate-new issues	7.68	7.19	7.15	7.16	7.22	7.23
20-year Treasury bonds	6.24	5.93	6.04	6.06	6.06	6.11
FHA mortgages, 30-year	7.91	7.65	n.a.	7.46	n.a.	--

	1971 QIII	QIV	1972 QI	Feb.	Mar.
Change in monetary aggregates (SAAR, per cent)					
Total reserves	7.2	2.2	10.3	-5.9	16.5
Nonborrowed reserves	6.0	6.9	11.2	-3.7	14.1
Credit proxy	8.1	10.0	11.6 e	7.3	17.2 e
Credit proxy + nondep. funds	7.6	9.7	11.5 e	5.9	17.5 e
Money supply	3.7	1.1	9.0 e	13.1	10.5 e
Time and savings deposits	8.2	15.9	14.5 e	16.2	7.5 e
Deposits at S&L's and MSB's	13.7	12.8	20.4 e	17.4	18.8 e
Bank credit, end-of-month 1/	9.7	8.7	16.2	12.4	18.1
Treasury securities	-18.5	2.7	13.3	26.1	23.6
Other securities	12.0	17.7	17.3	12.5	18.0
Total loans 1/	14.7	7.0	16.4	9.9	17.1
Business 1/	15.7	-1.0	7.4	9.1	9.0

	1971 QIII	QIV	1972 QI	Feb.	Mar.
Change in commercial paper ($ millions)					
Total (SA)	96	1,174	n.a.	-112	n.a.
Bank-related (NSA)	167	74	198	62	22

	1970 QI	1971 QI	Mar.	1972 QI	Feb.	Mar.
New security issues (NSA, $ millions)						
Total corp. issues	7,977	12,190	6,075	10,126 e	3,425 e	3,550 e
Public offerings	6,715	10,675	5,428	8,221 e	2,875 e	2,750 e
State and local government bond offerings	4,109	6,841	2,258	5,865 e	1,953	2,150 e
Fed. sponsored agency debt (change)	3,635	-1,031	-304	510 e	319	348 e
Fed. govt. debt (change)	1,982	1,576	675	4,235 e	1	4,100 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. Interest rates in both short- and long-term securities markets generally have moved 20 to 30 basis points higher since the last Committee meeting, continuing the advance which began in mid-February. With most short-term open market yields rising, the bank prime rate was adjusted upward to 5 per cent. The 90-day Treasury rate changed little, however, as investors--anticipating further general rate increases--showed an increased preference for short-dated bills, and the Treasury discoutinued its additions to weekly bill offerings.

As the inter-meeting period progressed, there were further signs of investor caution in long-term markets. Recent new corporate and municipal bond offerings have moved rather slowly, and a number of underwriting syndicates have been terminated with upward yield adjustments. In the secondary mortgage market mortgage bankers have reportedly become more reluctant holders of uncommitted inventory. As a result, offerings in the latest two FNMA auctions increased sharply and the volume of accepted bids was stepped up in order to keep the yield increase small. More generally, however, mortgage markets are still being sustained by continued large deposit inflows to the nonbank thrift institutions.

At commercial banks, on the other hand, net inflows of time deposits other than large CD's decelerated further in March, reflecting previous cuts in offering rates and higher yields available in the market. These slowdowns were more than offset by the very large increase in Treasury deposits. Consequently commercial bank credit expansion in March was substantial, with all asset categories showing growth. Security acquisitions were mainly in short-term assets, a factor contributing to the rise in long-term municipal bond yields. In addition, business loans increased further for the second consecutive month, suggesting that at least a modest turnabout in business loan demand may be in the making.

Outlook. Increased anticipations of a financing trend in monetary policy could conceivably bring some acceleration in capital market borrowing now planned for later in the year. At the moment, however, second quarter credit demands do not appear especially strong. Tax-exempt offerings may remain near the relatively high volume of recent months, but corporate bond offerings might well decline contra-seasonally, with financing needs moderated by the effect of previous borrowing and improved corporate cash flow. Total net Federal agency offerings are projected at a modest $2 billion for the quarter, with net Treasury cash borrowing possibly no more than $500 million. While the latter figure is small, the Treasury usually makes sizable repayments in the second quarter. With some investor liquidation of bills for tax payments likely in April and June, short-term rates may thus come under contra-seasonal upward pressure, particularly if the Federal funds rate continues to creep upward.

Long-term yields probably already reflect the generally expected updrift in short-term rates, but security and mortgage markets still appear quite sensitive to indicators of any further change in monetary policy. Potential upward interest rates pressures in the corporate, municipal and U. S. Government securities should be limited by the generally good technical position of these markets. In the mortgage market, however, further sizable increases in money and security market rates could accelerate the efforts of mortgage bankers to liquidate their apparently sizeable inventories. Whether secondary mortgage market pressures will be transferred to the primary market under these circumstances will depend on the extent to which large net saving inflows are maintained at the thrift institutions--whose outstanding commitments are at historic highs--and on whether corporate bond yields rise significantly further.

If stepped up economic expansion is translated into further increases in business loan demand, commercial banks may not only continue their recent withdrawal from the long-term tax-exempt bond market, but may also begin to reduce their mortgage commitments and acquisitions. And with Treasury deposits declining and inflows of thrift deposits diminishing in response to the higher market rates, banks may be forced to compete more aggressively for private depesits by raising CD rates further and perhaps re-instating higher rates on consumer-type and savings deposits.

Monetary Aggregates. Preliminary and partially estimated data indicate that M_1 increased at about a 10.5 per cent annual rate in March, somewhat below the very rapid February rate but well above the pace in January and late 1971. The March expansion brought the rate of increase for the fourth quarter of 1971 and the first quarter of 1972 combined to about 5 per cent.

Growth in M_2 also eased to about a 10.5 per cent annual rate in March as commercial bank time deposits other than large negotiable CD's increased less rapidly than in February. The March slowing in Bank thrift deposit growth followed an even larger drop in February, and probably reflected continued adjustments to the increases in open market yields relative to rates on such deposits. A few scattered commercial banks had reduced their rates on passbook savings accounts around February 1 and prior to that a significant proportion of large banks had reduced rates on consumer-type time certificates and other time deposits.[1/] Yields on open market instruments, on the other hand, have increased significantly since mid-February.

In contrast to M_1 and M_2, the adjusted credit proxy spurted ahead strongly in March, increasing, according to preliminary data, at about an 18 per cent annual rate. The dominant factor in this bulge was an increase of $2.4 billion in U.S. Government deposits. Increased

1/ One major bank in New York that had lowered its passbook rate has since increased it again, but most of the others that lowered, including the major California banks, have made no further change. One California bank, however, recently increased its rates on longer-term consumer CD's.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1971		1972			
	QIII	QIV	QIp	Jan.	Feb.	Mar.p
			(Annual percentage rates)			
1. M_1 (Currency plus private demand deposits)	3.7	1.1	8.6	3.2	13.1	10.4
2. M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	4.4	8.0	12.8	13.4	14.6	10.3
3. M_3 (M_2 plus savings deposits at mutual savings banks and S&L's)	7.8	9.6	15.3	15.4	16.8	13.2
4. Adjusted bank credit proxy	7.6	9.7	11.3	9.9	5.9	17.7
5. Time and savings deposits at commercial banks						
a. Total	8.2	15.9	14.5	20.0	16.2	7.3
b. Other than large CD's	5.3	14.7	16.9	24.4	15.4	10.3
Memorandum:			(Change in $ billions)			
a. U. S. Government demand deposits	2.3	-0.4	--	0.1	-2.6	2.4
b. Negotiable CD's	2.3	1.8	-0.1	-0.2	0.6	-0.4
c. Nondeposit sources of funds	-0.4	--	-0.3	-0.1	-0.3	0.1

p - Preliminary and partially estimated.

bank use of Eurodollars contributed little on average to the credit proxy growth in March, while large negotiable CD's outstanding declined on average as commercial banks did not bid aggressively to recoup the larger-than-usual run-off of such deposits over the March 15 tax date. New issue rates on CD's of all maturities rose rapidly in March, but the increases on short-term issues did little more than keep pace with the increases on similar open market investments. Rates on longer-term CD's, moreover, rose slightly less rapidly than comparable open market rates.

Bank credit. Total bank credit at all commercial banks showed another large increase in March, growing at about an 18 per cent annual rate in the end-of-month series, with a wide range of loans and investments exhibiting strength. Holdings of both U.S. Government issues and other securities increased rapidly, mainly in short maturities. Banks' concentration on short-term obligations probably reflected the large supply of new near-dated issues during the month, expectations of future rate increases on longer-term issues, and the growing belief that stronger business loan demand may be emerging.

The emergence of stronger business loan demand is suggested by the fact that such loans grew at a 9 per cent annual rate in March, for the second straight month. However, the earlier strong increase in February did not appear to be broadly based by industry, and a significant share of the March rise was concentrated in the final week of the month. The end-of-month strength at New York City banks was sharply reversed during the first week of April and thus, the statistical

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

	1971		1972			
	QIII	QIV	QI	Jan.	Feb.	Mar.
Total loans & investments 2/	9.7	8.7	16.2	17.5	12.4	18.1
U.S. Treasury securities	-18.5	2.7	13.3	-9.9	26.1	23.6
Other securities	12.0	17.7	17.3	20.8	12.5	18.0
Total loans 2/	14.7	7.0	16.4	21.6	9.9	17.1
Business loans 2/	15.7	-1.0	7.4	4.1	9.1	9.0
Real estate loans	13.7	13.2	13.8	13.3	11.7	15.9
Consumer loans	13.3	13.6	12.5	11.0	13.1	12.9

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.

evidence of a turnaround in business loan demand is not wholly clear at this point.[1/]

Given the difficulties of interpreting the business loan data, the Reserve Banks were asked to contact major commercial banks for a qualitative assessment of business loan trends. The replies tend to suggest a modest strengthening over the last two months that is anticipated to continue during the second quarter. A considerable amount of the overall strength was reported by banks outside New York, however, and was traced to regional rather than national customers. Thus, this qualitative evidence shows some of the spottiness evident in the reported statistics.

1/ The widespread increase from 4-3/4 per cent to 5 per cent in the prime loan rate in late March and early April is consistent with a strengthening of business loan demand, but this increase probably was mainly in response to increases in the cost of bank funds associated with the upward movement in money market rates.

Real estate and consumer loans at commercial banks continued to expand at about the same rapid pace prevailing for many months. Growth in security loans dropped off slightly from February, while loans to nonbank financial institutions continued to expand at a rapid rate. Most of the increase in the latter category was centered for the second consecutive month in loans to firms other than finance companies. Mortgage bankers were reported to be the heaviest borrowers in February, but the source of the March strength is uncertain.

Consumer credit. Consumer instalment credit outstanding increased in February at an $11.6 billion seasonally adjusted annual rate. This was well above the January increase of $7.6 billion, but considerably less than the record $15.2 billion rise last November.

Extensions of instalment credit in February were $1.9 billion (SAAR) higher than in January. Extensions increased for all types of credit during February except "other" consumer goods. Repayments on existing obligations decreased $2.1 billion, after a substantial advance in January.

CONSUMER INSTALMENT CREDIT EXTENSIONS
(Billions of dollars, seasonally adjusted annual rate)

	Total	Automobile	Other consumer goods	Personal loans
1971 - QI	110.1	32.2	38.7	36.9
QII	116.6	33.9	40.6	39.7
QIII	119.5	35.7	41.3	39.9
QIV	122.9	36.5	42.7	41.1
1972 - Jan.	122.2	35.7	44.5	39.3
Feb.	124.1	36.6	44.4	40.2

<u>Nonbank financial institutions and mortgage markets</u>. Nonbank thrift institutions continued to receive extraordinarily large deposit inflows during March, according to sample data. Net inflows were comparable to the record inflows received in the same period last year, and well above the pace recorded in the fourth quarter of 1971.

DEPOSIT GROWTH AT NONBANK THRIFT INSTITUTIONS
(Seasonally adjusted annual rates, in per cent)

	Mutual Savings Banks	Savings and Loan Associations	Both
1971 - QI	16.3	24.6	21.9
QII	15.0	18.4	17.3
QIII	9.6	15.7	13.7
QIV	10.6	13.3	12.8
1972 - QI e/	14.4	23.1	20.4
January*	14.1	28.4	23.9
February* p/	12.3	19.8	17.4
March* e/	16.4	19.9	18.8

*/ Monthly patterns may not be significant because of difficulties with seasonal adjustment.
p/ Preliminary.
e/ Estimated.

According to FHLBB estimates, there was an upsurge in new commitment activity at S&Ls during the month, and outstanding commitments reached another record high. Associations again used some of their inflows to repay FHLB advances in March, although repayments tapered off somewhat relative to January and February.

The large flow of funds to nonbank thrift institutions has helped to soften the impact on the mortgage market of upward rate movements in other financial sectors. Nonetheless, costs of construction financing and mortgage warehousing credit have risen over the past few weeks along with other short-term rates, and yields on long-term home mortgages have edged higher in the private secondary market, according to field reports and trade opinion. In FNMA's latest (April 3) biweekly auction, the average yield on its forward purchase commitments for Government underwritten mortgages increased by 2 basis points to 7.56 per cent--the first rise since last July. The extent of the yield increase was limited in part by FNMA's acceptance of a larger share of an increased volume of offers than in the preceeding two auctions.

Associated with these developments have been several other indications of firmer market conditions. Permanent investors are said to have placed greater emphasis than usual on immediate rather than deferred delivery of loans purchased in the secondary market. Mortgage companies, still carrying large inventories of warehoused loans, have in some cases shaved servicing fees so as to avoid reducing their asking price on mortgages for sale to private buyers. Meanwhile, S&Ls have stepped up offerings of FHA and VA mortgages to the Federal Home Loan Mortgage Corporation, as the fixed purchase price posted by FHLMC has become more attractive relative to softening prices in the private market. These offerings have consisted partly of loans originated by mortgage companies and then sold to insured S&Ls which, along with insured banks, are the only types of private institutions eligible to deal with FHLMC.

For the month of March, early indications are that average contract interest rates on conventional home mortgages in the primary market either remained unchanged or dipped slightly. Data for the FHA series should be available in time for the Supplement.

Long-term securities. Yields on corporate and municipal securities have risen almost 20 basis points since the last Committee meeting, in association with rising short-term rates and growing uncertainty about inflation and the future course of System policy. Despite this market pessimism, which was evident in the slow sales of newly issued corporate bonds, underwriters continued to maintain existing price levels on new offerings throughout most of March. In early April, however, a number of syndicates were terminated, and yields adjusted upward. The new debt issues that came late in the first week of April and reflected the higher rate levels moved quite well. Long-term Government yields have also risen, but the increase over the last four weeks has been only about half as much as in the corporate and municipal markets. System purchases of coupon issues in early April contributed to the relative stability of rates in the long-term Government market.

After climbing considerably during January and February, stock prices showed relatively little further net increase in March. The NYSE common stock index, for example, averaged 59.96 for March, only 2.6 per cent above the February average. March daily volume on the NYSE averaged 18.6 million shares, a little above the volume earlier this year. Odd-lotters remained heavy net sellers in March, and mutual fund redemptions continued to exceed sales. In early April, stock prices advanced appreciably on increased volume.

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)
1971			
Low	6.76 (1/25)	4.97 (10/21)	5.42 (3/26)
High	8.23 (5/21)	6.23 (6/24)	6.89 (7/30)
1972			
Low	6.86 (1/14)	4.99 (1/14)	5.87 (1/14)
High	7.33 (4/7)	5.49 (4/7)	6.17 (4/7)
Week of:			
March 3	7.16	5.29	6.03
10	7.12	5.18	6.02
17	7.14	5.32	6.08
24	7.26	5.34	6.09
31	7.23	5.40	6.11
April 7	7.33	5.49	6.17

1/ With call protection (includes some issues with 10-year protection).
2/ Bond Buyer (mixed qualities).

Even after indefinite suspension of a $300 million industrial issue and postponement of two large utility bonds, the March volume of public corporate bond offerings was over $1.6 billion, consisting mainly of medium-sized issues by commercial, industrial, and financially-oriented firms. Public utility offerings amounted to only one-third of the March total, but the forward utility calendar is rising rapidly now that the Price Commission freeze on utility rates has been lifted. The staff estimates that April volume will be about $1.9 billion, of which more than half will be utility issues.

But the composition of public bond volume in recent months and reports from underwriters suggest that demand for funds in the public bond market in May and probably for the second quarter as a whole will remain below the average volume for the past two quarters. There will be a large base of public utility offerings, but anticipated industrial borrowing will be moderate; and total second-quarter volume is expected to decline contraseasonally. On the other hand, the available evidence continues to suggest that private placements and new stock issues will remain close to the high first-quarter levels.

RECENT CHANGES IN STOCK PRICES

	Price as of April 10, 1972	Per cent change from Feb 29 to March 30, 1972	Per cent change from Feb 29 to April 10, 1972
NYSE	60.98	0.7	2.9
AMEX	28.33	0.7	1.7
NASDAQ	131.76	2.2	5.1
D-J Industrial	958.08	1.4	3.2

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

	1971	1972		
	Monthly average	March e/	April f/	May f/
Corporate securities - total	3,758	3,550	3,300	3,050
Public bonds	2,065	1,650	1,850	1,600
Privately placed bonds	613	800	550	550
Stock	1,080	1,100	900	900
State and local government securities	2,080	2,150	2,100	1,800

e/ Estimated.
f/ Forecast.

The recent rise in tax-exempt yields has raised expectations of further yield advances and thus triggered the issuance of a number of large revenue bonds. Because of this pick-up, staff estimates of March and April volume have been revised upward to a $2.1 billion monthly rate. The pace at which banks--particularly money center banks--have acquired long-term municipals has slackened in recent weeks. Moreover, casualty companies are reported to have substituted purchases of higher-yielding revenue bonds, which have recently come to market in large volume, for their previous acquisitions of long-term general obligation bonds--a factor which has been reflected in the sharp rise of the Bond Buyer index of 20-year general obligation issues over the past two weeks.

Short-term security markets. Since the March 21 meeting, most short-term interest rates have continued the advance that began in mid-February. Increases were notable in private short-term markets, where higher levels of CD and commercial paper rates triggered upward adjustments in bank prime rates to 5 per cent at the end of March.

SELECTED SHORT-TERM INTEREST RATES

	Mar. 21	Apr. 5	Apr. 10	Change (Mar.21-Apr.5)	Change (Mar. 21-Apr. 10)
Federal funds 1/	2.91	4.16	4.30 2/	.25	.39
Treasury bills					
3-month	3.87	3.82	3.75	-.05	-.12
1-year	4.54	4.84	4.70	.30	.16
Federal Agency					
1-year	4.91	5.24	5.26	.33	.35
90-119 day commercial paper	4.25	4.50	4.63	.25	.38
60-89 day CD's	3.98	4.38	n.a.	.40	n.a.

1/ Weekly average.
2/ 5-day average.

In the Treasury bill market, yields temporarily were reduced by the announcement on March 21 that the Treasury would not be continuing the $300 million additions to the weekly auction in view of its reduced cash needs. But with the Federal funds rate and dealer loan rates edging steadily higher, and with the added expectational impact of increases in the bank prime rate, the bill rate declines generally were erased by early April, especially in the 6-12 month area. Most recently there has been strong demand for short-dated bills and bill rates generally have declined somewhat from their between-meeting highs. Yield spreads in the bill market have widened since the last meeting, probably reflecting both firmer market expectations that rates will rise further in coming months, and the supply impact of the previously mentioned cancellation of additions to the weekly bill auctions as well as the $1.75 billion 3-year note issue, auctioned on March 28.

During the last three weeks, dealer positions in Treasury bills have tended to decrease, probably reflecting a combination of sizeable purchases by the System and other investors, and precautionary attitudes by dealers in view of expectations of rising rates. Also, dealers' recent net short position in Treasury issues maturing in more than 1 year may be indicative of their interest rate outlook. While System purchases--both in the bill and coupon market--contributed to reductions in dealer inventories, these purchases did not lead to reduced pressures on the money markets--as seen by the rising Federal funds rate--since other factors such as float and Treasury balances were absorbing reserves.

Federal finance. Since the March Greenbook, staff projections of the fiscal year 1972 deficit have been further reduced, as tax receipts continue to exceed, and expenditures to fall short of, earlier estimates. Our present projection is for a deficit of about $29 billion--$10 billion lower than the official January Budget estimate.

About half of this reduction is attributable to the recent and projected weakness of Federal expenditures, as shown in the table on the next page. The staff is still assuming a substantial speed-up in defense spending from the recent pace, but part of this would spill over into the third and fourth quarters of 1972. To reach administration fiscal year projections for defense procurement, 44 per cent of fiscal year procurement would have to take place in the current March through June period; the average for these months in fiscal years 1968 through 1971 was only 33 per cent of the fiscal year total. Specifically, current staff estimates of NIA defense purchases for the March and June quarters are $1.0 and $1.5 billion below our January estimates (at annual rates), and $0.5 billion above previous staff estimates for the September and December quarters. Nondefense expenditures also have been running below January staff projections over a wide range of programs, including CCC, other agriculture, public assistance grants and unemployment benefits. Also, present staff estimates make no allowance for payments on general revenue sharing during the current fiscal year.

On the receipts side, overwithholding is causing personal income tax receipts to be considerably higher than were projected in the January budget and even in the last Greenbook. On a NIA basis, allowing for some offset because of reduced declarations currently being filed, the staff is estimating a net excess of receipts due to

Fiscal 1972
Federal Revenues and Outlays (Budget basis)
(In billions of dollars)

	Budget Document (1-21-72)	Staff Estimate (4-10-72)	Difference
Revenues	197.8	202.5	4.7
Due to personal tax overwithholding	-- 1/	3.5 1/	3.5
Due to larger corporate income taxes	--	1.2	1.2
Outlays 2/	236.6	231.6	-5.0
Defense	78.0	77.2	- .8
General revenue sharing	2.3	--	-2.3
Other non-defense	156.3	154.4	-1.9
Deficit	38.8	29.1	-9.7
Estimate of First Half Cash finance need			
Not Seasonally adjusted	17.9	4.5	-13.4 3/
Seasonally adjusted	24.9	11.5	-13.4

1/ Budget estimate included only a correction for previous underwithholding. The staff estimate of $3.5 in overwithholding includes a deduction for smaller income tax declarations in April and June, estimated to total $1.2 billion.
2/ Staff estimates still assume a considerable acceleration in both defense and nondefense outlays toward the end of the second quarter. The projected $1.9 billion short-fall in other nondefense outlays is widespread; it includes shortfalls in nondefense purchases, transfer payments, and grants.
3/ Differs from change in deficit shown above, because of (1) smaller cash balance at end of fiscal year than is assumed in Budget Document, (2) $0.8 billion of capital gains from gold revaluation, (3) a larger amount of unpaid checks outstanding at end of fiscal year.

the overwithholding problem of $8 billion (annual rate) in the first quarter, $6 billion in the second quarter, and $4 and $3 billion respectively in the third and fourth quarters of calendar 1972.[1/] Currently, overwithholding is still close to its full potential, but the Treasury is now conducting an educational campaign to urge wage and salary earners to reduce the excess, and this campaign may lead to some gradual reduction in the rate of overwithholding. However, to the extent that last year's underwithholding may result in heavy final payments this April, or that taxpayers desire to retain a comfortable margin against tax settlements next spring, they could be leery of claiming additional withholding exemptions now. In addition to the overwithholding of personal income taxes, corporate income tax receipts for the current fiscal year appear to be running higher than in the Budget, by about $1 billion.

Looking beyond the current fiscal year, expenditures for social security benefits and for general revenue sharing still depend on Congressional action. The House-passed HR-1 calls for a 5 per cent increase in social security benefits costing $2 billion annually, plus other liberalization of benefits, starting in July 1972. The staff projections continue to assume enactment of this program. This may be too low, however, in ivew of considerable Congressional sentiment in favor of a larger benefit increase. General revenue sharing is assumed

1/ Although current declarations are not due until April, the NIA accounts, seasonally adjusted, record the estimated $2 billion reduction in current declarations over the four quarters of the year.

by the staff to begin in July, with no retroactive features. If it should be made retroactive the retroactivity would cause a further bulge in third-quarter payments.

Both the changes in projected spending levels and the delayed adjustment to the changed withholding structure have shifted staff high employment estimates to a greater surplus position for the current fiscal year, and a smaller deficit for the calendar year. The staff is now estimating, on an NIA basis, a high employment surplus of $4.4 billion for the second half of the year. The dampening effects on private spending of the increased high employment receipts may be moderated to the extent that people consider current overwithholding as a temporary rather than a permanent curtailment of their spending power.

The under-spending and heavy receipts--along with some recent asset sales--have raised the Treasury's cash balance considerably above previously projected levels. Reflecting this development, the Treasury has stopped adding to the size of weekly bill auctions, and the need for cash in May has been reduced to an estimated $2 billion. This May need could be met by selling back to the market the $1.9 billion of marketable bills the Treasury recently acquired from the German central bank in exchange for new special issues of intermediate maturity.

A cash balance of $9.8 billion is now projected for the end of April. But this level could be even higher if the new price of gold becomes effective before the end of the month and if the Treasury elects to monetize the increased value of the gold stock, adding the resulting $800 million increment to its cash balance.

Public holdings of maturing Government debt to be refinanced in May amount to only $2.5 billion. While the Treasury is also expected to refund the bond maturing in June (of which $1.1 billion is held by the public) as a part of the May operation, the total size of such a refinancing would still be relatively small.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	March	April	May	June
Total net borrowing	4.1	-2.0	1.3	1.0
Weekly and monthly bills	4.2	--	--	--
Tax bills	--	-4.0	--	-3.0
Coupon issues	--	1.8	--	--
As yet unspecified new borrowing	--	--	--	4.0
Other (debt repayments, etc.)	-.1	.2	1.3	--
Plus: Other net financial sources a/	.6	.8	.3 c/	-.4
Plus: Budget surplus or deficit (-)	-4.1	3.3	-6.0	1.6
Equals: Change in cash balance	.6 b/	2.1	-4.4	2.2
Memoranda: Level of cash balance end of period	7.7 b/	9.8	5.4 c/	7.6 c/
Derivation of budget surplus or deficit:				
Budget receipts	15.2	22.3	14.4	24.6
Budget outlays	19.3	19.0	20.4	23.0
Maturing coupon issues held by public	--	--	2.5	1.1
Net agency borrowing	.3	.3	*	.8

a/ Checks issued less checks paid and other accrual items.
b/ Actual.
c/ Includes $0.8 billion of capital gains from gold revaluation.
* Less than 50 million dollars.

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

	Fiscal 1972 e/		FY 1973 e/	Calendar Years		Calendar Quarters				
							F.R.B. Staff Estimates			
	Jan. Budget	F.R. Board	Jan. Budget	1971 Actual	1972 F.R.B.	IV*	1972 I	II	III	IV
Federal Budget										
(Quarterly data, unadjusted)										
Surplus/deficit	-38.8	-29.1	-25.5	-24.8	-31.8	-10.6	-9.5	-1.1	-9.3	-11.9
Receipts	197.8	202.5	220.8	194.0	212.3	44.6	48.0	61.3	53.9	49.1
Outlays	236.6	231.6	246.3	218.8	244.2	55.2	57.6	62.4	63.2	61.0
Means of financing:										
Net borrowing from the public	39.5	26.1	27.5	24.8	25.4	12.5	4.2	.3	8.3	12.6
Decrease in cash operating balance	--	1.2	--	-3.2	3.7	-1.3	3.6	.1	--	--
Other 1/	-.7	1.7	-2.0	3.2	2.7	-.6	1.7	.7	1.0	-.7
Cash operating balance, end of period	8.8	7.6	8.8	11.3	7.6	11.3	7.7	7.6	7.6	7.6
Memo: Net agency borrowing 2/	n.a.	4.6	n.e.	1.1	n.e.	1.4	.5	1.0	n.e.	n.e.
National Income Sector										
(Seasonally adjusted annual rate)										
Surplus/deficit	-35.0	-25.0	-28.0	-23.1	-26.3	-25.6	-19.3	-28.4	-30.0	-27.3
Receipts	202.8	208.8	227.9	198.8	220.4	203.1	217.2	217.0	221.4	226.0
Expenditures	237.8	233.8	255.9	221.9	246.6	228.7	236.5	245.4	251.3	253.3
High employment surplus/deficit (NIA basis) 3/	n.a.	4.1	n.a.	2.9	-.5	6.6	9.5	-.8	-6.7	-4.3

* 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.

INTERNATIONAL DEVELOPMENTS

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

	1971			1972p/	
	Year	III	IV	Jan.*	Feb.*
Goods and services, net 1/	699	56	-514		
Trade balance 2/	-2,879	-540	-1,526	-365	-631
Exports 2/	42,769	11,475	9,572	4,184	3,790
Imports 2/	-45,648	-12,015	-11,098	-4,549	-4,421
Service balance	3,578	596	1,012		
Remittances and pensions	-1,459	-385	-377		
Govt. grants & capital, net	-3,860	-891	-883		
U.S. private capital (- = outflow)	-9,585	-3,455	-1,694		
Direct investment abroad	-4,526	-1,404	-358		
Foreign securities	-910	-248	79	-271	-80
Bank-reported claims -- liquid	-580	-407	-119	-2	-164
" " " other	-2,389	-1,171	-814	161	-310
Nonbank-reported claims -- liquid	-509	-150	-189	-105	
" " " other	-672	-75	-293		
Foreign capital (excl. reserve trans.)	-5,400	-2,406	-726		
Direct investment in U.S.	-192	-388	120		
U.S. corporate stocks	836	231	529	269	153
New U.S. direct investment issues	1,137	200	357		
Other U.S. securities (excl. U.S. Treas.)	278	151	28		
Liquid liabilities to:	-6,705	-2,325	-1,632	388	180
Commercial banks abroad	-6,902	-2,113	-1,638	216	203
Of which liab. to branches	(-4,942)	(-1,817)	(-923)	(-106)	(-423)
Other private foreign	-478	-368	-35	20	40
Intl. & regional institutions	675	156	41	152	-63
Other nonliquid liabilities	-754	-275	-128		
Reserve liab. to foreign official institutions	27,419	10,991	6,472	865	730
U.S. monetary reserves (increase, -)	3,065	1,373	-8	-2	549
Gold stock	866	300	1	--	544
Special drawing rights 3/	468	150	-3	--	--
IMF gold tranche	1,350	851	-8	-2	5
Convertible currencies	381	72	2	--	--
Errors and omissions	-10,878	-5,283	-2,270		
BALANCES (deficit -) 3/					
Official settlements, S.A.		-12,364	-6,464		
" " , N.S.A.	-30,484	-12,704	-5,883	-863	-1,279
Net liquidity, S.A.		-9,482	-4,524		
" " , N.S.A.	-22,690	-10,082	-3,446	-1,144	
Liquidity, S.A. 4/		-10,039	-4,832		
" , N.S.A.	-23,779	-10,566	-3,721	-1,251	-1,459

* 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 allocations of SDRs as follows: $717 million on 1/1/71 and $710 million on 1/1/72.
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

Summary and outlook

In the past month international exchange and money markets have been relatively quiet. A major element in restoring confidence has been the convergence of short-term interest rates in the United States and abroad. The passage and signing of the gold bill removed a source of anxiety in the markets, and indications of forward movement toward negotiations on outstanding problems also had a calming effect. Moreover, the upward shift in U.S. interest rates and recent advances in the stock market have been taken as signs of stronger business recovery, and this in turn has probably encouraged the inward flow of foreign investment capital. In this atmosphere the market accepted without disturbance the news of heavy U.S. trade deficits in January and February, apparently being willing to discount these as normal early results of a major devaluation and also as possibly affected by dock strikes.

Abroad there are as yet few signs of strongly reviving economic activity. Nevertheless, optimism generally prevails that the stimulative measures taken in the past month or two by various governments, together with those taken earlier, will have their intended effect. To avoid rekindling inflationary expectations the authorities in some countries, notably Germany, are proceeding cautiously.

There has been little exchange market intervention by foreign authorities since mid-March, and exchange rates for a number of foreign currencies have moved a little further away from their upper limits. The U.S. official settlements account has shown near balance in this period.

Reported data on recent capital movements are limited to bank-reported flows and securities transactions in January and February. In February there was a substantial bank credit outflow, including large increases in acceptance credits related to exports. Partial information for March indicates a continuing bank credit outflow, while there was apparently some increase in the volume of foreign investment in U.S. securities as compared with January-February.

Foreign exchange markets. Following the speculative flurry of dollar sales in early March, the dollar strengthened considerably in the exchanges. Foreign central banks, for all practical purposes, have been out of the market since March 10.

FOREIGN EXCHANGE RATES
Percent Above or Below (-) Central Rates
(weekly averages)

	Sterling	Mark	Swiss Franc	Guilder	Lira	French Franc	Belgian Franc	Yen
Dec. 29	-2.2	-1.5	-1.8	-0.7	-2.1	-2.1	-0.8	-2.2
Jan. 26	-0.7	0.3	-0.8	1.5	-1.2	-0.7	1.6	-1.1
Feb. 23	0.0	1.6	-0.3	2.3	-0.9	0.8	2.3	1.7
Mar. 15	1.1	2.0	0.3	2.1	0.4	1.8	2.1	2.1
Mar. 29	0.2	1.5	-0.5	1.5	-0.2	1.4	1.8	1.9
Apr. 12	0.2	1.6	0.3	1.3	-0.1	1.6	1.9	1.8

The major factor behind the exchange market turnaround, apart from capital control measures instituted by the Netherlands and Belgium on March 9, appears to have been the narrowing of the interest rate gap between the United States and major foreign money markets. U.S. short-term rates rose (as reported in Part II), while rates on foreign currency assets were generally declining from the first week of March to the first week of April. The movement of interest rate differentials was reflected in the exchange markets in a fall in spot exchange rates and a rise in forward premiums (or decline in discounts) for foreign currencies.

Though forward premiums have increased, the absolute levels of forward exchange rates have declined, and as of early April, three-month forward rates for all major currencies, except the Japanese yen, had moved below the upper limits for spot rates, an indication of reduced speculative pressures in the markets.

The Governors of the EEC central banks announced, on April 10, that those central banks will establish the narrower (± 1-1/8 percent) bands among their currencies on April 24. Since early March all of the five currencies have been within this band in the market, so that no intra-EEC intervention would have been occasioned had the new arrangement been in force.

Euro-dollar market. Euro-dollar rates declined relative to comparable U.S. money market rates in early April, as the rise in

U.S. interest rates did not generate additional pressure on Euro-dollar interest rates. Banks in the U.S. increased their takings from the Euro-dollar market in March but reversed these borrowings in early April, apparently in order to avoid the 20 percent reserve requirement on daily average liabilities in excess of reserve free bases for the computation period ended Wednesday, April 12. It appears as though a fairly sizable increase in U.S. banks' borrowing abroad might have occured in the absence of the 20 percent reserve requirement.

SELECTED EURO-DOLLAR AND U.S. MONEY MARKET RATE

Average for month or week ending Wednesday	(1) Over-night Euro-$ 1/	(2) Federal Funds 2/	(3) Differ-ential (1)-(2)	(4) 1-month Euro-$ Deposit 1/	(5) 30-59 day CD rate (Adj.) 3/	(6) Differ-ential (4)-(5)
1972-Jan.	4.58	3.50	1.08	5.02	3.81	1.21
Feb.	4.02	3.29	0.73	4.46	3.43	1.03
Mar.	3.87	3.83	0.04	5.05	3.80	1.25
1972-Mar. 8	3.94	3.43	0.51	4.40	3.42	0.98
15	4.16	3.88	0.28	5.11	3.95	1.16
22	3.75	3.91	-0.16	5.28	4.04	1.24
29	3.68	4.09	-0.41	5.56	4.15	1.41
Apr. 5	4.00	4.16	-0.16	4.85	4.47	0.38
12p	3.88	4.28	-0.40	4.91	4.47	0.44

1/ All Euro-dollar rates are noon bid rates in the London market; overnight rate adjusted for technical factors to reflect the effective cost of funds to U.S. banks.
2/ Effective rate.
3/ Offer rates (median, as of Wednesday) on large denominated CD's by prime banks in New York City; daily rates are carried forward from the previous Wednesday; CD rates adjusted for the cost of required reserves.
p/ Preliminary.

U.S. balance of payments. The official settlements deficit in the three weeks ended April 5 was very small -- less than $50 million -- and the deficit in the week of April 12 was also probably very small. For the month of March, however, the deficit was much larger, about $1-1/4 billion, reflecting the flareup in foreign exchange markets that occurred in the first half of the month. For the first quarter as a whole the deficit was $3-1/4 billion, not seasonally adjusted. Liabilities to commercial banks abroad increased by over $3/4 billion in the first three months, with the increase principally in liabilities of U.S. agencies of foreign banks. The balance on the liquidity basis was over $4 billion for the first quarter.

Although data on major components of the balance of payments for the first quarter are very incomplete, the major elements of weakness evidently included the continuing large trade deficits, a large increase in bank lending in February and March, and unrecorded transactions of a speculative nature. The bank credit expansion for the quarter as a whole was contrary to the reduction in lending that usually occurs during these months.

Partially offsetting these adverse movements was the substantial net inflow to purchase U.S. securities other than Treasury obligations. Foreigners' purchases of U.S. stocks in January and February were $270 million and $150 million respectively, and March purchases are estimated to have been about the same as in February. Sales of Euro-bond issues by U.S. companies to finance their direct investment activities abroad increased very sharply in the first quarter, particularly in March. Issues of convertible bonds are again being favored by foreign investors, reflecting optimism regarding a further advance in the U.S. stock market and the generally improved outlook for the U.S. economy.

U.S. foreign trade. The U.S. trade deficit in February increased sharply to nearly \$650 million -- \$7-1/2 billion at an annual rate, balance of payments basis. This compares with a deficit of \$4-1/2 billion at an annual rate in January and the last 9 months of 1971. Both exports and imports fell in February from the high post-strike levels of January but the drop in exports was steeper than in imports -- 10 percent against 3 percent. Imports remained relatively high in February partly, it is believed, because shipments delayed by last year's dock strikes were still coming in. The reopening of West Coast ports on February 20, following the new month-long work stoppage at these ports, may also have partly accounted for the relative strength in imports, since vessels have to be unloaded before export cargo can be moved.

Strength in the reported value of imports in February also reflected a large rise in import unit values -- by 2.5 percent over that of January. The increase in export unit values was much smaller -- less than one percent. While the monthly unit-value series is typically erratic -- all the more so during periods of dock strikes when the commodity composition of goods is distorted -- the rise in import unit values in February was unusually large and probably reflects for the first time the effects of the new exchange rates. U.S. customs officials raise the declared dollar value of import entries on the basis of the new higher exchange rates for foreign currencies unless there is firm evidence that the declared dollar values are actual transactions values. (It is not clear whether or not this procedure results in overstating the true dollar cost of imports.) The <u>volume</u> of imports in February was also exceptionally high, partly because of strike-related inflows as noted above.

The combination of a continuing large volume of imports and higher prices for these goods is not unusual in the period immediately following a devaluation. February, however, appears to be the first month in which this characteristic effect has been evident. The duration of this "perverse" devaluation effect, i.e., raising rather than lowering the aggregate value of imports, will depend on the time it takes for domestic buyers to adjust to these new higher prices for foreign products by switching to domestically-produced goods.

<u>The policy stance in selected industrial countries.</u> Most major foreign countries are now following basically expansionary policies, although concern about inflation remains widespread. Such policies are generally consistent at present with external as well as domestic objectives, but two questions can be raised. Are the policies sufficiently expansionary? Does the present mix of monetary and fiscal policies, however suitable it may be in terms of domestic objectives, take sufficient account of the implications for short-term capital flows?

In the United Kingdom, a highly expansionary Budget seems adequate to achieve domestic objectives. The monetary implications of the U.K. Budget are not entirely clear, but it does seem that greater emphasis on expansive monetary policy might have been appropriate on external grounds. In Japan, and perhaps even in Germany, there appears to be scope for a more expansionary policy generally -- again, with emphasis on monetary policy probably preferable for external reasons.

The <u>United Kingdom</u> Budget for the fiscal year beginning April 1, announced on March 21, reduces taxes sharply in order to stimulate demand. Personal exemptions from income tax are increased and purchase tax rates are lowered; the combined effect of these and other changes is £1,211 million in FY 1972/73 (equivalent to roughly $24 billion for an economy the size of that of the United States). Expenditure changes are relatively small. The aim is to raise national output in the first half of 1973 by about 2 per cent above its projected level in the absence of budget changes -- sufficient to yield a 5 per cent annual rate of growth between the second half of 1971 and the first half of 1973.

Calculations allowing for estimated leakages into saving and into expenditure for imports suggest that the budgeted tax reductions are indeed large enough to raise national output by 2 per cent, even without allowing for second-round effects.[1/]

Specific measures to encourage capital expenditures include the extension to all parts of the country of free depreciation --i.e., a possible 100 per cent first-year allowance -- on all new investment in plant and machinery (except passenger cars) and a 40 per cent initial allowance on new industrial buildings, both provisions having applied previously only in development areas.[2/] Furthermore, in an attempt to

1/ These calculations follow the pattern of those made by the National Institute of Economic and Social Research for calendar years 1966-73.

2/ In addition, regulations regarding sterling financing of direct investment in Britain by non-residents, especially those of EC countries, were liberalized. Although this action was not taken specifically to encourage investment, it might have some effect in that direction. Regulations concerning sterling financing of direct investment by British residents in other countries were also liberalized -- again in a way which discriminates in favor of EC countries. Both measures were taken in conjunction with Britain's prospective entry into the EC in January 1973.

remove the uncertainty that has been caused in the past by British "stop-go" policies, the Chancellor announced that in the future he would be prepared to alter the sterling exchange rate rather than interrupt the Government's expansionary program if the balance of payments situation required such action.

The latest survey of business opinion, published on April 4 by the Financial Times, indicates that confidence in the general economic outlook has indeed been increased by the Budget. Private fixed investment expenditure plans have not responded yet, but such expenditures are officially forecast to increase at an 8-1/2 per cent annual rate between the second half of 1971 and the first half of 1973.

In his Budget speech, the Chancellor predicted "a growth of money supply ... high by the standards of past years, in order to ensure that adequate finance is available for the extra output." No further indications of the outlook for monetary policy were included. However, given a huge public sector borrowing requirement, it is likely that interest rates, which have been declining more or less continuously for over a year, will turn upward in the course of the year.

In Germany, fiscal policy will be less stimulative than was expected at the turn of the year. The Federal Government has abandoned previous plans to release DM 2.5 billion of countercyclical funds.

Presumably, the Laender will similarly refrain from spending the DM 1.6 billion in countercyclical funds at their disposal. The stimulative fiscal action now planned is confined essentially to the refunding in June of the surcharge on personal and corporate income tax payments -- an action legally required by March 31, 1973 in any case. The surcharge refund, almost 90 per cent of which will go to individuals, amounts to DM 5.9 million or slightly less than 1 per cent of GNP. The timing of the refund is avowedly designed to make the action as non-expansionary as possible. The Government hopes that the lump-sum form of repayment -- rather than in installments -- will result in a relatively large portion of it being saved or, perhaps, spent abroad by German tourists on their summer vacations.

The change in the stance of fiscal policy can be largely attributed to recent evidence suggesting that the slow-down in German economic activity has bottomed out. This evidence reflects mostly only January data, but seems sufficient to convince an inflation-fearing Government that stimulative action is no longer required.

The shift to a less expansionary fiscal stance than envisaged earlier this year would be consistent with the notion that whatever stimulation is necessary would be more appropriately achieved by means of monetary policy, given the undesirably large accumulation of foreign reserves by Germany. However, the monetary actions taken so far indicate a cautious attitude on the part of the Bundesbank; the lowering of the discount and Lombard rates at the end of February was accompanied by actions to restrict bank liquidity, by reducing rediscount quotas. The invoking of the Bardepot Law, designed to inhibit foreign borrowing by German non-bank corporations, also works toward restricting bank liquidity and putting upward pressure on interest rates.

The recession in Japan is reportedly bottoming out, but there are fewer signs than in Germany that the upswing has begun. The Japanese Government has promised an expansionary fiscal policy for the fiscal year ending March 31, 1973, but parliamentary approval of the Budget has been held up by opposition parties in the Diet. The Finance Minister has stated that he will propose an income tax reduction during this fiscal year if economic recovery proves too slow. An easy monetary policy stance is being maintained, though interest rates in Japan remain high compared to those elsewhere.

Italian fiscal policy in 1972 is designed to stimulate aggregate domestic expenditures through a sizeable increase in the central government cash deficit. The first projections of the budget on a cash basis ever prepared in Italy show the deficit increasing from 2.1 trillion lire in 1971 to 3.4 trillion lire, a rise equal to about 2 per cent of GNP. The increase in receipts is expected to slow sharply this year, while no slowdown is planned for the rise in total disbursements. The fiscal policy objective is to increase real GNP this year by 4.5 to 5 per cent (compared with 1971's rise of 1.4 per cent). Realization of the expenditure goal would require a speed-up of notoriously slow administrative procedures concerning public investment, which is planned to rise sharply, and some slippage may occur. Partly for this reason the OECD Secretariat has projected the real GNP increase at a lesser 3.5 to 4 per cent.

Monetary policy was eased further when the Bank of Italy reduced the discount rate from 4.5 to 4 per cent on April 10, a move whose effects should be mainly psychological since banks are very liquid now.

In Belgium, fiscal policy is being actively employed this year to cushion the slowdown of private investment. The ordinary budget shows a planned deficit -- a rarity in Belgium. In addition, extraordinary expenditures (capital outlays financed by borrowing) will rise sharply, partly in reflection of new public works programs begun this year. Monetary policy has been progressively eased in recent months, and short-term rates have fallen 1 to 1-1/2 percentage points since the beginning of the year.

On April 6 the Swiss National Bank imposed a marginal reserve requirement on domestic bank liabilities as provided for in a 1969 gentlemen's agreement; it applies to increases over the July 1971 level. The move seems mainly precautionary, in response to the expectation of a possible export-led pick-up in aggregate demand later this year.