<u>Prefatory Note</u>

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

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

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

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

Content last modified 6/05/2009.

Confidential (FR) Class II FOMC

Part 2

April 9, 1975

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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

CONFIDENTIAL (FR)

April 9, 1975

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

DOMESTIC NONFINANCIAL SCENE

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	Mar.	4-4-75	91.8	4.2	.1	1.6
Unemployment rate (per cent)	Mar.	4-4-75	8.7	8.2 1/	7.2 1/	5.1 1/
Insured unemployment rate (%)	Mar.	4-4-75	6.5	5.9 1/	4.8 1/	3.3 1/
Nonfarm employment, payroll (mil.)	Mar.	4-4-75	76.4	- 5.1	- 6.9	- 2.2
Manufacturing	Mar.	4-4-75	18.1	-10.2	-21.1	- 9.8
Nonmanufacturing	Mar.	4-4-75	58.2	- 3.5	- 2.2	.4
Private nonfarm:						
Average weekly hours (hours)	Mar.	4-4-75	35.9	36.1 1/	36.4 1/	36.7 1/
Hourly earnings ($)	Mar.	4-4-75	4.42	5.5	3.7	8.1
Manufacturing:						
Average weekly hours (hours)	Mar.	4-4-75	38.7	38.8 1/	39.4 1/	40.3 1/
Unit labor cost (1967=100)	Feb.	3-29-75	143.8	9.2	16.8	13.7
Industrial production (1967=100)	Feb.	3-17-75	110.3	-39.5	-37.5	-11.5
Consumer goods	Feb.	3-17-75	117.9	-22.0	-26.6	- 8.1
Business equipment	Feb.	3-17-75	119.4	-30.4	-35.4	- 6.2
Defense & space equipment	Feb.	3-17-75	81.6	-28.7	-10.0	.9
Materials	Feb.	3-17-75	106.2	-45.7	-52.1	-17.2
Consumer prices (1967=100)	Feb.	3-20-75	157.4	7.7	7.8	11.1
Food	Feb.	3-20-75	171.9	.7	6.4	8.9
Commodities except food	Feb.	3-20-75	145.5	10.0	7.3	12.2
Services 2/	Feb.	3-20-75	162.6	9.7	10.1	11.5
Wholesale prices (1967=100)	Mar.	4-3-75	169.7	- 7.4	- 6.8	12.5
Industrial commodities	Mar.	4-3-75	168.6	2.3	5.0	18.6
Farm products & foods & feeds	Mar.	4-3-75	173.0	-30.4	-33.1	- .7
Personal income ($ billion) 3/	Feb.	3-19-75	1194.0	2.9	3.2	7.2
				(Not at Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Feb.	4-1-75	37.0	2.5	-14.4	-12.6
Capital goods industries:	Feb.	4-1-75	12.1	2.9	- 7.1	-10.6
Nondefense	Feb.	4-1-75	9.9	- 1.4	- 6.5	-12.9
Defense	Feb.	4-1-75	2.1	29.3	-10.1	2.4
Inventories to sales ratio:						
Manufacturing and trade, total	Jan.	4-4-75	1.68	1.68 1/	1.54 1/	1.47 1/
Manufacturing	Feb.	4-1-75	1.93	1.92 1/	1.71 1/	1.62 1/
Trade	Jan.	4-4-75	1.46	1.48 1/	1.43 1/	1.34 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	Feb.	4-1-75	.812	.788 1/	.722 1/	.721 1/
Retail sales, total ($ bil.)	Feb.	4-8-75	46.8	1.9	5.3	8.6
GAF	Feb.	4-8-75	11.8	3.3	3.0	4.0
Auto sales, total (mil. units) 3/	Mar.	4-4-75	7.7	-16.1	7.1	-13.0
Domestic models	Mar.	4-4-75	6.0	-15.6	- .2	-18.4
Foreign models	Mar.	4-4-75	1.6	-17.7	46.4	15.1
Housing starts, private (thous.) 3/	Feb.	3-18-75	977	- 1.9	-3.9	-48.1
Leading indicators (1967=100)	Feb.	3-31-75	156.6	1.0	-4.0	- 8.0

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Aggregate economic activity continued to contract in March although the decline was not as steep as in recent months. Production and employment both dropped less than in February, but the unemployment rate resumed its sharp climb. Business durable orders in February rose for the first time since last August, and there were further indications in March of a firming in consumer goods purchases. In addition, there were indications of a further lessening of inflationary pressures.

The industrial production index is estimated to have declined about 1 per cent in March, well below the drop in each of the prior four months. Production of business equipment apparently fell further and output declined in the materials industries, especially in paper, chemicals, and basic materials. But consumer goods production stabilized as auto assemblies picked up somewhat, the decline in other durable goods output slowed and nondurable consumer goods production apparently leveled off. In April, auto assemblies are expected to rise somewhat further. Production in materials industries in March was down about 20 per cent from last September's peak, implying substantial liquidation of materials inventories. Capacity utilization for major materials declined further in March to about 68 per cent, the lowest operating rate since the stell strike in October 1959.

The labor market weakened further in March but private nonfarm manhours dropped less than in most recent months. Nonetheless, the unemployment rate resumed its steep upward climb, rising from 8.2 to 8.7 per cent, as the civilian labor force increased by more than

300,000--entirely among adult women, whose number had declined in February. Unemployment increased among all labor force groups, with blue collar workers hard hit by continued layoffs. There was also a rise in the number of persons working part time for economic reasons in the first quarter, and a substantial increase in the number of discouraged workers who have given up looking for work.

Nonfarm payroll employment also fell less sharply in March than in recent months. The 325,000 drop brought the total loss in payroll jobs to more than 2.5 million since last October's peak. Again in March much of the decline was in manufacturing, particularly in the metal and metal-using industries and in apparel. Construction employment also dropped sharply. Employment in service-producing sectors continued to show little change, with an increase in State and local government offset by reductions in trade and the service industry.

It would have been surprising if auto sales had not fallen back following the period of rebates which accelerated the timing of many purchases, and in March sales returned to about the December pre-rebate level. It is not clear as yet how much the rebate program may have added, on net, to auto demand. Sales of new domestic-type models were at a 6.0 million unit annual rate in March, 16 per cent below the February rate, with the decline entirely among small cars. Sales of foreign autos dropped by about the same percentage, to a 1.6 million unit rate, after rising quite sharply in the prior two months. During the month, Chrysler twice extended its rebate program on selected models while GM, AMC, and Ford announced substantial cost reductions through equipment deletion. Auto production was increased in March to a 5.6 million unit rate. Including Canadian imports, this was about equal to sales, and stocks were about unchanged from February's level.

Based on weekly data we estimate that retail sales, exclusive of autos and nonconsumer items, rise by about 1.5 per cent in March, following increases of 1.2 per cent (upward revised) in February and 1.3 per cent in January. These sales had been showing pronounced weakness late last year. Outlays for furniture and appliances rose about 1.2 per cent and expenditures for general merchandise were up for the second successive month. Total retail sales, including the declining auto component, are likely to have been essentially unchanged in March.

The results of two consumer surveys indicate less pessimism than reported at year-end. The quarterly Michigan survey--taken in February--reports that its index of consumer sentiment has risen since last November and December, and that respondents now expect a lower inflation rate. The February Conference Board survey of attitudinal questions reports a pickup from a December low to somewhat above the October level. Both of these surveys were taken before the tax reduction bill was enacted. Hence, the next few surveys will be watched with special interest.

Total new orders for durable goods rose 2.5 per cent in February (p), the first increase following five consecutive months of decline in this series. Gains occurred in several categories, but orders for nondefense capital goods, which anticipate business expenditures on machinery and equipment, declined further--by 1.4 per cent in current dollars and 1.8 per cent in constant dollars in February (p). During the previous six months, however, these orders had fallen much more rapidly, at an average monthly rate of 6-1/2 per cent.

Unfilled orders also declined in February for both total durable and nondefense capital goods. These backlogs have been dropping continuously since last fall.

After appearing to level off in January, contracts for commercial and industrial buildings weakened considerably further in February as floor space contracted declined 14 per cent to the lowest level since the end of 1963. The decline, which was mainly in industrial buildings, brought the February total to 42 per cent below the year-earlier level.

A sizable liquidation of business inventories apparently occurred in the first quarter. Inventories held by retailers were off considerably in January. The book value of wholesalers' inventories declined at a $6.8 billion annual rate in February following a $4.5 billion liquidation the previous month. The book value of manufacturers' inventories rose at only a $2.2 billion annual rate in February--sharply below the January rise of $14.6 billion--and the dollar value of stocks of both finished goods and work-in-progress actually declined in February. Given the continued rise in industrial commodity prices over recent months, these dollar value figures imply a substantial liquidation of physical stocks.

Although private housing starts edged off in February, prospects for a housing recovery have improved as recent flows to thrift institutions have greatly exceeded earlier anticipations and the volume of new mortgage commitments has continued to rise above the October low. Moreover, the recently enacted tax credit (5 per cent of the sale price, up to a limit of $2,000, on new units still in builders' inventories) should help clear a substantial part of the stock currently overhanging the market. This legislation should also aid in reducing mobile home inventories.

The staff projection of Federal spending for FY 1975 has been revised upward by about $3-1/2 billion from the March Greenbook estimate to $320.9 billion (unified budget basis). This revision reflects the continuing strength of defense and nondefense purchases, as well as a one-time $1.7 billion cash payment of $50 to each of 34 million social security recipients. In addition, the Tax Reduction Act provides a 13 week extension of eligibility for unemployment compensation.[1/] For FY 1976, the staff is currently projecting unified budget outlays of $363.3 billion, $4-1/2 billion more than in the March Greenbook--due mainly to increases in transfer payments.

Receipts estimates have also been revised, largely to incorporate the specific terms of the Tax Reduction Act of 1975, which differs in timing from our previous assumptions. The early passage of this legislation enables the cash impact of the rebates to be concentrated in the six weeks following May 12 and allows the withholding tax cuts to take effect May 1 of this year. Thus, a greater

1/ A more detailed discussion of the Act is provided in the Appendix.

downward impact on receipts occurs in FY 1975. While most of the provisions in the Tax Reduction Act do not extend into CY 1976, our projections assume that the new tax rates will be extended by subsequent legislation, except for the tax rebate, the housing tax credit, and the one-time $50 payment to social security beneficiaries.

On the basis of the revised receipt and outlays estimates, the staff is currently projecting a unified budget deficit of $43.8 billion for FY 1975 and $77.3 billion for FY 1976. The high employment budget shows a sharp shift toward fiscal stimulus in the second quarter of 1975 with continued but reduced stimulus thereafter.

The average hourly earnings index--which adjusts for changes in manufacturing overtime and the interindustry distribution of employment--advanced at a 12.4 per cent annual rate in March. This is a departure from the slowing trend which had been evident in recent months, but seems to be due largely to a bunching of labor settlements. For the first quarter as a whole the increase was 7.4 per cent compared to 10.1 per cent in the fourth quarter.

The largest wage increases in March were in the construction industry, where apparently many new contracts were negotiated during the month, and in the manufacturing and the transportation and public utilities sectors. In the less unionized sectors of services and trade, wage increases were more moderate--about a 6-1/2 per cent annual rate.

Wholesale prices fell further in March--0.6 per cent, seasonally adjusted--as prices of farm and food products registered their fourth successive monthly decline. Lower prices were particularly evident in grains, manufactured animal feeds, vegetable oils, and fresh vegetables. However, some farm prices, such as those for cattle, corn, and soybeans, have increased since mid-March. Prices of industrial commodities in March rose only 0.2 per cent, seasonally adjusted, the smallest advance in almost two years with the exception of last December. Prices rose further for most chemicals, machinery and equipment, crude and refined petroleum and electric power, but continued to decline for nonferrous metals and textile products. Prices of industrial materials on commodity markets appear to have leveled off since the fall, following the sharp drop recorded last spring.

In February consumer prices, seasonally adjusted, rose at about the same rate as in January, which was well below the rate of advance recorded last year. The food index was almost unchanged following six months of large increases. Nonfood commodity prices did rise somewhat more in February than in January, but excluding used cars and houses the two monthly rates are about the same. Among service prices, utilities and medical care posted large gains in Februray and rents also rose sharply; however, there has been a marked slowing in the prices of other services, notably housekeeping and home maintenance costs.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1974		1975	
	March	September	February	March
Total	5.1	5.8	8.2	8.7
Men 20 years and over	3.4	3.9	6.2	6.8
Women 20 years and over	5.0	5.7	8.1	8.5
Teenagers	15.0	16.7	19.9	20.6
Household heads	3.0	3.4	5.4	5.8
White	4.6	5.3	7.4	8.0
Negro and other races	9.2	9.9	13.5	14.2
White collar workers	2.9	3.5	4.5	4.6
Blue collar workers	6.0	7.0	10.9	12.5
State insured unemployment*	3.3	3.5	5.9	6.5

* Percent of covered workers

CHANGES IN NONFARM PAYROLL EMPLOYMENT
(In thousands)

	Employment March 1975	Average Monthly Change March 1974- March 1975*	Oct. 1974- Mar. 1975	Feb. 1975- Mar. 1975
Total nonfarm	76,353	-135	-502	-325
Goods-producing	22,332	-207	-451	-260
Construction	3,489	- 47	- 84	-108
Manufacturing	18,136	-164	-369	-156
Service-producing	54,021	72	- 52	- 65
Trade	16,804	- 6	- 71	- 37
Services	13,735	33	6	- 26
State and local government	12,069	57	57	31

* Not seasonally adjusted.

AUTOS SALES

(Seasonally adjusted annual rates)

	Total	Domestic		Imports
		Large	Small	
1974:QI	9.0	4.8	2.7	1.6
QII	9.2	5.4	2.5	1.3
QIII	10.1	5.5	3.0	1.6
QIV	7.4	3.9	2.2	1.3
Oct.	8.0	3.9	2.5	1.6
Nov.	7.0	3.7	2.0	1.3
Dec.	7.2	4.0	2.1	1.1
1975:QI	8.3e	3.6	3.0	1.7e
Jan.	8.1	3.7	2.9	1.5
Feb.	9.2	3.6	3.6	2.0
Mar.	7.7e	3.6	2.4	1.6e

RETAIL SALES
(Seasonally adjusted, percentage change from previous period)

	1974		1974-IV-		1975	
	II-III	III-IV	1975-I**	Dec.	Jan.	Feb.
Total sales	4.4	-3.2	3.4	.8	2.5	1.9
Durable	5.9	-10.9	7.0	2.2	6.1	3.4
Auto	10.6	-15.5	9.0	6.3	4.6	7.6
Furniture and appliance	2.0	-7.0	.6	-3.0	1.8	1.8
Nondurable	3.6	.4	1.8	.2	1.0	1.2
Food	5.0	1.6	3.3	-1.2	3.3	.0
General merchandise	.9	-1.5	.6	- .5	-1.5	3.7
Gasoline	4.7	-1.3	1.0	.1	1.9	- .5
Total, less auto and nonconsumption items	3.4	- .1	1.9	.0	1.3	1.2
GAF	1.6	-3.1	1.6	- .4	.1	3.3
Real*	1.5	-6.2	n.a.	.1	1.9	1.4

* Deflated by all commodities CPI, seasonally adjusted.
** March sales estimate based on weekly data.

NEW ORDERS
(Per cent change from prior month)

	Total Durable		Nondefense Capital Goods	
	Current	Real	Current	Real
1974: July	1.8	- .7	6.6	4.4
Aug.	3.7	.9	-7.8	-11.1
Sept.	- 6.2	-8.5	.2	- 2.4
Oct.	- 2.8	-4.6	-3.8	- 6.8
Nov.	- 4.2	-4.8	-6.7	- 9.7
Dec.	-12.4	-13.3	-1.5	- 2.9
1975: Jan.	- 4.7	- 5.1	-3.7	- 6.0
Feb.	2.5	2.5	-1.4	- 1.8

BUSINESS INVENTORIES
(Change at annual rates in seasonally
adjusted book values, $ billions)

	1974			1975	
	QII	QIII	QIV	Jan.	Feb.(p)
Manufacturing and trade	42.8	59.2	52.9	0	n.a.
Manufacturing	28.2	37.7	29.7	14.6	2.2
Durable	17.4	23.3	19.1	13.9	10.8
Nondurable	10.8	14.5	10.6	.8	-8.5
Trade, total	14.7	21.4	23.2	-14.6	n.a.
Wholesale	7.7	8.6	8.3	- 4.4	-6.8
Retail	7.0	12.8	14.9	-10.2	n.a.
Auto	-1.0	4.0	11.8	- 4.6	n.a.

INVENTORY RATIOS

	1974		1975	
	Jan.	Feb.	Jan.	Feb.
Inventory to sales:				
Manufacturing and trade	1.47	1.47	1.68	n.a.
Manufacturing, total	1.60	1.62	1.92	1.93
Durable	2.01	2.04	2.47	2.52
Nondurable	1.15	1.16	1.35	1.33
Trade, total	1.34	1.33	1.46	n.a.
Wholesale	1.12	1.10	1.26	1.23
Retail	1.52	1.52	1.61	n.a.
Inventories to unfilled orders				
Durable manufacturing	.723	.721	.787	.812

NEW PRIVATE HOUSING UNITS
(Seasonally adjusted annual rates, in millions of units)

	1970 1/	1974		1975		Per cent change in February from:	
	QI	QIII	QIV	Jan. (r)	Feb. (p)	Month ago	Year ago
Permits	1.10	.91	.78	.68	.67	- 1	-49
Starts	1.24	1.21	1.00	1.00	.98	- 2	-48
1-family	.69	.86	.76	.74	.72	- 3	-31
2- or more-family	.55	.35	.24	.25	.26	+ 2	-69
Under construction 2/	.89	1.37	1.23	1.18	n.a.	- 4 3/	-27 3/
Completions	1.39	1.60	1.63	1.50	n.a.	- 7 3/	-20 3/
MEMO:							
Mobile home shipments	.37	.36	.23	.19	.22	+18	-51

1/ Previous cyclical trough.
2/ Seasonally adjusted, end of period.
3/ Per cent changes based on January.

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

	Fiscal 1975 e/		Fiscal 1976 e/		Calendar Years		F.R.B. Staff Estimates Calendar Quarters				
	Budget Document	F.R. Board	Budget Document	F.R. Board	1974 Actual	1975 F.R.B. e/	1974 IV*	1975 I	1975 II	1975 III	1975 IV
Federal Budget							Unadjusted data				
Surplus/deficit	-34.7	-43.6	-51.9	-77.3	-10.9	-72.4	-12.0	-16.7	-13.5	-17.5	-24.7
Receipts	278.8	277.1	297.5	286.0	280.5	273.3	66.8	66.4	70.9	70.8	65.2
Outlays	313.4	320.9	349.4	363.3	291.4	345.7	78.9	83.1	84.4	88.3	89.9
Means of financing:											
Net borrowing from the public	43.5	51.4	63.5	87.6	11.8	86.4	10.3	19.3	17.3	21.9	27.9
Decrease in cash operating balance	3.1 2/	5.0	-.4 2/	-.8	4.5	.9	2.8	-.7	2.4	-.8	--
Other 1/	-11.9 2/	-12.6	-11.2 2/	-9.5	-5.4	-14.9	-1.1	-1.9	-6.2	-3.6	-3.2
Cash operating balance, end of period	6.0 2/	4.2	6.4 2/	5.0	5.9	5.0	5.9	6.6	4.2	5.0	5.0
Memo: sponsored agency borrowing 3/	14.0	11.6	7.8	n.e.	16.6	n.e.	3.4	--	.6	n.e.	n.e.
National Income Sector							Seasonally adjusted, annual rates				
Surplus/deficit	-36.1	-50.1 4/	-55.9	-77.2 4/	-7.8	-83.6	-23.7	-59.1	-113.3	-81.9	-80.2
Receipts	287.6	278.6 4/	305.1	297.7 4/	291.3	272.3	295.6	278.4	240.1	278.9	291.8
Expenditures	323.7	328.7	361.0	374.9	299.1	355.9	319.3	337.5	353.4	360.8	372.0
High Employment surplus/deficit (NIA basis) 2/5/	n.a.	3.7	n.a.	-10.6	19.0	-12.6	17.6	10.2	-37.7	-9.1	-13.6

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

1/ Outlays of off-budget Federal agencies, checks issued less checks paid, accrued items, and other transactions.

2/ Estimated by F.R. Board Staff.

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

4/ Quarterly average exceeds fiscal year total by $.6 billion for fiscal 1975 and $.9 billion for fiscal 1976 due to spreading of wage base effect over calendar year.

5/ The high-employment budget estimates now fully incorporate taxes on inventory profits beginning in 1973.

HOURLY EARNINGS INDEX 1/
(Seasonally adjusted annual rate; percentage change)

	Feb. 1975- Mar. 1975	Mar. 1974- Mar. 1975	1974-III— 1974-IV 2/	1974-IV— 1975-I 2/
Total private nonfarm	12.4	9.8	10.1	7.4
Manufacturing	12.7	11.3	11.7	9.1
Construction	31.3	8.6	6.2	4.4
Trade	6.0	9.5	8.1	8.4
Services	6.7	8.4	8.8	9.1

1/ Excludes the effects of fluctuations in overtime premium in manfacturing and shifts of workers between industries.

2/ Compound annual rate.

PRICE BEHAVIOR
(Percentage changes, seasonally adjusted annual rates)1/

	Relative importance Dec. 1974	Dec. 1973 to June 1974	June to Sept. 1974	Sept. to Dec. 1974	Dec. 1974 to Mar. 1975	Feb. to Mar. 1975
WHOLESALE PRICES						
All commodities	100.0	18.2	35.2	13.4	-6.7	-7.4
Farm and food products	29.1	-11.5	59.2	21.9	-29.2	-30.4
Industrial commodities2/	70.9	34.0	28.3	8.2	5.1	2.2
Materials, crude and intermediate	46.0	38.7	31.7	6.3	3.2	1.3
Finished goods:						
Consumer nonfood	17.5	26.8	18.5	10.6	4.9	4.0
Producer	8.6	20.0	31.8	18.7	11.6	12.2
Consumer foods	13.4	-1.1	29.4	29.1	-13.2	-19.3

	Relative importance Dec. 1974	Dec. 1973 to June 1974	June to Sept. 1974	Sept. to Dec. 1974	Dec. 1974 to Jan. 1975	Jan. to Feb. 1975
CONSUMER PRICES						
All items	100.0	12.3	14.2	10.1	7.7	7.7
Food	24.8	10.9	12.3	14.6	9.9	0.7
Commodities (nonfood)	39.0	14.9	16.2	7.3	6.7	10.0
Services	36.2	10.1	13.9	10.9	9.8	9.7
Addendum						
All items less food and energy3/4/	68.3	10.2	15.3	9.6	8.0	10.4
Petroleum products3/	4.4	58.8	-4.1	-5.9	7.7	4.2
Gas and electricity	2.5	22.0	20.2	14.2	22.2	17.3

1/ Not compounded for one-month changes.
2/ Stage of processing components do not add to the total because they include some items found in farm and food products group.
3/ Confidential -- not for publication.
4/ Energy items excluded: gasoline and motor oil, fuel oil and coal and gas and electricity.

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		March	34.9	-4.9	-8.1	6.1
Reserves available (RPD's)		March	33.1	-4.4	-4.2	6.2
Money supply						
M1		March	287.0	13.5	3.8	4.3
M2		March	627.2	12.0	8.4	7.1
M3		March	1007.3	13.6	10.1	7.2
Time and savings deposits (Less CDs)		March	340.2	10.7	12.4	9.6
CDs (dollar change in billions)		March	90.0	-2.2	-.3	22.0
Savings flows (S&Ls + MSBs)		March	351.7	16.6	12.8	6.8
Bank credit (end of month)		March	696.0	6.6	5.8	5.2
Market yields and stock prices			Percentage or index points			
Federal funds	wk. endg.	4/2/75	5.59	-.29	-1.76	-4.34
Treasury bill (90 day)	"	4/2/75	5.58	.04	-1.44	-2.83
Commercial paper (90-119 day)	"	4/2/75	6.03	-.22	-3.31	-3.42
New utility issue Aaa	"	4/5/75	9.83p	.92	--	1.05
Municipal bonds (Bond Buyer)	1 day	4/4/75	6.93	.39	.15	1.20
FNMA auction yield	(FHA/VA)	4/8/75	8.98	.20	-.39	.03
Dividends/price ratio (Common stocks)	wk. endg.	3/31/75	4.42	-.16	-1.08	.71
NYSE index (12/31/65=50)	end of day	4/2/75	43.27	-.56	5.92	-7.00
Credit demands			Net change or gross offerings			
			Current month: 1975	Current month: 1974	Year to date: 1975	Year to date: 1974
Business loans at commercial banks		March	-1.0	5.7	-1.7	9.5
Consumer instalment credit outstanding		February	.2	.7	6.7	17.7
Mortgage debt outst. (major holders)		January	1.7	3.5	1.7	3.5
Corporate bonds (public offerings)		March	3.6e	2.0	10.4e	5.8
Municipal long-term bonds (gross offerings)		March	2.0e	2.0	6.5e	6.3
Federally sponsored Agcy. (net borrowing)		March	.1e	.6	.7e	--
U.S. Treasury (net cash borrowing)		April	7.1e	-2.5	26.4e	.9
Total of above credits			13.6	12.0	50.7	43.7

e - Estimated

p - Preliminary.

DOMESTIC FINANCIAL DEVELOPMENTS

Private short-term market interest rates most recently have edged up from levels prevailing at the time of the March FOMC meeting. In the Treasury market, bill rates have backed up substantially. Conditions in bond markets have also deteriorated further over the inter-meeting period, causing yields in all sectors to rise sharply. The back-up in bond yields has been reflected in higher secondary mortgage market yields, and rates in the primary mortgage market have virtually stopped declining.

All deposit aggregates increased substantially in March, not only the narrow M_1 but also those reflecting inflows of time and savings deposits to banks and nonbank thrift institutions. Instead of aggressively easing credit terms in the face of generally slack loan demands, however, the depositary institutions--both bank and non-bank--continued mainly to build liquid assets and/or repay debts.

Short-term securities markets. In addition to an expanding volume of short-term Treasury borrowing, the abatement of downward pressure on short-term market rates has reflected the marked further acceleration in monetary growth and the absence of any further significant decline in the Federal funds rate. These developments, together with strengthened market expectations about a near-term rise in economic activity, have encouraged a belief that future System policy moves will not encourage further reductions in short-term rates.

SELECTED SECURITY MARKET QUOTATIONS
(one day quotes-in per cent)

	Aug. FOMC Aug. 20	Jan. FOMC Jan. 21	Feb. FOMC Feb. 19	Mar. FOMC Mar. 18	Apr. 1	Apr. 8
Short-term						
Federal funds 1/	12.23	7.17	6.29	5.38	5.59	5.29 4/
Treasury bills						
3-month	9.05	6.24	5.30	5.42	5.64	5.70
6-month	9.13	6.24	5.40	5.53	5.85	6.12
1-year	8.86	6.25	5.42	5.63	6.02	6.47
Commercial paper						
1-month	12.00	7.00	6.38	5.88	5.88	6.00
3-month	11.88	7.00	6.38	6.00	6.00	6.13
Large neg. CD's 2/						
3-months	12.35	7.00	6.30	6.05	6.10	6.25
6-months	12.15	7.15	6.30	6.25	6.30	6.88
Federal agencies						
1-year	9.65	7.11	6.04	6.23	6.44	n.a.
Bank prime rate	12.00	9.75	8.75	7.75	7.50	7.50
Long-term						
Corporate						
New AAA 1/	10.10	9.38	9.02	9.27	9.60	9.83
Recently offered 3/	10.02	9.55	9.10	9.31	9.62	9.70p
Municipal (Bond Buyer) 3/	6.61	6.90	6.27	6.65	6.95	6.93
U.S. Treasury (20-year constant maturity)	8.58	7.86	7.64	7.97	8.28	8.44p
Stock prices						
Dow-Jones	726.85	641.90	736.39	779.41	761.58	749.22
N.Y.S.E.	39.32	37.71	43.13	45.10	42.84	42.98

1/ Weekly average.
2/ Highest quoted new issues.
3/ One day quotes for preceding Thursday.
4/ Average for first 6 days of statement week ending April 9.

Private short-term market rates showed little change over the early part of the inter-meeting period, but most recently have edged higher. Although commercial paper rates have remained low relative to the bank prime rate (the spread is still about 140 basis points), outstanding commercial paper of nonfinancial corporations expanded only slightly in March, due to the generally depressed business demand for short-term credit.

With the Treasury raising as much as $800 million of net new money in recent bill auctions, however, bill rates have come under substantial upward pressure, particularly on longer maturities. Inter-meeting bill rate advances have ranged to as much as 80 basis points. In addition to the expanded volume of new bills and short notes emanating from the Federal deficit, demands for bills by foreign official institutions have been cut-back, as exchange market intervention has subsided and oil payments have stretched out. However, demands for bills from commercial banks and thrift institutions have remained strong.

<u>Long-term securities markets</u>. Considerable upward pressure on bond yields has developed in recent weeks as new issue volume has remained extremely large. With the tax bill now enacted and with most analysts predicting an upturn in economic activity around mid-year, investors increasingly have come to expect upward rate pressures over the rest of the year and have, therefore, showed

considerable reluctance to commit funds to long-term instruments without higher rate premiums. In the process, inventories of undistributed corporate bonds have mounted, planned offerings have been delayed, and price-cutting has intensified.

Corporate bond yields have backed up about 55 basis points since the March FOMC meeting, returning to levels prevailing last October. New issues have been offered at a near-record pace as corporations--particularly industrial firms--have continued to fund short-term debt, to build working capital, and to finance some of their planned capital expenditures in the face of deteriorating profits. Upward rate pressures have persisted despite a large volume of cancellations and postponements of debt issues and heavier equity financing. Even allowing for some additional postponements, the expected volume of corporate bond offerings in April and May remains quite large.

The weakening in corporate bond prices has stemmed in part for the impact of heavy Treasury demands on the capital markets. Yields on intermediate- and long-term Treasury coupon issues moved unusually close to yields on corporate bonds in March, and have risen by about 35-70 basis points since the last FOMC meeting. In the course of providing reserves to the banking system during the past few weeks, the System helped to ameliorate pressures on note and bond markets by purchasing over $1.5 billion of Treasury and

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

	1974		1975				
	Year	QIV	QIe/	Feb.e/	Mar.e/	Apr.f/	May f/
			Gross offerings				
Corporate securities:							
Total	3,146	3,929	5,113	4,560	5,524	5,650	4,850
Public bonds	2,122	2,913	3,477	3,175	3,600	3,600	3,200
Privately placed bonds	501	460	900	800	1,000	750	750
Stocks	523	556	736	585	924	900	900
Foreign securities 1/	98	323	418	610	175	295	250
State and local govt. securities							
Long-term	1,894	1,958	2,117	2,300	2,000	2,400	2,200
Short-term	2,454	2,474	2,377	2,270	2,825	2,800	2,400
			Net offerings				
U.S. Treasury 2/	982	3,433	6,434	4,535	11,100	7,200	7,700
Sponsored Federal agencies	1,394	1,115	4	-966	517	713	-1,134

1/ Includes issues of foreign private and official institutions.
2/ Total Treasury issues, including Federal Financing Bank.
e/ Estimated.
f/ Forecasted.

Federal agency coupon issues of longer maturity. These purchases relieved some market congestion by paring dealer inventories.

Another factor putting upward pressure on market rates generally is the widespread awareness that the budget deficit implies an extraordinarily heavy volume of Treasury offerings throughout the remainder of this year. The current staff projection of total Treasury borrowing during the second quarter is $17.7 billion--about $8 billion higher than earlier projections, due mainly to the quick passage of the tax bill and the consequent earlier processing of tax rebates.

Yields in municipal bond markets have backed up about 30 basis points further since the March meeting and are approaching the record levels of late last year. While the volume of new issues has been rising somewhat as State and local government revenues have declined, the deterioration in municipal bond prices is attributable mainly to weakness in demands for this type of security. Investors have been deterred by concern over the fiscal positions of State and local governments, uncertainty created by defaults of the New York State Urban Development Corporation, and the widely-publicized financial problems of some major cities--particularly New York. Furthermore, commercial bank holdings of municipals declined in March and purchases of new issues reportedly have remained quite modest, reflecting reduced need for tax-exempt income on the part of many large banks because of loan losses, foreign tax credits, and leasing activities.

Stock prices moved moderately higher on heavy trading during March, extending the recovery begun early this year, although prices eased off somewhat in early April. With the reduced cost of equity financing, stock issuance increased by about 60 per cent in March. Utility companies accounted for most of the volume of new issues.

Monetary aggregates. The monetary aggregates have rebounded recently as demand and consumer-type time and savings deposits have both risen strongly. In March, growth of the narrowly defined money stock moved up further to an annual rate over 13 per cent, due primarily to rapid increases in demand deposits throughout the country. However, a significant proportion of the February-March expansion of private demand deposits probably is attributable to larger-than-normal personal income tax refunds resulting from IRS-Treasury efforts to accelerate check distribution, and may prove transitory. Meanwhile, with growth in money income still low, the demand for transactions balances is probably still depressed.

At commercial banks, inflows of time and savings accounts--other than money market CD's--remained large on average in March, and growth in M_2 accelerated further.[1/] Also, deposit inflows at nonbank thrift institutions are estimated to have expanded at a record

1/ Although inflows of the time deposit component of M_2 slowed in late March, this appears to reflect run-offs of large-denomination time deposits other than negotiable CD's; inflows of passbook savings and consumer-type time deposits remained as large as earlier in the month.

MONETARY AGGREGATES
(Seasonally adjusted changes)

	1974 QIII	1974 QIV	1975 QI	1975 Jan.	1975 Feb.	1975 Mar.p
	Per cent at annual rates					
M_1	1.6	4.6	3.7	-8.9	6.8	13.5
M_2	4.5	7.0	8.7	3.3	9.7	12.0
M_3 1/	4.0	6.9	10.1	6.1	10.3	12.8
Adjusted bank credit proxy	6.6	4.3	3.1	3.6	- .5	5.6
Time and savings deposits at commercial banks:						
a. Total	9.1	12.6	9.7	18.3	7.6	2.2
b. Other than large CD's	7.1	9.0	13.0	13.8	12.2	10.7
Deposits at nonbank thrift institutions: 2/						
a. Savings and loans	3.3	9.3	16.5	12.1	14.8	22.0
b. Mutual savings banks	.4	4.8	9.2	4.5	8.4	14.4
c. Credit unions 3/	6.1	12.0	13.4	17.5	11.1	12.8
	Billions of dollars 3/					
Memoranda:						
a. U.S. Government demand deposits	.3	-1.5	- .4	-1.2	- .1	--
b. Negotiable CD's	1.2	1.8	- .2	2.6	- .7	-2.2
c. Nondeposit sources of funds	.1	.1	- .6	-.8	-1.2	--

1/ M_3 is defined as M_2 plus credit union shares, mutual savings bank deposits, and shares of savings and loan associations.
2/ Based on month-end series.
3/ Change in average levels month-to-month or average monthly change for the quarter, measured from last month in quarter to last month in quarter, not annualized.
p - Preliminary.

pace during March--over 20 per cent at S&L's. Although the strength of time and savings deposit flows is due primarily to the attractiveness of yields on depositary claims relative to alternative market instruments, the placement of funds in certificate and passbook accounts may be associated to some extent with the accelerated tax refunds.

As has been the case since the turn of the year, banks permitted their outstanding CD's to run off in March as other deposit inflows rose and loan demands remained weak. However, the decline in CD's slowed, on average, in March and most recently these deposits have increased somewhat.[1/] Smaller commercial banks, savings banks, and savings and loan associations apparently have shifted from selling Federal funds to purchasing negotiable CD's in order to obtain higher yields at a time when their liquidity is rising rapidly. At the same time, large commercial banks, reportedly expecting interest rates to rise, have become more willing to substitute longer-term CD's for purchases of Federal funds.[2/]

1/ The larger run-off in CD's in March than in February, shown in the monetary aggregates table, reflects run-offs in late February and early March that affect the daily average for the month of March relative to the daily average for the entire month of February.

2/ Net Federal funds purchases of weekly reporting banks declined by $3.3 billion on average in March, with most of the drop-off at large banks outside of New York.

Loan developments. Virtually all of the increase in commercial bank credit in March reflected bank participation in Treasury security offerings and loans to security dealers. All other loan categories remained weak, with credit demands generally modest and lending policies remaining restrictive as banks continued to emphasize credit quality.[1/] Outstanding business loans declined again in March, with essentially every industry category of borrowing showing reductions. The general weakness in business demands for short-term credit reflects inventory liquidation, the general reduction in economic activity, and the continued large volume of capital market financing. But even with the prime rate still high relative to the cost of commercial paper, the modest increase in outstanding commercial paper issued by nonfinancial corporations did not offset the decline in business loans, and total short-term business credit declined for the second consecutive month.

S&L's in all FHLBank Districts have been reporting adequate supplies of funds for mortgage lending, although they have continued to devote a substantial portion of their improved deposit flows to the rebuilding of liquidity and the repayment of debt. S&L's reduced outstanding FHLBank advances by $1.2 billion in March, bringing the first quarter paydown to a record $3.6 billion.

1/ The supplement will contain an analysis of bank policies toward, and demand for, construction loans based on a special FR Bank survey.

COMMERCIAL BANK CREDIT
(Seasonally adjusted changes at annual percentage rates) 1/

	1974 QIII	1974 QIV	1975 QI	1975 Jan.	1975 Feb.	1975 Mar. p
Total loans and investments 2/	5.6	-2.8	5.8	8.2	3.0	6.2
U.S. Treasury securities	-29.8	-26.1	77.9	2.5	110.4	110.1
Other securities	--	6.5	.6	5.2	4.3	-7.7
Total loans 2/	11.2	-2.9	.2	9.6	-7.9	-1.0
Business loans 2/	14.0	.4	-3.5	7.2	-11.7	-5.9
Real estate loans	6.0	5.0	3.4	5.6	1.8	2.8
Consumer loans	7.2	-3.3	-1.4	-1.4	-1.4	-1.4
Memo:						
Business loans plus non-financial commercial paper 3/ (per cent)	18.1	1.4	-1.0	12.8	-11.5	-4.3

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
2/ Includes outstanding amounts of loans reported as sold outright by banks to their own foreign branches, nonconsolidated nonbank affiliates of the bank holding companies (if not a bank), and nonconsolidated nonbank subsidiaries of holding companies.
3/ Measured from end-of-month to end-of-month.
p - Preliminary.

New and outstanding mortgage commitments at S&L's rose further in February, and field reports have indicated increasing interest by these institutions in mortgage lending. Over the past few weeks, however, the thrift institutions have placed more of their funds in seasoned GNMA-guaranteed mortgage-backed securities, as yields on these instruments have followed bond rates upward.[1/] Indeed, with long-term security yields in general rising, the thrifts--as well as the more diversified lenders--have not been aggressive mortgage lenders. As a result, average interest rates on new commitments for home mortgages in the primary market, which have declined about 120 basis points since October, virtually ceased falling around mid-March.

In the secondary mortage market, offerings were up sharply in FNMA's March 24 and April 7 auctions of commitments to purchase home mortgages, and the average yields rose for the first time since last September. The surge in demand for FNMA commitments was due primarily to the decline in price of GNMA mortgage-backed securities, which for several months had been a more attractive marketing alternative for FHA/VA mortgage originators than FNMA. Furthermore, the rise of long-term market rates in general has dampened market

1/ These GNMA-guaranteed securities are instruments of high quality and marketability which qualify as mortgages for tax purposes even though they do not show up in the mortgage statistics of the thrifts.

CONVENTIONAL HOME MORTGAGES AT
SELECTED S&L's

	Average going rate on 80% loans (per cent)	Basis point change from month or week earlier	Rate spread 1/ (basis points)	Federal Home Loan Bank districts with funds in short supply
1974--High	10.03 (9/27, 10/18)	--	97 (11/15)	12 (May, July-Nov.)
Low	8.40 (3/15, 3/22)	--	-106 (7/12)	0 (Feb.-Mar.)
1975--Jan. 3	9.29	-30	29	3
Feb. 7	9.19	-10	30	2
14	9.14	- 5	12	2
21	9.04	-10	0	2
28	9.02	- 2	8	1
Mar. 7	8.99	- 3	8	0
14	8.89	-10	- 38	0
21	8.85	- 4	- 75	0
28	8.85	0	- 76	0
Apr. 4	8.82	- 3	-101	0

1/ Average mortgage return, before deducting servicing costs, minus average yield on new issues of Aaa utility bonds paying interest semi-annually and with 5-year call protection.

expectations of further mortgage rate declines, and has encouraged some mortgage companies to cover their loan inventories and current loan production with FNMA's short-term commitments.

After 3 months of decline, short- and intermediate-term consumer credit outstanding rose somewhat in February, due largely to an increase in auto loans at finance companies. However, the fall-off in new-car sales after February--following the termination of the major rebate programs--suggests that consumer credit may show little further increase, if any, in March.

Rates on most types of instalment credit contracts have edged down from the peak October-January levels. At commercial banks, new-car loan rates declined 11 basis points from January to February, and rates on other types of credit, except mobile home loans, showed reductions of similar magnitude. At finance companies, the easing of rates for new-car purchasers has been accompanied by a further lengthening of average maturities as more contracts are being financed for over 36 months.

FNMA AUCTION RESULTS
HOME MORTGAGE COMMITMENTS

Date of auction	Government-underwritten Amount (In $ millions) Offered	Government-underwritten Amount (In $ millions) Accepted	Government-underwritten Average yield	Conventional Amount (In $ millions) Offered	Conventional Amount (In $ millions) Accepted	Conventional Average yield
1974--High	1,155 (3/25)	333 (3/25)	10.59 (9/9)	164 (4/18)	63 (4/8)	10.71 (9/9)
Low	26 (11/18)	18 (11/18)	8.43 (2/25)	14 (10/21)	7 (11/18)	8.47 (3/11)
1975--Jan. 13	25.3	21.2	9.37	17.9	14.9	9.50
27	41.4	28.6	9.12	11.1	10.6	9.39
Feb. 10	24.6	18.1	8.98	14.8	9.1	9.20
24	36.2	23.8	8.87	20.0	9.1	9.04
Mar. 10	99.2	60.1	8.78	34.4	22.1	8.96
24	460.5	321.4	8.85	60.7	35.8	9.00
Apr. 7	551.6	277.2	8.98	99.8	44.6	9.13

NOTE: Average secondary market yields are gross before deduction of the fee of 38 basis points paid for mortgage servicing. They reflect the average accepted bid yield for home mortgages assuming a prepayment period of 12 years for 30-year loans, without special adjustment for FNMA commitment fees and FNMA stock purchase and holding requirements on 4-month commitments. Mortgage amounts offered by bidders relate to total bids received.

CONSUMER INSTALMENT CREDIT

	Credit flows				New car finance rates
		Extensions			
	Net change in outstandings (SAAR, $ billions)	Total (SAAR, $ billions)	Bank share (Per cent)	Open-end share* (Per cent)	New car APR Finance companies (Per cent)
1973 - I	23.7	162.4	42.5	25.9	11.85
II	20.2	164.2	41.8	27.3	11.94
III	21.0	170.1	42.3	27.1	12.28
IV	15.3	164.4	42.3	28.5	12.42
1974 - I	8.8	154.3	41.9	29.2	12.29
II	14.0	172.9	41.5	30.0	12.50
III	14.1	172.5	42.3	30.6	12.84
IV	-3.2	155.7	41.1	33.2	13.10
1975 - Jan.	-4.8	154.3	41.7	32.4	13.08
Feb.	2.8	161.6	42.0	32.0	13.07e

*Open-end credit consists of extensions on bank credit-card and check credit plans, and retail "other consumer goods" credit extensions.

April 9, 1975

Note to Reader

On page IV-9 (Part II) of this Greenbook certain information has been deleted that pertains to financial transactions of named foreign central banks, governments, or other official entities. That information was supplied to the Federal Reserve on a confidential basis.

INTERNATIONAL DEVELOPMENTS

U.S. International Transactions
(in millions of dollars; seasonally adjusted)

	1974				1975p/	
	YEAR	1H r	3Q r	4Q	Jan.*	Feb.*
Goods and services, net 1/	3,191	2,610	-247	826		
Trade balance	-5,881	-1,849	-2,474	-1,558	-675	836
Exports	97,081	46,133	24,731	26,217	9,468	8,653
Imports	102,962	47,982	27,205	27,775	10,138	7,817
Net service transactions	9,072	4,459	2,227	2,384		
Remittances and pensions	-1,775	-857	-456	-463		
Gov't grants and capital, net	-4,398	-2,062	-769	-1,568		
Bank-reported private capital, net change	-3,122	-4,861	1,994	-255	-1,261	-2,126
Claims on foreigners (inc. -)	-18,838	-12,852	-1,996	-3,990	-146	-767
Liquid	-5,445	-3,629	-431	-1,385	-1,498	-582
Other	-13,393	-9,223	-1,565	-2,605	1,352	-185
Liabilities to foreigners (inc. +)	15,716	7,991	3,990	3,735	-1,115	-1,359
Liquid liabilities to:	15,732	7,819	4,010	3,903	-1,100	-1,255
Commercial banks abroad	12,655	6,824	2,896	2,935	-874	-1,730
(of which liab. to branches) 2/	(1,950)	(2,635)	(-503)	(-182)	(346)	(-1,272)
Other private foreigners	2,926	1,228	893	805	-70	421
Int'l & regional organizations	151	-233	221	163	-156	54
Long-term liabilities	-16	172	-20	-168	-15	-104
Private transactions in securities, net	-752	147	-138	-761	-995	-264
U.S. purchases (-) of foreign securities	-1,951	-959	-306	-686	-1,085	-476
(of which: New bond issues)	(-2,336)	(-1,150)	(-416)	(-770)	(-1,076)	(-373)
Foreign purchases (+) of U.S. securities	1,199	1,106	168	-75	90	212
Stocks	447	388	82	-23	190	534
Bonds	752	718	86	-52	-100	-322
U.S. direct investment abroad, (inc. -)	-6,801	-2,154	-2,047	-2,600		
Foreign direct investment in U.S., (inc. +)	2,308	2,958	-89	-561		
Nonbank-reported: liquid claims, (inc. -)	-19	-300	564	-283		
: other claims, (inc. -)	-2,946	-2,390	-324	-232		
: liabilities, (inc. +)	1,047	665	354	28		
Changes in liab. to foreign official agencies	9,507	4,044	1,323	4,140	-802	2,548
OPEC countries (inc. +) 2/3/	9,772	3,357	3,934	2,481	355	
Other countries (inc. +)	-265	687	-2,611	1,659	-1,157	
Changes in U.S. reserve assets (inc. -)	-1,434	-568	-1,003	137	-31	-121
Gold	--	--	--	--	--	--
Special drawing rights	-172	-29	-123	-20	--	--
Reserve position in the IMF	-1,265	-453	-728	-84	-34	-121
Convertible currencies	3	-86	-152	241	3	--
Errors and omissions	5,198	2,768	838	1,592		
Memo:						
Official settlements balance, S.A.		-3,476	-320	-4,277		
N.S.A.	-8,070	-2,610	-1,609	-3,851	833	-2,427
O/S bal. excluding OPEC, S.A.		-119	3,614	-1,796		
N.S.A.	1,702	747	2,325	-1,370	1,188	

* For monthly data, only exports and imports are seasonally adjusted.
1/ Differs from "net exports" in the GNP account by the amount of special military shipments to Israel (excluded from GNP net exports).
2/ Not seasonally adjusted.
3/ Partly estimated.

Foreign exchange markets. In recent weeks, the dollar has staged a sharp recovery in the exchange markets. Against a weighted average of major foreign currencies it is currently around 2 per cent above its early March lows. And against the mark and the Swiss franc it is up by more than 3 and more than 5 per cent, respectively, over the same period.

The chief factor behind the dollar's turnaround seems to have been the movement in relative interest rates. U.S. short term rates have apparently bottomed out while rates in many foreign countries, most notably Germany, have continued to decline. Favorable U.S. price and trade figures have also contributed to a firmer tone for the dollar. In addition, net intervention purchases of dollars by major central banks, amounting to $1.2 billion in the past four weeks have tended to strengthen the dollar's average exchange value.

The chief purchasers of dollars in the past four weeks have been the U.K., Italy, and France, whereas the Bundesbank and the System have been net sellers of dollars and the Swiss National Bank has purchased only small amounts of dollars. The Bundesbank sold $145 million and additional amounts of guilders and Belgian francs to support the mark against snake currencies.

The System's purchases of marks in the market and from correspondent central banks enabled the Desk to repay $47 million equivalent of mark swap drawings during the period. The System also repaid $70 million equivalent of swap drawings on the BNS using francs purchased directly from the BNS, who preferred to sell directly to the System to avoid any upward pressure on the franc's exchange value.

Early in the period the dollar had suffered somewhat from moves by a few OPEC countries to peg their currencies against the SDR or some other basket of currencies. The market feared that this was a prelude to a drastic reduction of the dollar's role as the currency of denomination of oil prices and the primary currency of oil payments and investment. These fears were somewhat allayed later when the OPEC experts recommended that oil prices be denominated in some currency basket but that the dollar be maintained as the primary currency of payment.

Euro-currency market. Euro-dollar deposit rates in maturities other than overnight show increases compared with four weeks ago, most of the rises occurring in the past week or so. The average 3-month rate of 7.44 per cent in the latest week was 63 basis points higher than the average for the week of March 12. With U.S. CD rates showing small net declines since mid-March and with European money market rates mostly unchanged or lower, the rise in Euro-dollar rates would appear to reflect expectations of higher borrowing costs in the Euro-market and deposit drawdowns by some OPEC countries that recently lengthened their credit terms for oil companies.

Since the end of January the Euro-dollar yield curve has been upward sloping throughout the maturity range from 1 month to 12 months, compared with a downward sloping or humped curve over that range for most of the preceding 12-month period.

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

Average for month or week ending Wednesday	(1) Over-night Euro-$	(2) Federal Funds	(3) Differ-ential (1)-(2)(*)	(4) 3-month Euro-$ Deposit	(5) 60-89 day CD rate	(6) Differ-ential (4)-(5)(*)
1974-Dec.	8.48	8.53	-0.05 (0.69)	10.28	8.96	1.32 (1.64)
1975-Jan.	7.16	7.13	0.03 (0.65)	8.49	7.45	1.04 (1.78)
Feb.	6.02	6.24	-0.22 (0.30)	7.26	6.10	1.16 (1.40)
Mar.	5.77	5.54	0.23 (0.73)	6.85	5.86	0.99 (1.22)
Feb. 26	5.91	6.15	-0.24 (0.27)	7.33	6.13	1.20 (1.45)
Mar. 5	5.89	5.88	0.01 (0.52)	7.35	6.05	1.30 (1.55)
12	5.70	5.44	0.26 (0.76)	6.81	5.88	0.93 (1.14)
19	5.46	5.38	0.08 (0.55)	6.61	5.75	0.86 (1.06)
26	5.57	5.53	0.04 (0.52)	6.84	5.75	1.09 (1.31)
Apr. 2	6.29	5.59	0.70 (1.25)	6.98	5.75	1.23 (1.47)
9p/	5.44	5.30	0.14 (0.61)	7.44	5.75	1.69 (1.97)

*/ Differentials in parentheses are adjusted for the cost of required reserves.
p/ Preliminary.

SELECTED EURO-DOLLAR AND U.S. COSTS FOR PRIME BORROWERS
(1975; Friday dates)

	Mar. 7	Mar. 21	Apr. 4	Apr. 8 d/
1) 3-mo. Euro-$ loan a/	7.81	7.75	8.44	8.75
2) 90-119 day com'l. paper b/	6.38	6.00	6.13	6.25
3) U.S. bank loan:				
a) predominant prime rate	8.25	7.75	7.50	7.50
b) with 15% comp. bal's. c/	9.70	9.12	8.82	8.82
c) with 20% comp. bal's. c/	10.31	9.69	9.38	9.38
Differentials:				
(1) - (2)	1.43	1.75	2.31	2.50
(1) - (3a)	-0.44	0.00	0.94	1.25
(1) - (3b)	-1.89	-1.37	-0.38	-0.07
(1) - (3c)	-2.50	-1.94	-0.94	-0.63

a/ 1-1/8 per cent over deposit bid rate.
b/ offer rate plus 1/8 per cent.
c/ prime rate adjusted for compensating balances.
d/ Tuesday.

U.S. banks' daily average gross liabilities to their foreign branches rose $200 million from the week of March 5, to $2.1 billion in the week of April 2.

The rise in Euro-dollar rates has occurred in the face of declines in the U.S. prime rate and commercial paper rates. Consequently, from March 7 to April 8 the cost of short-term Euro-dollar bank loans increased about 1-3/4 percentage points relative to the cost of bank loans in the United States, and rose by around 1 percentage point in relation to U.S. commercial paper rates.

In the London Euro-currency market, total nonresident deposits increased sharply from $111.1 billion on December 31 to $114.2 billion on January 15, then rose little further to $114.5 billion on February 19. These changes closely paralleled the changes in OPEC countries' London Euro-currency deposits, which were swelled by large oil receipts in mid-January.

Activity in the market for medium-term Euro-currency loans increased in January-February but appears to have contracted sharply in March, so that the first quarter total for loan completions was probably less than in the third and fourth quarters of 1974. Loan spreads have not widened significantly further in 1975, but there have been further increases in management and participation fees on syndicated loans.

The revival of the Euro-bond market in the last two months of 1974 carried over to the first quarter of 1975, when new issue volume was about 75 per cent of that for the entire year 1974. Average maturities of new issues increased. Flotations in the first quarter continued to be sustained by the much higher level of Arab Euro-bond purchases in evidence since late 1974, and by the caution of Euro-banks in extending medium- and long-term loans. About one-half of the new issues in the first quarter were denominated in German marks and only about one-fifth in dollars, more or less the reverse of earlier periods. Contrary to U.S. bond yields, the decline in Euro-bond yields persisted through the end of March, but higher yields and reduced new-issue volume are now expected.

U.S. Merchandise Trade. In February the trade balance was in surplus by $10.0 billion (seasonally adjusted, annual rate) compared with an $8.1 billion deficit rate in January and a $5.9 billion deficit rate for the fourth quarter of last year. For January and February combined the trade balance showed a small surplus, as agricultural exports rose $4.2 billion from their fourth quarter rate, while nonagricultural exports fell less sharply in volume, and rose slightly more in price, than imports (see Table). The balance of trade is likely to move back into deficit in the months ahead. The substantial swing in the trade balance between January and February primarily reflects abnormally small declarations of oil imports in February, following abnormally large declarations at the end of January, when importers rushed to beat the additional import fees that became effective on February 1. If recorded fuel imports in January and February are divided equally between the two months, the trade balance shows a deficit rate of $0.7 billion in January and a surplus rate of $2.6 billion in February.

The accompanying table illustrates the composition of recent changes in U.S. merchandise trade.

Exports increased 3.6 percent in value between the fourth quarter of 1974 and January-February of this year, owing to an 18.8 percent increase in the value of agricultural exports. This large expansion of agricultural exports was entirely in volumes, which exceeded the fourth-quarter volume by 31.5 percent in January and 6.4

U. S. MERCHANDISE TRADE

	Value (billion $, annual rate) 1974Q4	Jan-Feb	Percentage Change from 1974Q4 to Jan-Feb in Value	Volume	Price
EXPORTS	104.9	108.7	3.6%	0.6%	3.1%
Agricultural products	22.4	26.6	18.8%	19.0%	-0.4%
Non-agricultural	82.5	82.1	-0.5%	-4.4%	4.1%
Capital goods	34.1	33.6	-1.5%	-6.7%	5.5%
Non-ag.industral supplies	28.8	28.3	-1.7%	-4.4%	2.8%
Automotive products	9.3	8.2	-11.8%	-12.6%	0.9%
Consumer goods excluding foods, autos	6.3	6.2	-1.6%	-4.8%	4.4%
IMPORTS	110.8	107.7	-2.8%	-5.9%	3.1%
Fuels	31.2	32.3	3.5%	3.4%	0.4%
Nonfuels	79.6	75.4	-5.3%	-6.7%	1.5%
Nonfuel industrial supplies	29.4	29.9	1.7%	0.3%	1.2%
Capital goods	9.8	9.4	-4.1%	2.5%	-5.3%
Foods, feeds, beverages	10.3	9.3	-9.7%	-4.6%	-4.6%
Automotive products	11.5	9.3	-19.1%	-26.1%	9.5%
Consumer goods excluding foods, autos	15.1	13.9	-7.9%	-13.1%	5.6%

percent in February. Spot prices for basic foodstuffs have shown a sharp downward trend since mid-November, however, which is expected to become more heavily reflected in export declarations in coming months. Consequently, the value of agricultural exports is likely to continue to decline from its January peak.

Each major category of nonagricultural exports declined in value between the fourth quarter and January-February. Total non-agricultural exports declined in volume by 4.4 percent during this period, while increasing 4.1 percent in price. Data on export orders suggest that exports of capital goods will also continue to decline in value in the months ahead. New export orders for machinery, which on average lead actual exportation by about four months, have declined significantly in value since their peak last October.

Imports declined in value by 2.8 percent between the fourth quarter and January-February, led by sharp declines for foods, automotive products and other consumer goods. Nonfuel imports as a group declined in volume by 6.7 percent during this period, while increasing 1.5 percent in price. Although imports of industrial supplies other than fuels were higher in January-February than in the fourth quarter, such imports were almost 10 percent lower in February than in the fourth quarter.

Petroleum imports averaged 7.8 million barrels per day (not seasonally adjusted) in January-February, compared with 7.4 million in December and 6.8 million for the second half of 1974. The high volumes in advance of the import fee imposed on February 1 suggest more stockpiling than was apparently offset in February, so petroleum imports may continue to be less than is seasonally normal in the next few months. The unit value of petroleum imports in February was $11.53, essentially unchanged since last September.

U.S. International Capital Transactions. Bank-reported private capital transactions in February showed a net outflow of $2.0 billion, following an outflow of $1.2 billion in January. Bank-reported claims on foreigners increased by nearly $0.8 billion in February, as claims on the Bahamas rose $1.1 billion while claims on the rest of the world declined. Bank-reported liabilities to private foreigners, primarily to commercial banks abroad, declined by \$1-1/4 billion in February. During 1974, short-term claims on foreigners reported by U.S. banks almost doubled, with roughly two-thirds of the \$18 billion increase occurring in the first half of the year, and another \$4 billion in the fourth quarter. Preliminary estimates for the first quarter of this year indicate a slow-down in lending to less than half the fourth quarter rate. Bank-reported liquid liabilities to private foreigners have increased by roughly \$14 billion since the beginning of 1974.

Transactions in securities with foreigners in February resulted in a net outflow of \$0.3 billion, compared with an outflow of \$1.0 billion in January. Foreign net purchases of U.S. stocks were a record \$534 million in February, compared with \$190 million in January and the previous high of \$490 million in November 1972. Roughly one-fourth of the February purchases can be directly attributed to Saudi Arabia and Kuwait. Brokers have reported a continuing foreign interest in purchasing U.S. stocks during March, but March purchases are expected to show a decline from the February level. Net sales of U.S. bonds by foreigners resulted in an outflow of \$0.3 billion in February, while U.S. net purchases of foreign bonds (and a small amount of stocks) resulted in an outflow of \$0.5 billion. Net foreign bond issues in the United States during the first quarter of this year are estimated at roughly \$2 billion, close to the yearly total for 1974.

U.S. liabilities to foreign official agencies increased in February by $2.5 billion, due in large part to exchange-market intervention by foreign authorities, along with swap drawings to finance intervention by the Federal Reserve System. Official holdings of OPEC countries in the United States increased by an estimated $0.5 billion in February, all at the Federal Reserve Bank of New York. In March, OPEC funds at the New York Bank declined by $1.3 billion; there are indications that this decline was not offset by increases in OPEC holdings at commercial banks.

Monetary conditions in major foreign industrial countries. Short-term interest rates, which by December had already fallen significantly from last year's peaks, continued to fall during the first several months of this year. (See Table 1.) The decline in German short-term rates, from a peak of 12.9 per cent in 1974 to 4.7 per cent in early April, is the most striking example. Declines of comparable magnitude also occurred in the United Kingdom and Italy, although the peak rates in those countries were exceptionally high. Japan is the only major country where short-term rates have fallen only slightly from their high levels.

The decline in long-term rates typically has not been as great as in short-term rates. (See Table 2.) Indeed, there is some evidence of a pause recently in the recovery of the bond markets. A spate of new issues in several national capital markets (notably in France and Germany) -- following a year in which virtually no net borrowing in that form took place -- has tended to limit the decline in yields. In addition, despite considerable easing of price pressures in most countries, the rates of inflation expected during 1975 in a number of foreign countries remain sufficiently high that they may inhibit significant further reductions in long-term rates. This is particularly the case for the United Kingdom, where the yield on the British War Loan fell nearly 4 percentage points since December but still remains at 13.6 per cent.

Some recovery can be observed in equity markets, as well. The rise in the indexes of industrial stock prices, which has been associated

Table 1
SHORT-TERM INTEREST RATES
(per cent per annum or percentage points)

	Level		Change during month:				Level
	1974 peak	end-Dec. '74	Jan. '75	Feb. '75	Mar.'75	Latest	Latest
United Kingdom	17.50 (Mar.)	12.44	-0.81	-0.69	-1.06	-0.32	9.56 (4/9)
Germany	12.88 (Jan.)	8.30	-0.80	-1.15	-1.15	0.50	4.70 (4/9)
France	15.00 (Jan.)	11.88	-1.13	-0.87	-1.00	-0.38	8.50 (4/9)
Italy	20.00 (June)	17.50	-3.37	-2.44	+0.24	-0.05	11.88 (4/8)
Belgium	12.00 (Oct.)	11.00	-1.00	-1.00	-1.60	0	7.40 (4/1)
Netherlands	7.50 (Aug.)	6.69	-0.13	0	-0.87	0	5.69 (4/1)
Switzerland	7.00 (Dec.)	7.00	0	0	0	-0.50	6.50 (4/1)
Japan	13.75 (Aug.)	13.50	-0.50	-0.25	-0.25	n.a.	12.50 (3/28)
Canada	11.92 (Sept.)	10.50	-3.50	-0.25	0	0	6.75 (4/8)
United States	8.93 (Aug.)	7.06	-1.38	-0.28	+0.13	+0.17	5.70 (4/8)

Notes:
Short-term rates: U.K. - 90-day interbank sterling rate; Germany - 3-month interbank loan rate; France - call money rate against private paper; Italy - 3-month interbank rate; Belgium - rate on 4-month Treasury Bills; Netherlands - 3-month Treasury Bills at mid-month; Switzerland - 3-month deposit rate; Japan - call money rate, unconditional; Canada - 3-month finance company paper; U.S. 3-month Treasury bill.

Table 2
LONG-TERM GOVERNMENT BOND YIELDS[a]
(per cent per annum or percentage points)

	Level		Change during month:				Level
	1974 peak	end-Dec. '74	Jan. '75	Feb. '75	Mar. '75	Latest	Latest
United Kingdom	17.44 (Dec.)	17.44	-2.39	-0.64	-0.80	-0.04	13.57 (4/4)
Germany	10.37 (Oct.)	9.43	-0.81	-0.51	-0.04	-0.02	8.05 (4/4)
France	11.13 (July)	10.93	-0.27	-0.18	-0.40	n.a.	10.08 (3/21)
Belgium	9.26 (Aug.)	9.03	+0.21	-0.45	n.a.	n.a.	8.79 (2/28)
Netherlands	10.11 (July)	8.72	-0.32	+0.02	-0.16	n.a.	8.26 (3/28)
Switzerland	7.43 (Sept.)	7.17	-0.34	-0.17	+0.03	n.a.	6.69 (3/7)
Japan	10.88 (Oct.)	10.85	-0.21	-1.02	n.a.	n.a.	9.62 (2/28)
Canada	9.84 (Aug.)	8.85	-0.55	-0.13	+0.29	n.a.	8.46 (3/28)
United States	8.14 (Aug.)	7.37	+0.04	+0.03	+0.61	+0.07	8.12 (4/4)

Notes:
Long-term rates: U.K. - 3-1/2% war loan; Germany - 6% public authority bond; France - public sector bonds; Belgium - long-term government bonds, composite yield; Netherlands - average of three 4-1/4-4-1/2% government loans; Switzerland - government composite yield; Japan - 7 year industrial bonds; Canada - government long-term average yield; U.S. - government 10-year constant maturity bond yields.
a/ The yields shown for Japan are industrial bond yields.

with the parallel rise in the prices for fixed-interest securities, has occurred in all the major countries. The most dramatic increase took place in the United Kingdom, where the Financial Times Industrial index has more than doubled since its 1974 low. In other countries, equity prices have increased 20-25 per cent from their lows.

The coincidence of the decline in interest rates in all the major countries reflects several factors. Most importantly, it reflects the considerably deeper cut in output and concomitantly larger rise in unemployment than had been anticipated. The associated weakness of aggregate demand (especially investment demand and demand for consumer durables) has resulted in reduced demand for credit and increasingly more prevalent expectations of lower -- even if still high -- rates of inflation.

The coincidence of the decline in interest rates, particularly short-term rates, also reflects the decline in rates on dollar-denominated assets both in the United States and abroad. Because of the interdependence of financial markets, some funds have flowed among the various markets in response to changing interest-rate differentials (although some flows of funds are motivated by other considerations). These flows tend in themselves to narrow the differentials or to prevent differentials from emerging. However, the existence of barriers to the free flow of funds -- and the existence of floating exchange rates -- means that interest rate differentials will not be eliminated entirely.

Another manifestation of a high degree of interdependence is the response of policymakers abroad to the decline in interest rates on dollar-denominated assets. In those countries where a continued inflow of foreign funds is considered essential to help finance an underlying balance-of-payments deficit (the United Kingdom) or where capital outflows are discouraged (Italy), the decline in dollar interest rates enabled central banks to permit domestic rates to fall and still retain a sufficient differential. In other countries, where upward pressure on the exchange rate was not especially welcome (Germany), the decline in dollar interest rates provided another reason for the central bank to push domestic rates down.

Of course, the fact that all the major countries are simultaneously experiencing weak aggregate demand provides sufficient motivation for policy in all countries to move toward lower interest rates. Thus, monetary authorities in all the major foreign countries have taken further measures in the past several months to ease monetary conditions. Discount rate reductions have been made one or more times in France, Germany, Italy, Belgium, Denmark, Switzerland, the Netherlands, and Canada; the Bank of England's minimum lending rate has fallen several times. In order to enhance bank liquidity, reserve requirements were reduced in France, Belgium, and Canada, and rediscount quotas were raised in Germany. The import deposit arrangement in Italy, which had been designed in large part as a means of reducing liquidity, was terminated. In Japan, the quarterly credit ceilings for the large city banks have been eased moderately for both the first and second quarters of this year; in addition, there has been a selective increase in credits from specialized financial institutions to the housing industry and to firms experiencing particularly severe financial difficulties. Credit ceilings were also raised in Belgium and removed in Italy. In other countries where ceilings exist -- and maybe in Belgium and Italy as well -- the ceilings generally do not appear to be binding in any case, given the weak demand for credit.

Further easing actions are expected in some countries. French Finance Minister Fourcade announced plans to lower interest rates and to extend the system of special credit facilities for specific sectors; the Bank of France's discount rate will be lowered again, he said, to provide a psychological backdrop for a fall in other interest rates. Bank of Japan Governor Morinaga said recently that the Bank of Japan's policies will also be eased sometime in the future (probably in May, after the results of the wage negotiations can be assessed); on the other hand, he also said that controls on capital inflows may be imposed if excessive liquidity is being created. The British Budget for 1975/76 will be announced on April 15; some measures to ease further the liquidity position of the corporate sector are generally expected.

In contrast to the broad similarity across countries of the pattern of interest rate movements, the behavior of the money stock in the various countries has been quite diverse. (See Table 3.) Moreover, the growth of the money stock does not appear -- on the surface at least -- to have been consistent with the official characterization of the stance

Table 3
MONEY STOCK
(percentage changes; SAAR)[a/]

	1972 year	1973 year	1974 year	3-months ending in: Sept. '74	Dec. '74	Feb. '75
M_1						
France	14.5	9.0	15.9	-7.8	51.7[b/]	n.a.
Germany	14.0	1.8	11.7	11.7	21.5	7.0e
Japan	24.5	16.7	11.5	-6.9	9.5	15.2[c/]
United Kingdom	13.8	4.5	7.2	11.1	17.0	19.1
Canada	13.1	11.9	6.1	-4.4	4.7	25.8
United States	8.7	6.1	4.7	1.6	4.6	0
M_2						
France	18.4	15.0	18.4	8.2	34.4[b/]	n.a.
Germany	16.7	13.9	5.7	0.5	9.8	0.5e
Japan	24.6	16.8	11.5	5.1	11.8	14.1[c/]
United Kingdom (M_3)	27.7	28.8	11.4	18.6	10.1	8.2
Canada	15.9	18.5	16.9	23.6	14.7	20.1
United States	11.1	8.8	7.4	4.6	7.1	5.3

a/ Calculated to end of period from end of preceding period, at compound annual rates.
b/ The French money stock data is severely distorted by the postal strike, which caused a sharp increase in deposits in postal accounts in the fourth quarter.
c/ Calculated for the 3 months ending in January.
e/ Seasonal adjustment estimated by FRB staff.

of monetary policy in some countries. For example, in Japan, where monetary policy is still characterized as restrictive, growth in M_1 especially has been accelerating in recent months, as has growth in M_2. But in Germany, where the Bundesbank claims to be easing its policy, the growth of the money supply has slowed recently; in January and February combined, the German money stock, both narrowly and broadly defined, remained virtually unchanged. On the other hand, the avowed target of Bundesbank policy -- "central bank money," a concept associated with the monetary base -- has actually been rising slightly faster than the targeted 8 per cent annual rate announced last December.

The movements of the various money stock measures abroad prompted the staff to make some calculations comparing the variability of the monthly growth rates of the money stock in different countries. Since the beginning of 1973 -- the period roughly corresponding to the latest restrictive phase of monetary policy -- the volatility of monetary growth rates abroad (as measured by the coefficients of variation) is everywhere higher than in the United States; it has been significantly higher in the cases of Germany, the United Kingdom, and Japan. This finding tends to substantiate the belief that the monetary aggregates really are dominated by interest rates as a target of foreign central banks' policies.