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CONFIDENTIAL (FR)

March 10, 1976

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

TABLE OF CONTENTS (Continued)

II -- T - 1
SELECTED DOMESTIC NONFINANCIAL DATA
AVAILABLE SINCE PRECEDING GREENBOOK
(Seasonally adjusted)

March 10, 1976

	Latest Data			Per Cent Change From		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year Earlier
				(At Annual Rates)		
Civilian labor force	Feb.	3-5-76	93.5	-.4	1.5	2.1
Unemployment rate (per cent)	Feb.	3-5-76	7.6	7.8 1/	8.5 1/	8.0 1/
Insured unemployment rate (%)	Feb.	3-5-76	4.2	4.5 1/	5.2 1/	6.0 1/
Nonfarm employment, payroll (mil.)	Feb.	3-5-76	78.3	3.2	4.0	2.0
Manufacturing	Feb.	3-5-76	18.8	2.7	6.1	2.1
Nonmanufacturing	Feb.	3-5-76	59.6	3.3	3.3	2.0
Private nonfarm:						
Average weekly hours (hours)	Feb.	3-5-76	36.5	36.6 1/	36.3 1/	36.1 1/
Hourly earnings ($)	Feb.	3-5-76	4.75	4.73 1/	4.68 1/	4.43 1/
Manufacturing:						
Average weekly hours (hours)	Feb.	3-5-76	40.3	40.5 1/	39.9 1/	38.8 1/
Unit labor cost (1967=100)	Jan.	3-2-76	148.0	2.4	.8	2.7
Industrial production (1967=100)	Jan.	2-15-76	119.3	8.0	8.9	5.0
Consumer goods	Jan.	2-15-76	132.1	12.0	16.1	10.0
Business equipment	Jan.	2-15-76	118.1	8.2	8.3	-3.4
Defense & space equipment	Jan.	2-15-76	81.2	4.4	.5	-3.1
Materials	Jan.	2-15-76	117.3	9.3	2.7	6.1
Consumer prices (1967=100)	Jan.	2-20-76	167.1	5.0	6.3	6.8
Food	Jan.	2-20-76	181.2	-2.6	3.6	5.8
Commodities except food	Jan.	2-20-76	153.1	2.4	3.7	5.8
Services 2/	Jan.	2-20-76	174.7	13.2	11.1	8.4
Wholesale prices (1967=100)	Jan.	3-4-76	178.6	-6.5	-3.9	4.7
Industrial commodities	Jan.	3-4-76	178.5	3.8	5.2	5.8
Farm products & foods & feeds	Jan.	3-4-76	179.0	-28.2	-26.1	1.4
Personal income ($ billion) 3/	Jan.	2-18-76	1313.8	12.6	8.2	9.2
				(Not At Annual Rates)		
Mfrs. new orders dur. goods ($ bil.)	Jan.	3-3-76	43.8	2.2	3.5	17.7
Capital goods industries	Jan.	3-3-76	11.7	.6	-3.1	.1
Nondefense	Jan.	3-3-76	10.2	.8	-4.2	1.6
Defense	Jan.	3-3-76	1.5	-1.1	5.5	-9.2
Inventories to sales ratio:						
Manufacturing and trade, total	Dec.	2-13-76	1.51	1.53 1/	1.53 1/	1.67 1/
Manufacturing	Jan.	3-3-76	1.64	1.67 1/	1.68 1/	1.91 1/
Trade	Dec.	2-13-76	1.34	1.37 1/	1.36 1/	1.46 1/
Ratio: Mfrs.' durable goods inventories to unfilled orders	Jan.	3-3-76	.835	.829 1/	.824 1/	.760 1/
Auto sales, total (mil. units) 3/	Feb.	3-5-76	10.2	6.4	15.3	11.1
Domestic models	Feb.	3-5-76	8.8	4.4	14.5	21.8
Foreign models	Feb.	3-5-76	1.4	20.4	20.5	-27.8
Plant & equipment expen. ($ bil.) 4/	1975	3-9-76	112.79			.3
All industries	1976	3-9-76	120.06			6.5
	QIV'75	3-9-76	111.80			-3.8
	QI '76	3-9-76	118.70			3.6
	QII '76	3-9-76	119.62			6.4
	2H '76	3-9-76	120.99			8.0
Capital Appropriations, Mfg.	QIV	3-5-76	12,836	22.3	12.1	1.2
Housing starts, private (thous.) 3/	Jan.	2-18-76	1,221	-5.4	-14.7	21.5
Leading indicators (1967-100)	Jan.	3-2-76	106.3	2.2	3.7	15.8

1/ Actual data. 2/ Not seasonally adjusted. 3/ At annual rate. 4/ Planned-Commerce Feb. survey

DOMESTIC NONFINANCIAL DEVELOPMENTS

The recovery is continuing at a fairly vigorous pace, and price moderation has occurred at both wholesale and consumer levels. Rising consumption--led by strong demands for autos and household durables--is playing a dominant role in the recovery. Employment and industrial production showed strength again in February, following substantial gains in December and January. Unemployment declined over the month and personal income evidently rose further. Business fixed investment continues to lag behind the rise of spending in other sectors.

Industrial production is expected to show an increase of around one half of a per cent for February; monthly gains averaged 0.7 per cent over the prior three months. Advances in February appear to be widespread among consumer goods and materials. Auto production rose 5 per cent to a 8.1 million unit annual rate spearheading a general advance of production of consumer durables. Output of nondurable consumer goods, which had already exceeded its prerecession high, seems to have edged up further. Production of both durable and nondurable materials evidently advanced further in February--raw steel production rose over 1 per cent--but business equipment production apparently was unchanged.

Capacity utilization in the major materials industries appears to have risen further in February. Utilization in the nondurable major materials sector has advanced to about 85 per cent, from its March 1975 low of 66 per cent, while the rate for metals has risen only moderately to 70 per cent.

Signalling further strength, new orders for durable goods rose 2.2 per cent in January. In real terms, durable orders were 16 per cent above the low they reached last March.

Nonfarm payroll employment rose 210,000 in February--its eighth straight month of increase--as nearly two-thirds of the 1972 industry groups recorded advances. The biggest job gains were in trade (100,000) and services (70,000), but construction employment, reflecting continued slack business and industrial building, dropped nearly 60,000 to its lowest level since 1968. Employment in durable manufacturing rose slightly further in February but remains 1.1 million below its September 1974 level. The factory workweek edged down 0.2 hours to 40.3 hours, offsetting a similar increase in January.

Reflecting recent advances in employment, the unemployment rate declined in February to 7.6 per cent, sharply below last May's peak rate of 8.9 per cent. Among adult males the jobless rate was down from 7.2 per cent last May to 5.7 per cent in February. Half of the net reduction indicated for total and adult male unemployment rates occurred in the past two months. While there is undeniable improvement in labor demand, the recent declines of unemployment may be overstated by the use of multiplicative seasonal adjustment methods. Additive seasonal adjustment techniques, which may be superior during periods of high unemployment, suggest a more moderate and steadier downward trend in the unemployment rate from an 8.7 per cent peak to a reading of 7.9 per cent in February.

NONFARM PAYROLL EMPLOYMENT
(In thousands, seasonally adjusted)

	Sept. 74 to June 75	June 75 to Feb. 76	Dec. 75 to Jan. 76	Jan. 76 to Feb. 76
Nonfarm Total	-2487	2001	341	207
Government, State & local	400	290	-29	24
Services and finance	82	549	60	69
Trade	-266	431	131	97
Nondurable Manufacturing	-588	352	50	24
Construction	-510	-17	28	-59
Durable Manufacturing	-1416	314	106	18

Note: September 1974 was the specific peak and June 1975 was the specific low for the total nonfarm payroll employment.

SELECTED UNEMPLOYMENT RATES*
(Seasonally adjusted)

	1974	1975			1976	
	Jan.	Jan.	May	Dec.	Jan.	Feb.
Total	5.0	7.9	8.9	8.3	7.8	7.6
Men 20 yrs. and older	3.3	5.9	7.2	6.6	5.8	5.7
Women 20 yrs. and older	5.0	7.9	8.4	8.0	7.5	7.5
Teenagers	14.7	19.8	20.3	19.6	19.9	19.2
Household Heads	2.9	5.2	6.1	5.7	5.1	4.9
State Insured**	3.1	5.5	7.0	5.0	4.5	4.2
White	4.5	7.3	8.3	7.6	7.1	6.8
Negro and othe races	9.0	13.0	14.2	13.8	13.2	13.7
Total, using additive seasonals	5.0	8.3	8.7	8.2	8.2	7.9

* revised labor force series.
** per cent of covered workers under regular state programs.

The volatile average hourly earnings index, which adjusts for interindustry shifts in employment and manufacturing overtime, rose at about a 7 per cent annual rate between December and February and also in the period since October. This compares with average increases of about 8 per cent over the year ending in October 1975. The recent slower rise of wages, mainly reflects a temporary period of reduced collective bargaining activity and moderation of consumer price increases.

Real personal income climbed sharply in January, primarily on the strength of rising wage and salary disbursement. Real wage and salary disbursements were 3.1 per cent above their trough of July. In the comparable period of the 1958 expansion, real wage and salaries had risen by 4.5 per cent. Judging from the wage and employment figures, the rate of increase of disbursements may slow somewhat in February.

Recent gains in real personal income have been followed by continued strength in consumer spending. Retail sales resumed upward momentum in February, judging from staff estimates based on four weeks of data. Total sales are estimated to have increased 2.5 per cent; in January total sales edged off from December's high level. February's strength was in the automotive and GAF (general merchandise, apparel, and furniture and appliances) groupings which together were up an average of 6 per cent. This was accompanied by reduced sales at food outlets, where the drop probably reflects lower

HOURLY EARNINGS INDEX*

(Seasonally adjusted)

	Per Cent Change Over Period (compound annual rate)				
	Oct. 74 to Feb. 75	Feb. 75 to June 75	June 75 to Oct. 75	Oct. 75 to Feb. 76	Jan. 76** to Feb. 76
Private Nonfarm	8.4	8.2	8.0	6.9	5.7
Construction	2.8	13.0	3.1	4.3	-5.2
Manufacturing	9.2	9.1	8.9	6.4	6.2
Trade	8.8	6.3	8.0	5.5	.8
Services	9.4	6.0	6.9	9.1	1.6

* Excludes the effects of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.

** Per cent change at annual rate not compounded.

Cyclical Changes in Real Wages and Salaries and Personal Income

(Cumulative per cent change based on seasonally adjusted data)

	Duration (Months)	Wage and Salary Disbursements	Personal Income
Contractions			
Mar. 57 - Apr. 58	13	-5.7	-1.9
Nov. 73 - July 75	20	-7.2	-4.1
Expansion - First 6 months			
Apr. 58 - Oct. 58	6	4.5	3.6
July 75 - Jan. 76	6	3.1	2.5
Monthly Changes During Recent Expansion			
August		1.06	1.11
September		.41	.86
October		.43	.07
November		.25	.05
December		.13	-.21
January		.75	.62

Note: Data are deflated by the revised CPI. Reference months are specific highs and lows for deflated wage and salary component.

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

	1975			1976		1975 IV-
	III	IV	Dec.	Jan.	Feb.**	Feb.
Total sales	3.9	2.0	2.8	-.3	2.5	4.0
(Real*)	(1.5)	(.8)	(2.4)	(n.a.)	(n.a.)	(n.a.)
Total, less auto and nonconsumption items	3.1	1.4	1.0	.3	1.0	2.0
GAF	2.3	2.6	1.7	-1.6	5.5	7.0
Durable	5.8	4.3	6.7	-.9	5.5	9.0
Auto	7.4	4.5	12.2	-4.2	7.0	9.5
Furniture and appliances	2.3	5.5	.4	2.2	2.5	7.0
Nondurable	3.0	1.0	1.0	-.1	1.0	1.5
Apparel	3.0	.5	2.9	2.7	6.0	11.0
Food	2.8	.7	-.5	1.0	-4.0	-3.5
General merchandise	2.0	2.5	1.8	-3.9	6.0	4.5
Gasoline stations	6.6	-1.5	3.6	1.5	2.0	5.5

* Deflated by an unpublished Bureau of Economic Affairs price measure.
** Staff estimate from weekly data ending February 28.

AUTO SALES
(Millions of units, seasonally adjusted annual rates)

	II	III	IV	Dec.	Jan.	Feb.
Total auto sales	7.9	9.2	9.2	9.6	9.6	10.2
Imports	1.6	1.7	1.3	1.4	1.2	1.4
Domestic models	6.3	7.5	7.9	8.2	8.4	8.7
Large	3.8	4.3	4.4	4.6	4.9	n.a.
Small	2.5	3.2	3.6	3.7	3.5	n.a.

food prices. From the fourth quarter average to February, total sales increased 4 per cent. Discretionary items--autos, furniture and appliances and general merchandise--provided major strength over this period.

Unit auto sales in February were at a 10.2 million unit annual rate, up 600,000 from the January and December sales rate and the highest level since November 1973 except for a temporary bulge in August 1974. Sales strength for domestic models remain with the medium and larger models. Upgrading of auto demand probably reflects lower prices of gasoline and improved consumer confidence. Imports recovered to a 1.4 million unit annual sales rate in February from the depressed 1.2 million rate of January.

Book value of manufacturing inventories rose at a $2.5 billion annual rate in January as nondurable stocks rose for the sixth consecutive month while durable stocks declined for the eleventh consecutive month. Wholesale trade inventories increased at a $6.1 billion annual rate. These increases followed liquidation in December of producer's stocks at a $1.2 billion annual rate and wholesalers stocks at $5.3 billion rate. Downward revisions in the December and fourth quarter estimates of inventories suggest that the fourth quarter GNP estimate understates the rate of decumulation.

Inventory-sales ratios in manufacturing declined in January in both the nondurable and durable sectors as shipments in both sectors rose further. The nondurable ratio continued at an unusually low level.

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

	1975					1976
	I	II	III	IV	Dec.	January
Manufacturing & trade	-10.4	-18.8	5.4	-1.8	15.5	n.a.
Manufacturing	3.2	-12.5	-6.6	.6	-1.2	2.5
Durable	7.6	-4.3	-8.6	-3.5	-2.4	-1.0
Nondurable	-4.5	-8.2	2.0	4.2	1.2	3.5
Trade, total	-13.6	-6.3	11.9	-1.9	-14.4	n.a.
Wholesale	-4.1	-2.7	3.1	-2.0	-5.3	6.1
Retail	-9.4	-3.6	8.8	.1	-9.1	n.a.
Auto	-8.3	-1.7	5.5	.3	-.6	n.a.

INVENTORY RATIOS

	1973	1974	1975		1976
	IV	IV	IV	Dec.	January
Inventory to sales:					
Manufacturing & trade	1.49	1.62	1.51	1.51	n.a.
Manufacturing total	1.61	1.78	1.69	1.67	1.64
Durable	1.98	2.24	2.22	2.19	2.14
Nondurable	1.20	1.29	1.16	1.16	1.15
Trade, total	1.37	1.46	1.35	1.33	n.a.
Wholesale	1.16	1.24	1.21	1.21	1.20
Retail	1.53	1.64	1.44	1.41	n.a.
Inventories to unfilled orders					
Durable manufacturing	.723	.754	.824	.829	.835

The ratio for durables is still comparatively high even at its reduced January reading. By stage of processing, stocks of materials and supplies rose in January, while those of work-in-process and finished goods fell.

The recovery in residential construction--which began last spring--seems to have lost some of its steam. Total private housing starts declined 5 per cent from December to an annual rate of 1.22 million units in January. Most of the reduction came in the volatile multifamily sector. A number of factors suggest housing starts soon may resume their rise. Residential building permits increased 10 per cent in January--the first significant month-to-month rise in this series since September. Through January, there was a steady buildup of outstanding mortgage loan commitments at savings and loan associations, and home sales, while down for the month, were still at an advanced pace. Finally, the tighter rental markets reported for late 1975 should be a factor contributing to increased multiunit building activity. Even allowing for improvement in February and March, however, it is now unlikely that the first quarter starts rate will be much above that in the fourth quarter of 1975.

The State and local government sector continues to show more strength than was expected last fall. Total purchases for the fourth quarter of 1975 have been revised up slightly and now show a moderate 9.4 per cent rise since the same period in 1974. Despite the tightness of municipal credit markets during 1975, real purchases of structures increased in both the third and fourth quarters, following five consecutive quarters of decline.

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

	1975					1976	Per cent change in Jan. from:	
	QI	QII	QIII	QIV	Dec. (r)	Jan. (p)	Month ago	Year ago
Permits	.69	.90	1.04	1.07	1.03	1.14	+11	+65
Starts	.98	1.05	1.26	1.37	1.29	1.22	- 5	+21
1-family	.74	.83	.95	1.04	.97	.96	- 1	+28
2-or more-family	.24	.22	.31	.33	.33	.26	-19	+ 2
Under construction 1/	1.12	1.05	1.04	1.06	1.06	n.a.	+ 1 2/	-14 2/
1-family	.52	.52	.53	.56	.56	n.a.	+ 1 2/	+ 4 2/
2-or more-family	.60	.53	.51	.50	.50	n.a.	-- 2/	-27 2/
Completions	1.39	1.22	1.28	1.29	1.29	n.a.	-11 2/	-20 2/
1-family	.82	.79	.92	.91	.98	n.a.	- 3 2/	+15 2/
2-or more-family	.56	.43	.36	.37	.31	n.a.	-28 2/	-59 2/
MEMO:								
Mobile home shipments	.20	.21	.23	.23	.23	.25	+10	+35

1/ Seasonally adjusted, end of period.
2/ Per cent changes based on December.
NOTE: --indicates change of less than 1 per cent.

Indicators of business fixed investment still are not showing much current strength and thus recovery in capital spending is not expected to gather momentum until late in 1976.

The February Commerce survey of anticipated plant and equipment expenditures indicates that business is continuing to be cautious about increasing capital spending. The new survey--conducted in late January and February--shows business projecting a 6.5 per cent increase for 1976, somewhat above the 5.5 per cent rise reported in the December Commerce survey. But much of this increase reflects smaller than expected 1975 spending rather than an upward shift in the level of 1976 outlay plans. For the year as a whole, manufacturers of nondurable goods and public utilities indicate the largest increases.

Newly approved capital appropriations of large manufacturing companies rose 22.3 per cent in the fourth quarter. This reversed an uninterrupted one year decline that cummulated to 36 per cent. The fourth quarter 1975 rate was still 22 per cent below the peak. Given the customary lags, the fourth quarter rise of appropriations is not likely to appreciably affect business fixed investment until the second half of 1976.

Contracts for commercial and industrial buildings (measured in square feet) have moved erratically in recent months and fell in January to their lowest level since October 1961. These data do not include contracts let by public utilities--which should continue to be a major source of strength through the next few years--and, thus, they understate prospects for investment in nonresidential structures.

Survey Results of Anticipated Plant
and Equipment Expenditures
(Per cent change from prior year)

		1976		
	1975	Commerce 1/ February Survey	Commerce 1/ December Survey	McGraw-Hill Fall Survey
All Industry	0.3	6.5	5.5	8.8
Manufacturing	4.2	8.1	5.0	8.4
Durables	-3.4	5.0	0.8	1.0
Nondurables	11.6	10.8	8.4	14.7
Nonmanufacturing	-2.4	5.2	5.8	9.0
Mining	19.4	2.3	-4.1	20.6
Railroad	0.2	-18.4	-9.9	-2.0
Air and Other Transportation	21.8	-17.3	-13.9	-1.1
Electric Utilities	-3.6	15.7	17.7	13.0
Gas and Other Utilities	7.5	13.7	20.1	32.1
Communications	-8.8	6.5	13.3	7.0
Commercial and Other	-6.6	3.4	0.8	5.0

1/ Corrected for systematic bias by the Commerce Department

Manufacturers' New Capital Appropriations[1/]
(Per cent change from prior period based on seasonally
adjusted quarterly totals)

	1974				1975			
	QI	QII	QIII	QIV	QI	QII	QIII(r)	QIV(p)
Manufacturing	5.5	16.5	9.3	-22.6	-9.7	-3.3	-5.3	22.3
Ex Petroleum	6.2	3.1	3.0	- 8.1	-15.4	-14.7	-3.8	22.5
Durables	8.8	-4.1	3.8	- 0.5	-27.4	-19.6	-4.2	15.2
Nondurables	2.2	38.1	13.3	-37.3	9.2	8.2	-5.8	26.1

1/ Source is Conference Board Survey of 1000 largest manufacturing companies as ranked by total assets.

NEW ORDERS RECEIVED BY MANUFACTURERS
(Seasonally adjusted monthly rate, billions of dollars)

	1975					1976	Per Cent Change in January from	
	QI	QII	QIII	QIV	Dec.	Jan.	Month Ago	Year Ago
Total Durable Goods								
Current Dollars	36.9	39.1	42.0	42.4	42.8	43.8	2.2	17.7
1967 Dollars1/	22.6	23.8	25.4	25.0	25.1	25.6	1.8	11.7
Durable Goods Less Steel and Autos								
Current Dollars	28.0	29.4	31.1	31.3	30.6	31.4	2.6	10.9
Nondefense Capital Goods								
Current Dollars	9.9	10.3	10.4	10.5	10.2	10.2	0.8	1.6
1967 Dollars1/	6.2	6.4	6.4	6.4	6.1	6.1	0.0	-4.7

1/ Constructed series obtained by deflating new orders by the appropriate wholesale price index, 1967=100.

Construction Contracts for Commercial and Industrial Buildings
(Seasonally adjusted rates measured in millions of square feet)

	1975					1976	Per cent Change in 3 Month Average From	
	QI	QII	QIII	QIV	Dec.	Jan.	Month Ago	Year Ago
Total1/	46.9	50.7	48.7	48.9	50.7	38.5	-10.6	-20.7
Commercial	33.7	36.5	36.1	34.9	35.9	34.1	-4.3	-7.5
Industrial	12.7	13.2	11.4	13.6	14.4	9.9	-11.6	-22.2

1/ The components are seasonally adjusted by the staff so their sum may not equal the total which is seasonally adjusted by the Bureau of the Census.

New orders for nondefense capital goods rose in January by 0.8 per cent. In real terms, bookings for nondefense capital goods were unchanged over the month, only 2.2 per cent above their low of last March and 33.0 per cent below their peak of April 1974. Reflecting continuing slack in new demands, unfilled orders for nondefense capital goods orders shrank for the fifteenth straight month for a total decline of 20 per cent.

Improvement has continued in the behavior of prices. Wholesale prices declined 0.5 per cent in February--the fourth consecutive month in which falling prices of farm and food products matched or more than offset increases in prices of industrial commodities. Farm and food products declined 2.3 per cent; over the month--mainly reflecting lower prices for meats, dairy products, fresh vegetables, and sugar--and were down by 7.6 per cent (not at annual rate) from October.

Wholesale prices of fuel and power (a group which includes over one-tenth of the weight of the over-all index) dropped by 2.1 per cent and helped hold the rise of industrial commodities to a moderate 0.3 per cent. Provisions of the Energy Conservation and Policy Act signed in December--mainly elimination of the oil import fee--were primarily responsible for the decline, although slack demand and improved supplies are helping to hold the price line in energy. Further reductions in energy and fuel prices may occur if reduced prices of crude are passed on in the form of lower quotations for refined products. Prices of most other industrial commodities continued to rise at a substantial rate. Metals and metal products, textile products and apparel, machinery and equipment, and paper products all rose 0.4 per cent or more over the month.

Consumer price increases slowed to a 5 per cent annual rate in January as declines in the prices of both food and petroleum products partially offset increases in other major groups. Pork and poultry price decreases continued, reflecting earlier declines in wholesale lievestock prices. Nonetheless, the farm-retail price spread (or total markup reflecting processing and distribution costs as well as profits) has widened markedly since mid-1975 and continues greater than would be anticipated on a long-range trend basis. This is particularly true of beef for which the spread has increased by almost 50 per cent from its 1975 second quarter low.

Retail gasoline prices also fell 1.6 per cent in January (not annual rate) reflecting plentiful supplies and weak demand.

The upward movement in the CPI emanated chiefly from the service sector where prices have been increasing at nearly a 10 per cent annual rate over the past six months. Service prices rose by 1.1 per cent (not annual rate) in January, the largest increase in over a year. This reflected the sharp boost in postal fees as well as further increases in auto insurance rates.

WHOLESALE PRICES

(Per cent changes at annual rates; based on seasonally adjusted data)1/

	Relative importance Dec. 75	Dec. 73 to Dec. 74	Dec. 74 to June 75	June 75 to Oct. 75	Oct. 75 to Feb. 76	Jan. 76 to Feb. 76
All commodities	100.0	20.9	.3	14.1	- 2.8	- 6.5
Farm and food products	22.8	11.0	-8.0	25.6	-21.2	-28.2
Industrial commodities	77.2	25.6	3.4	9.3	5.8	3.8
Materials, crude and intermediate2/	48.3	28.2	2.1	8.8	5.1	0.0
Finished goods						
Consumer nonfoods	18.6	20.5	3.9	11.9	3.7	0.8
Producer goods	11.8	22.6	8.4	9.6	5.5	2.8
Memo:						
Consumer foods	11.1	13.0	3.8	16.7	-15.9	-22.4

1/ Not compounded for one-month changes.
2/ FR estimate.

CONSUMER PRICES

(Per cent changes at annual rates; based on seasonally adjusted data)1/

	Relative importance Dec. 75	Dec. 73 to Dec. 74	Dec. 74 to June 75	June 75 to Dec. 75	Dec. 75 to Jan. 76
All items	100.0	12.2	6.8	7.4	5.0
Food	24.7	12.2	5.0	8.2	- 2.6
Commodities (nonfood)	38.7	13.2	6.6	5.9	2.4
Services	36.6	11.3	8.0	8.4	13.2
Memo:					
All items less food and energy 2/3/	68.1	11.3	7.2	6.4	10.5
Petroleum products2/	4.6	22.8	5.6	15.1	-20.8
Gas and electricity	2.7	19.6	16.0	12.5	- 6.7

1/ Not compounded for one-month changes.
2/ Confidential -- not for publication.
3/ Energy items excluded: gasoline and motor oil, fuel oil and coal, and gas and electricity.

The budgetary outlook for the Federal sector is essentially unchanged from the last month. Incoming data and Congressional action to date suggest that unified budget outlays for FY'76 will total $372 billion. For calendar year 1976 spending is expected to amount to $386 billion. The staff estimates that the Federal deficits in these periods will be $74 billion and $68 billion, respectively.

The staff continues to assume that Congress will approve a permanent extension of the Revenue Adjustment Act of 1975. The estimated full-employment budget is projected to remain in deficit, averaging $8 billion (NIA basis) from mid-1975 to the third quarter of 1976. Thereafter, the posture of fiscal policy is projected to become increasingly more restrictive. For calendar year 1976 the full employment deficit would average $6.7 billion, as compared to $10 billion for calendar 1975.

Of more immediate interest is the pattern of tax returns and refunds. Treasury data show that through February the number of individual tax returns filed was about 7-1/2 per cent below last year's level. Processing is also slower, owing to a more complex set of forms and, correspondingly, the number of refunds is roughly 12 per cent below last year's figure. The average refund to date is $426, about 10 per cent larger than last year. Since we expect higher total refunds for this year, a good deal of the refund stimulus is now likely to fall in the second quarter.

FEDERAL BUDGET
(In billions of dollars)

	Fiscal Year 1975*	Fiscal Year 1976 e/ Admin. Est. 1/	Fiscal Year 1976 e/ Cong. Est. 2/	Fiscal Year 1976 e/ F.R. Board	Fiscal Year 1977 e/ Admin. Est.	Fiscal Year 1977 e/ F.R. Board	CY1975 F.R. Board	F.R.B. Staff Estimates Calendar Quarters 1975 IV	1976 I	1976 II	1976 III 4/	1976 IV
Federal Budget--Unified								Unadjusted data				
Surplus/deficit	-43.6	-76.0	-74.1	-74.3	-43.0	-53.5	-75.2	-26.6	-25.2	-3.8	-15.1	-24.1
Receipts	281.0	297.5	300.8	297.9	351.3	356.5	280.8	67.0	65.6	93.0	82.9	76.4
Outlays	324.6	373.5	374.9	372.2	394.2	410.0	356.0	93.6	90.8	96.8	98.0	100.5
Means of financing:												
Net borrowing from the public	50.9	87.5	n.a.	84.0	53.6	64.1	85.4	25.8	23.3	11.4	19.0	26.7
Decrease in each operating balance	1.6	-1.4	n.a.	-1.4	0.0	0.0	-2.5	2.0	1.5	-2.0	0.0	0.0
Off-budget deficit 3/	-9.5	-9.3	n.a.	-10.1	-11.1	-11.1	-11.5	-2.6	-4.4	-2.2	-4.0	-2.7
Others 5/	.7	-.7	n.a.	1.7	.5	.5	3.8	1.3	4.8	-3.4	.1	.1
Cash operating balance,end of period	7.6	9.0	n.a.	9.0	9.0	8.9	8.5	8.5	7.0	9.0	9.0	9.0
Memo: Sponsored agency borrowing 6/	10.8	5.1	n.a.	3.5	10.8	n.e.	2.2	1.7	-.7	1.5	1.3	n.e
NIA Budget								Seasonally adjusted, annual rates				
Surplus/deficit	-47.2	-71.3	n.a.	-68.7 7/	-39.8	n.e.	-73.7	-68.6	-67.7	-66.3	-64.7	-61.2
Receipts	281.5	307.4	n.a.	308.9 7/	364.7	n.e.	283.2	305.6	314.1	324.5	334.7	345.8
Expenditures	328.7	378.7	n.a.	377.6	404.5	n.e.	356.9	374.2	381.8	390.8	399.4	407.0
High Employment Surplus/deficit (NIA basis) 8/9/	5.3	n.a.	n.a.	-8.2	n.a.	6.0	-10.0	-7.6	-9.2	-8.5	-6.1	-2.8

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

1/ Budget of U.S. Government, FY 1977.
2/ Concurrent Budget Resolution.
3/ Deficit of off-budget Federal agencies, i.e., Federal Financing Bank, Postal Service, Export-Import Bank, Rural Electrification and Telephone revolving fund, Housing for the Elderly or Handicapped Fund, and Pension Benefit Guaranty Corporation.
4/ Effective in CY 1976 fiscal year for the U.S. Government changes from July 1 - June 30 to October 1 - September 30. Hence 76-III represents a transitory quarter.
5/ Checks issued less checks paid, accrued items, and other transactions.
6/ 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.
7/ Quarterly average exceeds fiscal year total by $.5 billion for fiscal 1976 due to spreading of wage base effect over calendar year.
8/ Estimated by F.R. Board staff.
9/ The high-employment budget estimates now fully incorporate taxes on inventory profits beginning 1973.

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	February	34.1	-5.5	-4.9	-1.0
Reserves available (RPD's)	February	32.0	-4.3	-3.0	-1.5
Money supply					
M1	February	296.9	6.5	1.6	5.3
M2	February	677.0	14.3	9.3	9.5
M3	February	1115.6	14.5	10.9	12.2
Time and savings deposits (Less CDs)	February	380.1	20.6	15.5	13.1
CDs (dollar change in billions)	February	75.4	-3.8	-6.4	-16.7
Savings flows (S&Ls + MSBs + credit unions)	February	438.6	14.7	13.4	16.7
Bank credit (end of month)	February	729.7	8.1	2.0	4.7
Market yields and stock prices		Percentage or index points			
Federal funds wk. endg.	3/ 3/76	4.95	.13	-.30	-.93
Treasury bill (90 day) "	3/ 3/76	5.11	.29	-.45	-.43
Commercial paper (90-119 day) "	3/ 3/76	5.20	.20	-.61	-1.05
New utility issue Aaa "	3/ 5/76	8.72p	.04p	-.74p	--p
Municipal bonds (Bond Buyer) 1 day	3/ 4/76	7.04	.18	-.27	.50
FNMA auction yield (FHA/VA)	3/ 8/76	9.06	-.01	-.26	-.28
ividends/price ratio (Common stocks) wk. endg.	3/ 3/76	3.71	.08	-.49	-.74
NYSE index (12/31/65=50) end of day	3/ 8/76	53.61	.51	7.63	8.73

		Net change or gross offerings			
		Current month		Year to date	
		1976	1975	1976	1975
Credit demands					
Business loans at commercial banks	February	-.8	-1.6	-.5	-.1
Consumer instalment credit outstanding	January	1.3	.9	1.3	.9
Corporate bonds (public offerings)	February	2.1e	3.2	4.3e	6.9
Municipal long-term bonds (gross offerings)	February	2.6e	2.4	4.8e	4.7
Federally sponsored Agcy. (net borrowing)	February	-1.0	-.9	-.6	-.4
U.S. Treasury (net cash borrowing)	March	7.1	11.2	23.3	19.4
		1975	1974	1975	1974
Mortgage debt outst. (major holders)	December	4.2	2.0	42.5	42.7
Total of above credits		15.5	17.2	75.1	74.1

p - Preliminary.
e - Estimated.

DOMESTIC FINANCIAL DEVELOPMENTS

Since the mid-February FOMC meeting, some financial market participants seem to have become convinced that interest rates are near their cyclical lows. While this view in part reflects the mounting evidence of greater strength in the economic recovery, it was reinforced in early March by indications of more vigorous growth in the monetary aggregates and a firming in the Federal funds rate, both of which gave rise to a belief that the System had begun to move toward a less accomodative posture.

A subsequent return of the funds rate to the previous trading range, and published data indicating less strength in the aggregates than had been anticipated, have recently eliminated a good part of the early March advance in market rates. Since the last FOMC meeting, short-term interest rates have risen on balance about 15 to 25 basis points, while long-term rates generally have shown little net change.

Interest rate expectations appear to have played a role in the rapid build-up of the forward calendar of bond offerings. With businesses continuing to raise substantial funds in capital markets and with cash flow strong, demands for short-term credit remained weak.

Strong deposit inflows contributed to an improvement in liquidity positions of nonbank thrift institutions in February. The supply of mortgage credit expanded further and rates on new

SELECTED FINANCIAL MARKET QUOTATIONS
(One day quotes--in per cent)

	Feb.'75 FOMC Feb. 19	Dec.'75 FOMC Dec. 16	Jan.'76 FOMC Jan. 20	Feb.'76 FOMC Feb. 18	Feb. 24	Mar. 2	Mar. 9
Short-term							
Federal funds 1/	6.29	5.17	4.81	4.70	4.80	4.95	4.92 5/
Treasury bills							
3-month	5.30	5.51	4.83	4.92	4.90	5.25	5.00
6-month	5.40	5.94	5.11	5.27	5.25	5.66	5.47
1-year	5.42	6.28	5.41	5.61	5.58	5.96	5.87
Commercial paper							
1-month	6.38	5.50	4.75	5.00	4.88	5.00	5.13
3-month	6.38	5.88	5.13	5.25	5.13	5.25	5.25
Large neg. CD's 2/							
3-months	6.30	6.10	5.15	5.25	5.15	5.50	5.40
6-months	6.30	6.70	5.50	5.65	5.65	6.00	6.05
Federal agencies							
1-year	6.04	6.95	6.07	6.07	6.08	6.40p	n.a.
Bank prime rate	8.75	7.25	7.00	6.75	6.75	6.75	6.75
Long-term							
Corporate							
New AAA 1/	9.02	9.37	8.64	8.64	8.64	8.58	8.72p
Recently offered 3/	9.10	9.25	8.68	8.68	8.67	8.56	8.71p
Municipal (Bond Buyer) 4/	6.27	7.34	7.09	6.95	6.97	6.98	7.04
U.S. Treasury (20-year constant maturity)	7.64	8.22	8.05	8.06	7.93	8.06	8.00p
Stock prices							
Dow-Jones	736.39	844.30	949.86	960.09	993.55	985.12	993.70
N.Y.S.E.	43.13	46.84	52.33	53.39	54.62	53.82	53.76
AMEX	76.84	82.31	93.00	101.14	105.11	103.97	104.45
Keefe Bank Stock	494	449	523	565	565	562	553

1/ Weekly average.
2/ Highest quoted new issues.
3/ One day quotes for preceding Friday.
4/ One day quotes for preceding Thursday.
5/ Average for first 6 days of statement week ending March 10.
n.a.--not available.
p--preliminary.

mortgages continued to decline. There is also some indication that commercial banks, whose liquidity position has improved substantially, are more willing lenders, though they still remain concerned about profit margins and asset quality.

Monetary aggregates. After declining on balance during December and January, M_1 expanded at close to a 6.5 per cent annual rate in February. Some of the rise probably is due to increased demand for money associated with the expansion in economic activity and possible lagged effects of earlier reductions in market interest rates. However, the shifting relationship between M_1 and GNP since mid-1975, and the uncertainty of seasonal adjustments associated with tax refunds, make it difficult to judge the relative importance of these recent influences.

Growth in M_2 accelerated in February, due to both the increased strength in M_1 and, more importantly, large inflows of time and savings deposits other than large CDs. Since year-end, banks have been experiencing near record inflows of such deposits, reflecting the large net declines in short-term market interest rates. Savings deposit growth has been particularly strong, recording a 45 per cent annual rate in February following nearly a 30 per cent rate in January. In both January and February, business and State and local government holders accounted for more than one-fourth of total savings deposit inflows at weekly reporting banks.

MONETARY AGGREGATES
(Seasonally adjusted changes)[1/]

	1975 HI	1975 HII	1975 QIII	1975 QIV	1976 Jan.	1976 Feb.p	Twelve months ending Feb. 1976
	Per cent at annual rates						
M_1	4.0	4.8	7.1	2.5	1.2	6.5	5.3
M_2	8.0	8.2	10.1	6.1	10.3	14.3	9.5
M_3 2/	10.2	11.4	13.3	9.2	11.5	14.5	12.2
Adjusted bank credit proxy	4.7	3.7	1.4	6.0	-0.7	4.9	3.8
Total time and savings deposits at commercial banks	8.3	6.9	4.7	9.1	4.5	7.2	6.4
a. Other than large CD's	11.3	11.0	12.7	9.1	17.6	20.6	13.1
1. Savings deposits	16.5	16.2	18.1	13.6	29.2	45.3	22.9
2. Time deposits	6.9	5.7	8.8	5.7	8.7	1.7	6.2
Deposits at nonbank thrift institutions:							
a. Savings and loan associations 3/	17.6	16.4	18.6	13.5	17.3	14.4	18.3
b. Mutal savings banks 3/	12.0	9.7	11.6	7.5	11.3	9.0e	11.7e
c. Credit unions 3/	21.1	17.3	17.1	16.8	20.0	n.a.	20.4 5/
	Billions of dollars 4/						
Memoranda:							
a. U.S. Government demand deposits	--	--	--	--	-0.4	--	0.1
b. Negotiable CD's	-1.0	-0.2	-1.7	1.3	-3.7	-3.8	-1.4
c. Nondeposit sources of funds	-0.2	0.2	--	0.5	-0.5	0.4	0.2

1/ Except where otherwise defined, growth rates are based on changes in the average amounts outstanding for the period.
2/ M_3 is defined as M_2 plus credit union shares, mutual savings bank deposits, and shares of savings and loan associations.
3/ Based on month-end series.
4/ Changes in average levels month-to-month or average monthly change for the period, measured from last month in period to last month in period, not annualized.
5/ Twelve months ending January 1976.
p - Preliminary.
n.a. - Not available.
e - Estimated.

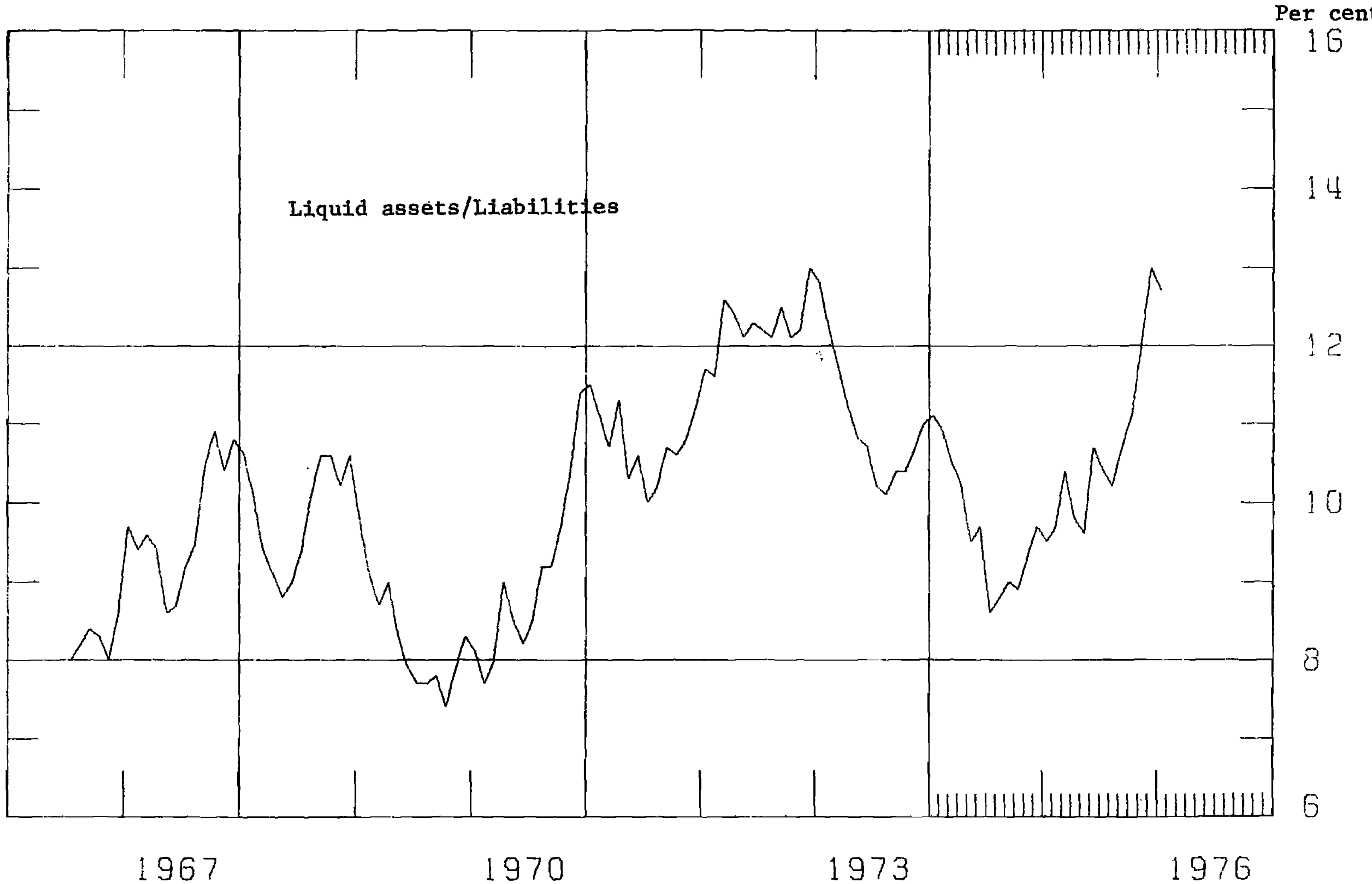
The acceleration in M_2 contributed to more rapid growth in M_3 in February, despite some moderation of deposit flows to nonbank thrift institutions. After expanding at a 16 per cent rate in January, thrift institution deposits grew at just over a 12 per cent annual rate in February.

With large consumer-type deposit inflows and continued weak business loan demand, commercial banks have had little need to sell CDs. Large negotiable CDs fell an additional $4.5 billion in February (end-of-month basis, not seasonally adjusted), for a total decline of over $11 billion since year end.

Liquidity positions of financial institutions. Growth in bank credit in February consisted mainly of acquisitions of U.S. government securities, thus extending a year long trend which was interrupted only in October. These acquisitions, which were largely concentrated in 1-5 year issues, were associated in part with the unusually large volume of Treasury financing in February and continued sluggish demand for business loans.

Since early 1975, banks have made substantial progress in restructuring their balance sheets through purchases of Government securities, reductions in loans, and paydowns of outstanding CDs and other money market liabilities. In February, U.S. Government securities comprised 12.2 per cent of total deposits held by all commercial banks, the highest level since early 1972. In recent months the ratio of liquid assets to liabilities at large banks has risen above 12 per cent, also the highest level since 1972 and well above the lows recorded in 1974.

LIQUIDITY RATIO OF LARGE COMMERCIAL BANKS
(Monthly averages, July 1966 to January 1976)

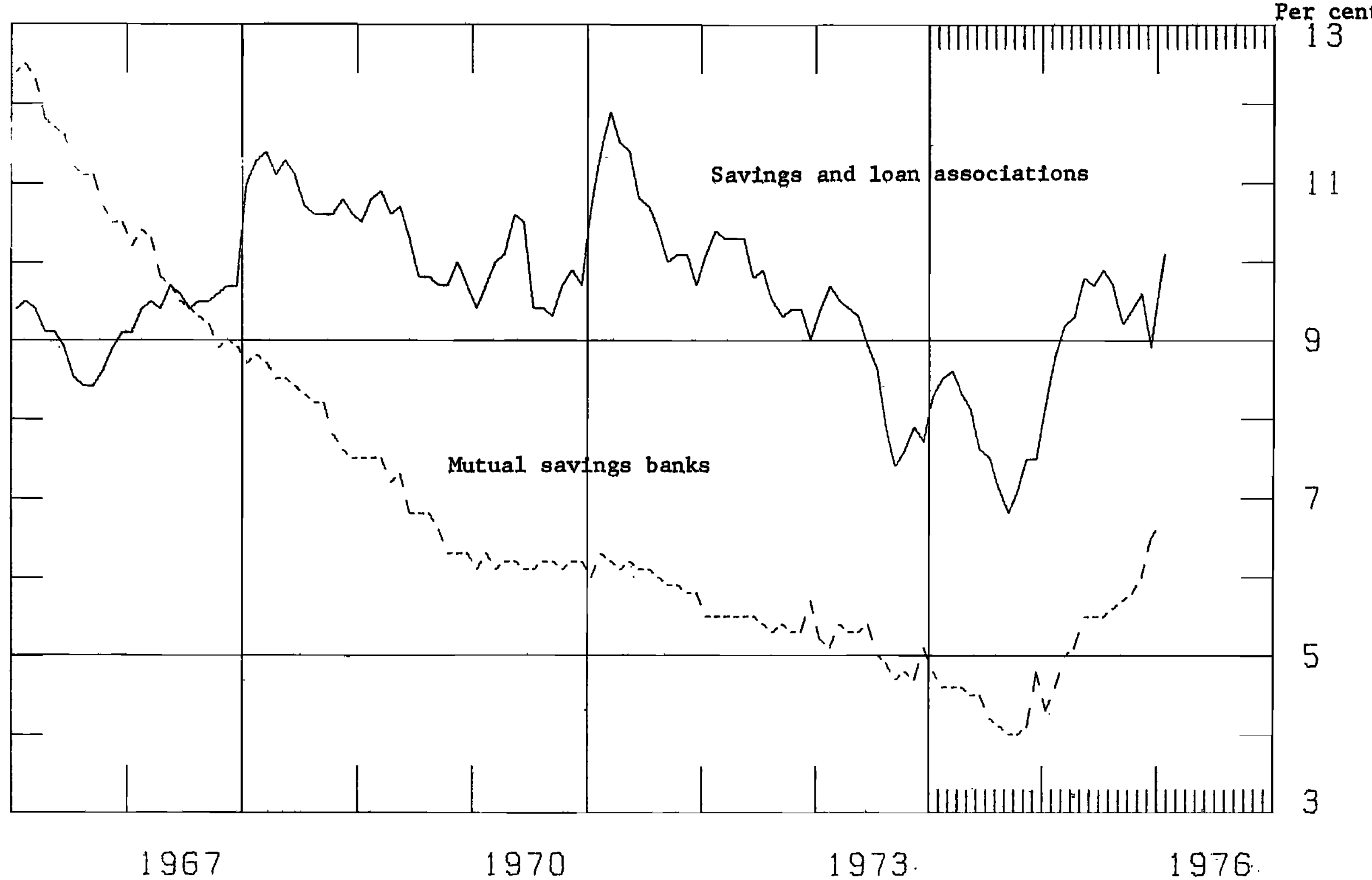


Note:

Liquid assets include: Treasury bills and short-term Treasury notes, Federal funds sold and securities purchased under agreements to resell, broker and dealer loans, loans to domestic commercial banks, and bankers' acceptances.

Liabilities include: Total liabilities less capital accounts less valuation reserves less domestic interbank demand deposits.

LIQUIDITY RATIOS OF NONBANK THRIFT INSTITUTIONS
(Monthly averages, January 1966 to January 1976)



Note:

The mutual savings bank liquidity ratio is the sum of cash, due from banks, and U.S. government securities as a per cent of total deposits outstanding.

The savings and loan ratio is the sum of cash and other liquid assets as a per cent of savings capital plus borrowings. Other liquid assets include: short- and intermediate-term Government and Federal agency securities, deposits at commercial banks with maturities of less than one year, bankers' acceptances, Federal funds loans, assets subject to repurchase agreements, and accrued interest on all eligible liquid assets.

The improved liquidity positions of banks suggest that these institutions are in a position to increase substantially their loans to the business sector as the economy expands. Indeed, the most recent Survey of Bank Lending Practices, taken on February 15, suggests that banks are more willing lenders than they were throughout 1975. Nonetheless, while banks apparently have eased compensating balance requirements, there is little additional evidence that they are attempting to stimulate loan demands by easing other nonprice terms of lending or reducing loan rates. The prime rate--at 6-3/4 per cent--remains high relative to other short-term rates, as banks seek to maintain profit margins. Moreover, Survey responses suggest that banks have not lowered standards of credit quality.

Nonbank thrift institutions also have achieved sizable liquidity positions in recent months. At the end of January, the ratio of liquid assets to liabilities at savings and loan associations was about 10 per cent; the ratio is expected to climb higher in February in response to further accumulation of liquid assets and an additional $726 million paydown of advances from the FHLBanks. At the same time, savings and loan associations have continued to make mortgage loans in significant volume. At mutual savings banks, purchases of Treasury securities have helped raise liquidity to high levels, but to date there is no firm evidence of sharply increased mortgage activity at these institutions. Usury ceilings applicable to mortgages in New York State--where nearly half of mutual savings bank assets are located--may have made mortgages less attractive relative to corporate securities.

Business credit. Although economic activity continued to strengthen and financial institutions appeared to have substantial amounts of lendable funds, short-term borrowing by businesses declined in February. Sales of nonfinancial commercial paper were strong over the month--reflecting the favorable rates in this market relative to the bank prime--but the increase was more than offset by a 5 per cent (SAAR) decline in business loans at banks. At large banks the weakness in business loans has been widely spread among industries.

The persistent lack of growth in short-term business credit appears to be associated with an ample availability of internal funds to corporations relative to investment outlays and continued heavy capital market financing for restructuring of balance sheets. Gross new issues of domestic publicly offered corporate bonds totaled $2.1 billion in February, close to the January level. The March and April volumes, moreover, are projected to be appreciably larger. The buildup in the forward calendar may reflect--in addition to the normal seasonal pick-up--anticipatory borrowing stimulated by the belief that market rates may be near their cyclical lows. Higher quality issues (those rated Aaa or Aa) have dominated the corporate bond calendar since year end, accounting for about two-thirds of total new issues. Nonetheless, market underwriters expect an increasing proportion of lower-rated obligations as the year progresses.

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

	1975					1976	
	H1	H2p	QIIIp	QIVp	Dec.p	Jan.p	Feb.p
Total loans and investments 2/	5.1	3.4	3.6	3.1	-7.2	5.3	8.1
U.S. Treasury securities	96.7	15.2	26.0	4.2	25.2	35.4	62.8
Other securities	3.7	2.7	3.9	1.4	-19.6	2.5	-2.5
Total loans 2/	-3.3	1.8	.2	3.4	-8.6	1.4	2.4
Business loans 2/	-6.6	1.3	--	2.5	-9.2	2.0	-5.3
Real estate loans	2.2	2.3	.3	4.3	4.5	4.5	5.4
Consumer loans	-6.7	5.5	5.7	5.2	7.0	6.9	n.a.
MEMO: Business loans plus nonfinancial commercial paper 3/	-6.9	-.8	-.6	-1.0	-5.6	5.0	-2.5

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, non-consolidated nonbank affiliates of the bank holding companies (if not a bank), and non-consolidated nonbank subsidiaries of holding companies.
3/ Nonfinancial commercial paper is measured from end-of-month to end-of-month.
p - Preliminary.
n.a. - Not available.

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

	1975		1976			
	Year e/	QIV e/	Jan. e/	Feb. e/	Mar. f/	Apr. f/
	Gross offerings					
Corporate securities--Total	4,358	3,958	3,800	4,125	5,600	4,800
Publicly offered bonds	2,717	1,946	2,200	2,100	2,900	2,600
By quality 1/						
Aaa and Aa	1,422	776	1,275	1,550	--	--
Less than Aa 2/	1,295	1,170	925	550	--	--
By type of borrower						
Utility	925	783	600	420	--	--
Industrial	1,432	767	1,050	1,070	--	--
Other	360	396	550	610	--	--
Privately placed bonds	743	946	900	900	1,000	800
Stocks	898	1,066	700	1,125	1,700	1,400
Foreign securities 3/	451	634	605	335	400	400
State and local government securities						
Long-term	2,544	2,252	2,238	2,586	2,600	2,300
Short-term	2,420	2,216	1,090	1,472	1,800	2,500
	Net offerings					
U.S. Treasury	7,564	8,048	6,191	10,064	8,200	-100
Sponsored Federal agencies	187	390	515	-916	526	985

e/ Estimated.
f/ Forecast
1/ Bonds categorized according to Moody's bond ratings.
2/ Includes issues not rated by Moody's.
3/ Includes only publicly offered issues of marketable securities.

Corporate bond yields declined further following the February FOMC meeting, with rates on some high quality issues reaching their lowest levels in two years. In early March, however, the rise in short-term rates and a rapid build-up in the forward calendar of new bond issues caused bond rates to move up about 15 basis points, more than offsetting the decline in late February.

In equity markets, the calendar of new issues--which had totaled only $700 million in January--increased to more than $1.1 billion during February, partly in response to the sharp January rise in stock prices. A $1.7 billion calendar currently is slated for March (the largest monthly total in three years). Approximately two-thirds of the offerings in the first three months of 1976 will be for electric, gas, or telephone companies, somewhat more than their share of equity offerings in 1975. It might also be noted that a major bank equity offering is scheduled for March--believed to be the largest such issue in commercial bank history.

Sizable gains in stock prices were registered in February on the American Stock Exchange and, to a somewhat lesser extent, in the over-the-counter market, though prices, on balance, showed little change on the New York Stock Exchange. The Dow Jones Industrial Average, however, rose to its highest level in three years. Trading activity has continued at a heavy pace, with NYSE trading volume registering a record high of more than 44 million shares of February 20.

Government securities markets. After 6 weeks of little change, Treasury bill rates rose 1/4 to 1/2 of a percentage point in early March, responding to expectations of a less accommodative monetary policy. As market conditions subsequently eased somewhat, bill rates edged downward but remain approximately 10 to 25 basis points above their level at the time of the last FOMC meeting. Rates on Treasury coupon securities fell about 1/8 of a percentage point in the latter part of February. But--as in the corporate sector--this decline was reversed during early March when short-term rates moved up and a large rise in the leading economic indicators nurtured expectations of increasing credit demands.

The staff is still estimating that Treasury borrowing will amount to about $31-32 billion in the first half of 1976. By the time of the March FOMC meeting, approximately $22 billion of this total will have been raised, leaving only $9-10 billion for the remainder of the fiscal year. Future financing operations are expected to be about evenly divided between notes and bills.

Gross offerings of State and local government long-term debt totaled $2.6 billion in February, a record volume for the month and slightly above the average monthly volume of $2.5 billion for all of 1975. The large volume of new offerings--in conjunction with dealer efforts to reduce inventories--caused tax exempt yields to move up slightly in February. Since mid-February, the Bond Buyer index has risen 10 basis points to slightly above 7 per cent.

While new offerings of long-term municipal debt have been relatively heavy in the last several months, the volume of new short-term municipal issues has remained well below the levels of previous years. In February, short-term debt offerings amounted to only $1.5 billion, compared with $2.6 billion in February 1975. And over the past three months, short-term debt was 40 per cent below the amount sold during the same period a year ago. This sharp decline is due partly to the absence of New York City and New York State agencies from the municipal securities market. In addition, other State and local governmental units apparently have become reluctant to face repeated exposure in a market shaken by the New York City crisis. The State of Massachusetts, for example, has decided to discontinue the practice of rolling over a large volume of short-term notes and in early March sold a record $535 million of general obligation bonds in order to repay notes maturing over the next nine months.

Mortgage and consumer credit. Interest rates in the primary market for home mortgages have continued to edge down since the February FOMC meeting in response to the large supply of funds and in further adjustment to the generally reduced level of rates on market securities that had developed earlier. At selected savings and loan associations, the average interest rate on new commitments for 80 per cent conventional home mortgages was 8.77 per cent on March 5, down 9 basis points in the intra-meeting period and about 80 basis points below 1975's high.

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

End of period	Average rate on new commitments for 80% loans (Per cent)	Basis point change from previous week	Number of Federal Home Loan Bank Districts with funds in short supply
1975--High	9.59	--	10
Low	8.80	--	0
1976			
Feb. 6	8.86	- 4	0
13	8.83	- 3	0
20	8.81	- 2	0
27	8.75	- 6	0
Mar. 5	8.77	+ 2	0

SECONDARY HOME MORTGAGE MARKET ACTIVITY

	FNMA AUCTIONS OF FORWARD PURCHASE COMMITMENTS						Yields on GNMA guaranteed mortgage-backed securities for immediate delivery 2/
	Conventional			Govt.-underwritten			
	Amount ($ millions) Offered	Amount ($ millions) Accepted	Yield to FNMA 1/	Amount ($ millions) Offered	Amount ($ millions) Accepted	Yield to FNMA 1/	
1975--High	100	51	10.02	643	366	9.95	9.10
Low	10	9	8.96	25	18	8.78	8.01
1976							
Feb. 9	58	37	9.17	252	180	9.07	8.31
23	44	23	9.14	127	81	9.04	8.31
Mar. 8	75	45	9.15	300	172	9.06	8.31

1/ Average gross yields before deducting fee of 38 basis points for mortgage servicing. Data 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.

2/ Average net yields to investors assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the prevailing ceiling rate on such loans.

Savings and loan associations in recent months have supplied an unusually large share of total mortgage funds. Outstanding mortgage commitments at these institutions rose substantially in January, reaching a level of $18.6 billion.

Growth in outstanding consumer instalment credit accelerated in January, with automobile loans still the strongest component. Increases in the use of consumer credit were associated with a high level of retail sales, particularly auto sales, coupled with substantial improvements in underlying consumer financial positions. Such improvements--due to rising incomes and relatively high savings rates--have been reflected in lower debt-to-income ratios and a downtrend in delinquency rates on instalment loans. At the end of December, the delinquency rate at commercial banks of 2.47 per cent (seasonally adjusted) was one-half a percentage point below its March 1975 peak.

CONSUMER INSTALMENT CREDIT

	1974	1975	1975 QIII	1975 QIV	1975 Dec.	1976 Jan.
Total						
Change in outstandings						
$ Billion (SAAR)	9.5	3.6	9.1	10.1	10.7	15.5
Per cent	6.5	2.3	5.9	6.4	6.8	9.8
Bank share (%)	39.0	-1.8	35.3	33.7	34.7	16.1
Extended						
$ Billion (SAAR)	166.1	166.9	173.2	180.0	183.5	194.4
Bank share (%)	43.6	44.0	44.3	44.3	44.4	41.3
Repaid ($ billion)	156.3	163.1	164.1	169.9	172.8	178.9
Delinquency rate, banks (%, SA)	2.64	2.60	2.61	2.41	2.47	NA
Automobile Credit						
Change in outstanding $ bil. (SAAR)	0.8	1.5	3.9	5.3	6.5	5.9
Extended, $ billion (SAAR)	43.3	46.7	49.6	51.3	52.9	54.1
New-car finance rate (%, APR)						
Finance companies	12.61	13.12	13.12	13.17	13.19	13.21p
Banks (36-month loan)	10.97	11.36	11.31	11.24	11.25	11.21

p/ Preliminary.

March 10, 1976

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

		1975 YEAR	1975 H-1	1975 Q-3	1975 Q-4	1975 Dec.*	1976 Jan.*
1.	Trade balance	9,137	4,769	2,123	2,245	673	-380
2.	Merchandise exports	107,241	52,901	26,661	27,679	9,255	9,078
3.	Merchandise imports	98,104	48,132	24,538	25,434	8,582	9,458
4.	Net service transactions		2,985	2,521			
5.	Balance on goods and services 1/		7,754	4,644			
6.	Remittances and pensions		-910	-426			
7.	Gov't grants and capital, net		-2,276	-1,184			
8.	Bank-reported private capital, net change	-9,734	-9,541	3,184	-3,377	-2,990	106
9.	Claims on foreigners (inc.-)	(-12,888)	(-7,509)	(-803)	(-4,576)	(-1,967)	(-1,124)
10.	Short-term	-10,654	-6,750	-194	-3,710	-1,633	-1,205
11.	Long-term	-2,234	-759	-609	-866	-334	81
12.	Liabilities to foreigners (inc.+)	(3,154)	(-2,032)	(3,987)	(1,199)	(-1,023)	(1,230)
13.	Long-term liabilities	-429	-326	-114	11	89	101
14.	Short-term liabilities 2/	3,583	-1,706	4,101	1,188	-1,112	1,129
15.	to commercial banks abroad	(-587)	(-2,643)	(2,417)	(-361)	(-2,717)	(1,156)
16.	(to which liab. to branches) 3/	(231)	(-960)	(-43)	(1,234)	(-1,636)	(808)
17.	to other private foreigners	(1,819)	(248)	(713)	(858)	(528)	(84)
18.	to int'l regional organizations	(2,351)	(689)	(971)	(691)	(1,077)	(-111)
19.	Private transactions in securities, net	-2,485	-1,691	35	-829	-367	193
20.	U.S. purchases (-) of foreign securities	(-6,360)	(-3,022)	(-998)	(-2,340)	(-1,116)	(-322)
21.	to which: New bond issues	(-7,274)	(-3,363)	(-1,266)	(-2,645)	(-1,255)	(-546)
.	Foreign purch. (+) of U.S. corp. securities	(3,875)	(1,331)	(1,033)	(1,511)	(749)	(515)
.	Stocks	4,453	1,856	1,288	1,309	639	491
.	of which by OPEC	(1,493)	(643)	(360)	(490)	(238)	(174)[e]
25.	Bonds (includes U.S. Govt. agencies)	-578	-525	-255	202	110	24
26.	U.S. direct investment abroad, (inc.-)		-3,345	-668			
27.	Foreign direct investment in U.S., (inc.+)		1,019	-124			
28.	Nonbank-reported: liquid claims, (inc.-)		444	-548			
29.	other claims, (inc.-)		121	341			
30.	liabilities, (inc.+)		585	-450			
31.	Changes in liab. to foreign official agencies	2,644[4]	5,207	-4,537	1,974[4]	97[4]	637
32.	OPEC countries (inc.+) 3/	3,758	1,231	1,716	811	419	18[e]
33.	Other countries (inc.+)	-1,114[4]	3,976	-6,253	1,163[4]	-322[4]	619
34.	Changes in U.S. reserve assets (inc.-)	-607	-354	-342	89	364	-404
35.	Gold	--	--	--	--	--	--
36.	Special drawing rights	-66	-20	-25	-21	--	-45
37.	Reserve position in the IMF	-466	-314	-95	-57	21	-106
38.	Convertible currencies	-75	-20	-222	167	343	-253
39.	Errors and omissions		2,987	75			
	Memo:						
40.	Official settlements balance, S.A.		-4,853	4,879	-2,063		
41.	N.S.A.	-2,037	-3,504	2,954	-1,487	-461	-233
42.	O/S bal. excluding OPEC, S.A.		-3,622	6,595	-1,252		
	N.S.A.	1,721	-2,273	4,670	-676	-42	-215

*/ Not seasonally adjusted (except for merchandise trade data lines 1-3).
1/ Differs from "net exports" in the GNP account. The GNP basis excludes U.S. Government interest payments for foreigners from service imports and special military exports to Israel.
2/ Includes transactions in U.S. Treasury bonds and notes.
3/ Not seasonally adjusted. p = Preliminary
4/ Excludes a $250 million increase in liabilities resulting from the revaluation of System swap liabilities to Belgium and Switzerland.

Foreign exchange markets. In the month since the last Greenbook, the trade weighted value of the dollar has appreciated about 1-3/4 per cent to its highest level in two years. The main factor behind the dollar's recent strength seems to be the indications of a strong U.S. economic recovery. The market evidently thinks that the associated upward pressure on interest rates will tend to strengthen the dollar, more than the concomitant deterioration of the trade balance will weaken it. The value of the dollar has also been boosted lately by the special weakness of the pound and lira.

On March 4-8 the pound sterling declined a surprisingly sharp 4 per cent, falling below the $2.00 level to record depreciations against both the dollar and on a trade weighted basis. The pound had not displayed any obvious weakness since last November, The Italian lira fell 5-1/2 per cent during the past month, continuing the slide it began on January 21, when the Bank of Italy withdrew from the foreign exchange market. Since that date the lira has dropped about 13-1/2 per cent. The Italian currency recovered slightly near the end of February, following an announcement by the Italian Treasury Ministry that the discount rate would be raised from 7 to 8 per cent, that bank liquidity would be tightened, and that the official foreign exchange market would be reopened on March 1.

The Canadian dollar continued its upward movement during the past month, rising more than one per cent against the U.S. dollar. The recent strength of the Canadian currency is probably due to the rising trend of Canadian interest rates (including a discount rate increase from 9 to 9-1/2 per cent) relative to those in the U.S., and the not unrelated conversion into Canadian dollars of a large volume of bond issues denominated in U.S. dollars.

Although the dollar was very strong over the past month on a weighted average basis, the System sold a net $21 million equivalent of foreign currencies, as a result of net sales of $82 million equivalent of marks (when the mark appreciated temporarily against the dollar), and purchases of $33 million equivalent of Swiss francs and $28 million equivalent of Belgian francs (the last two for the purpose of repaying long outstanding swap debts).

Euro-dollar interest rates rose about 1/2 of a percentage point on average during the period, following the general trend of U.S. interest rates.

Gold rose about $3.80 an ounce during the period, possibly due to fears that the tense political situation in southern Africa might eventually lead to an interruption of South Africa's gold production. The gold price is presently $133.30.

International financial markets. The amount of publicized medium-term Euro-currency bank credits arranged in the fourth quarter of 1975 was $7.1 billion (according to World Bank compilations), sharply higher than in the third quarter. This was the largest quarterly total since the first quarter of 1974 when the oil price rise and the prospect of large current account deficits led several developed countries to borrow massively. Market conditions in the fourth quarter were somewhat more favorable to borrowers than in the third quarter because of declines of about 1/2 percentage point in quarterly average 3- and 6-month Euro-dollar rates and a slight reduction in spreads between deposit and lending rates on loans to high-quality borrowers. Spreads generally ranged from 1-1/4 per cent

Borrowing in Selected International Financial Markets
(in millions of dollars)

	1974 Year	1975 Year	1975 1st H	1975 Q-3	1975 Q-4	1976[4/] J-F
I. Publicized Euro-credits[1/]: total	28,624	19,531	7,737	4,739	7,054	2,862
Developed countries[2/]	16,915	4,627	1,916	1,260	1,452	1,280
France	3,304	546	377	124	45	0
Italy	2,240	105	10	0	95	359
United Kingdom	5,897	560	238	290	32	140
United States	1,439	494	316	138	40	175
Other	4,035	2,922	975	708	1,240	606
Oil-exporting countries[2/]	773	3,137	1,372	770	995	170
Algeria	0	500	100	0	400	0
Indonesia	349	1,537	992	0	545	0
Iraq	0	500	0	500	0	0
Other	424	600	280	270	50	170
Other developing countries[2/]	8,833	8,393	3,062	2,468	2,863	1,272
Brazil	1,668	2,069	687	738	644	300
Mexico	1,478	2,159	604	505	1,050	255
Philippines	883	213	85	0	128	532
Other	3,635	3,021	1,347	901	773	135
Other countries and international institutions	2,103	3,374	1,388	241	1,745	140
II. Euro-bonds: total	4,515	10,353	5,585	2,454	2,314	1,944
By borrower:						
Developed countries[2/]	2,293	8,054	4,324	1,674	2,056	n.a.
Developing countries[2/]	46	464	325	139	0	n.a.
Int'l. inst. (mainly) and other	2,176	1,835	936	641	258	264
By currency:						
U.S. dollar	3,079	4,883	1,979	1,574	1,330	1,260
German mark	644	2,966	2,327	399	240	171
Other	788	2,504	1,279	481	744	513
III. Foreign Bonds: total	6,573	12,251	5,521	2,609	4,121	2,299
By borrower:						
Developed countries[2/]	2,937	7,594	3,459	1,633	2,502	n.a.
Developing countries[2/]	817	484	346	70	68	n.a.
Int'l. inst. (mainly) and other	2,813	4,173	1,716	906	1,551	463
By market country:						
United States[3/]	2,373	7,175	3,321	1,267	2,587	1,762
Switzerland	986	3,374	1,369	857	1,148	)
Other OECD countries	642	1,517	817	352	348	) 537
OPEC countries	2,572	185	14	133	38	)

1/ Credits of over one year maturity. Data are based on completions of loan arrangements and not on drawdowns. 2/ IBRD members only. 3/ Balance of payments basis. 4/ Data may not be fully comparable with earlier periods because of different source. (Source reference continued on next page.)

upward to about 2 per cent; in contrast, in early 1974 spreads on loans to prime borrowers were as low as 1/4 or 3/8 per cent. The average maturity of loans did not rise significantly further in the fourth quarter, but in January it moved up to about 6 years (Bank of England estimate) compared with a recent low of 4.7 years in May 1975.

The higher level of loans to developed countries in the fourth quarter of 1975 largely reflected government borrowing by Austria, Denmark and South Africa in addition to increased borrowing by Japanese companies. For 1975 as a whole, borrowers in these four countries, Finland, and Ireland arranged $325-350 million of loans per country, compared with somewhat larger amounts arranged by French, U.K. and U.S. borrowers. (See table.) Of the oil-exporting countries, Algeria borrowed $400 million and Indonesia $545 million in the fourth quarter, bringing the yearly total for the oil-exporting group to $3.1 billion.

Credits to Mexico increased sharply further in the fourth quarter and those to Brazil and Spain continued to be large. For the year, publicized credits to Mexico and Brazil exceeded $2 billion each, and those two countries and Spain accounted for over 60 per cent of the $8.4 billion of credits arranged by non-oil developing countries last year. There was also a surge, to $1.7 billion, in loans to non-members of the IBRD in the fourth quarter, reflecting new loans to the Soviet Union, Comecon institutions, and Hong Kong. For the year 1975 Eastern European countries and Comecon institutions borrowed $2.1 billion and Hong Kong borrowers $0.6 billion.

(continuation of reference to table sources): Sources: IBRD for 1974-75, Morgan Guaranty Trust Co. for 1976 and U.S. sources for bond issues in the United States.

The first two months of 1976 saw the first large loan to an Italian borrower in almost two years ($300 million to Fiat), and over $500 million of loans to Philippine borrowers. Mexican and Brazilian borrowing continued to be heavy, but Brazilian officials indicated that Brazil's recourse to the market this year will be substantially less than in 1975. Iran is expected to be an important borrower on the market in 1976; Iranian borrowers raised $160 million in January-February, and completed and planned borrowings by Iran are reported to exceed $700 million already. The European Community plans to raise $1 billion in various markets in coming weeks for relending to Italy, and some of these funds will probably be raised in the Euro-currency bank loan market.

New issues of <u>foreign bonds and Euro-bonds</u> taken together also rose substantially from $5.1 billion in the third quarter of 1975 to $6.4 billion in the fourth quarter. All of the increase was in <u>foreign bonds</u>. New foreign issues in the United States doubled to $2.6 billion for the quarter, because of higher flotations by Canadian borrowers and international organizations, and increased notably in Switzerland as well. For the year, foreign bond issues in all markets totaling $12.3 billion were nearly twice as large as in 1974; issues in the United States and Switzerland were more than three times larger than in 1974, but placements in OPEC countries (i.e., with OPEC monetary authorities) nearly disappeared in 1975. In the first two months of 1976 new foreign issues continued to run at a high level in the United States, but dropped off elsewhere.

<u>Euro-bond</u> issues of $2.3 billion in the fourth quarter were about the same as in the preceding three quarters. Canadian borrowing in this market has also been increasing -- issues of over $600 million by Canadian borrowers in the fourth quarter compared with $80 million per quarter in the first half of 1975. Nearly one-half of the Canadian issues in the fourth quarter were denominated in Canadian dollars, which was the second most widely used currency in that quarter. The German Central Capital Markets Committee lifted its prohibition on mark-denominated issues by non-German borrowers effective November 1, but it is expected that mark issues will be held below the levels of the first half of 1975. U.S. dollar issues were 57 per cent of the total in the fourth quarter compared with 64 per cent in the third quarter and 35 per cent in the first half. New issue volume rose markedly in January but tapered off in February. Part of the forthcoming EC borrowing for Italy is expected to be on the Euro-bond market.

<u>U.S. International Transactions</u>. in January were marked by a large increase in seasonally adjusted fuel imports and the appearance of a substantial trade deficit, a small inflow of bank-reported capital, and a cessation of the fourth quarter outflow on net private transactions in securities.

<u>U.S. Merchandise Trade</u>. U.S. imports in January were about \$12 billion higher than the fourth quarter of 1975 at an annual rate; exports declined about \$2 billion. Together, these shifts produced a merchandise trade deficit for the month of \$4.6 billion at a seasonally adjusted annual rate (balance-of-payments basis), compared with a surplus of \$9 billion in the fourth quarter of 1975.

U.S. Merchandise Trade, Balance of Payments Basis
(billions of dollars, seasonally adjusted annual rates)

	1975 Year	1975 1Q^r	1975 2Q^r	1975 3Q^r	1975 4Q^r	1975 Dec.^r	1976 Jan.
EXPORTS	107.2^r	108.2	103.4	106.6	110.7	111.1	108.9
Agric.	22.2^r	24.3	19.5	22.3	22.9	21.0	23.4
Nonagric.	85.0^r	83.9	83.9	84.3	87.8	90.1	85.6
IMPORTS	98.1	102.2	90.3	98.2	101.7	103.0	113.5
Fuels	28.4	27.9	24.4	30.1	31.1	27.9	36.8
Nonfuels	69.7	74.3	65.9	68.1	70.6	75.1	76.7
TOTAL BALANCE	+9.1	+6.0	+13.1	+8.5	+9.0	+8.1	-4.6
BALANCE excl. fuel imp. & agr. exp.	+15.3	+9.6	+18.0	+16.2	+17.2	+15.0	+8.9

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

While an increase in U.S. imports was foreseen, largely as a result of rising U.S. aggregate income, the $5.7 billion increase in fuel imports from $31.1 billion in the fourth quarter to $36.8 billion in January was unexpected. Much of the increase seems to be associated with difficulties of seasonal adjustment; we believe that a more appropriate adjustment would result in a reduction of as much as $4 billion in reported imports. This would leave an increase in fuel imports of approximately the size expected on the basis of increasing income and oil price. The unit value of fuel imports rose from $11.79 in December to $11.83 in January in a continued lagged response to the October 1975 OPEC price increase; unit values are expected to rise to about $12.30 by mid-1976.

Imports other than fuels rose in January to a rate of $76.7 billion. A $3.4 billion increase over the fourth quarter was reported for imports of automotive equipment; this was partly offset by a decline in imports of capital goods of $.8 billion in January from a fourth quarter rate of $10.4 billion, while other accounts changed little. The rise in automobile imports represented a $.8 billion increase over fourth quarter imports of U.S.-type cars made in Canada and a $2.2 billion increase in imports of other foreign cars. The increase in foreign car imports represents an unusually strong response to rising car sales within the United States and results partly from foreign car dealers desires to build up their inventories from the unusually low level of late 1975 and partly from anticipation of further sales increases.

The \$1.8 billion January decline in exports, compared with fourth quarter 1975, is primarily the result of the slow improvement of the low level of demand abroad. The appreciation of the dollar since early 1975 is also retarding export growth. U.S. nonagricultural exports declined \$2.2 billion in January from the fourth quarter rate. The drop was made up of small declines in all categories, of which the largest was the decline of \$1.7 billion in exports of machinery. New export orders for durable goods were the same in January as in December, and only marginally above levels for the fourth quarter of 1975. Unfilled export orders fell slightly in January.

Agricultural exports increased by \$.5 billion over the fourth quarter rate of \$22.9 billion. Over the past several months, increase in the volume of agricultural exports has offset the continued decline in agricultural prices that began in late 1975.

Bank-reported private capital transactions shifted from an outflow of \$3 billion in December to a small net inflow in January. Claims on foreigners rose by \$1.1 billion in January, compared with an increase of \$2 billion in the fourth quarter. Liabilities to foreigners rose by \$1.2 billion in January after a fall by \$1 billion in December. Of this, short-term liabilities to branches rose by \$.8 billion in January compared with an increase of \$1.6 billion in December; much of the January increase may be due to the influence of week-end transactions.

<u>Transactions in securities</u> (other than U.S. Treasury issues) produced an inflow of $.2 billion in January compared with an outflow of $.4 billion in December. Foreign purchases of U.S. corporate stocks were about $.5 billion, about unchanged from the high monthly average rate of the fourth quarter.

U.S. investor purchases of foreign bond issues in January were a little lower than the recent average at $550 million, but in the first quarter as a whole are expected to total about $2 billion. This is lower than the $2.6 billion rate of the fourth quarter of last year, but higher than the $1.8 billion quarterly average for 1975. Preliminary data for February indicate that $1.2 billion in new bond issues were taken, largely accounted for by a $855 million Quebec Hydro issue; this is presently expected to drop off sharply to $200 million in March.

<u>U.S. liabilities to foreign official agencies</u> increased by $600 million in January compared with a $97 million increase in December. Liabilities to OPEC members increased by $18 million (estimated) in January, compared with an increase of about $400 million in December; liabilities to other countries increased by about $600 million in January, compared with an increase of $22 million in December. A substantial portion of the increase in liabilities consisted of an increase in liabilities to the United Kingdom associated with the U.K. drawing on the I.M.F. Oil Facility. Adjusting for this, U.S. liabilities would show a change in line with intervention activities in January.

Price Developments in Major Foreign Industrial Countries. In recent months the moderating trend in inflation rates prevalent since late 1974 in the major industrial countries has become less pronounced. (See Table I). Recent trends, as well as year-end forecasts, point to changes in price performance this year that are neither so large nor so uniformly favorable as in 1975.

Japan and Italy recorded the sharpest declines in inflation rates in 1975 compared with 1974. In the fourth quarter of 1975 annual rates of increase in consumer prices (quarter-over-quarter) in both countries were half as high as a year earlier. However, in 1976 the inflation rate is expected to remain around 8-9 per cent in Japan, and to rise above recent rates of 12 per cent in Italy. In France and Canada consumer prices advanced only slightly less in the second half of the year than in the first. A small improvement is forecast in Canada for 1976, but some deterioration is expected for France. In Germany, where consumer prices increased by 5.9 per cent in 1974, and 5.4 per cent in 1975, a further small slowing is expected for 1976. While rates of increase in prices in the United Kingdom fell steadily from very high levels through the second half of 1975, recent developments point to a halting of this trend.

In the smaller European countries, consumer prices generally did not increase as much as in the large countries in 1974; except for Belgium and Denmark (both near 16 per cent), most increases were in the 9-11 per cent range. The reduction in inflation rates in 1975 was correspondingly slight, with rates in most countries still close to 10 per cent. A striking exception was Switzerland, where consumer prices rose less than 4 per cent in 1975, reflecting the appreciation of the Swiss franc and a sharp (7 per cent) decline in GNP.

Table I. Changes in Consumer and Wholesale Prices
in Major Industrial Countries
1974 - present
(Not Seasonally Adjusted)

Country	Percentage Change December-December 1974	1975	Annual Rate of Change Quarter over previous Quarter (per cent) 1974 Q4	1975 Q1	Q2	Q3	Q4	Latest 3 Months	Latest Month
			CONSUMER PRICES						
Germany	5.9	5.4	5.6	7.7	7.8	3.1	3.6	5.6	February
Japan	21.5	8.2	18.1	6.0	17.1	3.7	9.8	7.0	February
Canada	12.5	9.5	11.5	9.0	9.0	14.3	8.5	7.7	January
France	15.6	9.6	13.1	11.6	10.1	9.1	9.0	9.1	January
Italy	25.0	10.8	27.7	14.2	11.7	7.7	12.1	12.9	January
United Kingdom	19.2	24.9	19.2	26.4	43.5	18.8	14.5	13.7	January
United States	12.2	7.0	12.2	7.5	6.4	8.8	6.5	6.3	January
			WHOLESALE PRICES						
Germany	14.5	4.3	6.9	13.8	1.9	0.2	2.9	5.7	January
Japan	17.0	1.1	4.8	-2.4	-0.6	2.2	4.7	5.2	January
Canada	16.9	3.5	13.2	-2.1	1.8	11.5	4.0	4.0	December
France	13.9	-4.4	-8.4	-12.5	-13.4	1.1	-1.2	-1.2	December
Italy	33.7	4.9	11.7	1.4	0.4	3.6	10.2	12.3	January
United Kingdom	28.3	20.2	24.5	30.0	25.4	16.1	12.5	14.3	January
United States	20.9	4.2	14.7	-0.1	4.4	8.8	4.4	2.0	February

Definitions and Sources: All countries except France and United Kingdom: general wholesale price index; France: industrial products; United Kingdom: manufactured products, home market sales. Various national sources.

Developments in aggregate demand, conditions in specific markets, and price and wage policies have influenced consumer prices directly and through movements in the prices of various inputs. World commodity price developments have been important in both the slowing of inflation in 1975 and the expected weakening of this trend in 1976. The Economist's index of world commodity prices (expressed in dollars; excluding fuel) fell by 14 per cent in the first half of 1975, and then rose by about 3 per cent in the second half. However, this index increased by 6 per cent in the first two months of 1976. With the economic recovery now underway in the industrial countries, commodity prices are expected to rise further. The $1 per barrel price increase for OPEC oil in October, and a prospective further increase in the second half of 1976, will reinforce this trend.

The easing of commodity prices (expressed in dollars) contributed to strikingly low increases in wholesale prices in 1975, except in the United Kingdom, where exchange rate movements counteracted this trend. However, there were signs in some of the countries of an acceleration in wholesale prices over the course of the year.

While prices of material inputs are expected to affect inflation rates less favorably in 1976 than in 1975, the opposite may be true of labor costs. In the year to October 1975, hourly wage rates in manufacturing rose about 25 per cent in Italy and the United Kingdom and 16 per cent in France. Hourly earnings increased 13 per cent in Canada and 9 per cent in Germany for the same twelve months, while monthly earnings rose 13 per cent in Japan. The effect of these increases on unit labor costs was compounded in most cases by steady or declining productivity as the recession deepened. Wage controls imposed in the United Kingdom in August, and in Canada in October have slowed the rise in wages in both countries. In Germany, Japan, and Italy, wage increases are expected to be somewhat smaller in 1976 than in 1975. The outlook in France is less certain. In most countries, the improved price performance in 1975 and continued high levels of unemployment should exert some moderating influence on wages. Increases in activity that result in gains in productivity will further tend to dampen increases in unit labor costs. On the other hand, efforts to restore profit margins, which were squeezed in many countries during the past year, may be a source of upward pressure on prices.

Price increases in Japan in 1975 were much smaller than in 1974. However, wholesale prices, after falling in the first half of the year, started to rise subsequently. Consumer prices have risen sharply in recent months, due partially to upward movements in government regulated prices (railway fares and tobacco). Along with weak aggregate demand, a relatively moderate wage boost of 13 per cent in the 1975 Spring wage negotiations (compared with a 34 per cent rise the year before) contributed to the improved price performance in 1975. The corresponding wage increase in 1976 is expected to be about 10 per cent. With only a gradual recovery in activity and less favorable developments in wholesale and commodity prices, the inflation rate in 1976 is expected to remain near 9 per cent.

Canada experienced a modest decline in the quarter-to-quarter rates of increase of consumer prices during the first half of 1975 followed by a sharp acceleration in both consumer and wholesale prices in the third quarter. Consequently, in October the government announced a three-year program of wage and price restraint designed to hold wage increases to 8-12 per cent during the first year, with price increases limited to increases in costs. The Anti-Inflation Board, which reviews wage proposals and agreements, has on average held wage increases to 16 per cent in the cases on which it has ruled. Food prices -- which played a large role in the third quarter deterioration -- have since risen only slowly, contributing to a marked deceleration in consumer prices. In 1976, the advance in consumer prices in expected to be somewhat less than in 1975.

In Germany, where consumer price increases already were relatively low, there was continued improvement over the course of 1975. Annual rates of increase in producer prices and wholesale prices fell steadily during the first three quarters of the year, but have moved upwards in recent months as firms continue to restore profit margins. Unit labor costs in November were only 2 per cent higher than a year earlier, having risen by 5 per cent in the first half and then declined. Current wage negotiations, yielding settlements of 6-7 per cent, and expected improvements in productivity indicate only slight pressure on prices from unit labor costs. Forecasts of the change in consumer prices over 1976 fall in the 4.5 - 5.5 per cent range.

Consumer prices in France rose considerably less in 1975 than in 1974. However, the trend has stabilized with annual rates of increase (quarter-over-quarter) at about 9 per cent since mid-1975. Reflecting in part movements in the French franc, wholesale prices of industrial goods (comprising semi-manufactures and industrial raw materials) fell by 9.5 per cent in the year to July, and then remained stable. A policy of industrial price controls in effect since late 1974 was extended for six months in October 1975, and widened to include many retail prices. The policy primarily restricts profit margins, with no control on wages. Unit labor costs in manufacturing were climbing at annual rates near 20 per cent (quarter-over-quarter) in the first three quarters of the year, but have apparently decelerated since then. While wage demands may moderate and productivity may rise in 1976, deferred increases in some government controlled prices (fuel, public transport, and public utilities), less favorable exchange rate movements, the prospective acceleration of material input prices, and accumulated pressure on profit margins point to a somewhat higher rate of inflation in 1976.

Though Italy experienced a significantly lower increase in prices in 1975 than in 1974, rates of increase (quarter-over-quarter) began to rise again in the third and fourth quarters respectively. Wage and productivity developments led to a 40 per cent increase in unit labor costs over the last half of 1974 and first half of 1975, and profit margins have not yet recovered from this. With the 14 per cent depreciation of the lira since January 16, and the prospect of rising world commodity prices, a substantial rise in the Italian inflation rate is likely. Current wage negotiations covering about four million workers are expected to produce an increase in wages of about 10-14 per cent. With a weak recovery forecast, the prospect of major productivity increases that would alleviate the pressure on unit labor costs is small.

In contrast to other countries, price performance in the United Kingdom in 1975 was worse than in 1974. However, in the last half of 1975 rates of increase of retail prices and wholesale prices of manufactured goods declined substantially. Government policies played a key role in this pattern. Increased taxes and reduced subsidies pushed up prices in the first half of the year, while an anti-inflation program based on a £6 per week limit in pay raises, in conjunction with rising unemployment, has been effective in slowing down wage increases since August. (Basic weekly rates increased by 9 per cent between August 1 and January 31, 1976, compared with 16 per cent for the previous six months). The prospects for further improvement in price performance over the course of 1976 are dimmed by uncertainties about wage developments upon the scheduled expiration of the wage controls after July 1976, the recent sharp acceleration in prices of basic materials and fuels purchased by manufacturing industry, and the sharp decline in the pound since February. On the other hand, continued weakness in economic activity and substantial excess capacity may restrain further upward pressure on wages and prices, and a recently announced price restraint program setting a 5 per cent limit on increases in the prices of certain consumer goods (selected by industry) for the six months to August should also have a positive effect. If wage increases remain moderate, the rate of increase in retail prices is expected to stay at about 14 per cent over the year, above the 10 per cent target set by the British government.