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CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

May 9, 1973

By the Staff
Board of Governors
of the Federal Reserve System

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DOMESTIC NONFINANCIAL SCENE

May 8, 1973

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

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	Apr.	5/4	88.4	1.1	6.6	2.5
Unemployment rate	Apr.	5/4	5.0	5.0 1/	5.0 1/	5.8 1/
Insured unemployment rate	Mar.	4/20	2.8	2.8 1/	3.0 1/	3.6 1/
Nonfarm employment, payroll (mil.)	Apr.	5/4	75.0	1.7	4.3	3.9
Manufacturing	Apr.	5/4	19.7	6.9	5.6	5.1
Nonmanufacturing	Apr.	5/4	55.3	-0.1	3.8	3.5
Private nonfarm:						
Average weekly hours (hours)	Apr.	5/4	37.4	37.2 1/	36.9 1/	37.3 1/
Hourly earnings ($)	Apr.	5/4	3.83	6.3	6.4	5.8
Output per manhour (1967=100)	Q I	5/4	115.2	4.1	--	4.9
Compensation per manhour (1967=100)	Q I	5/4	147.3	10.6	--	7.2
Unit labor cost (1967=100)	Q I	5/4	127.9	6.2	--	2.2
Manufacturing:						
Average weekly hours (hours)	Apr.	5/4	41.1	40.9 1/	40.3 1/	40.8 1/
Unit labor cost (1967=100)	Mar.	4/26	121.6	-4.9	5.7	2.4
Industrial production (1967=100)	Mar.	4/16	121.7	7.9	8.4	9.4
Consumer goods	Mar.	4/16	129.0	10.3	7.3	7.9
Business equipment	Mar.	4/16	115.6	12.6	16.2	14.1
Defense & space equipment	Mar.	4/16	80.4	-1.5	1.5	3.6
Materials	Mar.	4/16	125.0	10.7	9.8	10.5
Consumer prices (1967=100)	Mar.	4/20	129.9	9.6	8.5	4.7
Food	Mar.	4/20	134.8	30.1	26.9	10.0
Commodities except food	Mar.	4/20	121.7	4.0	3.3	2.8
Services 2/	Mar.	4/20	136.6	3.5	3.5	3.4
Wholesale prices (1967=100)	Apr.	5/3	130.6	11.7	19.7	11.2
Industrial commodities	Apr.	5/3	124.1	15.8	14.0	6.1
Farm products & foods & feeds	Apr.	5/3	148.2	0.8	33.0	25.1
Personal income ($ bil.) 3/	Mar.	4/18	1001.2	8.1	7.4	9.6
				(Not at Annual Rates)		
Plant & equipment expen. ($ bil.) 4/	1973	5/4	105.5	--	--	19.3
Mfrs. new orders dur. goods ($ bil.)	Mar.	5/1	41.5	3.6	10.5	24.6
Capital goods industries:	Mar.	5/1	12.8	6.5	8.5	23.5
Nondefense	Mar.	5/1	10.7	6.8	6.4	25.6
Defense	Mar.	5/1	2.1	4.9	21.5	13.4
Inventories to sales ratio:						
Manufacturing and trade, total	Feb.	5/8	1.42	1.43 1/	1.46 1/	1.56 1/
Manufacturing	Mar.	5/1	1.57	1.57 1/	1.61 1/	1.70 1/
Trade	Feb.	5/8	1.28	1.29 1/	1.33 1/	1.39 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	Mar.	5/1	.823	.843 1/	.864 1/	.931 1/
Retail sales, total ($ bil.)	Mar.	5/8	41.9	1.7	6.4	15.1
GAF	Mar.	5/8	11.3	4.8	12.3	17.4
Auto sales, total (mil. units) 3/	Apr.	5/4	11.65	-7.8	-4.2	13.7
Domestic models	Apr.	5/4	9.78	-8.1	-4.8	11.4
Foreign models	Apr.	5/4	1.86	-6.2	-1.2	27.7
Housing starts, private (thous.) 3/	Mar.	4/17	2,259	-8.1	-4.6	-2.3
Leading indicators (1967=100)	Mar.	4/26	161.1	1.4	4.7	16.5

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate. 4/ McGraw-Hill survey taken May 1973.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Current dollar GNP is expected to increase about $34 billion this quarter, a somewhat larger rise than projected four weeks ago. The upward revision reflects entirely an expectation of a larger average price increase.

The projected second quarter advance in nominal GNP amounts to an annual rate of 11 per cent, compared with 14 per cent in the first quarter. We continue also to anticipate a moderation of real growth, with real GNP projected to increase this quarter at an annual rate of 6 per cent, following rates of 8 per cent in the two preceding quarters. The rise in the GNP implicit deflator and the private fixed weight index is expected to slow only a little from the exceptionally rapid first quarter pace.

Activity in the industrial sector continues brisk. Industrial production is tentatively estimated to have increased at about an 8-1/2 per cent annual rate in April, about the same as in the first quarter. Gains in output were widespread, with business equipment particularly strong. Manufacturing employment also rose considerably further in April, and the factory workweek edged up to its highest level in over 6 years.

The anticipated moderation of real expansion in the second quarter reflects primarily an expected slowing of the rise in consumer spending from the exceptional first quarter pace. Weekly retail sales suggest a decline in April from the sharply advanced March level.

Unit auto sales were at an annual rate of 11.7 million in April (9.8 million domestic-type), down somewhat from the first quarter average. Also, residential construction activity is expected to turn down this quarter. New housing starts were off 8 per cent in March, and the decline of permits in recent months suggests a probable further drop in starts.

Business demands, on the other hand, appear to be strengthening. The McGraw-Hill survey taken in April indicates an increase of 19 per cent in anticipated business expenditures for plant and equipment in 1973, compared with 14 per cent indicated by the Commerce survey taken in February. Much of the upscaling is in durable goods manufacturing and is consistent with continued strength in new orders and increasing reports of pressures on capacity. Inventory/sales ratios are at unusually low levels, and a sizable increase in inventory investment appears in prospect in this and coming quarters.

Wage rates advanced more rapidly in March and April than over the preceding few months, but the average rate of increase in the hourly earnings index remains moderate thus far in 1973. In real terms, weekly and hourly earnings have fallen below the highs reached early last fall.

Wholesale prices of farm products and foods edged up only slightly in April, following five months of exceptionally large increases, but prices of consumer finished foods advanced considerably further. Prices of industrial commodities rose 1.3 per cent, the third consecutive month of large and widespread increases. On May 2, the

President announced that prenotification would be required of large firms that raise the average of their prices by more than 1-1/2 per cent above that authorized on January 10.

Outlook. The staff continues to assume growth in the monetary aggregates consistent with expansion in M_1 at a 5 to 5-1/2 per cent annual rate this year, and some further rise in market interest rates. The Federal spending assumptions are unchanged.

The current GNP projection for the second half of 1973 differs little from that of four weeks ago. Growth in real GNP is still projected to taper off to an annual rate of around 4 per cent in the fourth quarter, and the unemployment rate to edge down to about 4-3/4 per cent.

We have raised somewhat our projection of business fixed investment on the basis of the McGraw-Hill survey and also incoming information on orders. Net exports, on the other hand, are expected to be a bit weaker. The rise in consumer spending is still projected to slow appreciably, as growth of disposable income moderates following completion of tax refunds. Inventory investment is projected to rise to an annual rate of about $20 billion in the fourth quarter; even so, stock-sales ratios would remain near recent low levels.

The projected slowdown in the rise in the private GNP fixed weight price index--from a 6.7 per cent annual rate in the first quarter to 4.7 per cent in the fourth--reflects primarily the anticipation that food price increases will slow sharply from the extraordinary rates of early this year. But rising costs are expected to exert upward pressure on prices of other goods and services, particularly producer and consumer durables.

STAFF GNP PROJECTIONS

Date	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	
	4/11/73	Current	4/11/73	Current	4/11/73	Current	4/11/73	Current
1971 1/	74.0	74.0	2.7	2.7	4.5	4.5	5.9	5.9
1972 1/	101.4	101.4	6.4	6.4	3.3	3.3	5.6	5.6
1973	128.8	131.3	6.7	6.8	4.3	4.6	4.8	4.8
1972-I 1/	31.0	31.0	6.5	6.5	4.5	4.5	5.8	5.8
-II 1/	30.3	30.3	9.4	9.4	2.5	2.5	5.7	5.7
-III 1/	24.6	24.6	6.3	6.3	2.9	2.9	5.6	5.6
-IV 1/	30.9	30.9	8.0	8.0	3.1	3.1	5.3	5.3
1973-I 1/	40.1	40.6	7.0	7.9	6.2	6.7	5.0	5.0
-II	32.5	34.5	6.1	6.0	4.5	5.3	4.9	4.9
-III	29.0	29.5	4.8	4.8	4.3	4.4	4.8	4.8
-IV	27.0	28.0	3.8	3.9	4.6	4.7	4.7	4.7
Change: 1972-IV to 1973-IV	128.6	132.6	5.5	5.7	5.0	5.3	- .6	- .6

1/ Actual.

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

	1972	1973 Proj.	1972 III	1972 IV	1973 Ip	1973 Projected II	1973 Projected III	1973 Projected IV
Gross National Product	1151.8	1283.1	1164.0	1194.9	1235.5 1/	1270.0	1299.5	1327.5
Final purchases	1145.9	1268.7	1156.0	1184.6	1229.3 1/	1256.0	1281.5	1308.0
Private	891.3	993.7	900.4	925.3	962.5 1/	984.1	1004.0	1024.4
Excluding net exports	895.5	997.7	903.8	928.8	965.2	989.6	1009.0	1027.0
Personal consumption expenditures	721.0	800.3	728.6	745.7	773.7	793.6	809.5	824.4
Durable goods	116.1	133.1	118.6	120.8	130.1	133.0	134.5	135.0
Nondurable goods	299.5	335.9	302.0	310.4	322.9	332.9	340.2	347.4
Services	305.4	331.3	308.0	314.5	320.7	327.7	334.8	342.0
Gross private domestic investment	180.4	211.9	183.2	193.4	197.7 1/	210.0	217.5	222.1
Residential construction	54.0	56.6	54.4	57.0	59.2	57.7	55.7	53.8
Business fixed investment	120.5	140.8	120.7	126.1	132.3	138.3	143.8	148.8
Change in business inventories	5.9	14.4	8.0	10.3	6.2 1/	14.0	18.0	19.5
Nonfarm	5.6	14.3	7.9	10.1	5.9 1/	14.0	18.0	19.5
Net exports of goods and services 2/	-4.2	-4.0	-3.4	-3.5	-2.7 1/	-5.5	-5.0	-2.6
Exports	73.7	93.0	74.4	79.6	88.1 1/	91.8	94.0	98.2
Imports	77.9	97.0	77.8	83.1	90.8 1/	97.3	99.0	100.8
Gov't. purchases of goods and services	254.6	274.9	255.6	259.3	266.8	271.9	277.5	283.6
Federal	105.8	108.0	105.4	104.0	107.0	107.1	108.2	109.8
Defense	75.9	74.5	75.1	73.2	75.0	74.2	74.3	74.6
Other	29.9	33.5	30.2	30.8	32.1	32.9	33.9	35.2
State & local	148.8	166.9	150.2	155.2	159.8	164.8	169.3	173.8
Gross national product in constant (1958) dollars	789.5	843.5	796.1	811.6	827.1	839.5	849.6	857.9
GNP implicit deflator (1958 = 100)	145.9	152.1	146.2	147.2	149.4	151.3	152.9	154.7
Personal income	935.9	1028.9	939.9	974.6	993.9	1019.5	1041.0	1061.0
Wage and salary disbursements	627.0	691.3	630.6	648.8	668.4	684.5	699.3	713.0
Disposable income	795.1	880.0	798.8	828.2	850.9	876.0	888.6	904.6
Personal saving	54.8	59.0	50.8	62.8	57.3	61.7	58.0	58.8
Saving rate (per cent)	6.9	6.7	6.4	7.6	6.7	7.0	6.5	6.5
Corporate profits before tax	94.3	119.0	95.7	101.5	113.9	118.0	120.5	123.5
Corp. cash flow, net of div. (domestic)	91.7	108.0	93.1	97.1	104.4	107.4	109.2	111.1
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	228.6	260.3	229.8	238.4	251.1	253.9	265.1	271.1
Expenditures	246.8	265.4	241.6	262.7	260.4	264.0	266.8	270.5
Surplus or deficit (-)	-18.1	-5.1	-11.8	-24.3	-9.3	-10.1	-1.7	0.6
High employment surplus or deficit (-)	-0.9	-0.8	3.9	-12.1	-1.5	-4.3	-0.3	2.9
State and local government surplus or deficit (-), N.I.A. basis	12.7	11.3	9.4	19.5	14.6	11.4	10.3	9.0
Total labor force (millions)	89.0	90.8	89.3	89.6	90.0	90.6	91.0	91.4
Armed forces "	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Civilian labor force "	86.5	88.4	86.9	87.2	87.6	88.2	88.6	89.0
Unemployment rate (per cent)	5.6	4.8	5.6	5.3	5.0	4.9	4.8	4.7
Nonfarm payroll employment (millions)	72.8	75.3	72.9	73.8	74.6	75.2	75.6	75.9
Manufacturing	18.9	19.7	18.9	19.3	19.6	19.7	19.8	19.8
Industrial production (1967 = 100)	114.4	124.1	115.0	118.4	120.8	123.4	125.4	126.7
Capacity utilization: Mfg. (per cent)	77.6	81.2	78.1	79.7	80.5	81.2	81.5	81.5
Major materials (per cent) 3/	89.6	94.5	90.6	92.2	93.6	94.4	94.8	95.2
Housing starts, private (millions, A.R.)	2.38	2.13	2.37	2.40	2.40	2.18	2.05	1.90
Sales new autos (millions, A.R.)	10.94	11.71	11.53	11.69	12.23	12.10	11.50	11.00
Domestic models	9.32	10.03	9.91	9.90	10.27	10.35	10.00	9.50
Foreign models	1.61	1.68	1.61	1.79	1.95	1.75	1.50	1.50

1/ F. R. estimates reflecting more recent balance of payments data than were incorporated in the Commerce preliminary estimates.

2/ GNP exports and imports estimates for 1972 have not yet been revised to reflect revised Balance of Payments estimates incorporating new seasonal factors; these revised estimates for 1972 and corresponding projections for 1973 are:

Net exports of goods & services	-4.2	-3.1	-3.5	-2.6	-1.8	-4.6	-4.1	-1.7
Exports	77.5	93.5	73.9	80.1	88.6	92.3	94.5	98.7
Imports	77.8	96.6	77.3	82.7	90.4	96.9	98.6	100.4

3/ Unpublished, preliminary F.R.B. measure of capacity utilization for a selected grouping of major materials producing industries (to be discussed in forthcoming supplement to Greenbook). Not for use outside of F. R. System.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1972	1973 Proj.	1972 III	1972 IV	1973 Ip	1973 Projected II	1973 Projected III	1973 Projected IV
				Billions Of Dollars				
Gross National Product	101.4	131.3	24.6	30.9	40.6	34.5	29.5	28.0
Inventory change	2.3	8.5	3.0	2.3	-4.1	7.8	4.0	1.5
Final purchases	99.2	122.8	21.6	28.6	44.7	26.7	25.5	26.5
Private	77.4	102.4	20.1	24.9	37.3	21.6	19.9	20.4
Excluding net exports	82.3	102.2	18.3	25.0	36.4	24.4	19.4	18.0
Net exports	-4.9	0.2	1.8	-0.1	0.8	-2.8	0.5	2.4
Government	21.8	20.3	1.5	3.7	7.5	5.1	5.6	6.1
GNP in constant (1958) dollars	47.8	54.0	12.2	15.5	15.5	12.4	10.1	8.3
Final purchases	45.8	47.4	9.8	13.8	17.7	7.9	6.8	6.7
Private	40.6	44.5	11.1	13.8	17.3	5.5	5.6	5.4
				Per Cent Per Year				
Gross National Product	9.7	11.4	8.9	11.0	14.3	11.2	9.3	8.6
Final purchases	9.5	10.7	7.6	9.9	15.1	8.7	8.1	8.3
Private	9.5	11.5	9.1	11.1	16.1	9.0	8.1	8.1
Personal consumption expenditures	8.4	11.0	8.5	9.4	15.0	10.3	8.0	7.4
Durable goods	12.2	14.6	16.5	7.4	30.8	8.9	4.5	1.5
Nondurable goods	7.7	12.1	6.5	11.1	16.1	12.4	8.8	8.5
Services	7.8	8.5	7.4	8.4	7.9	8.7	8.7	8.6
Gross private domestic investment	18.7	17.5	14.0	22.3	9.5	24.2	14.3	8.5
Residential construction	26.8	4.8	12.1	19.1	15.4	-10.1	-13.9	-13.6
Business fixed investment	14.0	16.8	5.0	17.9	19.7	18.1	15.9	13.9
Gov't. purchases of goods & services	9.4	8.0	2.4	5.8	11.6	7.6	8.2	8.8
Federal	8.2	2.1	-10.0	-5.3	11.5	0.4	4.1	5.9
Defense	6.3	-1.8	-17.8	-10.1	9.8	-4.3	0.5	1.6
Other	13.7	12.0	8.1	7.9	16.9	10.0	12.2	15.3
State & local	10.2	12.2	11.5	13.3	11.9	12.5	10.9	10.6
GNP in constant (1958) dollars	6.4	6.8	6.3	8.0	7.9	6.0	4.8	3.9
Final purchases	6.2	6.0	5.0	7.0	8.8	3.8	3.2	3.2
Private	6.7	6.9	7.0	8.5	10.5	3.2	3.3	3.0
GNP implicit deflator	3.0	4.3	2.4	2.8	6.0 1/	5.1	4.4	4.7
Private GNP fixed weight index 2/	3.3	4.6	2.9	3.1	6.7	5.3	4.4	4.7
Personal income	8.6	9.9	7.7	14.8	7.9	10.3	8.4	7.7
Wage and salary disbursements	9.4	10.3	6.6	11.5	12.1	9.6	8.6	7.8
Disposable income	6.8	10.7	8.3	14.7	11.0	11.8	5.8	7.2
Corporate profits before tax	13.2	26.2	17.9	24.2	48.9	14.4	8.5	10.0
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.8	13.9	8.7	15.0	21.3	4.5	17.6	9.1
Expenditures	11.8	7.5	-8.0	34.9	-3.5	5.5	4.2	5.5
Nonfarm payroll employment	3.0	3.5	2.2	4.9	4.3	3.0	2.1	1.6
Manufacturing	2.2	4.1	0.0	8.0	4.9	2.9	2.0	0.0
Industrial production	7.1	8.5	6.7	11.8	8.2	8.5	6.3	4.4
Housing starts, private	14.1	-10.5	15.1	6.4	0.2	-37.3	-23.9	-29.3
Sales new autos	6.8	7.1	41.9	5.7	18.5	-4.3	-19.8	-17.4
Domestic models	7.4	7.6	44.9	-0.5	15.2	3.0	-13.5	-20.0
Foreign models	3.3	4.2	27.9	44.1	36.4	-41.8	-57.1	0.0

1/ Excluding Federal pay increase, 5.3 per cent annual rate.

2/ Using expenditures in 1967 as weights.

<u>Industrial production</u>. Industrial production is tentatively estimated to have increased about 0.7 per cent further in April, about the same percentage as in March, to a level 8.7 per cent above a year earlier. Gains in output are indicated to be widespread, except for a number of durable consumer goods which were already at advanced levels.

Production of autos, some household appliances, and color TV sets have been close to capacity for some months. However, output of household furniture, room air conditioners, some apparel lines, and consumer chemical and paper products apparently rose further in April.

Advances in output of business equipment are estimated to be widespread and to have continued at the rapid rate of growth of recent months. Among industrial materials, production of raw steel increased and output of textiles, chemicals and rubber products are indicated to have risen further, but capacity limitations seem to be restricting gains in some other materials-producing industries.

<u>Retail sales</u>. Sales in April declined 2 per cent from March, according to tentative staff estimates based on weekly data. The lower sales were largely in the automotive, apparel, and general merchandise groups which had reported unusually large gains in recent months. Sales of the food group were unchanged from the previous month.

More complete sample counts for February and March slightly lowered the very large first quarter rise in sales. According to revised data, first quarter sales were 5.7 instead of 6.0 per cent above the fourth quarter. The automotive and food groups were primarily responsible for the lower estimates; the GAF group was revised upward with the first quarter increase now 6.9 per cent rather than 6.4 per cent.

RETAIL SALES
(Seasonally adjusted, percentage changes
from previous quarter)

	1972		1973		
	Q III	Q IV	Q I	February	March
Total sales	2.6	3.7	5.7	1.3	1.7
Durable	3.9	5.4	8.2	1.2	1.5
Auto	4.6	6.0	7.8	.8	2.2
Furniture and appliance	2.0	3.2	9.3	3.0	.2
Nondurable	1.9	2.8	4.4	1.4	1.8
Food	1.7	1.7	3.7	- .8	.2
General merchandise	2.6	2.0	6.1	2.5	5.2
Total, less auto and nonconsumption items	1.9	2.9	4.7	1.4	1.6
GAF	1.9	2.8	6.9	2.7	4.8
Real*	1.6	2.8	3.6	.3	.5

* Deflated by all commodities CPI, seasonally adjusted.

<u>Unit sales of consumers durables</u>. Sales of new domestic-type autos were at a 9.8 million unit annual rate in April, down from the record 10.6 million of March but well above a year earlier. In the first 4 months of 1973, sales were at an average rate of 10.2 million units.

Foreign car sales in April were at a 1.9 million unit rate, down 6 per cent from the record level of March but a fourth higher than a year ago. The import share, on a seasonally adjusted basis was 16.0 per cent, little changed from last month but above the 14.6 per cent of April last year.

Unit factory sales of major home appliances, TVs, and radios are estimated to be 4 per cent above March levels, in the basis of data through the middle of April. Color TV sales increased enough to more than offset a decline in black and white units and total TV sales were 5 per cent above March. Appliances were 3 per cent above a month earlier as air conditioners, washers, driers, refrigerators, and freezers increased.

UNIT SALES OF SELECTED CONSUMER DURABLE GOODS
(Seasonally adjusted)

	1972	1973			Per cent change from	
	April	Feb.	March	April	Month ago	Year ago
	Annual rates in millions					
Auto sales total	10.3	11.9	12.6	11.7	-7	14
Domestic total	8.8	9.9	10.6	9.8	-8	11
Foreign total	1.5	2.0	2.0	1.9	-6	28
	Indexes, 1967=100					
Home goods factory sales total	142	142	150p	156e	4	10
TVs 1/	141	132	154	162e	5	15
Radios 1/	105	107	96	83e	-14	-21
Major appliances	146	153	154p	158e	3	8

p - Preliminary
e - Estimated from data through April 14.
1/ Includes foreign-made units sold under domestic labels; foreign-label units not included.

Construction and real estate. Seasonally adjusted outlays for new construction were revised upward by 2 per cent to a new high for March but edged off in April to an annual rate of $136.4 billion. Private outlays were about unchanged in April while expenditures for public construction declined owing entirely to Federally owned projects.

The Census Bureau's composite index of construction costs in April was 144 per cent (1967=100), about the same as the record March level and 7 per cent above a year earlier. In 1972 as a whole, the increase had been 5 per cent from 1971.

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

	1972	1973		Per cent change in April from:	
	QIV	QI (p)	April 1/	March 1973	April 1972
Total-current dollars	129.0	136.5	136.4	- 1	+ 13
Private	97.0	102.5	102.6	- 1	+ 12
Residential	56.9	59.3	59.2	- 1	+ 13
Nonresidential	40.1	43.2	43.3	--	+ 12
Public	32.1	34.0	33.8	- 2	+ 17
State and local	27.6	28.8	29.0	--	+ 17
Federal	4.4	5.2	4.8	- 15	+ 15
Total-1967 dollars	91.7	95.3	94.6	- 1	+ 6

1/ Data for April 1973 are confidential Census Bureau extrapolations. In no case should public reference be made to them.

Seasonally adjusted private housing starts dropped sharply further in March to an annual rate of 2.26 million units. Even so, the first quarter average matched last year's fourth quarter rate and was only slightly below the peak--2.43 million units--reached in the first quarter of 1972. Given the exceptionally strong pace of housing starts last winter and the downtrend in permits which has persisted since December, the starts rate may have declined further in April.

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

	1972	1973			Per cent change in March from:	
	QIV(r)	QI(p)	February(r)	March(p)	month ago	year ago
Permits	2.24	2.17	2.19	2.09	- 4	+ 4
Starts	2.40	2.40	2.46	2.26	- 8	- 2
1-family	1.28	1.35	1.38	1.24	- 10	- 5
2-or-more-family	1.12	1.05	1.08	1.02	- 6	+ 2
Completions	2.02	(2.12)1/	2.04	n.a.	(- 8)2/	(- 3)2/
Memorandum: Mobile home shipments	.61	.67	.64	.74	+ 15	+ 24

p/ Preliminary.
n.a. Not available.
1/ Jan. - Feb. average only.
2/ Per cent changes based on February.

Reflecting continued exceptionally high levels of demand, rental vacancy rates in the first quarter averaged 5.7 per cent nationally, the same as the relatively low average in the second half of last year and only moderately above the average in the first quarter of other recent years. Vacancy rates for homeowner properties continued at a minimal 1.0 per cent. However, with the over-all pace of completions now exceeding a seasonally adjusted annual rate of 2 million units and with mobile home shipments expanding considerably further, some rise in vacancy rates is likely in the period ahead.

RESIDENTIAL VACANCY RATES
(Per cent)

	Average for the first quarter				
	1965	1970	1971	1972	1973
Rental units	8.5	5.4	5.3	5.3	5.7
Northeast	6.3	2.4	2.4	3.2	3.6
North Central	7.8	6.0	6.1	5.9	5.7
South	9.3	7.7	7.4	6.7	7.2
West	11.0	5.6	5.4	5.3	6.3
Homeowner units	1.7	1.0	1.0	1.0	1.0

Capital spending plans. The McGraw-Hill spring survey of planned spending for new plant and equipment indicates an increase of 19 per cent in 1973--substantially more than reported in the Commerce survey released in March. Manufacturers plan to increase spending by 29 per cent, with the sharpest increase relative to previous surveys coming in durable goods where plans now call for a 38 per cent rise. Aside from manufacturing, business indicated plans for a 14 per cent rise, with strength concentrated in utilities, communications, and the commercial and other category. The increase in this sector was similar to those shown by earlier surveys.

Historically, McGraw-Hill surveys taken at this time of the year and at this point in the cycle have tended to overestimate somewhat the actual increase realized in capital outlays. A new Commerce survey should be available in early June.

EXPENDITURES FOR NEW PLANT AND
EQUIPMENT BY U.S. BUSINESS
(Per cent change from prior year)

	1971	1972	1973 McGraw-Hill (Nov. 1972)	1973 Commerce (Jan. 1973)	1973 Commerce (Mar. 1973)	1973 McGraw-Hill (May 1973)
			---Anticipated---			
All business	1.9	8.9	10.6	12.9	13.8	19.3
Manufacturing	-6.1	4.5	13.8	13.6	18.0	29.2
Durable goods	-10.4	10.5	15.3	16.7	19.6	38.1
Nondurable goods	-1.9	- .8	12.3	10.6	16.5	20.2
Nonmanufacturing	7.2	11.5	8.9	12.5	11.4	13.9
Transportation	-18.4	16.0	-6.7	1.6	-2.4	8.9
Electric utilities	20.8	12.6	13.0	17.1 1/	16.5	16.0
Communication	6.6	10.4	9.0	17.6 1/	12.8	14.0
Commercial and other	8.8	11.2	10.0	9.8 1/	10.4	14.0

1/ Confidential, not published separately.

Manufacturers orders and shipments. New orders for durable goods rose 3.6 per cent in March (p) following a 1.7 per cent rise in February. The March rise was particularly strong in nondefense capital goods--6.8 per cent--and in primary metals, mostly for steel, 12.5 per cent.

Bolstered by strength in steel, motor vehicles and defense, new orders for durable goods showed considerable acceleration in the first quarter from the fourth quarter. Increases in nondefense capital goods and household durable goods orders remained close to the high fourth quarter rates.

Shipments of durable goods were about unchanged in March, but were up 5 per cent for the first quarter. Backlogs of unfilled orders continued to increase rapidly in March, and in the quarter as a whole.

MANUFACTURERS NEW ORDERS FOR DURABLE GOODS
(Per cent changes)

	1972	1973	
	Q IV from Q III	Q I from Q IV 1972(p)	March from Feb. (p)
Durable goods total	4.6	8.1	3.6
Excluding defense	4.8	7.9	3.5
Primary metals	2.1	15.7	12.5
Motor vehicles and parts	4.0	9.2	-3.3
Household durables	5.6	4.7	-2.3
Capital goods industries	5.2	6.6	6.5
Nondefense	6.1	5.6	6.8
Defense	.2	12.4	4.9
Construction & other durables	5.4	6.0	1.0

<u>Inventories</u>. Book value of manufacturers' inventories rose at a $14.1 billion annual rate in March (p); the February rate of $10.4 billion was revised little. For the first quarter as a whole, the annual rate of increase was $10.2 billion, up from $6.4 billion in the fourth quarter and the highest since the first quarter of 1967. Wholesale trade stocks were little changed in March, but the first-quarter rate of $5.5 billion was higher than the fourth quarter rate. However, all of these book value increases in large part reflect the rapid rate of price rise in the first quarter, particularly for foods and other nondurables.

Manufacturers accelerated their rate of increase in materials holdings in the first quarter and continued to build work-in-process stocks at about the advanced fourth quarter rate. The value of finished goods stocks also rose somewhat, after declining in the fourth quarter.

By market categories, the acceleration of manufacturers' book value growth in the first quarter occurred mainly at home goods and apparel and miscellaneous intermediate goods producers. Book value increases were slight for consumer staple goods, which probably declined on a physical volume basis. Stocks of both defense and non-defense capital goods continued to rise at the relatively high fourth-quarter rate.

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

	1972 QIV	1973 QI (Prel.)	1973 Feb. (Rev.)	1973 Mar. (Prel.)
Manufacturing and trade	14.9	n.a.	22.2	n.a.
Manufacturing, total	6.4	10.2	10.4	14.1
Durable	5.2	7.2	5.8	9.9
Nondurable	1.2	3.0	4.6	4.2
Trade, total	8.5	n.a.	11.8	n.a.
Wholesale	4.3	5.5	5.6	..6
Retail	4.2	n.a.	6.2	n.a.

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

In March, manufacturers' shipments also increased and the inventory-shipments ratio remained at a low 1.57. Wholesale sales increased 2-1/2 per cent and the wholesale trade inventory-sales ratio declined to the lowest point since mid-1966.

At durable goods manufacturers, the inventory-backlog ratio declined further in March. Overall, this ratio is still well above the low ratios of previous cycles; but at primary metals manufacturers, where stocks have been depleted and backlogs have risen rapidly, the inventory/backlog ratio dropped abruptly in March to the lowest point since late 1966.

INVENTORY RATIOS

	1972		1973	
	Feb.	Mar.	Feb. (Rev.)	Mar. (Prel.)
Inventories to sales:				
Manufacturing & trade	1.56	1.53	1.42	n.a.
Manufacturing, total	1.73	1.70	1.57	1.57
Durable	2.07	2.04	1.86	1.87
Nondurable	1.32	1.30	1.21	1.20
Trade, total	1.39	1.36	1.28	n.a.
Wholesale	1.24	1.22	1.16	1.14
Retail	1.48	1.44	1.36	n.a.
Inventories to unfilled orders:				
Durable goods manufacturing	.937	.931	.843	.823

Cyclical indicators. The Census composite index of leading indicators increased 1.4 per cent in March (p), following advances of 1.5 per cent in February and 1.8 per cent in January. The index before trend adjustment, which has a lead on peaks of at least 6 months, also continued to rise, and by more than its average revision. The coincident composite index was up 0.9 per cent in March and the lagging index, 1.2 per cent.

CHANGES IN COMPOSITE CYCLICAL INDICATORS
(Per cent change from previous month)

	Dec.	Jan.	Feb.	Mar. (p)
12 Leading (trend adjusted)	1.1	1.8	1.5	1.4
12 Leading, prior to trend	.7	1.4	1.1	1.1
adjustment	.8	1.3	1.2	.9
5 Coincident	.7	.9	.7	.7
5 Coincident, deflated	1.3	1.7	2.5	1.2
6 Lagging				

Leading series increasing in March were new orders for durable goods, industrial materials prices, and the ratio of price to unit labor cost. The manufacturing workweek was unchanged. Series decreasing were initial unemployment claims (inverted), contracts and orders for plant and equipment, housing permits, and common stock prices. According to revised (but still preliminary) data for March, new orders rose more than the advance indication used in the preliminary leading index, and contracts and orders for plant and equipment increased rather than declined. The change in consumer instalment debt also increased in March.

In April, common stock prices declined further while the manufacturing workweek and industrial materials prices rose. It should be noted that in 1969-72, the materials price index, previously a leading indicator, behaved more like a lagger.

Labor market. Total employment and the labor force changed little in April, following sharp advances in the preceding month, and the unemployment rate remained at 5 per cent--the fifth successive month at about that rate. Preliminary payroll employment data for April show a gain of only about 110,000, compared with an average monthly increase of 240,000 over the past year. Manufacturing employment rose substantially in April as did State and local government, but construction employment fell owing to bad weather and an increase in strike activity. A reported decline in trade employment in April may reflect in part inadequate seasonal adjustments because of the late Easter this year.

NONFARM PAYROLL EMPLOYMENT
(Change from previous period; in thousands)

	April 1971-April 1972	April 1972-April 1973	March 1973-April 1973*
Total	1,774	2,847	109
Private	1,365	2,445	59
Manufacturing	249	951	113
Construction	97	55	- 59
Trade	498	672	- 27
Services	398	521	31
Government	409	402	50
Federal	2	- 38	- 8
State & local	407	440	58

* Based on seasonally adjusted data.

Over the past year, employment expansion has been very large. Much of the increase has been due to a rapid pick-up in factory jobs, accompanied by continued gains in service-producing industries. In addition, the average factory workweek has lengthened, and at 41.1 hours in April was at its highest level since the end of 1966. Overtime hours have also risen--to 4.1 hours, half an hour longer than a year ago.

Unemployment and labor force. Although the unemployment rate has changed little since the end of 1972, it is much lower than a year ago for most groups. The average duration of unemployment in April was three weeks shorter than last year. The number of workers experiencing short-term unemployment (less than 15 weeks) was about the same as in April 1972, but there were half a million fewer workers in the long-term unemployed category. Despite the year-to-year improvement, unemployment rates for all groups are still well above the cyclical lows reached in the late sixties.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1972		1973	
	April	October	March	April
Total	5.8	5.5	5.0	5.0
Men 20 years and over	4.2	3.9	3.4	3.4
Women 20 years and over	5.4	5.5	4.9	4.7
Teenagers	16.7	15.4	14.2	15.4
Household heads	3.4	3.4	3.0	3.0
White	5.3	5.0	4.4	4.5
Negro and other races	9.3	10.0	9.0	9.1
White-collar workers	3.3	3.5	2.9	3.1
Blue-collar workers	6.8	6.0	5.4	5.4

Although the civilian labor force changed little from March to April, over the year it has grown by 2.1 million. Nearly half of that increase represented adult women, most of whom were seeking full-time work.

Earnings. The index of hourly earnings for production workers in the private nonfarm economy was revised up slightly for March and rose at about a 7-1/2 per cent annual rate in April. The index, which tends to move unevenly on a monthly basis, was a relatively moderate 5.4 per cent higher than a year earlier and up at a 5.1 per cent annual rate over the six months ending in April. With the exception of the transportation and public utilities category, wage increases in the major industry groups over the past year have been at or below the 5-1/2 per cent wage standard.

HOURLY EARNINGS INDEX
(Per cent change; seasonally adjusted at annual rates)

	April 1971-April 1972	April 1972-April 1973	Oct. 1972-April 1973	March 1973-April 1973
Private nonfarm	6.7	5.4	5.1	7.5
Manufacturing	6.2	5.3	5.0	6.0
Construction	7.4	5.5	5.3	7.1
Transportation & public utilities	11.2	8.3	7.0	4.7
Trade	5.5	5.2	5.5	9.4
Services	6.4	4.5	4.6	4.2

Sharply rising consumer prices in recent months have been eroding real purchasing power. Moreover, an increase in Social Security taxes for 1973 has further reduced real take-home pay. During much of 1972 real spendable earnings showed quite substantial increases, rising at over a 4 per cent annual rate. Since October, however, the level of real spendable earnings has been declining, and in March 1973 (the latest month for which price data are available) they were no higher than a year earlier.

REAL SPENDABLE WEEKLY EARNINGS*
(Per cent change)

	Oct. 1971- Oct. 1972	Dec. 1971- Dec. 1972	Feb. 1972- Feb. 1973	March 1972- March 1973
Worker and 3 dependents	4.8	3.3	.8	0.0

* Data relate to the weekly earnings of production workers in the private nonfarm sector. Gross weekly earnings are reduced by the average Federal income and Social Security tax liability for a worker with three dependents and are deflated by the Consumer Price Index.

Productivity and costs. Productivity continued to grow at a rapid rate in the first quarter, accompanying the rapid further rise in output. In private nonfarm activities, output per manhour increased at a 4.1 per cent annual rate according to preliminary estimates. Output per manhour has been rising rapidly for the past year and a half, following a period of cyclical decline in the late sixties, and is now above its long-run trend.

Compensation per manhour rose sharply--at a 10.6 per cent annual rate in the first quarter, up from a 7-1/2 per cent rise in the fourth quarter. Although the quarter's productivity gain was rapid, the acceleration in compensation resulted in a large rise in unit labor costs. However, about 3.5 percentage points of the rise in compensation per manhour in the first quarter was associated with an increase in employers' contributions to Social Security effective January 1.

Excluding this Social Security change, unit labor costs in nonfarm activities rose by about 3 per cent, somewhat less than in the fourth quarter of 1972.

PRODUCTIVITY, COMPENSATION AND UNIT LABOR COSTS
IN THE PRIVATE NONFARM SECTOR
(Per cent change from previous period at annual rates
based on seasonally adjusted data)

		Output per manhour	Compensation per manhour	Unit labor costs
1972:	QI	5.2	9.1	3.8
	QII	5.1	4.6	- .5
	QIII	6.6	6.1	- .4
	QIV	3.6	7.6	3.8
	Year	4.7	6.5	1.7
1973:	QI p/	4.1	10.6	6.2

p/ Preliminary.

<u>Industrial relations</u>. In the first of the major manufacturing settlements so far this year, the United Rubber Workers ratified a new three year contract with Goodyear Rubber Co. on April 24 which provides a 16 per cent wage rate increase over the life of the contract. Covering 23,000 workers in 15 Goodyear plants, the agreement boosts wages 6.0 per cent in the first year, effective July 2, 1973, 4.9 per cent in the second, and 4.5 per cent in the final year of the contract. There is no cost-of-living provision or wage reopening clause in the new agreement. In addition to larger monthly benefit payments, a new early retirement plan was agreed to, whose costs will depend on the number of workers who opt for early retirement. The over-all cost of the wage and fringe package apparently averages about 6 per cent a year over the whole period. Negotiations are now under way at Goodrich, Firestone, and Uniroyal, but apparently worker dissatisfaction with the Goodyear package led to a strike of 10,000 at 7 Goodrich plants on May 8.

A moderate rate of negotiated wage increase is evident in data on first quarter major collective bargaining settlements, (those involving 1,000 or more workers). Wage increases averaged 4.5 per cent a year over the life of the contract for all contracts, declining from an average gain of 6.4 per cent in 1972. But the smaller average was the result mainly of the railroad settlement, involving 500,000 workers, which provided only a small wage rate adjustment but substantial benefit increases through reduced payments to the railroad retirement fund. In manufacturing, the average pay increase of 6.1 per cent over-the-life of the contract was up slightly from 1972. Very few construction industry settlements have occurred so far. For all industries, wage and benefit gains together averaged 5.5 per cent over the life of the contract compared with 7.3 per cent in 1972.

In May, major contracts will expire in the electrical equipment (General Electric) and in the paper industries followed by the trucking industry early in June.

WAGE INCREASES PROVIDED BY MAJOR CONTRACT SETTLEMENTS*
(Mean per cent wage adjustment--annual rate)

			1972p				1973p
	1971	1972p	Q I	Q II	Q III	Q IV	Q I
Average-over-life-of-contract							
Total	8.1	6.4	7.8	6.4	6.1	5.6	4.5
Manufacturing	7.3	5.7	5.5	5.7	5.7	5.9	6.1
Nonmanufacturing	8.9	6.8	9.9	6.6	6.3	5.4	3.8
Construction	10.8	5.9	13.0	6.1	5.5	3.6	4.9
First year							
Total	11.6	7.0	8.4	6.6	6.9	6.2	5.3
Manufacturing	10.9	6.6	7.3	7.0	6.7	6.4	6.5
Nonmanufacturing	12.2	7.2	9.4	6.5	6.9	6.0	4.7
Construction	12.6	6.6	14.6	6.4	6.0	4.7	4.5

* Applies to settlements affecting 1,000 or more workers.
p - Preliminary.

Consumer prices. Consumer prices rose in March at about the February rate--10 per cent seasonally adjusted annual rate--as food prices soared for the third successive month. Prices of other commodities and of services advanced at annual rates of 4.0 and 3.6 per cent, respectively. Since last December, a 9 per cent annual rate of rise has boosted the "All items" index to a level 4.7 per cent above March 1972.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	Relative impor-tance Dec. 1972	1972 Dec. 1971 to June 1972	1972 June to Dec.	1973 Dec. 1972 to March 1973	1973 Feb. to March
All items	100.0	2.9	3.9	8.8	10.0
Food	22.5	3.5	6.1	29.8	34.7
Commodities less food	40.1	2.6	2.5	3.4	4.0
Services 1/	37.4	3.7	3.5	3.6	3.6
Addendum:					
All items less mortgage costs 2/	96.3	3.0	3.9	8.8	9.8
Services less home finance 1/ 2/ 3/	30.9	3.5	3.1	4.0	4.6
Commodities less food, used cars home purchase 3/	31.8	2.2	2.0	4.1	5.1

1/ Not seasonally adjusted.
2/ 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.

In the 3 months from December to March grocery store food prices climbed nearly 8 percent (not at an annual rate), reaching a level 11 per cent above March 1972. Meats were up 6 per cent over the month, 15 per cent from December and 20 per cent from a year ago. Moreover, poultry prices jumped over 20 per cent in March alone, contributing substantially, as did fresh vegetables and eggs, to the latest one-month and three-month advances.

According to the USDA chainstore sample, beef and pork prices in the first half of April remained fairly close to the ceilings imposed at the end of March. However, there was probably a rise, relatively small compared to the last few months, between the early March and early April pricing dates for the CPI.

The price rise for other commodities has accelerated recently with a substantial advance for apparel in March and sharp increases for gasoline and fuel oil in February. Rents have also risen faster in the last three months--at an annual rate of over 5 per cent, the most rapid since April 1971. Costs of several other services, including gas, electricity, and auto and home repair, have advanced in recent months at rates above those in 1972.

Wholesale prices. Wholesale prices rose at a seasonally adjusted annual rate of 12.3 per cent between March and April, largely as a result of widespread and sharply higher prices for industrial commodities (up 17 per cent at an annual rate). Prices of farm and food products were only marginally higher, following five months of extremely rapid increases, although consumer finished foods rose substantially further.

WHOLESALE PRICES
(Percentage changes at seasonally adjusted annual rates)

	1972		1973	
	June to Sept.	Sept. to Dec.	Dec. 1972 to Mar. 1973	March to April
All commodities	7.2	9.4	21.1	12.3
Farm products 1/	19.2	27.7	51.9	.8
Consumer finished foods	11.8	13.2	44.2	17.6
Industrial commodities	3.4	2.4	10.2	17.0
Crude materials 2/	10.6	14.2	11.8	33.0
Intermediate materials 3/	3.1	4.1	12.4	16.6
Finished goods 4/	3.2	- .1	6.4	14.5
Producer	2.4	-1.0	4.7	8.2
Consumer	3.6	.4	7.2	17.8

1/ Farm products and processed foods and feeds.
2/ Excludes crude foodstuffs and feedstuffs, plant and animal fibers, oilseeds, and leaf tobacco.
3/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.
4/ Estimated. Excludes foods.

Further large increases in prices of fuels, especially gasoline, led the widespread advance in industrial commodity prices in April. Nonferrous metals and lumber and wood products also increased in price again; however, there have been some signs of topping out in lumber prices very recently. Machinery and equipment prices moved higher, and prices of textile products rose further, at rapid rates. Substantial increases were also posted for other processed materials and for crude materials.

Prices for both producers finished goods and consumer nonfood finished goods have accelerated sharply this year. In 1972, prices of finished goods, excluding foods, rose about 2 per cent.

The rise in consumer finished foods in the April WPI was mainly the result of sharply higher prices for fresh fruits and vegetables, poultry, cereal and bakery products, and eggs.

WHOLESALE PRICES
(Percentage changes at seasonally adjusted annual rates)

	Phase II Nov. 1971 to Jan. 1973 (14 months)	Phase III Jan. 1973 to April 1973 (3 months)
All commodities	6.9	21.2
Farm products and processed foods and feeds	16.1	37.3
Farm products	21.6	54.2
Processed foods and feeds	12.3	26.1
Industrial commodities	3.5	14.8
Lumber and wood products	11.1	93.3
Fuels and related products and power	5.7	33.2
Textile products and apparel	5.0	16.4
Metals and metal products	2.9	15.5
Pulp, paper and allied products	3.8	13.0
Chemicals and allied products	1.2	8.6
Machinery and equipment	2.1	6.6
Transportation equipment	2.5 1/	2.8 1/
Motor vehicles and equipment	4.1	5.9
Passenger cars	2.1	6.5
Furniture and household durables	1.7	5.4
Nonmetallic mineral products	2.1	5.1
Rubber and plastic products	.4 1/	2.2 1/
Hides, skins, leather, and related products	21.0	-1.7
Miscellaneous products	2.0 1/	10.0 1/

1/ Not seasonally adjusted annual rates.

Phase II and Phase III developments--major price indexes. The recent acceleration in price increases, which is reflected in all major indexes, appears to be in part a "bulge" following the shift to Phase III. But much of the rise has been in prices of farm products and foods, which would have shown comparable increases even if Phase II controls had been continued. Devaluations of the U.S. dollar with respect to foreign currencies have also contributed to higher prices.

The GNP deflator and the fixed weight price index for the private economy increased twice as fast from the fourth to the first quarter--2 months of which included Phase III--as between the fourth quarters of 1971 and 1972 which coincide roughly with Phase II. Although the acceleration was sharpest for consumer nondurables (which include food), it was also marked in consumer durables and services. In both periods the deflators for the private economy and for personal consumption expenditures rose less rapidly than the corresponding fixed weight indexes because of shifts in weights--e.g., a marked increase in expenditures on durable goods, which have low deflators (with respect to the 1958 base), relative to other components with high deflators will tend to lower the over-all deflator.

Consumer prices (CPI) have shown more acceleration in Phase III than the fixed weight index for PCE largely because the increases in CPI and components have been computed over the two months from January to March and the increases in the PCE index from quarterly averages. Food prices contribute disproportionately to the rise in the CPI in both

Phase II and Phase III, but more so in Phase III thus far. However, commodity prices excluding food (and home purchase and used cars) have also accelerated recently.

The exceptionally sharp rise in wholesale prices in recent months reflects in part farm prices and materials prices which are more volatile than those of finished goods. Soaring prices for farm products and foods and feeds account for over 60 per cent of the rise in wholesale prices in Phase II and near half in the first 3 months of Phase III. Nevertheless, industrial prices rose at an annual rate of 15 per cent from January to April in contrast to the 3-1/2 per cent rate of Phase II. The advance in intermediate industrial materials prices has intensified while crude materials have continued the sharp rise evident in Phase II. Both producer and consumer finished goods have been showing sharper gains, with the latter likely to be reflected in coming months in the nonfood sections of the CPI.

SUMMARY
PRICE DEVELOPMENTS, PHASE II AND PHASE III
(Per cent change, seasonally adjusted annual rates)

	Phase II	Phase III
GNP INDEXES		
	QIV 1971-QIV 1972	QIV 1972-QI 1973p
GNP deflator	3.0	6.0
Private economy-fixed weight index	3.3	6.7
PCE-fixed weight index	3.1	6.7
CONSUMER PRICES		
	Nov. 1971-Jan. 1973	Jan. 1973-Mar.1973
All items	3.7	9.9
Food	6.3	32.0
All items less food	2.8	4.8
Commodities less food, home purchase, used cars 1/	2.1	5.7
WHOLESALE PRICES		
	Nov. 1971-Jan. 1973	Jan. 1973-Apr. 1973
All commodities	6.9	21.2
Farm products and processed foods & feeds	16.1	37.3
Consumer finished foods	10.6	34.9
Industrials	3.5	14.8
Crude materials	10.4	18.8
Intermediate materials	4.0	17.2
Finished goods 2/	2.3	10.9
Producer	2.3	7.2
Consumer	2.3	12.8

1/ Confidential, not for publication.
2/ Estimated. Excludes foods.

Agriculture. April red meat production declined 12 per cent from the previous month to the lowest level since mid-1966. The slowdown in livestock marketings was mainly a response to consumer resistance and helped keep red meat prices relatively firm. However, broiler prices have declined 13 per cent since April 1.

Sharply advancing livestock feed prices may curtail expansion in poultry and hog operations, adversely affecting meat supplies and prices by late this year. The price of soybean meal has increased about 50 per cent since April 1 and corn prices have increased 18 per cent. Continued strong world demand for these commodities, dimming prospects for larger Peruvian fish meal supplies, and weather-delayed plantings in the U.S. have been major factors causing the large jump in feed prices.

Expected large plantings of corn and soybeans, 12 per cent and 15 per cent greater than last year, respectively, may yet be realized if wet weather abates. But flooding in the Mississippi Delta is expected to reduce cotton acreage to 5 per cent below the level farmers had intended to plant as of March 1. However, high prices may cause farmers in non-flooded areas to plant more than they had planned earlier. Cotton prices have risen 20 per cent since April 1, due in part to large sales to China and Japan.

Winter wheat remains in generally excellent condition. Higher winter wheat yields combined with larger spring wheat plantings are expected to result in a record crop, estimated in a May 1 survey to be 15 per cent above last year.

Agricultural credit. Farm data continue to feature (1) a boom in land prices and transfer activity, with consequent strong demand for mortgage debt; (2) high cash flow and net income, which during the past winter led to improved rural bank liquidity by permitting relatively strong deposit gains and production loan repayments; and (3) the prospect of sharply higher operating expenses to be financed this year, as production activity is expanded.

Income and net worth data document a boom in the farming sector. At an annual rate of $22 billion in the first quarter, net farm income was running 30 per cent above the $17 billion plateau of 1969-71 and 48 per cent above the depressed level of 1967-68. The income gain over 1971 averages $1,800 per farm, at an annual rate, but in farmer psychology may be overshadowed by the paper capital gains recorded in the last two years. Due mainly to higher land and livestock prices, farm proprietors' equity increased by $55 billion (20.0 per cent) during 1971-72, or by $19,000 per farm--easily the largest two-year percentage gain since the boom of 1950-51. And so far in 1973, higher meat prices have added another $5 billion to the value of the farm livestock inventory, and land prices have reportedly continued to rise.

New evidence received in April helps confirm that many rural banks were in a relatively liquid position going into this year's crop production season. The quarterly agricultural credit conditions survey conducted by the Minneapolis F.R. Bank found 36 per cent of Ninth District rural banks with a lower loan/deposit ratio than they desired--the largest proportion since this question was first asked in 1964--while only 7 per cent had a ratio higher than desired. Four fifths of the banks were actively seeking new farm loan accounts. At the same time, demand for farm loans was evidently strengthening, as one-fourth of the banks now reported demand greater than usual--double the proportion reporting in January.

In spite of the relatively liquid position of rural banks this past winter, several sources indicate that, apparently in response to rising short-term money-market yields, bank interest rates on farm loans have been rising after bottoming out in the third quarter of last year. The Chicago F.R. Bank's April survey of agricultural banks in the Seventh District found that the average rate on feeder cattle loans was 20 basis points above its July 1972 low, and that the average real estate loan rate had risen 38 basis points over the same interval. In the April Ninth District survey, 24 per cent of banks reported a trend to higher short-term rates on farm loans and 18 per cent to higher long-term rates; none reported a trend to lower rates. The turning point in these series also appears to be last year's third quarter. In the FR-FDIC national interest rate survey for the CID, bank rates on both feeder cattle and other farm production loans began to advance after July 1972 and had risen 69 and 46 basis points respectively by April 1973. However, farm lending rates of the two principal institutional suppliers of farm mortgage credit--life insurance companies and Federal land banks--remain in the range first reached in mid-1972.

DOMESTIC FINANCIAL SITUATION

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator		Latest data: Period	Latest data: Level	Net change from: Month ago	Net change from: Three months ago	Net change from: Year ago
Monetary and credit aggregates				SAAR (per cent)		
Total reserves		April	32.3 p	11.3	1.2	8.9
Reserves available (RPD's)		April	29.9 p	12.1	6.8	9.8
Money supply						
M1		April	258.0 p	6.6	4.1	6.2
M2		April	536.0 p	7.7	6.1	8.9
M3		April	845.2 p	7.9	8.0	11.0
Time and savings deposits (Less CDs)		April	278.1 p	9.1	8.2	11.6
CDs (dollar change in billions)		April	58.6 p	3.7	14.2	23.4
Savings flows (S&Ls + MSBs)		April	309.2 p	8.3	11.2	14.8
Bank credit (end of month)		April	588.1 p	6.4	16.1	15.3
Market yields and stock prices			Percentage or index points			
Federal funds	wk. endg.	5/2/73	7.43	0.25	1.22	3.18
Treasury bill (90 day)	"	5/2/73	6.24	0.20	0.56	2.63
Commercial paper (90-119 day)	"	5/2/73	7.13	0.05	1.00	2.63
New utility issue Aaa	"	5/4/73	7.40	0.11	-0.02	0.17
Municipal bonds (Bond Buyer)	1 day	5/3/73	5.10	-0.12	-0.06	-2.5
FNMA auction yield	(FHA/VA)	4/30/73	7.92	.11	.22	.32
Dividends/price ratio (Common stocks)	wk. endg.	4/25/73	2.96	0.02	0.16	0.04
NYSE index (12/31/65=50)	end of day	5/14/73	58.77	0.73	-3.02	-0.33

Credit demands	Period	Net change or gross offerings: Current month 1973	Current month 1972	Year to date 1973	Year to date 1972
Business loans at commercial banks	April	2.3	1.5	14.8	4.4
Consumer instalment credit outstanding	March	2.0	1.3	6.0	3.3
Mortgage debt outst. (major holders)	January	5.7	3.8	57.2	41.9
Corporate bonds (public offerings)	February	0.6	1.0	1.6	2.8
Municipal long-term bonds (gross offerings)	February	1.5	2.0	3.5	3.8
Federally sponsored Agcy. (net borrowing)	May	1.8 e	0.3	5.6 e	1.2
U.S. Treasury (net cash borrowing)	May	-1.6 e	-0.6	4.7 e	1.2
Total of above credits		12.3	9.3	93.4	58.6

e - Estimated
p - Preliminary.

DOMESTIC FINANCIAL SITUATION

Despite a rise in the Federal funds rate since the last meeting of the Committee, most short-term interest rates have changed little on balance. Rates on shorter-term Treasury bills are a key exception, and they have turned down sharply, widening their already large spreads against the rest of the short-rate structure. This divergent behavior reflects a reduced supply of Treasury bills and very low dealer inventories. In addition to the usual seasonal pay-off of tax bills, the Treasury elected to redeem a sizable part of its maturing May securities and refunded the rest with longer-term debt. At the same time it announced that because of its comfortable cash position the usual early summer need for new borrowing could be deferred until August.

Private short-term rates were about unchanged, except for the prime rate on bank loans to large businesses and rates on large negotiable CD's. While banks continued to issue a considerable volume of CD's in April in the 30- to 89-day maturity range and rates on such instruments rose 20 basis points further, net new issues of negotiable CD's were significantly smaller than during earlier months this year.

Business loan growth at banks moderated in April as the substitution of bank credit for commercial paper financing slowed. But total short-term business credit demands remained sizable. In capital markets, demands for funds slackened a bit. With internal funds generation exceptionally strong, corporate demands remained moderate. The volume of financing by State and local governments receded somewhat, reflecting in part rising tax receipts and another instalment of revenue sharing payments.

Longer-term security rates continued to fluctuate in a relatively narrow band. While yields on Treasury notes and bonds advanced somewhat in response to the debt extension in the May refinancing, corporate and municipal bond yields have shown little change. With inflows to nonbank thrift institutions slowing further in April and outstanding mortgage commitments near record levels, mortgage interest rates continued to edge higher.

Outlook. Even though corporate internal funds generation is likely to remain large, the projected continued expansion in economic activity and particularly in business investment in fixed capital and inventories, suggests that corporate demands for credit will remain sizable. Since underwriters report little build-up in the prospective calendar of new capital market financing, these business demands are likely to fall chiefly on short-term markets, especially commercial banks. However, as the prime rate for large businesses continues to move up into alignment with the rest of the short-term rate structure, some diversion of financing back into the commercial paper market is likely.

Bank issuance of CD's should remain large but below the record rates of the first quarter. Given the present high cost of CD's, banks will probably also meet a part of their needs for lendable funds by further reductions in investments. In this environment bank lending terms and conditions are expected to tighten further and banks will probably become less willing lenders.

At nonbank thrift institutions lending policies are already being modified in response to the slowing of deposit flows. Deposit inflows to these institutions are likely to remain depressed in coming months, assuming no change in Regulation Q ceilings.

To a considerable extent, the impact on rates of expanded Federal agency borrowing will be mitigated by the absence of any near-term Treasury demands. Aggregate private short-term credit demands are likely to remain strong, though not larger than in the first quarter, and corporate and municipal demands on capital markets appear likely to be relatively light. Thus, there is little indication that credit demands, taken by themselves, will generate substantial upward interest rate pressures. However, continued constraint on the total supply of lendable funds in the face of currently large demands could precipitate upward interest rate movements. Moreover, rising interest rates could lead to an acceleration of financing plans, thereby reinforcing upward rate pressures--particularly in long-term markets.

Monetary aggregates. Preliminary data indicate that M_1 expanded at an annual rate of 6.5 per cent in April, faster than the first quarter pace, which had been much slower than might have been expected given the rapid increase in nominal GNP.[1/] Thus, the April acceleration may reflect a return to a growth rate more in line with expanding transactions needs.

Growth in M_2 accelerated in April in response to the more rapid increase in M_1, while inflows of consumer-type time and savings deposits remained close to the moderately strong March pace. In March and especially in April, inflows of consumer-type time and savings deposits were temporarily strengthened by deposits of tax refunds. Also, in mid-April, State of California deposits of tax receipts in non-negotiable CD's were unusually large. However, given the wide difference between market interest rates and Regulation Q ceilings, further growth in consumer-type time and savings deposits at banks may be expected to moderate from the current pace. Already, inflows to nonbank thrift institutions have slowed significantly.

Although banks continued to sell a large volume of negotiable CD's, net sales in April were well below the record levels of February and March. This slowing was attributable mainly to a moderation in loan demands. In addition, however, as rates on CD's rose above 7 per cent, banks apparently began to turn to other, less expensive sources of funds--including liquidation of investments. They also obtained an

1/ Demand Deposit Ownership Survey data suggest that weakness in the IPC component of M_1 in the first quarter was fairly broadly based. More detail on this survey will be in the forthcoming Supplement.

additional \$300 million of funds from nondeposit sources--mainly sales of bank related commercial paper--\$400 million increase in March.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1972		1973			
	QIII	QIV	QI	Feb.	March	April (p)
			Per cent at annual rates			
M_1 (Currency plus private demand deposits)	8.2	8.6	1.7	6.1	- .5	6.5
M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	10.3	10.2	5.7	5.9	4.7	7.7
M_3 (M_2 plus savings deposits at mutual savings banks and S&L's)	12.4	11.5	8.6	9.0	6.9	7.8
Adjusted bank credit proxy	9.8	12.1	15.0	16.4	19.7	13.1
Time and savings deposits at commercial banks						
a. Total	14.0	14.4	23.1	21.6	30.9	21.0
b. Other than large CD's	12.3	11.6	9.5	5.7	9.6	9.1
			Billions of dollars 1/			
Memorandum:						
a. U.S. Government demand deposits	-1.1	1.4	.9	.2	.2	-1.6
b. Negotiable CD's	2.4	3.3	11.7	4.5	6.1	3.7
c. Nondeposit sources of funds	.4	.3	.5	--	.4	.3

p - Preliminary and partially estimated.
1/ Month-to-month and last-month-in-quarter to last-month-in-quarter changes in averages, not annualized.

Bank credit. Total loans and investments of commercial banks (last-Wednesday-of-the-month series, seasonally adjusted) expanded at only a 6.4 per cent annual rate in April,[1/] sharply below the rapid 20 per cent rate in the first quarter. This slowing was primarily the result of a moderation in business loan demands, although reductions in outstanding security and nonbank financial loans and in holdings of municipals and other securities also contributed. Real estate and consumer loans continued to increase at rapid rates.

By late March, many of the special factors--both international and domestic--which contributed to the sharp rise in business borrowing early in the first quarter had begun to dissipate. Consequently, growth in total short-term borrowings by businesses, as measured by the sum of bank loans and commercial paper borrowing, slowed from the unusually rapid pace of January and February. Although below the first quarter pace, the April growth in these borrowings continued at a strong 19 per cent rate, above the fourth quarter rate.

Substitution of business loans for commercial paper borrowing moderated in April, following an almost $4 billion (seasonally adjusted) run-off of commercial paper in the previous two months. Some moderation in business loan expansion following the record first quarter growth was to be expected, as corporations drew down their credit lines.

1/ In April the adjusted bank credit proxy increased, on average, at a 13.1 per cent annual rate. However, bank credit, as measured by total loans and investments, is based on single day, last-Wednesday-of-the-month data and also includes nonmember banks. Because of this, the credit proxy often shows somewhat different growth rate patterns than the bank credit series. If measured from the end of March to the end of April, the annual rate of increase in the credit proxy was 9.8 per cent, somewhat closer to the 6.4 per cent growth rate of bank loans and investments.

COMMERCIAL BANK CREDIT ADJUSTED FOR
LOANS SOLD TO AFFILIATES 1/

(Seasonally adjusted changes at annual percentage rates)

	1972	1973		
	QIV	QI	March	April
Total loans and investments 2/	14.4(15.0)3/	20.3	19.4	6.4(4.9)4/
U.S. Treasury securities	--	-9.0	8.0	--
Other securities	8.1	3.5	--	-6.2
Total loans2/	18.7(19.5)3/	30.2	27.1	10.9(8.8)4/
Business loans2/	15.2	39.1	30.9	21.7
Real estate loans	17.6	16.0	15.6	13.0
Consumer loans	19.0	17.6	16.5	16.3

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.
3/ Adjusted to exclude an $800 million matched sale-purchase transaction by the Federal Reserve on the last Wednesday of September.
4/ Adjusted to exclude a $700 million matched sale-purchase transaction by the Federal Reserve on the last Wednesday of April.

Rate relationships, however, still favor corporate use of bank credit, even though the large business prime rate moved up by 1/4 per cent to 6-3/4 per cent in April, following the CID institution of a two-tier prime rate, and to 7 per cent in early May.

Weakness in loans to nonbank financial institutions during the month was largely associated with reduced bank borrowing by finance companies. This reduction is somewhat surprising since borrowings by finance companies in the commercial paper market also were relatively light, even though consumer credit demands remained large. In contrast, borrowings by other financial institutions at banks--including mortgage companies--remained strong.

For the second consecutive month, banks experienced a decline in security loans in April. This decline was associated in part with a drop in trading positions of government security dealers to unusually low levels. Also, margin debt of brokers and dealers, other than U.S. government security dealers, declined sharply in March, and although more recent data are not yet available, it is possible that this decline continued in April as well.

The recent reduction in bank security holdings contributed to a further decline in liquidity ratios at large banks. In April, the ratio of liquid assets to total liabilities at these banks reached the lowest level in 16 months.

CHANGES IN BUSINESS LOANS AND COMMERCIAL PAPER, 1973[1/]
(Amounts in billions of dollars, seasonally adjusted monthly changes)

	Business loans at all commercial banks[2/]	Dealer-placed commercial paper	Total	Annual percentage rate of change in total
	Average monthly changes			
1972 - QI	1.0	--	1.0	9.9
QII	.8	.3	1.1	10.0
QIII	1.3	-.4	.9	8.0
QIV	1.6	.2	1.8	14.8
1973 - QI	4.3	-1.3	3.0	24.6
January	3.9	-.2	3.7	31.0
February	5.3	-2.0	3.3	27.0
March	3.6	-1.8	1.8	14.4
April	2.6	-.2 e/	2.4 e/	19.0 e/

1/ Changes are based on last-Wednesday-of-month data.
2/ Adjusted for outstanding amounts of loans sold to affiliates.
e/ Partially estimated.

Consumer credit. In March, consumer credit outstanding rose at a seasonally adjusted annual rate of $27.5 billion, about 17 per cent more than in February and 7 per cent less than the record $29.6 billion rate of advance in December 1972. In the instalment credit category, the record first quarter average rate of growth ($24.0 billion) was sharply above the low in the strike-depressed fourth quarter of 1970 ($2.5 billion), bolstered mainly by increases in automobile and nonautomotive consumer goods credit.

Both extensions and repayments for all types of instalment credit increased during March. The seasonally adjusted annual rate of extensions rose $5.0 billion from February, with more than one-half of the growth in personal loan volume.

NET CHANGE IN CONSUMER INSTALMENT CREDIT OUTSTANDING
(Billions of dollars, seasonally adjusted annual rates)

	Total	Automobile	Other consumer goods	Other Personal loans	Home repair and modernization
1971 - QI	5.5	2.1	1.7	1.4	.2
QII	7.8	2.9	2.7	2.0	.3
QIII	10.8	4.2	3.0	3.2	.4
QIV	11.8	4.5	3.6	3.3	.4
1972 - QI	13.2	3.9	4.1	4.6	.6
QII	14.8	5.0	4.8	4.3	.7
QIII	16.1	5.9	6.0	3.3	.9
QIV	19.5	7.4	7.3	4.0	.9
1973 - QI	24.0	10.0	7.4	5.4	1.1

Consumer borrowing has continued to be facilitated by a reasonably ample supply of funds available on terms which have changed little in recent months. Issuance of the new commercial bank interest rate criteria by the Committee on Interest and Dividends on April 16 should contribute to the continued availability of consumer financing at relatively stable rates. Some increase in the attractiveness of commercial banks as a source of consumer financing is likely to be associated with the developing trend to use of simple interest instalment loans, which consumers can readily understand. A large bank in Boston recently became the third major bank in the nation to convert instalment lending to a simple interest plan.

U.S. Treasury securities. Treasury bill rates increased about 10 basis points for 3-month maturities to 25 basis points for one-year maturities in the week following the April Committee meeting. Since then, however, bill rates generally have been under downward pressure, particularly in the past week, when the 3-month and 6-month bill rates moved down to 6.02 per cent and 6.36 per cent, 17 and 5 basis points respectively below their levels at the time of the meeting. The rate on the one-year bill remains somewhat above its mid-April level, however.

The moderate fluctuation in bill rates reflected the influence of countervailing factors. Upward pressures on bill rates would normally have been associated with the increases in the bank prime rate, CD rates and the Federal funds rate over the period. With the further rise in the average Federal funds rate above 7.40 per cent in the past two statement weeks, for example, the differential between this rate and the 3-month Treasury bill rate has widened to nearly 140 basis points, an unuaually large difference. Other factors, however, insulated Treasury bill rates from these upward pressures. The market remained in a technically strong position throughout the period--which is normal for this time of year when the Treasury seasonally repays debt--as dealer inventories were at low levels and the volume of bills outstanding was declining. Bill rates also were held down by the Treasury decision to offer two long term securities and to pay down $1.6 billion of debt in its mid-May refunding. Finally, the Treasury announced during the period that it presently foresees no need to borrow new money in the market until August, and, in addition, indicated that it plans to reduce the size of its 6-month bill auction by $100 million for an indefinite period. The lack of pressure on the market by the Treasury should tend to soften the impact of continued heavy financing by Federal agencies.

Yields on longer term Treasury issues generally edged up about 1/8 of a percentage point in the past 4 weeks, apparently adjusting to the increase in supply of long term securities resulting from the Treasury auctions. In these auctions the Treasury sold $2.0 billion of a 6-7/8 per cent, seven year note and $650 million of a 7 per cent, 25 year bond. Market interest in these issues diminished just prior to each of the auctions and both issues sold at yields higher than their coupon rates. The yield on the 7 year note averaged 7.01 per cent with a stop-out of 7.05 per cent while the average (and stop-out) yield set in the "dutch" auction of the bond was 7.11 per cent. Both issues have since been trading at slightly lower yields.

Dealers received relatively large awards in the two auctions, amounting to $687 million in the case of the notes and $333 million in the case of the bond. So far, however, they have had good success in distributing these issues to final investors, and their current holdings of the notes and bonds are down to about $300 million and $140 million, respectively.

Private short-term rates. Most private short-term rates have remained on "dead center" since the April meeting. Rates on short-term CD's, however, have continued to move higher, apparently responding to firming in the Federal funds rate and to continued strong bank needs for lendable funds.

Moreover, the large business prime rate was increased to 6.75 per cent from 6.50 per cent following issuance by the Committee on Interest and Dividends on April 16 of criteria for a two-tier prime rate. On May 4, some large banks announced a further increase in this rate to 7 per cent, and many other banks have since followed suit.

INTEREST RATES ON U.S. TREASURY SECURITIES
(Per cent)

	Daily rates				Change
	April 17	April 24	May 1	May 8 1/	April 17-May 8
Treasury bills					
3-month	6.19	6.28	6.29	6.02	-.17
6-month	6.41	6.60	6.60	6.36	-.05
1-year	6.39	6.59	6.62	6.45	+.06
Notes and Bonds					
(Constant Maturity Yields)					
1-year	6.77	6.79	6.82	6.80	+.03
5-years	6.66	6.73	6.75	6.80	+.14
7-years	6.63	6.70	6.78	6.79	+.16
10-years	6.64	6.66	6.71	6.80	+.16
20-years	6.84	6.86	6.92	6.98	+.14
	Statement week ended				Change--week ending April 18 to week ending May 9
	April 18	April 25	May 2	May 9 1/	
Memorandum:					
Federal funds					
(daily average)	7.23	7.14	7.43	7.66	+.43

1/ Average for first 6 days of the week.

SELECTED SHORT-TERM INTEREST RATES
(Per cent)

	Daily rates				Change
	April 17	April 24	May 1	May 8	April 17 - May 8
Commercial paper					
90-119 day	7.13	7.13	7.13	7.13	0
4-6 month	7.13	7.13	7.13	7.13	0
Large negotiable CD's 1/					
Just under 3-month	7.25	7.35	7.40	7.45	.20
6 months	7.00	7.00	7.00	7.00	0
Bankers' acceptances					
61-90 day	7.25	7.25	7.25	7.25	0
150-180 day	7.50	7.50	7.50	7.50	0
Federal agencies					
1-year	7.17	7.17	7.14	7.18	+.01
Bank prime rate					
(most prevalent)	6.50	6.75	6.75	7.00	+.50

1/ Highest quoted new issue.

Long-term private securities markets. Interest rates on long-term private securities generally have shown little net change over the past month. Board indexes of yields on both newly issued and recently offered Aaa utility bonds have drifted downward 5 to 10 basis points since the April FOMC meeting. Although rates on tax-exempt bonds rose somewhat in mid-April, the Bond Buyer index subsequently declined and rates were virtually unchanged over the period. In corporate and municipal markets underwriter inventory positions are comfortable, the supply of investment funds ample, and it appears at present that new issue volume over the second quarter may be contra-seasonally small. Strong liquidity positions have reduced dependence of both corporate and municipal borrowers on long-term markets, and few market participants apparently believe that long-term rates will rise appreciably over the next few months.

SELECTED LONG-TERM INTEREST RATES
(Per cent)

	New Aaa utility bonds 1/	Recently offered Aaa utility bonds 1/	Long-term State and local bonds 2/
1971			
Low	7.02 (2/5)	7.14 (12/31)	4.97 (10/21)
High	8.26 (7/30)	8.19 (1/2)	6.23 (6/24)
1972			
Low	6.99 (11/24)	7.12 (12/1)	4.96 (12/7)
High	7.60 (4/21)	7.46 (4/21)	5.54 (4/13)
1973			
Low	7.29 (1/12)	7.26 (1/5)	5.00 (1/19)
High	7.52 (3/16)	7.60 (3/16)	5.35 (3/23)
Apr. 6	7.50	7.50	5.22
13	--*	7.47	5.07
20	--*	7.52	5.17
27	7.45	7.42	5.14
May 4	7.40p	7.42p	5.10

p/ Preliminary.
* No observations available for new issues rated A or higher that meet the criteria for inclusion in the series.
1/ FRB Series.
2/ Bond Buyer.

Public offerings of corporate bonds in April amounted to only $800 million; and, although there are some medium-sized industrial offerings on the May calendar, the staff estimates that total volume for this month will be only about $900 million. Scheduled utility volume for June, however, is already about $700 million, and it is likely that total public bond volume in June will be over $1 billion.

For the second quarter as a whole, it now appears that public bond offerings may remain at about the reduced first-quarter pace. Since public bond issues usually have a seasonal peak in the second quarter, this represents an appreciable moderation in corporate long-term credit demands.

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

	1972	1973			
		QIV	QIe	April e/	May f/
Corporate securities					
Total	3,398	3,521	2,776	2,550	2,450
Public bonds	1,528	1,386	910	800	1,050
Privately placed bonds	780	1,049	542	650	500
Stock	1,087	1,086	1,324	800	900
State and local Gov't securities	1,970	1,952	1,937	1,525	1,800

e/ Estimated.
f/ Forecast.

Data on commitment activity and proposed takedowns of bonds by life insurance companies suggest that private placement volume will remain large in spite of the small volume reported by the SEC for the first two months of 1973. The staff estimates that monthly average takedowns for April and May will be around $600 million, while the expected volume in June will be considerably greater, reflecting the usual upward movement in takedowns at the end of each quarter.

Average new gross equity volume in April and May is estimated at about $850 million, an historically large volume but more moderate than in recent months. Some bond fund offerings--which are included in stock issues--have been reduced in size because of selling problems. The recent decline in stock prices also has reduced the volume of smaller equity issues, particularly initial offerings.

Stock prices have fluctuated considerably in the last few weeks but even with the increases in recent days there has been little change on balance since the April Committee meeting. At current levels, stock prices are still well below the recent peak levels in early January, prior to the shift to Phase III and the developing concern about rising interest rates. Since the last Committee meeting, trading activity has averaged lower than the moderate levels of earlier months this year.

RECENT STOCK MARKET DEVELOPMENTS

	Oct. 16, 1972- Jan. 11, 1973	Jan. 11, 1973- April 17, 1973	April 17, 1973- May 7, 1973
Price change (per cent)			
NYSE	11.7	-9.9	- .8
D-J Ind.	13.8	-9.3	- .3
AMEX	3.8	-9.8	-1.8
NASDAQ	8.5	-17.0	-2.8
Trading volume (daily average, millions of shares)			
NYSE	18.6	16.4	14.5
AMEX	4.2	3.5	2.9
NASDAQ	9.0	7.7	6.0

Long-term debt securities offerings by State and local governments in April fell to about $1.5 billion, a decline which undoubtedly contributed to the edging downward of yields on such securities after mid-April. May volume, at about $1.8 billion, is being boosted by several large revenue bonds but is still less than the $2.0 billion average of offerings of the last two years. Revenue bonds account for an unusually high proportion of recent issues, and these generally higher-yielding securities are particularly attractive to casualty companies. Underwriters report that banks, too, are increasing their purchases in the longer maturity ranges in order to take advantage of the higher yields, although bank holdings of municipal securities have been declining in the aggregate.

<u>Nonbank thrift institutions</u>. During April, deposit growth at savings and loan associations slowed considerably from the upward revised rate in March. According to sample data, the seasonally adjusted annual rate of deposit growth at S&L's fell to 5.0 per cent, the lowest rate since early 1970. However, these sample data may understate actual deposit growth, as was the case in March. Major factors contributing to reduced inflows appear to have been higher interest rates on market instruments relative to those on S&L shares and the continued high level of consumer spending.

At mutual savings banks, fragmentary data for April suggest that deposit growth also may have amounted to about a 5 per cent seasonally adjusted annual rate, a further slowing from the pace during the first quarter. Deposit experience of large New York City mutual savings banks--institutions with relatively interest-sensitive depositors--was especially weak. These institutions had a net outflow of about $100 million for the month.

While there are reports of a tightening of lending policies at S&L's recently, outstanding mortgage commitments in March (the latest available) rose $1 billion. With deposit flows declining and outstanding mortgage commitments near record levels, S&L's have found it necessary to increase substantially their borrowing from FHLB Banks in order to meet takedowns. Such borrowings rose $900 million in April following a first quarter increase of about $400 million.

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

	Mutual savings banks	Savings and loan associations	Both
1972 - QI	13.6	22.5	19.7
QII	10.7	15.9	14.3
QIII	11.6	18.2	16.2
QIV	11.0	14.2	13.2
1973 - QI p/	8.0	16.0	13.6
1973 - February	6.1	10.4	9.1
March p/	7.1	13.7	11.7
April e/	5.0	5.0	5.0

p/ Preliminary.
e/ Estimated on the basis of sample data.

Mortgage market. While available data on primary mortgage market developments for early April show relatively little change, field reports and trade opinion suggest that yields required by lenders for home loans have been under upward pressure in recent weeks. These sources indicate that numerous lenders have stiffened somewhat their non-rate terms on conventional home mortgages and that low usury ceilings in certain States have begun to restrain lending.

In the secondary market, expectations of some further increase in mortgage yields over the period ahead have persisted, judging from the results of the latest FNMA auctions (April 30) of commitments to purchase home mortgages within 4 months. In the case of the auction for FHA/VA commitments, the average yield to FNMA tended upward further--to 7.91 per cent, 23 basis points above the recent low late last year; offerings to FNMA remained near the advanced levels maintained since mid-March. In FNMA's associated auction of forward purchase commitments for high-ratio conventional home mortgages, the rise in yields remained appreciably greater. However, offerings in this auction continued well below the FHA/VA volume.

Net flows of credit to all types of mortgages apparently accelerated during the first quarter of 1973 to a seasonally adjusted annual rate of around $80 billion, judging from preliminary estimates. This was sharply above the recent low of $21 billion in early 1970. Although net expansion in both nonresidential and residential mortgage debt outstanding advanced to new highs, the increase for the residential sector was especially striking--to an annual rate approximating $60 billion, compared with $45 billion a year earlier. Savings and loan associations accounted for about half the increase in mortgage debt outstanding during the first quarter. However, the net contribution from commercial banks and mutual savings banks was also exceptionally large for this time of year, and net activity by FNMA and related agencies operating in the secondary market expanded further on average.

FNMA PURCHASE AUCTIONS
(FHA/VA HOME MORTGAGES)

	Total offers Received	Total offers Accepted	Per cent of offers accepted	Yield to FNMA 1/ (per cent)
	(millions of dollars)			
1972 - High	365 (5/1)	336 (5/1)	92 (5/1,7/24)	7.74 (10/30)
- Low	61 (11/27)	36 (11/27)	42 (3/20)	7.53 (3/20)
1973 - Feb. 5	129	65	51	7.71
20	110	72	65	7.73
Mar. 5	171	108	63	7.75
19	297	169	57	7.81
Apr. 2	235	146	62	7.86
16	217	191	88	7.89
30	261	186	72	7.92

1/ Data show gross yield to FNMA on 4-month commitments, before deduction of 38 basis point fee paid for mortgage servicing, assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA charges for commitment fees and stock purchase and holding requirements.

Federal finance. The staff has raised its estimate of fiscal year 1973 receipts by $1.0 billion since the April Greenbook. The current projection of $232.5 billion, together with an unchanged outlays estimate of $249.8 billion, results in a revised deficit forecast of $17.3 billion.

The higher revenue projection partly reflects recent larger than expected receipts (based on preliminary data for April and actual figures for March). Part of this excess was in withheld taxes, suggesting that taxpayers have not made any significant adjustments to overwithholding. Although payments of personal tax refunds were delayed through March, April refund payments, estimated to be $6.4 billion, were large--almost twice last year's level. As a result, we also have raised our estimate of refunds by about $1 billion to $21.0 billion for the fiscal year. The table shows the current status of refund payments compared with a year ago.

COMPARISON OF REFUND PAYMENTS
IN LAST HALF OF FISCAL YEARS 1972 AND 1973

	1973	1972
Amount disbursed, January 1 to April 27 (excluding estimated corporate refunds, millions)	$ 13,300	10,186
Average size of refund, January 1 to April 27 (in dollars)	346	251
Estimated disbursement, April 28 through June 30 (millions)	7,000	3,382 (actual)

While the rate of Federal spending in recent months suggests that outlays for the current fiscal year could fall about $2.0 billion short of the budget figure, the staff has not lowered its estimate below the Administration's figure, on the assumption that the budget estimate will be achieved by an acceleration of spending in June and perhaps by a shortfall in planned asset sales (negative outlays). Through April, we estimate that only $3.4 billion of the projected $5.5 billion of financial asset sales have been made. Moreover, a large proportion of the planned $750 million sales from the Defense Department stockpile of strategic materials remains to be achieved, including $350 million which requires Congressional approval.

On May 2, Secretary Schultz announced that the Treasury had raised its revenue forecasts for fiscal 1973 by $5 billion, to a total of $230 billion, and for fiscal 1974 by $7 billion. The forecast of outlays was not revised. This reduced the corresponding official deficit projections for these years to $19.8 billion and $5.7 billion, respectively. The Treasury is now using income assumptions for 1973 of $1,283 billion for GNP; $1,030 billion for personal income; and corporate profits before taxes of $115.7 billion. Our receipts estimate for fiscal year 1973 is $2.5 billion higher than the revised Treasury projection due partly to our assumptions of higher corporate profits and effective personal and social insurance tax rates. Secretary Schultz also presented the Administration's new tax proposals which are discussed briefly in an Appendix to be included in the Supplement.

On a high employment budget basis, we are now projecting a deficit of $3.5 billion for fiscal 1973 and a deficit of $.8 billion for the calendar year. These deficits are shallower than the staff had previously projected, and indicate little shift in net stimulus from calendar year 1972 to 1973. However, the stimulus (as measured by the high employment deficit) is still considerably greater in the first half of calendar 1973 than in the second half due to the continued slowing of growth in expenditures as the year goes on, and the concentration of refund payments in the first half year.

The end-of-April Treasury cash balance was $14.2 billion, $1.0 billion more than projected in the April Greenbook. The increase was accounted for entirely by the higher than anticipated revenues received during the month. Given the projected pattern of outlays and receipts and assuming no extensive repayment of special issues recently purchased by foreign central banks, it is unlikely that the Treasury will need to engage in any further cash borrowing before the refunding scheduled for August. Moreover, there will be no need for the Treasury to sharply reduce its currently very large balance at the Federal Reserve until early June.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Apr.	May	June	July
Total net borrowing	-2.1	-1.6	-2.6	2.0
Weekly and monthly bills	.2	-.2	-.4	1.6
Tax bills	-2.0	--	-2.5	--
Coupon issues	--	--	--	--
As yet unspecified new borrowing	--	--	--	--
Special foreign series	--	--	--	--
Agency transactions, debt repayment, etc.	-.3	-1.4	.3	.4
Plus: Other net financial sources a/	1.2	-.5	1.0	-1.3
Plus: Budget surplus or deficit (-)	2.2	-3.3	5.7	-4.5
Equals: Change in cash balance	1.3 b/	-5.4	4.1	-3.8
Memoranda: Level of cash balance, end of period	14.2 b/	8.8	12.9	9.1
Derivation of budget surplus or deficit:				
Budget receipts	25.4	18.3	27.5	17.5
Budget outlays	23.2	21.6	21.8	22.0
Maturing coupon issues held by public	--	4.3	--	--
Sales of financial assets	.3	1.1	.9	n.e.
Budget agency borrowing	-.6	--	--	.4
Net borrowing by government-sponsored agencies	2.1	1.8	.3	1.9

a/ Checks issued less checks paid and other accrual items.
b/ Actual

n.e.--not estimated

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

	Fiscal 1973 e/		FY 1974 e/	Calendar Years		F.R. Staff Estimates				
						Calendar Quarters				
	Adm. Est. 5-2-73	F.R. Board	Adm. Est. 5-2-73	1972 Actual	1973 F.R.B. e/	1972 IV*	1973 I*	II	III	IV
Federal Budget										
Surplus/deficit	-19.8	-17.3	-5.7	-17.4	-10.2	-10.5	-9.5	4.6	-.5	-4
Receipts	230.0	232.5	263.0	221.5	248.4	50.5	55.2	71.2	64.0	58.0
Outlays	249.8	249.8	268.7	239.0	258.6	60.9	64.7	66.6	64.5	62.8
Means of financing:										
Net borrowing from the public	n.a.	19.5	n.a.	15.2	5.7	12.3	8.4	-6.3	1.1	2.5
Decrease in cash operating balance	n.a.	-2.8	n.a.	0.2	2.3	-1.3	-1.8	--	1.4	2.7
Other 1/	n.a.	.7	n.a.	2.0	2.2	-0.5	2.9	1.7	-2.0	-.4
Cash operating balance, end of period	n.a.	12.9	n.a.	11.1	8.8	11.1	12.9	12.9	11.5	8.8
Memo 2/: Sales of financial assets 3/	5.5	5.4	4.0	3.1	n.e.	1.1	1.2	2.3	n.e.	n.e.
Budget agency borrowing 4/	1.4	.3	2.5	0.8	.2	0.3	--	-.6	.4	.4
Sponsored agency borrowing 5/	7.6	7.6	9.6	3.1	11.7	0.8	1.7	4.2	3.4	2.4
National Income Sector										
Surplus/deficit	n.a.	-18.1	n.a.	-18.1	-5.1	-24.3	-9.3 e/	-10.1	-1.7	
Receipts	n.a.	239.1 6/	n.a.	228.6	260.3	238.4	251.1 e/	253.9	265.1	271.1
Expenditures	259.9	257.2	275.5	246.8	265.4	262.7	260.4 p/	264.0	266.8	270.5
High Employment surplus/deficit (NIA basis) 7/	n.a.	-3.5	n.a.	-0.9	-0.8	-12.1	-1.5	-4.3	-0.3	2.9

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

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

2/ The sum of sponsored and budget agency debt issues and financial asset sales does not necessarily reflect the footnotes continued

2/ volume of debt absorbed by the public, since both the sponsored and budget agencies acquire a portion of these issues.

3/ Includes net sales of loans held by the Commodity Credit Corporation, Farmers Home Adm., Government National Mortgage Assn., Federal Housing Adm., and Veterans Adm. Receipts from these sales are netted against Federal Budget Outlays shown above.

4/ Includes, for example, debt issued by the U.S. Postal Service, Export-Import Bank, and Tennessee Valley Authority, which is included in the Net Treasury Borrowing from the Public shown above.

5/ 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.

6/ Quarterly average exceeds fiscal year total by $4.2 billion due to spreading of wage base and refund effect over calendar year.

7/ Estimated by F.R. Board Staff.

INTERNATIONAL DEVELOPMENTS

STRICTLY CONFIDENTIAL (FR)

III -- T - 1

U.S. Balance of Payments
In millions of dollars; seasonally adjusted

	1972		1973 p/		
	Year	Q-IV	Q-I	Feb.*	Mar.*
Goods and services, net 1/	-4,219	-656	e/-368		
Trade balance 2/	-6,816	-1,683	-918	-423	-68
Exports 2/	48,840	13,240	15,343	5,000	5,355
Imports 2/	-55,656	-14,923	-16,261	-5,423	-5,423
Service balance	2,597	1,027	e/550		
Remittances and pensions	-1,556	-416			
Govt. grants & capital, net	-3,575	-1,141			
U.S. private capital (- = outflow)	-8,339	-2,695			
Direct investment abroad	-3,339	-857			
Foreign securities	-619	-84	29	46	110
Bank-reported claims -- liquid	-733	-43	-1,203	-1,191	82
" " " other	-2,780	-1,425	-2,033	-1,663	-558
Nonbank-reported claims -- liquid	-406	-7	-352	-393	58
" " " other	-462	-279			
Foreign capital (excl. reserve trans.)	10,488	4,757			
Direct investment in U.S.	322	95			
U.S. corporate stocks	2,463	1,223	1,266	438	347
New U.S. direct investment issues	1,974	540			
Other U.S. securities (excl. U.S. Treas.)	64	105			
Liquid liabilities to:	4,816	2,633	-1,871	-1,896	148
Commercial banks abroad	3,905	2,133	-1,892	-2,033	176
Of which liab. to branches 3/	(178)	(-52)	(-559)	(-544)	(52)
Other private foreign	809	320	15	109	-40
Intl. & regional organizations	102	180	6	28	12
Other nonliquid liabilities	849	161			
Liab. to foreign official reserve agencies	10,265	1,688	9,972	7,676	2,834
U.S. monetary reserves (increase, -)	742	66	220	128	-5
Gold stock	547	--	--	--	--
Special drawing rights 4/	7	--	--	--	--
IMF gold tranche	153	-16	-13	-4	-5
Convertible currencies	35	82	233	132	--
Errors and omissions	-3,806	-1,608			
BALANCES (deficit -) 4/					
Official settlements, S.A.		-1,754	-10,192		
" " , N.S.A.	-11,007	-1,465	-10,006	-7,804	-2,829
Net liquidity, S.A.		-4,337	-6,766		
" " , N.S.A.	-14,684	-3,249	-6,562	-4,324	-3,117
Liquidity, S.A. 5/		-4,387	-8,321		
" , N.S.A.	-15,823	-3,235	-8,173	-5,908	-2,977

* Monthly, only exports and imports are seasonally adjusted. e/ Estimate.
1/ Equals "net exports" in the GNP, except for latest revisions.
2/ Balance of payments basis which differs a little from Census basis.
3/ Not seasonally adjusted.
4/ Excludes allocation of $710 million of SDRs on 1/1/72.
5/ 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. Since mid-March the official settlements balance has registered a substantial surplus, reversing perhaps one fifth of the deficit of February and early March. Most of the reduction in liabilities to foreign official accounts since mid-March has been in Japanese balances here, partly the result of large official prepayments. Foreign exchange markets have been functioning smoothly. Euro-dollar rates have recovered from the distortions of the speculative period, and are currently reflecting the general firming of interest rates in national markets.

Some of the improvement in the over-all balance has stemmed from a favorable shift to net inflows from commercial banks abroad, in contrast to the large outflows that were a major feature of the period of speculation. There has probably also been some reversal of the leads and lags and other financial flows that normally escape statistical reporting. Data are not yet available for the trade balance or transactions in securities in April, but it seems unlikely that results in these sectors were as favorable as in March, when the trade deficit was unexpectedly small and there were still unusually large net foreign purchases of U.S. corporate stocks.

In the months ahead the trade balance will probably show somewhat larger deficits than in the first quarter -- partly because the bulge in agricultural exports in the first quarter may have been temporary, and partly because much of the adverse terms of trade effects from devaluations still lies ahead. Moreover, the rapid rise of demand in the United States that began last year will be exerting a strong pull on imports for some time to come. On the other hand, the outlook for nonagricultural exports is bright. Export orders for manufactures have been rising for some time, and the devaluations have by now probably begun to have a significant effect on the volume of shipments.

Export prospects are buoyed by high and rising rates of economic activity in nearly all industrial countries. Although counter-measures against excess demand and price inflation are being taken -- especially in Germany and Japan -- overall economic activity in industrial countries should continue to expand vigorously. In particular, private investment expenditures for machinery and equipment, which did not contribute much to economic activity last year, are beginning to rise substantially, and this sector is of particular importance for U.S. exporters.

At present the odds are probably better than they have been for some time that confidence in the dollar will not be shaken by a major disappointment with the trade performance of the United States -- although temporary setbacks may occur -- and that an unwinding of hedged positions against the dollar will continue. The principal dangers would lie in a turn for the worse in U.S. price performance and pressures on the ability of U.S. suppliers to respond to demand from both domestic and foreign sources.

Foreign Exchange Markets. Exchange markets have been very quiet for the most part in recent weeks. The dollar firmed moderately until May 8 against every major currency save for sterling, with the sharpest gains occurring after the release of U.S. trade figures for March. The dollar's overall appreciation was restrained by continued heavy intervention sales of dollars by the Bank of Japan -- $1.1 billion in the four weeks ended May 8 and $1.8 billion since markets reopened on March 19. The unwinding of leads and lags, an upsurge in Japanese imports in response to a booming domestic economy, and various special factors have combined to produce a strong demand for dollars in the Tokyo market. The Bank of Japan seems to have set an implicit floor for the yen of 16 per cent over its old Smithsonian rate.

The European band was fully extended on most days over the past month, with the guilder at the bottom and the French franc, and occasionally the Scandinavian currencies, at the top. The guilder was also at its lower limit vis-à-vis the Belgian franc within the narrower Benelux band for most of the period. In intervention operations, the Netherlands Bank sold in excess of $200 million equivalent of Belgian francs and other European currencies. Conditions in the Dutch money market were very easy during April and into early May in contrast to other national markets in Europe.

The German mark, which had previously occupied the nethermost position in the snake, firmed against other European currencies, apparently on the strength of extremely tight money market conditions in Germany.

(Call money was quoted at rates in excess of 20 per cent on some days and was seldom below 12 per cent during the period).

Sterling, alone among the major foreign currencies to strengthen against the dollar up to May 8, has benefited from a shift in expectations resulting from an apparent improvement in Britain's domestic economic outlook. Labor relations have seemingly improved and measured inflation (of non-food prices) has slowed while elsewhere in the world inflation has worsened.

On May 8 and 9, the mark led a general rise in European currencies against the dollar. The market turned uneasy following indications that the German government would soon propose very severe anti-inflation measures and that the government's economic consultants had suggested that a further revaluation of the mark against European currencies might be required within six months. A government denial, on May 9, that it would even consider a revaluation did little to reassure the market.

Euro-dollar market. The decline in Euro-dollar rates after the resolution of the March exchange market crisis ended in mid-April. Since then, rates have moved up slightly in the shorter maturities, and somewhat more for 3-month funds, under the influence of rising interest rates in the United States and abroad (notably Germany). The excess of the 3-month Euro-dollar rate over the 60-89 day CD rate has widened to 75 basis points as of May 9, but the current differential of 30 points between 1-month Euro-dollars and 30-59 day CD's shows little change from mid-April.

The sharp rise in the Federal funds rate in the past month has lifted that rate above the overnight Euro-dollar rate from time to time since mid-April. In the statement week ending May 9, U.S. banks with reserve free bases found it cheaper, by an average of 64 basis points, to borrow overnight Euro-dollars than to borrow Federal funds. But in the two preceding weeks, overnight Euro-dollars were on average more costly than Federal funds. U.S. banks' borrowings from their foreign branches continued to decline slowly through the statement week ending May 2, dropping to a daily average of $2.22 billion compared with $2.36 billion in the week of April 4. On the other hand, U.S. agencies and branches of foreign banks substantially increased their foreign liabilities in the three weeks up to May 2.

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

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-Oct.	4.77	5.05	-0.28	(0.91)	5.10	5.10	0.00	(1.28)
Nov.	4.74	5.05	-0.31	(0.88)	5.08	5.01	0.07	(1.34)
Dec.	4.75	5.33	-0.58	(0.61)	6.05	5.25	0.80	(2.31)
1973-Jan.	5.72	5.94	-0.22	(1.21)	5.97	5.79	0.18	(1.67)
Feb.	9.03	6.58	2.45	(4.71)	7.70	6.35	1.35	(3.28)
Mar.	9.19 4/	7.90	2.10	(4.40)	8.79	7.20	1.59	(3.79)
Apr.	7.43	7.12	0.31	(2.17)	8.00	7.27	0.73	(2.73)
1973-Mar.28	7.29	7.11	0.18	(2.00)	8.57	7.24	1.33	(3.47)
Apr. 4	15.05 5/	7.18	1.37	(11.63)	8.38	7.37	1.01	(3.11)
11	6.93	6.84	0.09	(1.82)	7.96	7.11	0.85	(2.84)
18	6.90	7.24	-0.34	(1.39)	7.79	7.24	0.55	(2.50)
25	7.48	7.14	0.34	(2.21)	7.96	7.37	0.59	(2.58)
May 2	8.32	7.43	0.89	(2.97)	7.85	7.37	0.48	(2.44)
9 p/	7.03	7.67	-0.64	(1.12)	7.92	7.37	0.55	(2.53)

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 rates.
3/ Offer rates (median, as of Wednesday) on large denomination CD's by prime banks in New York City; CD rates adjusted for the cost of required reserves.
4/ 8.07 excluding March 29. A technical anomaly involving a quarter-end squeeze on dollar balances raised overnight Euro-dollar borrowing to 60 per cent on that date.
5/ 7.57 excluding March 29.
*/ Differentials in parentheses are after adjustment of Euro-dollar rates for the 20 per cent marginal reserve requirement (relevant to banks with borrowings in excess of their reserve-free bases).
p/ Preliminary.

U.S. balance of payments. In April, the balance on the official settlement basis was a surplus estimated at about $1 billion, as U.S. agencies and branches of foreign banks reversed some of the reduction in liabilities to foreign commercial banks that had occurred during the monetary turmoil of February and early March. Details on April transactions are still very meager but the surplus in that month reflects among other things, a special repayment of $175 million of post World War II debt by Japan. Allowing for a continuing sizable deficit on current account and long-term capital, the April surplus suggests a return flow -- on the order of $1-1/2 billion -- of some of the funds that had left the country earlier in the year, including a $400 million reduction in commercial bank claims on foreigners (according to the weekly banking statistics).

More complete data are now available on transactions in the first quarter. The overall balance on the official settlements basis in the first quarter was a large deficit of $10.2 billion (seasonally adjusted but not at an annual rate). The trade deficit, although substantially lower than in the fourth quarter, was about $900 million; bank claims on foreigners increased by about $3-1/4 billion (seasonally-adjusted) while liquid liabilities to commercial banks abroad and other private foreigners decreased by $2 billion. Net payments connected with remittances, pensions, and U.S. Government grants and credits amounted to about $1.3 billion. These outflows were only partially offset by the continued large sales of U.S. securities to private foreigners -- \$1-1/4 billion of corporate stocks and over \$1/2 billion of bonds, mainly offshore issues. On balance there was a net liquidation of foreign securities in the first quarter; U.S. purchases of foreign bonds remained at a low level while there were continued net sales of foreign stocks. The surplus on investment income, other services, and military transactions is estimated to have been about \$1/2 billion.

The sum of these transactions is an outflow of about \$5 billion. If net direct investment outflows were roughly \$1-1/2 billion, total recorded payments would amount to some \$6-1/2 billion, compared to an over-all deficit of about \$10 billion. The difference would represent unrecorded transactions of U.S. investors and others positioning themselves against an expected dollar devaluation by increasing their net dollar liabilities and their net foreign-currency assets.

U.S. foreign trade. The trade deficit in March fell sharply to less than \$1 billion at an annual rate (balance of payments basis) as exports advanced strongly while imports were unchanged from the high levels of the preceding two months. For the first quarter, the trade deficit was \$3-3/4 billion at an annual rate, nearly \$3 billion less than the deficit rate in the fourth quarter of 1972. Both exports and imports increased extraordinarily from the fourth to the first quarter; exports rose by over 15 percent, imports by 9 percent.

A major element in the steep climb of exports, in March as well as earlier in the quarter, was the very sharp acceleration in shipments of agricultural commodities. Although these commodities are less than one-fourth of total exports, they accounted for more than one-half of the total rise in exports in the first quarter; about one-third of the higher value resulted from higher prices -- particularly for soybeans. The value of agricultural exports in the first quarter was $15-1/4 billion at an annual rate (over $16-1/2 billion in March). In calendar 1972 agricultural exports were only $9-1/2 billion.

Although the value of agricultural exports is expected to remain high in the next few months -- with a further rise in prices offsetting a possible drop in volume due to supply limitations -- it is likely that these exports will fall to a lower rate in the course of the year.

U.S. EXPORTS BY PRINCIPAL COMMODITIES
(billions of dollars; seasonally adjusted annual rates)

	1972 Q-4	1973 March	1973 Q-1	Percent change Q-1 1973 / Q-4 1972
Total	53.0	64.3	61.4	16
Agricultural	10.8	16.6	15.2	41
Nonagricultural	42.2	47.6	46.2	9
Civilian aircraft	1.9	2.3	1.8	--
Autos to Canada	4.3	4.1	4.6	7
Other nonagricultural	36.0	41.3	39.8	10
Industrial materials	12.9	16.5	15.7	22
Machinery	13.9	15.3	15.3	10

Deliveries of aircraft are also expected to decline from the very high March rate. Exports of other nonagricultural commodities should rise considerably given the strong expansion in industrial output abroad.

Foreign orders for machinery rose further in March and for the first quarter averaged 16 percent higher than in the fourth quarter. Foreign orders for steel, nonferrous metals and other types of durable equipment are also on the rise.

Imports in the first quarter were, in total, considerably higher than in the fourth quarter. Following a sharp advance in January, however, there was no further advance in February and March although import unit-values rose quite strongly in March -- nearly 2 percent. Unit values of foodstuffs (coffee, meat, sugar), semi-finished industrial materials and finished goods (particularly cars) were all up in March, reflecting the first price effects of the February devaluation as well as other factors now pushing up prices generally.

The rise in imports in the first quarter was led by imports of petroleum. Imports of fuel jumped by 19 percent and in March reached an annual rate of $6-1/2 billion, compared with less than $5 billion in the year 1972. Other increases are summarized in the table. Domestic sales of cars from Europe and Japan continued at a high level in April, holding close to an annual rate of 2 million units, well above the first quarter level of imports. The strength in April sales is attributed to heavy purchases of Japanese cars as higher prices for these cars were not posted by Japanese producers until mid-April.

U.S. IMPORTS BY PRINCIPAL COMMODITIES
(billions of dollars; seasonally adjusted annual rates)

	1972 Q-4	1973 March	1973 Q-1	Percent change Q-1 1973 / Q-4 1972
Total	59.7	65.1	65.0	9
Foods and feeds	7.6	8.8	8.5	12
Industrial materials	22.1	24.1	24.2	9
Fuels	5.2	6.6	6.2	19
Other	16.9	17.5	18.0	6
Capital goods	6.1	6.8	6.6	8
Automotive	10.0	11.1	10.7	7
From Canada	5.6	6.2	6.2	11
From other	4.4	5.0	4.5	2
Other consumer goods	11.9	12.8	13.0	9

The reduction in the trade deficit in the first quarter shows up in improved U.S. trade balances with Western Europe and Japan. Heavy shipments of agricultural commodities and aircraft were the main elements in the strong rise in exports to Western Europe, turning the deficit that had prevailed with that area throughout most of 1972 into a surplus in the first quarter. Exports to Japan, particularly agricultural products but also machinery, rose sharply in the first quarter while imports from Japan were only moderately higher. Consequently the trade deficit with Japan in the first quarter fell to an annual rate of $2-3/4 billion, compared with a rate of over $4 billion in each quarter of 1972.

Balance of payments outlook. The outlook for the balance of payments for the rest of the year has recently been reviewed by an inter-agency committee, in the light of the striking developments evident in the still incomplete data for the first quarter. For the basic balance -- current account and long-term capital -- a deficit on the order of $8 billion is projected for the year, although the first-quarter rate may have been somewhat lower. No attempt is made to project the official settlements balance; whether the over-all deficit is much larger or smaller than the $10 billion registered in the first quarter will depend on the behavior of volatile funds. While there has been some unwinding since mid-March of the outflows associated with currency disturbances, a major reflow is still inhibited by rising interest rates abroad and lingering doubts about the stability of the present exchange rate relationships.

Projections of the trade balance for the year still anticipate a deficit of about $5 billion, even though the first-quarter rate was less than $4 billion. The worsening of the balance after the first quarter assumes, among other things, that the annual rate of exports of agricultural commodities, at $15.2 billion in the first quarter, will be dropping to $12 billion after mid-year. There is a possibility that further price increases will be large enough to offset the likely drop in volume of agricultural exports, in which case the trade balance for the year could be substantially better. However, the adverse effects of the devaluations, especially the more recent changes in the dollar prices and value of imports, will probably be stronger in the months ahead, and allowance must be made for rising petroleum imports at higher prices.

On the other hand, prospects are good for strong demand for U.S. exports in other industrial countries, where there is a broadly-based rapid increase in demand, and also in some of the developing countries with large reserve holdings. Consequently, after some worsening in the summer months the trade balance is expected to improve considerably, though still showing deficits into 1974.

Although the 1973 trade deficit should show a considerable gain over the 1972 result, net receipts of income on investments are expected to fall, yielding a rather limited gain in the combined balance on goods and services. While receipts from U.S. direct investments abroad are projected to continue to score large gains -- mainly because of the boom in economic activity in foreign countries -- this will be more than offset by rising interest payments to foreigners. Taking into account the higher level of liquid liabilities to foreigners, much of which came early in the year, and the year-over-year rise in U.S. interest rates, interest payments on these liabilities will rise by well over $2 billion.

No important shifts are expected in net military expenditures, or in the balance of other service transactions. A new element in the picture is a reduction of nearly $.5 billion in net U.S. Govt. grants and capital flows, stemming primarily from special transactions with Japan and advance payments on military export orders.

An area of great uncertainty is the future of flows of private long-term capital. In the current projection the net flow of such capital is projected to be about in balance, as it was in 1972, but this depends on a number of important assumptions, including general stability in exchange markets. The net outflow of U.S. private long-term capital is put at not much above the 1972 rate of $5.4 billion, with direct investment outflows rising only moderately in response to the pick-up in economic activity abroad. U.S. banks increased their long-term claims on foreigners by about $1.3 billion in 1972, and are projected to have somewhat smaller outflows this year.

The net inflow of foreign private long-term capital was $5.6 billion in 1972 and is projected to rise slightly in 1973. A crucial factor will be the attitude of foreign investors toward U.S. corporate stocks and the offshore borrowings of U.S. direct investment companies. Such investments accounted for $4.5 billion of the inflow in 1972, and they are projected to be somewhat larger this year. This is based on the assumption that following the spurt in foreign purchases of U.S. corporate stocks in the first quarter -- when net purchases totaled $1.2 billion -- there will be a smaller but still substantial rate of inflow in the rest of the year, bringing the total to over $3 billion. However, it is also assumed that offshore corporate borrowing will be reduced to about $1-1/2 billion from nearly $3 billion in 1972. This slowdown reflects both some difficulties in placing dollar-denominated bonds in the Euro-bond market and also the uncertainty faced by the direct investors, who prefer to hold down their borrowings in view of the expected termination of the controls. It appears that the offshore financing will increasingly take the form of shorter-term bank loans, so as to result in a minimum of high cost foreign borrowing outstanding after the end of 1974.

If the present projection is nearly correct, it suggests that gains in the basic balance will come gradually in 1973, with improvement in the trade balance showing up strongly only late in 1973 and into 1974 as demand pressures in the United States abate. This picture could be changed for the better, however, if agricultural exports stay close to their recent high level.

Economic Activity in Major Foreign Industrial Countries. Economic activity in most of the major industrial countries expanded rapidly during the second half of 1972 and, on the basis of preliminary indicators, during the first quarter of 1973. As shown in the table on the following page, real GNP for these countries as a whole grew at an annual rate of 5.9 per cent from 1971 to 1972, and this rate is expected to increase to 7 per cent from 1972 to 1973. In most foreign countries, as in the United States, the underlying strength of activity was somewhat greater than had been forecast, mainly because private consumption expenditures rose more rapidly than had been anticipated. Private capital investment, relatively sluggish in 1972, is expected to accelerate and contribute substantially to growth in 1973, as is inventory investment. Consequently, rapid growth of output is expected to continue during the rest of this year -- in most cases with further acceleration as the expansion becomes broader based.

Unemployment has dropped substantially in most of the countries. Tightness in some segments of the labor market is exerting upward pressure on labor costs -- even in countries where the overall unemployment rate is still high. Despite tightening labor market conditions, wage increases early this year were relatively moderate. However, the high current rates of price increases have caused more recent settlements to be higher -- and in Germany, for example, there is talk of reopening later this year negotiations on settlements made in January and February.

GROWTH RATES OF REAL GNP AND CHANGES IN GNP DEFLATORS, 1959-1973
(Percentage changes)

	Average 1959-60 to 1970-71		From previous year 1971		1972 (estimates)		1973 (forecasts)*	
	GNP	deflator	GNP	deflator	GNP	deflator	GNP	deflator
Germany	4.9	3.6	2.7	7.7	2.9	6.1	6	6-1/2
United Kingdom	2.9	4.2	1.7	8.9	3.5	6.7	6	6-1/4
France	5.8	4.4	5.1	5.0	5.6	5.8	6	6-1/4
Italy	5.5	4.4	1.0	7.0	3.2	5.8	5	8
Netherlands	5.3	4.8	4.5	7.5	4.0	9.5	4	8
Japan	11.1	4.8	6.4	4.6	9.2	4.9	11-1/4	6-1/2
Canada	4.9	3.0	5.5	3.3	5.5	4.9	7	5
United States	3.9	2.8	2.7	4.7	6.4	3.0	6-3/4	4-1/4
TOTAL	5.0	3.4	3.3	5.4	5.9	4.3	7	5-1/4

*N.B.: 1973 forecasts are strictly confidential.

Source: OECD Secretariat, April 12, 1973 and national forecasts.

Thus, in most countries, inflationary expectations rather than labor market shortages seem to be the major factor making for faster rises in wage demands.

As illustrated by the changes in GNP deflators in the table, rates of inflation have been increasing rapidly. The sharp worldwide upward movement of agricultural and raw material prices which began in the second half of 1972 has been a notable feature of the situation. With increasing demand pressures, the OECD's forecasting group now anticipates an acceleration of prices of manufactures and services almost everywhere in the course of this year, as well as continued increases in basic commodity prices. In addition, the EEC farm price decisions of May 1 will contribute further to increases in food prices in the European countries.

With the acceleration of inflationary trends, a number of countries have adopted a more restrictive policy stance in order to moderate demand and price pressures. Monetary policy measures have been widely employed to date, but further and more varied policy moves can be expected. So far, a comprehensive set of wage and price controls has been employed only in the United Kingdom.

The economic recovery in <u>Germany</u> dating roughly from the beginning of 1972 is developing into a broad-based boom. Most observers now expect the increase in German real GNP in 1973 over 1972 to be about 6 per cent, a more rapid rate than was officially anticipated just a few months ago.

Exports have played the leading role in the expansion to date. The rapid rise in new industrial orders from abroad -- 70 per cent, annual rate, from July-August 1972 to January-February 1973 -- indicates that exports will continue to be a major stimulative force. However, business surveys as well as the rise in domestic new orders suggest that a marked recovery in private capital investment is also likely to occur this year.

The high rate of capacity utilization at a time when demand continues to expand rapidly is adding considerably to inflationary expectations. The overall capacity utilization rate in industry was in excess of 85 per cent in the fourth quarter of 1972 (compared to a peak of over 90 per cent during the boom of 1970) and has certainly risen since then; the unemployment rate (s.a.) averaged a very low 1 per cent in the first three months of 1973. The tightness in the labor market is exerting upward pressure on wages, but a major factor in increasingly stronger wage demands has been the fast price rise of recent months and the expectation that prices are likely to continue to rise rapidly.

Although some budgetary restraint is being exercised, the German authorities currently are relying primarily on monetary policy to slow inflation. The Bundesbank's determination to maintain monetary stringency was demonstrated by its willingness to allow the rate on overnight interbank loans to soar to record-breaking heights. And on May 3, the discount and the Lombard rates were raised by 1 percentage point to 6 and 8 per cent, respectively. However, there are general expectations that the government will announce an anti-inflation package which is likely to include various tax measures. Since the German government believes that developing excess demand is the base of the inflationary pressures, price and wage controls are not likely to be instituted.

Economic activity in the United Kingdom has increased rapidly since mid-1972. Real GDP rose at an annual rate of over 6 per cent from the first to the second half of the year, although the growth rate was distorted by strikes in the first and third quarters of the year. The main expansionary element of demand has been private consumption expenditure, which rose at an annual rate of 8 per cent from the first to the second half of last year, and at a rate of 11 per cent in the first quarter of this year. However, these recent rates of growth reflect to some extent anticipatory buying before the introduction of the value-added tax (VAT) on April 1, 1973.

Unemployment began to fall sharply in the second half of 1972. In April 1973, the unemployment rate (s.a.) in Great Britain was 2.7 per cent compared with 3.8 per cent a year earlier; a rate of about 2 per cent is considered optimum. Job vacancies for adults now are higher than at any time since the boom years of 1965-66.

The outlook is for a growth rate of real GNP in 1973 of about 6 per cent -- above the official target rate of 5 per cent -- assuming a continuation of the present policy posture, with heavy reliance on wage and price controls. A survey recently released by the Confederation of British Industry confirms earlier forecasts that private investment expenditures and exports will provide the major stimulus. However it also suggests that supply constraints will become increasingly important.

The faster rate of economic expansion in France, which began in the middle of 1972, is expected to continue with real GNP growing by about 6.0 per cent, in line with the target rate of the 1971-75 plan. Industrial production has been increasing exceptionally fast -- 12 per cent, annual rate, from August 1972 through February 1973.

The most substantial stimuli to economic activity have been exports and private consumption. With the expected growth in world trade, export expansion is expected to continue in 1973, and consumer expenditure may grow even more rapidly than in 1972. The strength of private consumption is mainly due to the rapid rise in personal incomes. Hourly wages rose 12.3 per cent in 1972, and the tightening in the labor market, especially for skilled workers, coupled with stronger union demands, suggests that increases in earnings will be somewhat larger in 1973. Utilization of capacity is now higher than at any time since 1969-70. In addition, planned investment expenditures are being revised upward and in 1973 may rise by about 8 per cent in real terms.

As elsewhere, price increases are a major policy concern in France. The December 1972 consumer price index was 6.9 per cent above its year earlier level. The government's December anti-inflationary program included direct action on prices through selective VAT reductions, as a result of which retail price levels in January and February increased only slightly or not at all. However, the upward trend resumed in March. On May 3 the French government renewed its system of price guidelines with a 3.6 per cent ceiling (compared to 3 per cent a year ago) for price increases of most industrial goods over the next twelve months.

A sharp upturn in economic activity in Italy in the fourth quarter of 1972 -- reflected in a 9 per cent rise in industrial production -- was induced by a renewed surge in exports and a strengthening in several components of domestic demand -- specifically, consumer spending, residential construction, and continued rebuilding of inventories. Some of this increase resulted from anticipatory buying in advance of the introduction of the VAT at the beginning of 1973, and some in expectation of renewed strike activity in the first quarter. In fact, industrial output in the first quarter of 1973 was sharply lower because of strikes.

Prospects now appear favorable for a sustained increase in economic activity in Italy for the first time in four years. The signing of new wage contracts in the metal and engineering industries in the first week in April removed a major uncertainty for employers that had been a depressant to investment. The contracts provide for large pay increases that should cause consumer spending to rise more rapidly. A significant share of the cost pressures that might have resulted from the large wage increases is expected to be alleviated by the proposed shifting of part of the cost of social security contributions from employers to the budget.

Price rises have accelerated sharply since the summer of 1972 with the GNP deflator expected to peak at an annual rate of 9 per cent in the first half of 1973. The introduction of the VAT and the effect on import prices of the depreciation of the lira further contributed to the acceleration of the inflation rate. By the second half of this year, this rate may drop off to about 6-1/2 per cent, still high by past standards. Nevertheless, absorption of economic slack remains the main policy objective at this time, and anti-inflationary measures are likely to aim at the reduction of costs rather than of demand.

Economic activity in the Netherlands advanced briskly from mid-1972 through January of this year. Exports appear to have been the major contributor to the pickup in activity. Seasonally adjusted unemployment declined from August 1972 through January 1973, but remained high by Dutch standards. In addition, job vacancies also fell, leaving the ratio of unemployed to vacancies at around 2 to 1.

Real output statistics are not available beyond January, but rises in unemployment since then suggest that strikes which plagued the economy from the latter part of February to the latter part of April slowed the growth of output. The strikes stemmed primarily from labor-management conflict over determination of an acceptable formula for granting pay increases in connection with rises in consumer prices. A provisional agreement was reached at the end of April, providing for proportionately higher cost-of-living wage boosts for lower paid workers. The government estimates that average earnings will rise by 13-1/2 per cent from 1972 to 1973.

Real GNP this year is projected to exceed last year's total by 4 per cent. Steep rises are expected in exports and in private non-residential investment.

Inflation in the Netherlands remains severe -- overall consumer prices in February were 7.2 per cent above their year-ago level, as were those for all items excluding food. However, partly because the economy is still operating at a level well below capacity and partly because until a few days ago it still had not been possible to form a new government, the interim government has not pursued a very active stabilization policy.

The economic expansion in Japan which began in early 1972 accelerated through the year. Real GNP increased by 9.2 per cent in 1972 over 1971. By the fourth quarter of 1972 the rate of growth had accelerated to 15.2 per cent per annum. Government capital expenditure, private consumption expenditure, private construction, and exports were the main factors contributing to growth in 1972. Real GNP in 1973 is expected to rise by 11-1/4 per cent over the 1972 level, with private investment expenditure becoming an important factor.

Since late last year, consumer and wholesale prices have been increasing sharply. March 1973 wholesale prices were 11 per cent above their year earlier levels, while consumer prices (Tokyo) were up 9 per cent. Recent large wage increases of 18 per cent in the transport industry may well set the pattern for other industries.

The Bank of Japan began to tighten its monetary policy late last year. Credit restraints were introduced for the first and second quarters of 1973, reserve requirements were increased in January and again in March, and the basic discount rate was increased from 4.25 per cent to 5.0 per cent on April 2, 1973. But the liquidity position of the private sector is very comfortable, so that the effect of the recent monetary policy measures is not likely to be readily apparent. Monetary policy is expected to remain tight as price inflation is likely to continue. Fiscal policy, which was very stimulative last year, will continue to contribute significantly to overall demand, particularly to investment demand, this year -- albeit at a declining rate.

Economic activity in Canada in 1972 continued to be strong for the second consecutive year. Preliminary estimates indicate the same real rate of growth of Canadian GNP in 1972 as in 1971 -- 5.5 per cent --

despite an interruption in the third quarter of 1972 resulting from strikes and bad weather. Private consumption expenditure and residential construction were especially strong during 1972. Forecasts for the growth of real GNP for 1973 range from 6.5 to 7 per cent, as business investment is expected to pick up strongly.

The increase in output in 1972 was accompanied by large employment gains. However, the labor force was also growing rapidly, and the unemployment rate for 1972 was 6.3 per cent -- virtually the same as in 1971. The unemployment rate (s.a.) has subsequently decreased from 6.7 per cent in December 1972 to 5.5 per cent in March 1973 -- the lowest level in three years. However, regional disparities in unemployment persist. The seasonally adjusted March unemployment rates ranged from 3.9 per cent in Ontario to 8.3 per cent in the Atlantic provinces.

Inflation is a problem in Canada as elsewhere. Price rises accelerated in 1972 and are expected to continue high in 1973. The March consumer price index was 6.0 per cent above its level one year ago, and the GNP deflator is rising at an annual rate of about 5 per cent.

Fiscal policy in Canada remains expansionary. The February budget aimed mainly at encouraging economic growth to reduce unemployment, although it was also directed toward decreasing the rate of inflation. There are some indications that the Bank of Canada may pursue a somewhat less expansionary monetary policy in 1973. On April 6 it raised the discount rate by 1/2 percentage point to 5-1/4 per cent; this was followed by an increase in the prime lending rates of the chartered banks on April 9 from 6 to 6-1/2 per cent. Still, economic activity may not be restrained very much. Most forecasts assume that the proposed reductions in corporate tax rates and the liberalization of write-off provisions will be put into effect. But, even if these were not to materialize, the large increases in business investment forecast for this year are still likely to come about, because most of the anticipated spending is already in the pipeline.