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CONFIDENTIAL (FR)

April 13, 1977

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

TABLE OF CONTENTS Continued

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 rate)		
Civilian labor force	Mar.	4-1-77	96.5	4.9	2.4	2.9
Unemployment rate (%)1/	Mar.	4-1-77	7.3	7.5	7.8	7.5
Insured unemployment rate (%)1/	Mar.	4-1-77	3.9	4.3	4.6	4.2
Nonfarm employment, payroll (mil.)	Mar.	4-1-77	81.3	7.2	4.8	2.9
Manufacturing	Mar.	4-1-77	19.4	10.4	6.0	2.6
Nonmanufacturing	Mar.	4-1-77	61.9	6.3	4.4	3.1
Private nonfarm:						
Average weekly hours (hr.)1/	Mar.	4-1-77	36.2	36.2	36.2	36.2
Hourly earnings ($)1/	Mar.	4-1-77	5.12	5.09	5.02	4.77
Manufacturing:						
Average weekly hours (hr.)1/	Mar.	4-1-77	40.3	40.2	40.0	40.3
Unit labor cost (1967=100)	Feb.	3-29-77	147.6	4.1	1.4	5.4
Industrial production (1967=100)	Feb.	3-15-77	133.2	11.8	4.2	4.6
Consumer goods	Feb.	3-15-77	140.9	6.0	5.2	4.4
Business equipment	Feb.	3-15-77	143.2	11.8	8.6	8.0
Defense & space equipment	Feb.	3-15-77	79.6	32.5	8.7	2.6
Materials	Feb.	3-15-77	131.7	13.8	-.6	3.5
Consumer prices (1967=100)	Feb.	3-18-77	177.3	11.6	8.8	6.0
Food	Feb.	3-18-77	187.1	23.5	11.9	4.2
Commodities except food	Feb.	3-18-77	162.7	8.2	7.8	5.9
Services	Feb.	3-18-77	188.4	7.7	7.8	7.2
olesale prices (1967=100)	Mar.	4-7-77	192.2	12.0	9.8	6.8
ndustrial commodities	Mar.	4-7-77	191.7	9.5	7.7	7.1
arm products & foods & feeds	Mar.	4-7-77	192.2	25.5	18.1	5.9
Personal income ($ bil.)2/	Feb.	3-17-77	1458.0	14.2	10.3	9.5
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	Feb.	3-30-77	55.2	.5	5.3	15.2
Capital goods industries	Feb.	3-30-77	16.2	-1.4	1.1	15.2
Nondefense	Feb.	3-30-77	14.4	-2.5	11.9	21.1
Defense	Feb.	3-30-77	1.8	7.5	-42.7	-16.8
Inventories to sales ratio:1/						
Manufacturing and trade, total	Jan.	4-11-77	1.49	1.46	1.55	1.51
Manufacturing	Feb.	3-30-77	1.58	1.62	1.66	1.64
Trade	Jan.	4-11-77	1.36	1.33	1.38	1.35
Ratio: Mfrs.' durable goods inventories to unfilled orders1/	Feb.	3-30-77	.633	.631	.641	.618
Retail sales, total ($ bil.)	Mar.	4-11-77	59.6	2.4	2.9	11.6
GAF	Mar.	4-11-77	14.4	2.3	1.5	7.3
Auto sales, total (mil. units)2/	Mar.	4-7-77	12.2	13.5	11.3	17.6
Domestic models	Mar.	4-7-77	10.1	14.3	8.5	13.4
Foreign models	Mar.	4-7-77	2.0	9.8	28.2	44.2
Housing starts, private (thous.)2/	Feb.	3-16-77	1,791	29.2	5.0	21.3
Leading indicators (1967=100)	Feb.	3-29-77	127.5	.4	.1	4.5

1/ Actual data used in lieu of per cent changes for earlier periods.

t annual rate.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Incoming data reflect considerable vigor in economic activity. There were further strong gains in industrial production and consumption in March and these have supported sizable employment gains. The February and March advances in activity were partly a make-up of earlier weather related declines. Price increases have been larger so far this year. Food and fuel prices have risen very sharply and increases for other goods and services have been somewhat larger than last year.

Industrial production is estimated to have increased almost 1-1/2 per cent in March, following the 1 per cent gain in February. Gains were widespread in March, with an exceptionally large increase registered in the motor vehicle industry where auto assemblies were up 20 per cent. Output of other consumer durable goods also advanced appreciably. Business equipment--especially machinery and trucks--advanced strongly. Production of both durable and nondurable materials also increased in March; iron and steel production is estimated to have risen about 3-1/2 per cent. In the first quarter, industrial output is estimated to have advanced at a 5-1/4 per cent annual rate.

Reflecting these gains, capacity utilization in manufacturing increased by about one percentage point in March to nearly 82 per

CHANGES IN PAYROLL EMPLOYMENT AND WEEKLY HOURS
(Thousands of jobs; seasonally adjusted)

	Apr. 76 to Oct. 76	Oct. 76 to Mar. 77	Recent Months: Dec. 76 to Jan. 77	Recent Months: Jan. 77 to Feb. 77	Recent Months: Feb. 77 to Mar. 77
	Average monthly change				
Payroll employment					
Total	85	297	217	255	488
(Total, strike adjusted)	(100)	(276)	(217)	(261)	(511)
Manufacturing	-11	88	116	6	166
Durable	0	69	78	-10	135
Nondurable	-12	20	38	16	31
Construction	-6	30	-44	75	95
Trade	27	71	83	105	91
Services and finance	59	81	94	73	76
State and local government	13	7	-38	-20	23

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1976 QI	1976 QII	1976 QIII	1976 QIV	1977 QI	1976 Mar.	1977 Feb.	1977 Mar.
Total, 16 years and older	7.6	7.5	7.8	7.9	7.4	7.5	7.5	7.3
Men, 20 years and older	5.8	5.7	6.0	6.2	5.6	5.6	5.8	5.4
Women, 20 years and older	7.4	7.1	7.7	7.5	7.1	7.2	7.2	7.2
Teenagers	19.2	18.7	18.9	19.1	18.7	19.0	18.5	18.8
Household heads	5.1	4.9	5.3	5.3	4.8	5.0	4.9	4.6
Married men	4.1	4.1	4.4	4.4	3.9	4.1	4.1	3.7
Fulltime workers	7.1	7.0	7.4	7.6	6.7	7.0	6.9	6.7
Total, alternative seasonal adjustment method								
All additive factors	7.8	7.4	7.7	7.8	7.5	7.6	7.7	7.4
1975 Factors	7.8	7.5	7.6	7.9	7.6	7.7	7.6	7.5

cent--a level still 6 percentage points under the peak rate of 1973. In the more cyclically volatile materials sector--the area of tightest supply constraints in 1973--operating rates were at 81 per cent. The materials sector is operating at about 10 percentage points below the average levels of past cyclical peaks.

Labor market developments also indicate strengthening aggregate activity. In March nonagricultural payroll employment rose about a half million--well over the 275,000 average monthly gain (strike adjusted) since the fall of 1976. Of the 1.5 million jobs that have been added to nonfarm payrolls during the past five months, almost half have come in the past two months. March employment gains were widespread by industry, paced by a strong advance in manufacturing, which increased by over 165,000 jobs. Gains were especially strong in the transportation equipment and metals industries.

Despite the sharp gains of the past two months, nonfarm payroll employment in March was only 3.2 per cent above its pre-recession peak of two and one-half years ago. In manufacturing--where the recession declines were severe--employment remained almost 5 per cent below its pre-recession peak. Lagging employment is most notable in metals and electrical equipment and in the apparel and textile industries. In addition, employment in contract construction remained 9-1/2 per cent below its earlier peak.

PAYROLL EMPLOYMENT: PRE-RECESSION PEAK AND CURRENT LEVELS
(Thousands of jobs; seasonally adjusted)

Selected Industry	Pre-recession Peak	(date)	March 1977	Per Cent Difference
Total nonfarm	78,774	(09/1974)	81,304	3.2
Goods-producing	25,096	(12/1973)	23,955	-4.5
Contract construction	4,121	(02/1974)	3,731	-9.5
Manufacturing	20,359	(12/1973)	19,383	-4.8
Durable goods	12,092	(12/1973)	11,361	-6.0
Primary metals	1,357	(12/1973)	1,191	-12.2
Fabricated metals	1,533	(12/1973)	1,432	-6.6
Machinery ex. electrical	2,252	(10/1974)	2,135	-5.2
Electrical equipment	2,083	(12/1973)	1,908	-8.4
Transportation equipment	1,912	(04/1973)	1,807	-5.5
Nondurable goods	8,268	(01/1974)	8,022	-3.0
Food	1,739	(03/1974)	1,722	-1.0
Textiles	1,031	(03/1973)	971	-5.8
Apparel	1,423	(04/1973)	1,284	-9.8
Printing	1,117	(07/1974)	1,096	-1.9
Chemicals	1,066	(09/1974)	1,046	-1.9
Transportation and public utilities	4,716	(02/1974)	4,579	-2.9
Wholesale and retail trade	17,142	(10/1974)	18,177	6.0
Finance, insurance, real estate	4,226	(11/1974)	4,458	5.5
Services	13,753	(09/1974) 1/	15,124	10.0
Government	14,307	(09/1974) 1/	15,011	4.9

1/ Arbitrary reference peak used due to absence of distinguishable peak in series.

PERSONAL INCOME
(Per cent change from preceding comparable period at compound annual rate; based on seasonally adjusted data)

	1976 QI	1976 QII	1976 QIII	1976 QIV	1977 Jan.1/	1977 Feb.1/
Current Dollar						
Total personal income	10.1	9.5	7.3	10.7	1.2	14.2
Nonagricultural income	12.6	7.8	9.2	11.2	1.6	15.1
Wage and salary disbursements	12.6	9.4	7.8	10.7	4.8	16.6
Private	14.1	10.1	8.2	10.5	4.6	19.6
Manufacturing	18.0	10.9	5.7	8.6	5.8	17.9
Government	7.2	7.1	6.7	11.5	5.4	5.4
Nonwage income	7.2	9.3	6.3	10.7	-1.3	10.8
Transfer payments	14.1	-2.3	10.9	9.0	8.5	16.9
Dividends	11.7	16.7	12.1	28.6	-103.7	19.5
Constant Dollars2/						
Total personal income	4.7	4.4	1.5	6.1	-8.4	2.6
Nonagricultural income	7.1	2.8	3.3	6.6	-8.0	3.5
Wage and salary disbursements	7.0	4.4	2.0	6.1	-4.8	4.9
Memorandum:						
Real disposable per capita income	5.4	4.0	-0.1	2.5	--	--

1/ Per cent change at annual rate, not compounded.
2/ Deflated by CPI, seasonally adjusted.

The civilian labor force increased by 400,000 in March and as a result, the March unemployment rate only returned to the January level of 7.3 per cent. In February, the rate had risen to 7.5 per cent due to weather and energy-related layoffs. The decline of 120,000 in unemployment in March occurred almost wholly among adult men, and lower jobless rates were concentrated among groups with strong labor force attachment--household heads, married men, and full-time workers.

The recent strength of employment growth has stimulated robust gains in income. From last September through February personal income rose at almost a 12 per cent annual rate. The sharp advance in employment and hours coupled with a further rise in average hourly earnings indicates another large gain in wages and salaries in March.

Consumption demand has been a key element in the recent strengthening of activity. Total unit auto sales surged to a 12.2 million unit annual rate in March--up 13.5 per cent from February and more than a fifth above the strike-affected fourth quarter rate. This was the fastest selling pace since the spring of 1973 and was sparked by gains in sales of intermediate and large-size cars. Sales of imports were at a record 2.0 million unit annual rate in March. The recent increase in auto sales in part reflects a rebound following a period when sales were apparently depressed by inventory shortages and weather difficulties. More fundamental sources of support, however, include renewed consumer confidence and a strong underlying demand from postponed replacement of existing cars.

Although a boom in auto sales sometimes occurs at the expense of other purchases, this has not been the case in the last two months. According to the advance estimate, retail sales exclud- ing autos and nonconsumer items advanced 1.7 per cent in March, following an upward revised 2.2 per cent gain in February. The March rise was widespread by type of store; very strong gains continued in furniture and appliances, and food and general merchandise sales also registered sizable increases. Nonauto retail sales have risen at over a 13 per cent annual rate during the past six months.

Recent evidence points to faster inventory accumulation, following the apparent correction of overhangs in the fourth quarter. The book value of manufacturing inventories rose at an $11.4 billion annual rate in January and February--up from the $7.6 billion fourth quarter rate of accumulation. Most of the recent strength has been in the durable goods sector; however, February data indicate some building of nondurable inventories as well. The February gain was concentrated in work-in-process stocks, which usually rise as out- put increases. With shipments strong, inventory/sales ratios in

RETAIL SALES
(Per cent change from preceding comparable period; based on seasonally adjusted data)

	1976	1977			
	QIV	QI	Jan.	Feb.	Mar.
Total Sales	3.5	3.7	-2.1	2.7	2.4
(Real)[1/]	2.6	n.a.	-3.0	1.4	n.a.
Total less auto and nonconsumption items	3.2	2.0	-1.6	2.2	1.7
GAF	4.3	.4	-3.3	2.6	2.3
Total Sales					
Durable	3.9	7.0	-3.6	3.8	4.0
Auto	4.3	10.8	-3.4	3.1	5.0
Furniture and appliances	4.1	3.6	-4.1	5.9	8.1
Nondurable	3.3	2.1	-1.4	2.1	1.6
Apparel	1.8	.1	-3.8	4.4	-.2
Food	2.3	.9	-2.6	2.2	1.5
General merchandise	5.1	-.5	-3.0	1.2	1.4
Gasoline	4.8	2.2	-.3	-1.0	.7

1/ Deflated by All commodities CPI, seasonally adjusted.

AUTO SALES
(Millions of units; seasonally adjusted)

	1976			1977			
	QII	QIII	QIV	QI	Jan.	Feb.	Mar.
Total	10.3	10.2	10.0	11.1	10.5	10.7	12.2[1/]
Imports	1.4	1.6	1.7	1.8	1.7	1.8	2.0
Domestic[1/]	8.9	8.6	8.3	9.3	8.8	8.9	10.1
Large	5.4	4.9	5.2	6.2	5.9	5.9	6.8
Small	3.4	3.7	3.1	3.1	3.0	3.1	3.3

1/ Parts may not add to the total because of rounding.

BUSINESS INVENTORIES
(Change at annual rates in seasonally adjusted book values; billions of dollars)

	1975		1976				1977	
	QIII	QIV	QI	QII	QIII	QIV	Jan.	Feb.
Manufacturing and trade	8.6	-.4	23.1	31.5	29.6	10.3	34.2	n.a.
Manufacturing	-4.2	.6	7.5	14.2	15.4	6.5	10.7	12.4
Durable	-7.3	-4.4	1.7	6.8	6.7	6.5	10.0	9.0
Nondurable	3.1	5.0	5.8	7.5	8.6	.0	.7	3.4
Trade, total	12.8	-1.0	15.6	17.3	14.2	3.9	23.4	n.a.
Wholesale	3.1	-2.0	5.1	9.0	4.3	1.6	8.9	6.6
Retail	9.7	1.0	10.5	8.3	9.9	2.2	14.5	n.a.
Auto	5.9	-.9	1.1	.1	4.8	1.3	3.4	n.a.

INVENTORY RATIOS

	1974	1975	1976			1977	
	QIV	QIV	QII	QIII	QIV	Jan.	Feb.
Inventory to sales:							
Manufacturing and trade	1.63	1.54	1.51	1.53	1.51	1.49	n.a.
Manufacturing	1.81	1.70	1.63	1.66	1.65	1.62	1.58
Durable	2.25	2.20	2.03	2.04	2.04	2.00	1.96
Nondurable	1.33	1.21	1.22	1.26	1.24	1.21	1.18
Trade, total	1.45	1.36	1.37	1.38	1.36	1.37	n.a.
Wholesale	1.24	1.21	1.22	1.22	1.22	1.21	1.20
Retail	1.63	1.48	1.48	1.51	1.47	1.48	n.a.
Inventories to unfilled orders:							
Durable manufacturing	.551	.613	.625	.640	.632	.631	.633

manufacturing edged off early in the year and are currently at relatively low levels. Total trade inventories rose at a $23.4 billion annual rate in January--probably reflecting weather-related weakness in sales. These rose somewhat less in February, but accumulation was considerably faster than in the fourth quarter.

While recent data continue to suggest increased strength in capital outlays in the first quarter, much of the surge was in trucks, autos, and farm equipment, where fourth quarter sales had been damped by strikes. Although nonresidential construction put-in-place rebounded by 10.3 per cent in February, such spending was still below the peak attained last September, in part because of weather disruptions. Sluggish growth in commercial and industrial building continues to be one of the key sources of weakness in investment spending.

New orders for nondefense capital goods declined 2.5 per cent in February, but the rate of ordering in the first two months of 1977 was still six per cent above the fourth quarter average. The gains in these orders over the last several quarters point toward moderate growth in capital goods spending during the coming months. Construction contracts for commercial and industrial buildings have shown no improvement in early 1977 after moving up in late 1976.

Total private housing starts rebounded in February from the weather-related January decline to a seasonally adjusted annual rate of 1.8 million units--about in line with the fourth quarter average.

COMMITMENTS DATA FOR BUSINESS FIXED INVESTMENT
(Per cent change from preceding comparable period;
based on seasonally adjusted data)

	1976				1977		Feb. 76 to
	QI	QII	QIII	QIV	Jan.	Feb.	Feb. 77
New orders received by manufacturers							
Total durable goods							
Current dollars	8.1	5.5	-.8	6.0	-4.1	.5	15.2
1967 dollars1/	6.3	4.4	-2.3	3.6	-4.5	-.4	7.5
Nondefense capital goods							
Current dollars	6.3	5.6	5.8	3.4	4.7	-2.5	21.1
1967 dollars1/	4.7	4.5	4.4	1.6	3.8	-2.7	14.4
Construction contracts for commercial and industrial building2/							
Current dollars	1.3	11.1	-7.1	19.2	3.8	-12.0	4.2
Square feet of floor space	.5	8.0	-4.9	4.8	-2.3	-4.3	.6
Contracts and orders for plant & equip.3/							
Current dollars	16.4	.0	1.6	7.5	7.7	-3.0	20.8
1972 dollars	15.1	-.9	.2	6.3	7.6	-3.4	14.4

1/ FR deflation by appropriate WPI.

2/ Current dollars series obtained from FR seasonal. Floor space is seasonally adjusted by Census.

3/ The Commerce Department creates this series by adding new orders for nondefense capital goods to the seasonally adjusted sum of new contracts awarded for commercial and industrial buildings and new contracts awarded for private nonbuildings (e.g., electric utilities, pipelines, etc.).

The February increase was concentrated entirely in single-family starts. While this advance undoubtedly included units deferred from January, it brought starts of single-family dwellings to the highest level for any month in the past four years. Moreover, sales of new homes advanced sharply in February and sales of existing homes were still quite high. Multi-family starts were blow the average of the fourth quarter of 1976, but still stood two-fifths above the extremely depressed average in 1975.

Growth in State and local purchases remains weak. The value of State and local construction put-in-place rose at an annual rate of $2.3 billion (10 per cent) in February--reversing five consecutive months of decline in which such purchases reportedly dropped by nearly a fourth. Spending should advance in the coming months, supported by repairs of weather-damaged roads and municipal utilities, the resumption of postponed construction, and the initial work on projects funded under the Local Public Works Act. Employment in State and local governments rose by nearly 25,000 in March; however, the average for the first quarter was down slightly from the fourth quarter of 1976.

Federal spending in February was $30.9 billion--about $1.5 billion below the January level. Preliminary data for March indicate some rise, but first quarter outlays appear to have declined by about 8 per cent from the fourth quarter (annual rate, not seasonally adjusted). A

NEW PRIVATE HOUSING UNITS
(Millions of units; seasonally adjusted annual rate)

	1976						Per cent change[1/] from:	
	QI	QII	QIII	QIV[r/]	Jan.[r/]	Feb.[p/]	Month ago	Year ago
All Units								
Permits	1.17	1.13	1.34	1.53	1.31	1.51	+16	+30
Starts	1.39	1.44	1.57	1.77	1.39	1.79	+29	+21
Under construction[2/]	1.06	1.06	1.11	1.19	1.21	1.23	+ 2	+17
Completions	1.30	1.33	1.37	1.39	1.41	1.62	+14	+24
Single-family								
Permits	.87	.81	.89	1.04	.93	1.08	+16	+25
Starts	1.10	1.10	1.19	1.28	1.01	1.42	+41	+17
Under construction[2/]	.59	.61	.64	.69	.70	.72	+ 3	+23
Completions	.97	.99	1.05	1.05	1.10	1.21	+10	+27
Multifamily								
Permits	.30	.32	.45	.49	.38	.44	+16	+45
Starts	.28	.34	.39	.49	.38	.37	- 2	+42
Under construction[2/]	.46	.46	.47	.51	.51	.51	0	+10
Completions	.33	.34	.32	.35	.31	.41	+30	+17
MEMORANDUM:								
Mobile home shipments	.27	.24	.24	.26	.26	.26	+ 2	- 8

1/ Monthly changes are not at annual rates.
2/ Seasonally adjusted, end of period.

bounceback in spending is likely, but, nevertheless, outlays for this fiscal year probably will fall appreciably below the $417.4 billion level recommended by President Carter earlier this year.

For fiscal year 1978, the House and the Senate Budget Committees have proposed deficits of $63 and $64 billion, respectively. These deficits are around $6 billion larger than the President requested in February. Congressional consideration of the First Concurrent Budget Resolution will take place early next month.

Despite ample production capacity, broad measures of price increases have accelerated since mid-1976. As expected, the effect of the cold weather on food supplies has been a major factor in recent overall price increases. Even excluding food, however, some speed-up is evident. Price quotations for industrial commodities at wholesale have been increasing at about an 8 per cent annual rate since mid-1976--up from a 4-3/4 per cent rate over the first half of 1976. The consumer price index for nonfood commodities rose at an 8.2 per cent annual rate during the first two months of the year compared to a 5.6 per cent rate over the last half of 1976.

The wholesale price index rose by 1.1 per cent in March--the largest monthly rise since October 1975. Price increases were widespread. Food and farm products were up 2.1 per cent, and industrial commodities rose by 0.8 per cent. Higher prices for metals and metal products, transportation equipment, and textile products in addition to fuels and power led the advance for industrial

RECENT CHANGES IN WHOLESALE PRICES
(Per cent changes at compound annual rates; based on seasonally adjusted data)[1/]

	Relative Importance Dec. 76	1975	1976 HI	1976 HII	1977 QI	1977 Mar.
All commodities	100.0	4.2	3.9	5.3	10.2	12.0
Farm and food products	21.6	-.3	1.0	-3.3	19.3	25.5
Industrial commodities	78.4	6.0	4.8	8.0	7.9	9.5
Materials, crude and intermediate[2/]	49.1	5.4	5.4	8.1	9.3	12.5
Finished goods						
Consumer nonfoods	18.7	6.7	3.1	6.7	8.5	8.6
Producer goods	12.1	8.2	5.8	7.1	5.3	4.7
Special groups:						
Industrial commodities excluding fuels and related products and power	57.7	5.0	5.6	6.6	6.4	8.0
Consumer foods	10.4	5.5	-1.2	-3.2	12.5	13.0

[1/] Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.

[2/] Estimated series.

commodities in March. Excluding fuels and related products and power, which rose sharply (1.4 per cent), industrial commodity prices rose 0.7 per cent in March--putting the first quarter increase at a 6.4 per cent annual rate.

The consumer price index rose by 1 per cent in February--slightly above the January rate. Consumer food prices were up 2 per cent, led by a weather-related hike of fresh fruits and vegetables as well as boosts in coffee prices. A rapid rise in the price of fuel oil led the increase in nonfood commodities; this run-up reflected both weather-induced fuel shortages and earlier OPEC price increases. There were also sharp increases in February for gasoline and used cars. Excluding food and energy consumer prices rose by 0.6 per cent--down from the high January rate.

The immediate outlook for food prices remains mixed. There should be some near-term declines in the prices of eggs and of fresh fruits and vegtables. However, further price increases appear in prospect for other food items later this year. Coffee is slated for another price hike. In addition, the scheduled increase in price supports for dairy products will probably raise milk prices at wholesale by six cents per gallon. Finally, recent increases in soybean prices will raise feeding costs for livestock and poultry.

RECENT CHANGES IN CONSUMER PRICES
(Per cent changes at compound annual rates; based on seasonally adjusted data)1/

	Relative Importance Dec. 76	1975	1976		1977	
			HI	HII	Jan.	Feb.
All items	100.0	7.0	5.0	4.8	9.6	11.6
Food	23.7	6.5	.2	.8	10.1	23.5
Commodities (nonfood)	38.8	6.2	4.8	5.6	8.2	8.2
Services	37.5	8.1	8.5	6.3	11.0	7.7
Memoranda:						
All items less food and energy2/3/	68.9	6.7	6.9	5.5	10.6	7.0
Petroleum products2/	4.5	10.1	-2.2	9.7	-2.4	14.1
Gas and electricity	2.9	14.2	9.8	15.4	10.7	3.5

1/Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.

2/Estimated series.

3/Energy items excluded: gasoline and motor oil, fuel oil and coal, gas and electricity.

HOURLY EARNINGS INDEX[1/]
(Per cent change from preceding comparable period at compound annual rate; based on seasonally adjusted data)

	1976				1977			Mar. 76 to Mar. 77
	QI	QII	QIII	QIV	QI	Feb.[2/]	Mar.[2/]	
Private Nonfarm	6.9	6.5	7.1	6.7	8.5	2.9	5.1	7.1
Construction	5.1	7.6	5.5	4.0	5.3	-11.0	2.3	4.5
Manufacturing	7.4	6.3	9.2	6.7	7.4	5.7	5.3	7.3
Trade	5.2	5.6	6.9	8.0	9.3	8.1	4.7	7.6
Services	8.3	6.6	4.8	7.8	11.3	1.0	6.8	7.8
Transportation and public utilities	9.1	9.3	6.6	4.6	7.7	-4.9	3.5	6.3

1/ Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.
2/ Monthly change at an annual rate, not compounded.

Wages--as measured by the index of average hourly earnings--rose at an 8.5 per cent rate in the first quarter of 1977. Part of the large first quarter increase was due to the effects of minimum wage increases in January on service and trade wages. Excluding these effects, the underlying rate of growth of wages has been about 6-1/2 to 7 per cent (annual rate) for more than a year.

The United Steelworker union has ratified a new three-year contract for 340,000 workers at the 10 major steel companies. The new pact calls for wage increases of about 5 per cent in the first year of the contract and 2-1/2 per cent in the second and third years in addition to cost-of-living increases. Steel company officials estimate the total cost of the pact (wages, cost-of-living adjustments and fringe benefits) to be over 30 per cent for the life of the contract--about the same as last year's auto workers' agreement.

SELECTED DOMESTIC FINANCIAL DATA
(Dollar amounts in billions)

Indicator		Latest data		Net change from		
		Period	Level	Month ago	Three months ago	Year ago
Monetary and credit aggregates				SAAR (per cent)		
Total reserves		March	34.32	-2.8	-1.7	2.4
Nonborrowed reserves		March	34.21	-3.9	-2.3	2.2
Money supply						
M1		March	315.3	5.7	4.0	5.8
M2		March	754.7	8.2	8.1	10.6
M3		March	1266.7	8.9	9.6	12.4
Time and savings deposits (Less CDs)		March	439.4	9.9	11.2	14.3
CDs (dollar change in billions)		March	62.2	-1.1	-0.4	-0.9
Savings flows (S&Ls + MSBs + Credit Unions)		March	512.0	9.7	11.8	15.2
Bank credit (end of month)		March	801.1	10.7	11.5	8.6
Market yields and stock prices				Percentage or index points		
Federal funds	wk. endg.	4/6/77	4.60	-.08	.13	-.13
Treasury bill (90 day)	"	4/6/77	4.56	-.08	.15	-.38
Commercial paper (90-119 day)	"	4/6/77	4.75	--	.12	-.55
utility issue Aaa	"	4/8/77	8.24	-.06	.34	--
icipal bonds (Bond Buyer)	1 day	4/7/77	5.79	-.13	.01	.86
FNMA auction yield	(FHA/VA)	4/4/77	8.72	.06	.26	-.22
Dividends/price ratio (Common stocks)	wk. endg.	4/6/77	4.50	3.00	14.50	23.60
NYSE index (12/31/65=50)	end of day	4/12/77	54.41	-.57	-2.80	2.00

Credit demands		Net change or gross offerings			
		Current month		Year to date	
		1977	1976	1977	1976
Business loans at commercial banks	March	1.7	-2.5	4.5	-3.0
Consumer instalment credit outstanding	February	2.0	1.1	3.9	2.2
Mortgage debt outst. (major holders)	January	5.1	4.2	5.1	4.2
Corporate bonds (public offerings)	March	2.6e	3.2	6.6e	7.6
Municipal long-term bonds (gross offerings)	March	4.0e	3.4	10.7e	8.7
Federally sponsored Agcy. (net borrowing)	March	.9e	.9	1.0e	.3
U.S. Treasury (net cash borrowing)	April	1.5e	1.4	19.2e	25.5
Total of above credits		17.8	11.7	51.0	45.5

e - Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

The volume of funds raised in financial markets during the first three months of the year was roughly equal to funds raised during the fourth quarter of last year. The Treasury continued to be a major borrower, and State and local governments, attracted in part by relatively favorable market yields, issued record amounts of long-term debt. Total business borrowing was about unchanged in the January-March period even though it now appears that firms generated less internal funds relative to fixed capital and inventory expenditures than in late 1976.

After rising early in the year, interest rates have since been quite stable. The increase in short-term and intermediate-term rates in January reflected the disappointment of market participants that the Federal funds rate did not decline following the December FOMC meeting as many had anticipated. Instead, funds have continued to trade in the 4-5/8 to 4-3/4 per cent range reached at the end of November, and short-term rates on balance have shown little change since the January rise. For the same reason, as well as indications of a strengthening economy and renewed concern about inflation, yields on corporate bonds and Treasury coupon issues also moved up in January and, to a lesser extent, in February. Since late February these yields, too, have changed little.

Partially in response to increases in market rates early in the year and reductions in bank offering rates late last year and early this year, together with the disruptive effects of severe winter weather, flows of savings and small time deposits into banks and thrift institutions abated somewhat in the first quarter, although they continued to be strong by historical standards.

Monetary Aggregates and Bank Credit

The major monetary aggregates expanded more rapidly in March than in February, reflecting a pickup in the growth of demand deposits. From almost no change in February, M_1 rebounded to a 5-3/4 per cent annual rate of growth last month. For the first quarter, M_1 increased at a 4-1/2 per cent annual rate, down from 6-1/4 per cent in the fourth quarter. While M_1 has grown at an average annual rate of 5-1/2 per cent over the last six months, month-to-month changes have fluctuated widely.

Due wholly to the strength in M_1, M_2 expanded at an 8-1/4 per cent annual rate in March, compared to 6-3/4 per cent in February. The interest-bearing components of M_2 (line 6 in the table) slowed slightly in March, largely reflecting a contraction in the outstanding volume of savings deposits of governmental units.

Inflows of interest-bearing deposits held primarily by households--savings deposits of individuals and nonprofit organizations (line 8) plus small (under $100,000) time deposits (line 11)--also moderated at commercial banks in early 1977. Growth of these

MONETARY AGGREGATES [1]

(Seasonally adjusted changes unless noted)

	1976 QIII	1976 QIV	1977 QI	1977 Feb	1977 March	12 months ending Marc
	Per cent at annual rates					
Major Monetary Aggregates						
(1) M_1 (Currency plus demand deposits	4.2	6.3	4.4	0.8	5.7	5.8
(2) M_2 (M_1 plus time & savings deposits at CBs other than large CDs)	9.2	12.3	9.5	6.8	8.2	10.6
(3) M_3 (M_2 plus all deposits at thrift institutions	11.4	14.3	11.0	8.6	8.9	12.4
(4) Adjusted bank credit proxy	3.9	8.2	5.3	-2.9	7.1	5.1
Bank Time and Savings Deposits						
(5) Total	7.3	11.8	11.6	10.2	6.0	9.5
(6) Other than large negotiable CDs	13.0	16.8	13.3	11.1	9.9	14.3
(7) Savings deposits	13.4	26.9	20.5	12.3	9.9	20.3
(8) Individual [2]	13.2 [e]	20.1 [e]	13.9 [e]	9.5 [e]	8.8 [e]	15.5 [e]
(9) Other [3]	15.7 [e]	154.0 [e]	110.7 [e]	44.4 [e]	17.2 [e]	124.0 [e]
(10) Time deposits	12.5	8.2	6.9	10.6	10.0	9.3
(11) Small time [4]	24.4 [e]	29.1 [e]	10.3 [e]	3.8 [e]	15.9 [e]	19.8 [e]
Deposits at Nonbank Thrift Institutions [5]						
(12) Savings & loan associations	15.9	18.8	14.5 [e]	12.7 [e]	10.3 [e]	16.6 [e]
(13) Mutual savings banks	11.4	12.8	9.1 [e]	7.7 [e]	7.0 [e]	11.0 [e]
(14) Credit unions	15.9	18.7	15.0 [e]	12.5 [e]	11.8 [e]	17.0 [e]
	Billions of dollars (Average monthly changes, seasonally adjusted)					
Memoranda						
(15) Total U.S. Govt. deposits	0.7	-0.3	0.0	1.7	-0.4	0.1
(16) Negotiable CDs	-2.4	0.1	-0.4	0.2	-1.1	-1.0
(17) Nondeposit sources of funds	-0.1	0.3	-0.5	-0.8	0.2	0.0

e/ Estimated
1/ Quarterly growth rates are computed on a quarterly average basis.
2/ Savings deposits held by individuals and nonprofit organizations.
3/ Savings deposits of businesses and governmental units, not seasonally adjusted. (Note: the base level for these deposits was very low.)
4/ Small time deposits are total time deposits (excluding savings deposits) less large time deposits, negotiable and nonnegotiable, at all commercial banks.
5/ Growth rates computed from monthly levels based on averages of current and preceding end-of-month data.

deposits similarly was dampened by rate cutting and rising market rates and, in addition, by severe winter weather. Thrift institution deposit flows in recent months have followed a pattern similar to that of household deposits at banks.

Total loans and investments at commercial banks (last-Wednesday-of-the-month series) expanded at an annual rate of 9 per cent in March and at an 11 per cent pace for the first quarter as a whole, the most rapid quarterly increase in 2-1/2 years. Over the quarter, net acquisitions by banks of U.S. Treasury securities amounted to $5.4 billion; data for large banks, not seasonally adjusted, show that their holdings of 1 to 5-year Treasury securities grew substantially while holdings of other maturities declined. As had been the case earlier in the year, the expansion in bank loans in March continued to reflect real estate and business lending, and presumably sizable further growth in consumer loans as well.

Since the middle of last year, bank loans have shown considerable strength, especially relative to the previous two years. Often in the past, banks have financed such loan growth by running down liquid assets and by increasing their reliance on managed liabilities, especially CDs. By contrast, over the past nine months inflows of savings and time deposits other than CDs have been adequate to meet the bulk of loan demand. Indeed, over this period bank holdings of securities actually grew by $12 billion, and negotiable CDs declined $9 billion on balance.

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

	1976		1977			
	QIII	QIV	QI	Feb	March	12 months ending March
Total loans and investments[2/]	5.5	7.9	11.5	14.5	10.7	8.6
Investments	4.0	8.1	8.1	25.9	4.8	8.6
Treasury securities	-1.3	10.6	23.9	57.4	23.8	16.3
Other securities	7.5	6.5	-2.1	5.6	-8.0	3.9
Total loans[2/]	6.2	7.7	13.1	9.4	13.5	8.6
Business loans	4.6	9.7	9.9	9.9	11.1	6.5
Real estate loans	8.7	9.6	11.8	12.0	13.5	10.2
Consumer loans	10.8	10.6	8.0[4/]	9.8	n.a.	9.3[5/]
Memoranda:						
a. Commercial paper issued by nonfinancial firms[3/]	-38.7	28.9	12.3	71.3	-34.8	17.5
b. Business loans less bankers acceptances held by banks	1.8	5.9	15.0	14.4	14.5	6.3
c. Business loans less bankers acceptances held by banks plus nonfinancial commercial paper	-1.1	7.4	14.9	18.2	11.8	7.1
d. Total business loans plus nonfinancial commercial paper	1.5	11.0	10.1	13.9	7.9	7.2

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month. Data have been revised to reflect benchmarking against the June 30, 1976, Call Report. A description of the revision will be available in the Greenbook Supplement. In addition, nonfinancial commercial paper has been adjusted for new seasonal factors.
2/ Loans include 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 last-day-of-month to last-day-of-month.
4/ January-February average.
5/ Eleven months ending February.
n.a.--not available

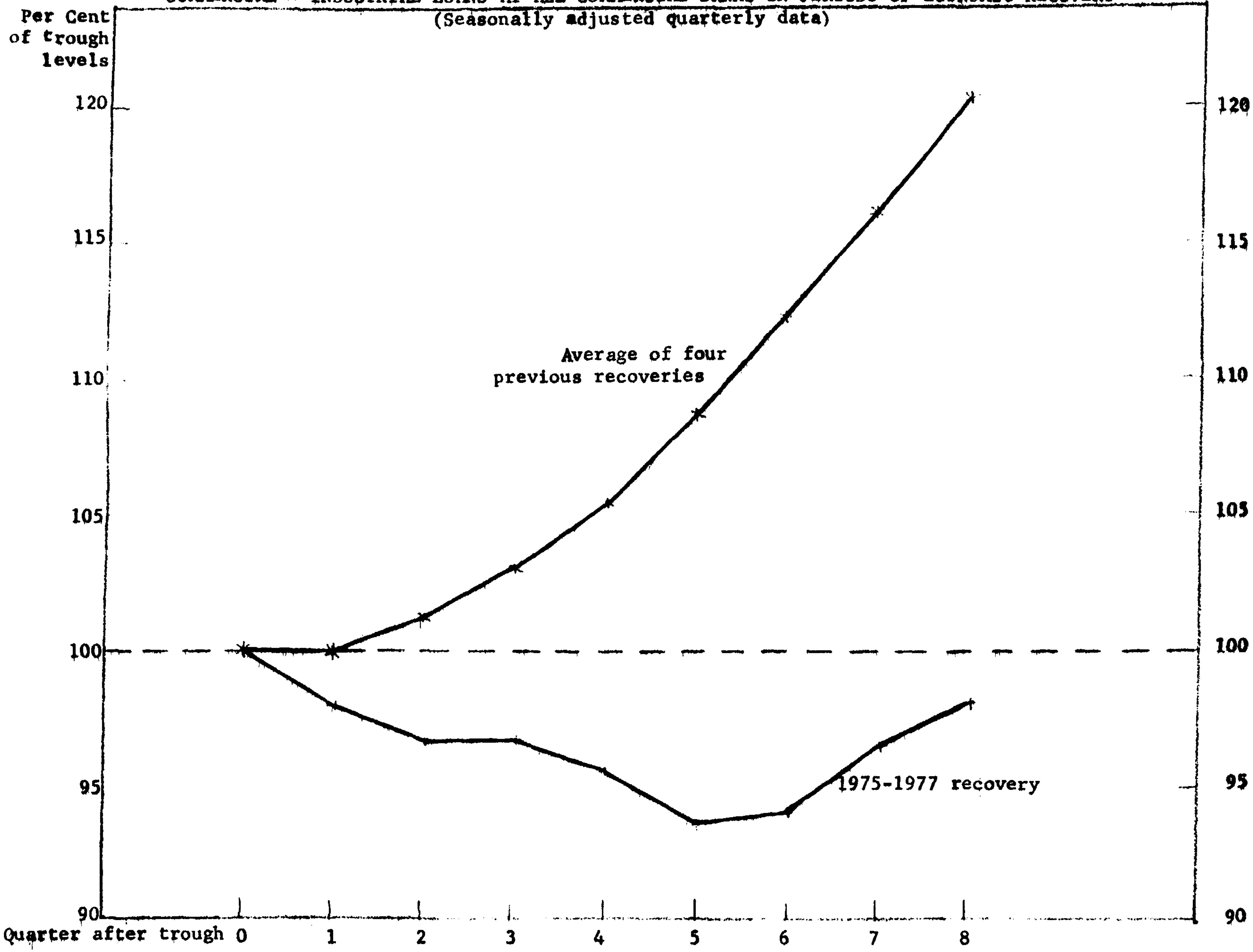
Short-Term Business Credit

Business loans at commercial banks increased in March by $1.4 billion, or at an11 per cent annual rate, about equal to the average rate of growth over the five preceding months. With bank holdings of acceptances continuing to decline last month--falling by $475 million--business loans less acceptances grew at a 14-1/2 per cent annual rate (memo item b in the table). Business loans may have been buoyed somewhat by unusually large mid-month corporate tax payments.1/ In contrast to recent months, however, smaller banks, which tend to deal with smaller borrowers, accounted for all of the March growth in business loans. Moreover, outstanding commercial paper of nonfinancial corporations declined by $400 million in March as large firms increased their reliance on internal funds and the proceeds of capital market financing to satisfy their needs. As a result, total short-term business credit--as measured by business loans (less bankers acceptances held) and nonfinancial commercial paper--grew at a 12 per cent annual rate last month, slower than the pace for the first quarter as a whole (memo item c).

Although the pace of business loan expansion picked up in the past two quarters, the following chart shows that the average of such loans outstanding in the first three months of this year was still

1/ The $10 billion of tax payments in the first quarter exceeded those in March 1976 by 50 per cent and in March 1975 by 40 per cent.

COMMERCIAL & INDUSTRIAL LOANS AT ALL COMMERCIAL BANKS IN PERIODS OF ECONOMIC RECOVERY
(Seasonally adjusted quarterly data)



below the cyclical trough level reached eight quarters ago.[1/] A portion of the growth in total short-term business financing in recent months can be attributed to a modest widening of the financing gap for nonfinancial corporations--the excess of inventory investment and fixed capital expenditures over internally generated funds. During the first quarter, this gap grew by more than the staff previously thought because of larger than expected inventory accumulation and smaller than expected cash flows. Another contributory factor was the apparent further moderation of balance sheet restructuring from that of 1975 and most of last year. With businesses having restored their liquidity positions to early 1970s levels, the recent growth in short-term business credit, particularly bank loans, may signal the beginning of a more balanced expansion of short- and long-term debt.

Private Long-Term Securities Markets

Gross issues of publicly offered corporate bonds increased more than seasonally in March to almost $2.6 billion, as an unusually large volume of utility offerings, mostly telephone issues, were brought to market. Offerings of new telephone company bonds--mainly Bell System

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1/ A broader measure of short- and intermediate-term business credit includes business loans at banks, outstanding nonfinancial commercial paper, and finance company business loans. Mainly due to finance company business loan growth, this broader measure of business credit was 2 per cent above the 1975 trough level in February of this year, the most recent date for which finance company business loan figures are available. However, growth in this measure is also well below that of previous recoveries. Finance company business loans, which in large part finance producers' durable equipment, commercial vehicles, and durable and automotive goods inventories, stood at $46 billion in February 1977, one-fourth as large as business loans at banks.

obligations--were at a near-record level in the first quarter, reflecting in part a large amount of advance refunding. Equity issues and privately placed bonds also are estimated to have increased in March, although gross sales of these securities in the first quarter were below the fourth-quarter pace.

Despite the increased volume of public bond offerings during March, average monthly offerings in the first quarter were about the same as in the final quarter of 1976 and below the average in the first quarter a year ago. Industrial corporations, which were active issuers of new debt in the early months of 1976, have more recently reduced their volume of such financing owing in part to their improved balance sheet positions.[1/]

Corporate bond yields are virtually unchanged since late February. The Board's weekly index of newly issued Aaa-rated utility bond yields stood at 8.24 per cent on April 7, slightly below the level just prior to the last FOMC meeting.

Despite the recent stability of interest rates, stock prices generally have moved lower on balance since the last FOMC meeting, extending the decline that began in early January from levels near 1976 highs. (See table). Prices on the New York Stock Exchange showed the most pronounced drop. The NASDAQ index of over-the-counter stocks has posted a smaller decline, while the American Stock Exchange index has advanced slightly since year-end. The downward movement in stock prices

1/ Higher-rated firms, attracted by favorable yields, issued a large volume of bonds in January, but as rates have subsequently backed up, offerings by these firms have moderated.

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

	1976			1977			
	H1	QIII	QIV	Q1e/	Mar.e/	Apr.f/	May f/
	Gross offerings						
Corporate securities-- Total	4,663	3,804	4,606	4,200	4,900	3,400	3,800
Publicly offered bonds	2,499	1,635	2,184	2,200	2,550	1,800	1,800
By quality 1/							
Aaa and Aa	1,354	700	658	1,230	1,140	--	--
Less than Aa 2/	1,145	935	1,526	970	1,410	--	--
By type of borrower							
Utility	720	580	735	745	1,175	--	--
Industrial	1,055	575	805	710	675	--	--
Other	724	480	644	745	700	--	--
Privately placed bonds	1,051	1,549	1,569	1,267	1,400	1,200	1,200
Stocks	1,112	620	853	733	950	400	800
Foreign securities-- Total	928	702	816	542	165	--	--
Publicly offered 3/	530	422	598	286	125	600	250
Privately placed	398	280	218	256	40	--	--
State and local gov't securities-- Total	5,122	4,471	4,371	4,817	5,200	8,400	5,100
Long-term	2,976	2,790	3,053	3,567	4,000	3,400	3,600
Short-term	2,146	1,681	1,318	1,250	1,200	5,000	1,500
	Net offerings						
U.S. Treasury	5,128	5,215	5,984	4,703	3,765	-500	10,500
Sponsored Federal agencies	207	383	647	564	2,358	483	-408

e/ Estimated.
f/ Forecast.
1/ Bonds categorized according to Moody's bond ratings.
2/ Includes issues not rated by Moody's
3/ Classified by original offering date.

SELECTED FINANCIAL MARKET QUOTATIONS
(One day quotes, except as noted, in per cent)

	1976[1/]			1977			Change from:	
	May-June High	December Low	March FOMC Mar. 15	Mar. 29	Apr. 5	Apr. 12	1976 Low	March FOMC
Short-term rates								
Federal funds[1/]	5.58	4.63	4.62	4.74	4.60	4.63[6/]	0	+.01
Treasury bills								
3-month	5.53	4.27	4.57	4.59	4.60	4.59	+.32	+.02
6-month	5.93	4.50	4.84	4.84	4.86	4.80	+.30	-.04
1-year	6.32	4.62	5.16	5.17	5.15	5.10	+.48	-.06
Commercial paper								
1-month	5.65	4.48	4.63	4.63	4.65	4.65	+.17	+.02
3-month	5.90	4.63	4.75	4.75	4.75	4.75	+.12	0
Large neg. CD's[2/]								
3-month	5.95	4.60	4.85	4.75	4.75	4.80	+.20	-.05
6-month	7.00	4.71	5.13	5.15	5.05	5.05	+.34	-.08
Bank prime rate	7.25	6.25	6.25	6.25	6.25	6.25	0	0
Intermediate- and long-term rates								
Corporate								
New AAA[3/]	8.95	7.93	8.30	8.22	8.26	8.24p	+.31	-.06
Recently offered[4/]	8.84[7/]	7.84	8.32	8.28	8.28	8.25p	+.41	-.07
Municipal (Bond Buyer)[5/]	7.03[8/]	5.83	5.92	5.88	5.85	5.79	-.04	-.13
U.S. Treasury (constant maturity)								
3-year	7.52	5.64	6.46	6.46	6.46	6.34p	+.70	-.12
7-year	7.89	6.32	7.16	7.22	7.23	7.15p	+.83	-.01
20-year	8.17	7.26	7.71	7.77	7.72	7.70p	+.44	-.01

Stock prices	January Low	December High	FOMC Mar. 15	Mar. 29	Apr. 5	Apr. 12	December High	March FOMC
Dow-Jones Industrial	881.51	994.18[9/]	965.01	932.01	916.14	937.16	-57.02	-27.85
N.Y.S.E. Composite	49.06	56.96	55.37	54.19	53.30	54.41	-2.55	-0.96
AMEX	86.42	107.26	112.06	111.90	110.89	111.50	+4.24	-0.56
Keefe Bank Stock[4/]	520	664	626	615	608	606	-58	-20

1/ Daily average for statement week except for recently offered corporate and Bond Buyer municipal yields which are 1-day quotes.
2/ Highest quoted new issues.
3/ Average for preceding week except for 1976 high and low.
4/ One day quotes for preceding Friday except for 1976 high and low.
5/ One day quotes for preceding Thursday except for 1976 high and low.
6/ Average for first 6 days of statement week ending April 13.
7/ High for the year was 8.94 on January 7.
8/ High for the year was 7.13 on January 7.
9/ High for the year was 1003.87 in statement week ending 9/29.
p Preliminary.

since year-end is reportedly due to growing investor concern about a resurgence in the rate of inflation, the impact of the inclement weather on first quarter profits, and uncertainty over the Administration's yet-to-be-announced energy and anti-inflation programs.[1/]

Treasury and Municipal Securities Markets

The Treasury raised $3.7 billion of new money in the securities market during March, nearly all in 2- and 4-year notes. Sales of marketable issues during the first quarter, which amounted to $14 billion, fell considerably below the Treasury's January estimate of $20-23 billion. There are three major reasons for this development. First, the combined Treasury deficit in the first quarter was smaller than expected, primarily because of a sizable shortfall in Federal outlays. Second, the Treasury sold an unexpectely large amount of nonmarketable issues in the first quarter--about $3.7 billion--further reducing its need to borrow in the market.[2/] Third, the Treasury had reduced its cash balance at the end of March to a level $3 billion below that anticipated at the time of the Treasury's financing announcement in late January.

1/ Utility stock prices have edged modestly higher since the last FOMC meeting and are generally quite near their recent three-year highs.

2/ Approximately $2.2 billion of nonmarketable issues were sold to State and local governments taking advantage of prevailing low market rates by advance refunding of more costly issues sold earlier.

RECENT MOVEMENTS IN MAJOR STOCK PRICE INDEXES

	Levels			
Index	1973 High	1974 Low	1976 High	1977 (4/12)
Dow Jones Industrial	1051.5 (1/11)	577.6 (12/6)	1014.8 (9/21)	937.2
N.Y.S.E. Composite	65.5 (1/11)	32.9 (10/3)	57.9 (12/31)	54.4
AMEX Price Index	130.0 (1/5)	58.3 (12/3)	109.8 (12/31)	111.5
NASDAQ Price Index	136.8 (1/11)	54.9 (10/3)	97.9 (12/31)	95.1

	Per Cent Change			
Index	'73 High- '74 Low	'74 Low- '76 High	'73 High- 4/12/77	'76 High- 4/12/77
Dow Jones Industrial	-45.1	+75.7	-10.9	-7.6
N.Y.S.E. Composite	-49.8	+76.0	-16.9	-6.0
AMEX Price Index	-55.2	+88.3	-14.2	+1.5
NASDAQ Price Index	-59.9	+78.3	-30.5	-2.9

The shortfall in Treasury borrowing in the first quarter and delays in the passage of the tax rebate program apparently have caused some market participants to scale down their expectations of Treasury cash needs, and this in turn may have contributed to recent stability in Treasury yields. Other factors that may have helped to stabilize rates were a steady Federal funds rate, a large volume of foreign purchases, and a strengthening technical position of security dealers. Marketable U.S. Government securities held in custody at the Federal Reserve Bank of New York for foreign and international accounts increased by more than $7 billion over the first quarter to a level of $58 billion. Meanwhile, dealer bill inventories fell to less than $3.5 billion near the end of March, far below the mid-December level of $9.5 billion. With coupon positions also quite modest, total dealer holdings of Treasury securities in late March were at the lowest levels in two years.

In the tax-exempt market, gross offerings of long-term securities in March were a record $4 billion, a third of which were advance refunding issues. Total offerings in the first quarter amounted to $10.6 billion, well above the record pace in the fourth quarter of last year. Property-casualty insurance companies, historically major purchasers of long-term tax-exempt bonds, have provided strong buying support in both 1976 and the first quarter of this year. Open-end municipal bond funds also have been active purchasers.[1/] Despite the large recent volume of offerings, the Bond Buyer index of tax exempt yields has edged lower since the March FOMC meeting.

Mortgage and Consumer Credit

In the primary mortgage market, interest rates on new commitments for conventional home mortgages at reporting savings and loan associations have advanced somewhat from their 1977 lows of late February and early March. While the yield differential between such mortgages and corporate bonds has widened somewhat since February, it stayed well below the unusually large spreads of late 1976. Since early March, yields on GNMA pass-through securities have held near their 1977 highs, and yields accepted by FNMA in its bi-monthly auctions of forward purchase commitments have moved gradually upward this year.

Savings and loan associations, the principal suppliers of residential mortgage credit, have experienced slackening deposit inflows in the past several months. Although outstanding commitments to make home loans fell in January, they returned to record levels in February.[2/] Over the past two quarters, the ratio of outstanding

1/ During the first quarter of this year, the assets of large municipal bond mutual funds grew at a weekly average rate of approximately $40 million as compared to $30 million in last year's fourth quarter. Total assets of these open-end funds exceeded $1 billion in early April.

2/ During this two-month period, the monthly volume of net mortgage acquisitions fell by nearly 20 per cent, probably reflecting unusual winter weather.

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

End of period	Average rate on new commitments for 80 per cent loans (Per cent)	Basis point change from month or week earlier	Spread[1/] (basis points)	Per cent of S&Ls with funds in short supply
1976--High	9.10	--	+93	11
Low	8.70	--	-17	0
Sept.	8.97	- 3	+74	9
Oct.	8.90	- 7	+61	8
Nov.	8.80	-10	+75	6
Dec.	8.78	- 7	--	3
1977--Jan.	8.73	- 5	+51	6
Feb.	8.65	- 8	+37	6
Mar. 4	8.65	0	--	4
11	8.70	+ 5	+40	4
18	8.70	0	+47	4
25	8.70	0	+48	2
Apr. 1	8.70	0	+44	3
8	8.75	+5	+51	n.a.

1/ Average mortgage rate minus average yield on new issues of Aaa utility bonds.
n.a.--not available

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 of dollars)		Yield to FNMA[1/]	Amount (Millions of dollars)		Yield to FNMA[1/]	
	Offered	Accepted		Offered	Accepted		
1977--High	206	153	8.92	703	325	8.70	8.08
Low	143	106	8.81	362	214	8.46	7.56
Mar. 7	206	153	8.90	703	325	8.66	8.08
14							8.08
21	168	115	8.92	435	287	8.70	8.02
28							8.06
Apr. 4	196	158	8.97	322	202	8.72	8.01
11							7.99

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.

commitments to total cash flow at S&L's has risen noticeably, and this may have some impact on the willingness of lenders to make new commitments, especially if deposit inflows slow further.

Growth in consumer instalment credit outstanding accelerated in February to a seasonally adjusted annual rate of nearly 14 per cent. Sharply higher net gains in automobile and bank-card lending paced the advance, reflecting strong sales at auto dealers, home furnishings stores, and department stores. All lender groups participated in the credit expansion, with the commercial bank share recovering from its abnormally low January level.

CONSUMER INSTALMENT CREDIT

	1974	1975	1976	1976 1/ QIII	1976 1/ QIV	1977 1/ Jan	1977 1/ Feb
Total							
Change in outstandings							
Billions of dollars	9.0	6.8	16.7	16.7	18.5	23.0	24.3
Per cent	6.1	4.4	10.3	10.0	10.7	12.9	13.6
Bank share (per cent)	44.4	41.7	39.7	43.8	42.4	29.5	41.0
Extensions							
Billions of dollars	160.0	163.5	186.6	186.6	194.1	202.4	206.2
Bank share (per cent)	45.4	47.2	47.5	47.9	48.0	44.7	46.9
Liquidations							
Billions of dollars	151.1	156.6	169.8	170.1	175.6	179.4	182.0
Ratio to disposable income	15.4	14.5	14.4	14.3	14.4	14.6	14.8
Extensions/sales ratio (per cent) 2/	68.7	65.5	65.3	65.4	65.2	66.7	66.3
Automobile Credit							
Change in outstandings							
Billions of dollars	0.3	2.6	7.5	7.1	8.1	9.1	10.6
Per cent	0.7	5.2	14.2	12.6	13.6	15.0	17.6
Extensions							
Billions of dollars	43.2	48.1	55.8	55.8	57.9	59.3	62.5
Per cent of sales 3/	46.5	47.1	44.5	44.6	44.5	42.6	43.1
New car loans over 36 months as per cent of total new car loans							
Commercial banks 4/	8.8	14.0	25.4	28.5	30.7	n.a.	36.3
Finance companies	8.6	23.5	33.9	35.8	37.4	40.3	41.4
New car finance rate (APR)							
Commercial banks (36 mo. loans)	10.97	11.36	11.08	11.07	11.03	10.99	11.14
Finance companies	12.61	13.11	13.17	13.18	13.21	13.17	13.16

1/ Quarterly and monthly dollar figures and related percentage changes are seasonally adjusted annual rates.
2/ Ratio is total instalment credit extensions divided by selected categories of retail sales: auto dealers, general merchandise, apparel, furniture and appliances.
3/ Auto sales are Census automobile dealer retail sales series, which includes new and used models of both domestic and foreign makes.
4/ Series was begun in May 1974, with data reported for the mid-month of each quarter. Figure for 1974 is average of May, August, and November.
n.a.--not available.

U.S. International Transactions

(In millions of dollars, seasonally adjusted 1/)

April 13, 1977

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		1976	1 9 7 6			1977	
		YEAR	Q2	Q3	Q4	Jan.	Feb.
1.	Merchandise exports	114,692	28,378	29,600	29,717	9,785	9,868
2.	Merchandise imports	123,916	29,914	32,387	33,291	11,652	11,979
3.	Trade Balance	-9,224	-1,536	-2,787	-3,574	-1,867	-2,111
4.	Bank-reported private capital flows	-9,957	-1,243	-1,590	-4,166	228	60
5.	Claims on foreigners (increase -)	-20,927	-4,764	-3,355	-9,176	5,337	202
6.	Long-term	-2,147	-381	-993	-482	-24	-159
7.	Short-term	-18,780	-4,383	-2,362	-8,694	5,361	361
8.	(of which on commercial banks in offshore centers 2/)	(-11,924)	(-2,323)	(-2,386)	(-3,603)	(3,574)	(-33)
9.	Liabilities to foreigners (increase +)	10,970	3,521	1,765	5,010	-5,109	-142
10.	Long-term	160	-25	66	222	51	-26
11.	Short-term	10,810	3,546	1,699	4,788	-5,160	-116
12.	to commercial banks abroad	8,080	2,220	1,977	2,795	-4,073	-56
13.	(of which to commercial banks in offshore centers 3/)	(4,148)	(1,204)	(300)	(2,867)	(-3,443)	(83)
14.	to other private foreigners	2,719	471	916	1,179	-98	567
15.	to int'l and regional organizations	11	855	-1,194	814	-989	-627
16.	Foreign private net purchases (+) of U.S. Treasury securities	2,815	-592	3,026	-56	458	756
17.	Other private securities transactions (net)	-7,432	-1,226	-2,675	-2,102	167	-89
18.	Foreign net purchases (+) of U.S. corp. securities	1,250	131	68	21	216	380
19.	(of which stocks)	(853)	(102)	(-18)	(-174)	(187)	(81)
20.	U.S. net purchases (-) of foreign securities	-8,682	-1,357	-2,743	-2,123	-49	-469
21.	(new foreign issues of bonds and notes)	(-9,796)	(-1,622)	(-3,011)	(-2,333)	(373)	(-608)
22.	Change in foreign official res. assets in the U.S.	12,979	3,314	1,267	6,073	1,247	885
23.	OPEC countries (increase +)	6,700	2,737	1,228	505	1,465	-108
	(of which U.S. corporate stocks)	(1,828)	(591)	(374)	(308)	(101)	(46)
	Other countries (increase +)	6,279	577	39	5,568	-218	993
26.	Change in U.S. reserve assets (increase -)	-2,530	-1,578	-407	228	-419	-11
27.	Other transactions and statistical discrepancy (net payments (-))	13,349	2,861	3,166	3,597	186	510
28.	Other current account items	9,184	2,108	2,726	2,687		
29.	Military transactions, net 4/	91	-230	264	148		
30.	Receipt of income on U.S. assets abroad	22,654	5,599	5,795	5,760		
31.	Payment of income on foreign assets in U.S.	-12,116	-3,131	-3,011	-2,760		
32.	Other services, net	2,696	781	860	578		
33.	Remittances and pensions	-1,866	-452	-446	-487		
34.	U.S. Gov't grants 4/	-2,275	-459	-736	-552		
35.	Other capital account items	-6,645	-1,136	-710	-2,353		
36.	U.S. Gov't capital, net claims 4/ (increase -)	154	-146	-372	-95		
37.	U.S. direct investment abroad (increase -)	-5,000	-202	-1,447	-1,593		
38.	Foreign direct investment in U.S. (increase +)	561	422	712	155		
39.	Nonbank-reported capital, net claims (increase -)	-2,360	-1,210	397	-820		
40.	Statistical discrepancy	10,810	1,889	1,150	3,263		
MEMO:							
41.	Current account balance	-40	572	-61	-887	n.a.	n.a.
42.	Official settlements balance	-10,449	-1,736	-860	-6,301	-828	-874
43.	O/S bal. excluding OPEC	-3,749	1,001	368	-5,796	637	-982

NOTES:

1/ Only trade and services, U.S. Govt. grants and U.S. Govt. capital are seasonally adjusted.

2/ Offshore centers are United Kingdom, Bahamas, Panama and Other Latin America (mainly Cayman Islands and ermuda).

epresents mainly liabilities of U.S. Banks to their foreign branches in offshore centers which are the nited Kingdom, Bahamas, Panama and Other Latin America (mainly Cayman Islands and Bermuda).

4/ Excludes grants to Israel under U.S. military assistance Acts and exports financed by those grants.

*/ Less than $50,000.

Foreign exchange markets. The most notable exchange market developments over the past four weeks have been the very strong demands for the Japanese yen and the British pound. These trends began late last year and have continued since. Japanese authorities have allowed this upsurge in demand for their currency to be reflected in a substantial rise in the yen exchange rate; the yen has appreciated by 8 per cent against the dollar and on a weighted average basis so far this year, with about one-half of this rise occurring in the past month.

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Other major foreign currencies have shown little net change against the dollar over the past month, and the 1/2 per cent decline in the dollar's weighted-average exchange value over this period -- returning it to its level at the beginning of the year -- reflects largely the dollar's fall against the yen.

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The recent heavy demand for the Japanese yen on exchange markets reflects a growing awareness by market participants of Japan's strong basic payments position -- especially Japan's continuing large trade surplus -- and a number of statements from Japan's major trading partners urging the Japanese government to allow the yen to rise fully to reflect this strong payments position. Japanese officials have reaffirmed a policy of allowing the yen to move in response to market forces,

The shift in exchange market sentiment in favor of the pound was given further impetus over the past month by the positive reaction to the U.K. government's new budget proposals, and announcements of favorable recent economic developments in the United Kingdom, including a reduction in the trade deficit, an increase in industrial production, and a money supply decrease.

At the beginning of this month, the Scandinavian currencies were devalued relative to their snake partners; the Swedish krona's snake parity was lowered by 6 per cent, while the Norwegian and Danish krone were each devalued by 3 per cent. Speculation of an eventual realignment of the snake involving some devaluation of the Swedish krona had been widely circulated for some time. However, the timing of the simultaneous devaluation of all three Scandinavian currencies caught the market by surprise.

While the snake currencies have realigned their position relative to each other within the snake, the snake has moved little against the dollar. Over the past month, the mark, guilder and Belgian franc have appreciated by about 1-1/2 per cent against the dollar, while the Scandinavian currencies have fallen against the dollar by an average of 2 per cent. Following the realignment, the Swedish krona has joined the Danish krone and the guilder at the top of the snake, while the mark has moved to the bottom of the snake

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Among other European currencies, the Swiss franc has shown the greatest movement against the dollar over the past month, rising by 2 per cent . Despite its recent appreciation, the Swiss franc remains 2-1/2 per cent below its level against the dollar at the beginning of the year.

. Downward pressure on the lira persisted as the Italian government met some resistance from labor unions over conditions of the IMF loan application. Current indications are, however, that a compromise has been reached that is acceptable to the IMF.

The gold price moved up to nearly $155 in late March, but has since declined, and is currently slightly above $150. The IMF's eighth gold auction was held on April 6. Total bids were lower than at previous auctions, but the $149.18 average price of successful bids was a record high.

U.S. International Transactions. In February the U.S. merchandise trade deficit reached an annual rate of $25 billion, up from deficit rates of roughly $22 billion in January and $14 billion in the fourth-quarter of 1976. Bank-reported private capital transactions registered small net inflows in both January and February, following a substantial fourth-quarter net outflow. Transactions in securities during January and February also showed a sharp drop from their fourth-quarter rate of net outflow.

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

	1976	1976				1977		
	Year^r	Q1	Q2	Q3^r	Q4^r	Jan.^r	Feb.	Jan.-Feb.
EXPORTS	114.7	108.0	113.5	118.4	118.9	117.4	118.4	117.9
Agric.	23.4	21.5	23.1	25.3	23.7	22.5	24.6	23.6
Nonagric.	91.3	86.5	90.5	93.1	95.2	94.9	93.8	94.4
IMPORTS	123.9	113.3	119.7	129.5	133.2	139.8	143.7	141.8
Fuels	37.1	32.5	35.3	40.1	40.7	40.6	44.0	42.3
Nonfuels	86.8	80.8	84.4	89.5	92.5	99.3	99.7	99.5
BALANCE	-9.2	-5.3	-6.1	-11.1	-14.3	-22.4	-25.3	-23.9

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

Nonagricultural exports in January-February were slightly below their fourth-quarter rate, but slightly higher than rates prevailing prior to their one-month surge in December. The recent pattern of slow export growth reflects the sluggishness of economic activity abroad. It now appears that the surge in new export orders during the second half of 1976 was primarily associated with several large military contracts received in the months prior to the November elections. Military export shipments, which are reported separately from regular merchandise exports, have continued at relatively high levels in recent months. Unit values of nonagricultural exports have held fairly steady since October.

Agricultural exports in January-February remained at their fourth-quarter rate in value terms, as unit value increased and volume declined, each by roughly 4 per cent. Owing to unusually-good crops and the replenishment of stocks around the world, wheat export volumes since November have been substantially lower than in any Winter since 1971-72. For other leading crops, cotton exports during January-February were more than twice the volume recorded a year earlier, while corn exports were down 10 per cent in volume and soybean exports were up 7 per cent. Wheat and corn prices in January-February were lower than a year earlier; cotton and soybean prices were substantially higher.

Nonfuel imports in January-February increased 7.5 per cent in value from their fourth-quarter rate, accounting for most of the increase in the trade deficit. More than half of the associated 4.5 per cent expansion in volume reflected an increase in imports of consumer goods (other than foods and automobiles). The unit value of nonfuel imports in January-February was 3 per cent higher than in the fourth-quarter; coffee (which represents about 5 per cent of the value of nonfuel imports) became 20 per cent more expensive.

Fuel imports in January-February increased 4 per cent in value from their fourth-quarter rate, as stocks that had been depleted by unusually cold weather were replenished. The volume of petroleum imports averaged 8.6 million barrels per day (mbd) in January-February, compared with a fourth-quarter average of 8.3 mbd and a 1976 average of 7.8 mbd. At the end of February the unit value of petroleum imports stood at $12.89 per barrel, more than 4 per cent higher than at the end of 1976.

Bank-reported private capital transactions resulted in a net inflow of nearly $300 million in January-February, following a fourth-quarter outflow in excess of $4 billion. This swing was probably partly seasonal, but also reflected a relative decline in foreign interest rates. Recorded changes in bank-reported gross claims and liabilities in February were reduced by offsetting accounting adjustments of about $1.3 billion.

Foreign private net purchases of U.S. Treasury securities provided an inflow of $1.2 billion in January-February, following a small fourth-quarter outflow. Both January and February inflows largely reflected portfolio restructuring by the World Bank, which sold CDs and other short-term bank liabilities to purchase long-term Treasury issues. Several foreign central banks have similarly restructured their investment portfolios in the United States, consistent with a belief that interest rates on long-term Treasury debt are not likely to rise substantially during 1977.

Other private securities transactions resulted in a small net inflow during January-February. Foreign net purchases of U.S. corporate stocks reversed a small fourth-quarter outflow, while foreign net purchases of U.S. corporate bonds jumped to about $325 million, due primarily to a large new issue sold abroad by a financial subsidiary of a U.S. corporation. U.S. purchases of foreign stocks jumped from $19 million in January (and a monthly average of $25 million in 1976) to $110 million in February. U.S. purchases of foreign bonds increased from $30 million in January to $350 million in February, but this was still low compared with average monthly outflows of roughly $700 million last year.

Foreign official reserve assets in the United States (excluding OPEC) increased by $1 billion in February, following a $200 million decline in January and a $5.6 billion increase in the fourth quarter. Japan increased its reserve holdings in the United States by $365 million in February, as the yen appreciated, while Canadian reserves in the United States declined by $350 million, as the Canadian dollar continued under downward pressure. OPEC reserve assets in the United States declined by $100 million in February, following increases of $1.5 billion in January and $500 million in the fourth quarter.

<u>Monetary Conditions in Major Foreign Countries</u>. Interest rates in most major foreign countries are now lower -- in some cases sharply lower, than they were at the end of last year, whereas U.S. interest rates are currently higher. (See Table.) Changes in the pace of monetary expansion abroad are less pronounced, with the notable exception of the United Kingdom where monetary growth has decelerated markedly. (See Table.)

The widespread decline in foreign interest rates in the face of stable or rising U.S. rates -- and a widespread expectation that U.S. rates will increase further as the year progresses -- is quite unusual, given the important influence U.S. interest rates normally exert on foreign rates. In general -- though probably not in Britain -- the decline seems to reflect a downward shift in expectations about the strength of the economic recovery abroad and an easing of monetary policy. There is little evidence so far of a strong recovery, and even in those countries where earlier evidence had been bullish -- notably Germany -- the latest data raise some doubts.

The decline in <u>British</u> interest rates -- both short - and long-term -- has been striking. It coincides with sharp upward pressure on the exchange value of sterling, with massive sales of long-term government debt (gilts), and with a marked deceleration in the rate of monetary growth. The levels of both M1 and M3 in February were below September levels; in the banking year ending in April, sterling M3 is likely to have increased only about 9 per cent from the previous year, while domestic credit expansion in that period may have been only half of the £9 billion ceiling agreed upon with the IMF.

3-MONTH AND LONG-TERM INTEREST RATES IN SELECTED INDUSTRIAL COUNTRIES
(Per cent per annum)

	1976			1977			
	High	Low	Dec.*	Jan.*	Feb.*	Mar.*	Latest
3-MONTH RATES 1/							
Belgium	15.00 (Sept.)	6.13 (Jan.)	10.73	8.49	7.59	7.07	7.13 (4/13)
Canada	10.38 (Mar.)	8.00 (Dec.)	8.51	8.24	7.78	7.63	7.63 (4/12)
France	11.25 (Oct.)	6.00 (Jan.)	10.55	10.02	9.81	9.87	9.38 (4/13)
Germany	5.00 (Dec.)	3.40 (May)	4.82	4.70	4.64	4.70	4.60 (4/13)
Italy	20.88 (July)	7.50 (Jan.)	17.13	15.68	15.86	16.57	16.38 (4/13)
Japan	8.25 (Jan.)	7.25 (May)	8.00	7.50	7.50	7.20	7.00 (4/13)
Netherlands	16.00 (Aug.)	2.63 (Mar.)	6.51	6.18	6.04	5.73	5.63 (4/13)
Switzerland	2.63 (Jan.)	0.75 (June)	1.98	1.24	1.68	2.88	2.50 (4/13)
United Kingdom	16.25 (Oct.)	8.31 (Feb.)	14.27	13.53	11.56	10.31	8.88 (4/12)
United States	5.75 (June)	4.50 (Dec.)	4.54	4.68	4.69	4.74	4.71 (4/13)
LONG-TERM GOV'T. BOND YIELDS 2/							
Belgium	9.30 (Nov.)	8.80 (Jan.)	9.22	9.24	9.08	n.a.	9.08 (2/28)
Canada	9.49 (Jan.)	8.47 (Dec.)	8.47	8.52	8.62	8.82	8.83 (4/1)
France	10.72 (Dec.)	9.89 (Feb.)	10.72	10.50	10.51	10.65	10.65 (3/25)
Germany	7.74 (Jan.)	6.26 (Dec.)	6.44	6.36	6.32	5.83	5.74 (4/6)
Italy	14.54 (Oct.)	11.40 (Jan.)	13.92	14.34	14.68	14.72	14.79 (4/1)
Japan	8.80 (Nov.)	8.61 (Feb.)	8.73	8.58	8.50	8.42	8.42 (3/31)
Netherlands	9.76 (Sept.)	7.00 (Feb.)	7.43	7.70	7.58	7.55	7.52 (4/1)
Switzerland	5.86 (Jan.)	4.41 (Nov.)	4.42	4.05	3.97	3.96	3.94 (4/1)
United Kingdom	15.51 (Oct.)	12.84 (Feb.)	13.82	12.42	12.90	11.63	11.80 (4/6)
United States	8.17 (May)	7.26 (Dec.)	7.17	7.62	7.73	7.72	7.70 (4/11)

* The 3-month rates shown are the average of daily rates in the month; long-term yields are end-month quotations.

1/ Interbank rates, except: Belgium-time deposit rate; Canada-finance company rate; Japan - rate on paper of 2-month or greater maturity; U.S. - 90-day CD rate (most often quoted).

2/ The long-term rates quoted are all government bond yields (mostly composite yields). For the United States, the 20-year constant maturity bond yield is quoted.

GROWTH OF THE MONEY STOCK
IN SELECTED INDUSTRIAL COUNTRIES
(Percentage change; SAAR)

		Average change during latest 3 months	Average change during previous 3 months	Change in latest 3 months from same period year earlier	Latest Month
Canada	M_1	13.8	2.6	4.1	Feb.
	M_2	13.3	13.9	16.9	Feb.
France	M_1	1.1	7.9	10.6	Dec.
	M_2	12.0	11.7	13.2	Jan.
Germany	M_1	1.9	2.9	6.4	Feb.
	M_2	0	11.5	7.7	Feb.
	CBM 1/	6.6	13.3	8.4	Feb.
Japan	M_1	- 0.6	11.6	10.4	Feb.
	M_2	9.0	11.2	12.8	Feb.
Switzerland	M_1 2/	16.1	5.6	7.5	Jan.
United Kingdom	M_1	2.3	6.4	11.4	Feb.
	M_3	-10.7	13.7	8.8	Feb.
United States	M_1	4.0	7.3	5.9	Mar.
	M_2	8.1	12.8	10.8	Mar.

1/ "Central Bank Money," which approximately equals a weighted sum of the components of M_3.

2/ Swiss data are not seasonally adjusted.

The sharp decline in interest rates in the United Kingdom should be viewed in perspective. Short-term and long-term rates still remain high, by historical standards and relative to rates in other countries (though not relative to the expected inflation rate); they have declined only from extraordinarily high crisis levels. The fact that the public sector will have to borrow less than had previously been anticipated and the more explicit awareness that Britian's external position is manageable -- because of North Sea Oil and because of the willingness of the IMF and private creditors to lend to Britain -- are important ingredients in the pronounced change in atmosphere. The recently-announced Budget also was accepted by the market as an indication of the Government's determination to abide by the conditions of the IMF agreement and to proceed cautiously in its stimulation of aggregate demand. (For highlights of the Budget, see below.)

Although the Bank of England welcomed the strength in domestic financial markets, the Bank attempted (not to successfully) to slow the decline in interest rates by manipulating it Minimum Lending Rate and the terms on which it provided assistance to the money market. In other countries monetary policy actions were more directly responsible for interest-rate declines.

The Bank of Japan lowered its discount rate on March 12 from 6.5 to 6 per cent "in view of the continued slow pace of economic recovery and the moderation of price movements." Subsequently market interest rates declined, as did some deposit rates. On March 25, the Bank of Japan announced its ceilings on the expansion of loans by city banks for the second quarter; the ceilings are below the ceilings in recent quarters, implying a 10 per cent growth of credit from the end of the second quarter of 1976 to the end of the second quarter of 1977. The slowing of the allowable increase in credit reflects the continued weakness of credit demand. Not only has investment been weak, but, with improved profit positions, business corporations apparently have preferred to use internal sources of funds. Moreover, there are reports that banks have been reluctantly accepting prepayments on outstanding loans that would normally have remained on the books. This behavior also helps to explain the fact that there has been virtually no growth in M1 since November, although M2 has continued to increase at near trend rates.

German monetary authorities may have eased monetary policy somewhat, perhaps to counter criticism that not enough is being done to stimulate the economy. The growth rate of "Central Bank Money" in January-February was above the 6-7 per cent rate for growth from 1976.Q4 to 1977.Q4 that is implied by the 8 per cent year-over-year target. Despite the rapid monetary growth, the Bundesbank raised rediscount quotas on March 3 and, on March 1, revised its minimum reserve requirements (which had the effect of lowering required reserves). The consequent increase in bank liquidity has led to a slight decline in interbank rates and a more pronounced decline in long-term bond yields, as banks have been major buyers of bonds. A 10 year federal loan was recently floated at less than 7 per cent for the first time since early in the decade.

The Bank of Canada has acted repeatedly to lower interest rates in an attempt to raise the growth rate of M1 to the target 8-12 per cent range. Recent M1 growth has, in fact, been quite rapid, and has brought the trend rate to the lower end of the target range. It is the announced aim of the Bank of Canada progressively to moderate the growth of M1. The March 31 budget was formulated with this in mind. (For highlights of the budget, see below.)

In Italy interest rates remain high. Short-term rates are currently below December levels but are above January and February levels. Long-term yields have risen, as the minimum amount of government securities banks must hold in relation to increases in their deposits has been lowered by the authorities in order to move toward a more normal term structure of interest rates. The monetary base (adjusted for changes in reserve requirements) rose less than 12 per cent during 1976 (December to December), compared with almost 22 per cent the previous year. However, M2 increased by over 23 per cent during both years, and M1 actually increased much faster during 1976 than during 1975.

At the end of March, the Bank of Italy announced an extension for 12 months of the ceilings on credit expansion introduced last October and scheduled to expire last month. These ceilings are designed to counteract internal inflationary pressures and to help Italy meet creditors' conditions on domestic credit expansion, but they will tend to induce an inflow of foreign funds, since only credit in lire are subject to the ceilings. In connection with the Italian application for a stand-by credit of SDR 450 million from the IMF, Italian authorities have agreed to specific limits on the public sector deficit and domestic credit expansion, have agreed as well to try to reduce the rate of inflation to 16 per cent in the 12 months to December 1977 and to refrain from imposing restrictions on current-account transactions.

This year, interest rates in France have declined as the franc has stabilized in exchange markets. Credit ceilings, announced last fall, allow for growth of controlled credits of just over 5 per cent from December 1976 to December 1977, and should, therefore, help the Bank of France to achieve its target of a 12-1/2 per cent maximum growth rate of M2. However, the category of credits exempt from the ceilings has been broadened. In particular, Prime Minister Barre announced at the end of March that FF4 billion in government loans would be available to firms at below-market rates to finance investment. The funds must be requested by June 30, and projects must be started by September 30, to qualify for these loans. The Government is also planning to take other measures to support activity in the depressed building and public works sectors.

In Switzerland, short-term interest rates have moved higher as the Swiss National Bank has begun to tighten control over domestic monetary expansion by restricting end-of-quarter foreign-exchange swaps with Swiss banks. In the three months ending in January, M1 was 7-1/2 per cent higher than a year earlier; the target is for a growth rate of M1 of 5 per cent this year. Long-term rates may move up as well (reversing the decline so far this year) if reduced expectations of the future appreciation of the Swiss franc induce more foreign issues of Swiss-franc-denominated bonds.

Highlights of the British Budget for the fiscal year beginning April 1977, presented to Parliament by Chancellor of the Exchequer Denis Healey on March 29:

-- Personal income taxes will be reduced by some £1.3 billion in a full year.

-- If a satisfactory agreement is reached on wage policy for the third phase of U.K. incomes policy, which is to begin in August, there will be an additional reduction in the basic rate of personal income taxation (from 35 per cent to 33 per cent), amounting to about £1 billion in a full year.

-- Indirect taxes will be raised by about £800 million.

-- Spending programs for the next two years, totalling £400 million, were announced.

-- In his budget message, the Chancellor said that on unchanged policies, the public sector borrowing requirement (PSBR) in fiscal 1977/78 would have been £7.5 billion -- an amount that is well below the £8.7 billion target set in December. The budget measures -- including the conditional tax cut of £1 billion -- are expected to result in a PSBR of £8.5 billion in 1977/78 (6 per cent of GDP). Domestic credit expansion (DCE) in 1977/78 is expected to be within the £7.7 billion ceiling announced in December, and sterling M3 growth, according to the Chancellor, should be in the 9 to 13 per cent range. Thus, the forecasts for both the PSBR and DCE are consistent with the conditions for the IMF stand-by agreed upon in December. The budget measures should add perhaps 1/2 per cent to output by mid-1978, according to the Chancellor.

Highlights of the Canadian budget for the fiscal year beginning April 1977, presented to Parliament by Finance Minister Donald Macdonald on March 31:

-- Expenditures on 1977/78 on a National Accounts Basis will be about $C44.5 billion or about 9.8 per cent higher than in the previous fiscal year. This rate of increase in expenditures is less than the expected rate of growth of nominal GNP and $C650 million less than the increase in expenditures announced last month in the preliminary budget.

-- The proposals in the budget will reduce the Federal taxes of Canadian individuals by approximately $C400 million and those of Canadian corporations by approximately $C780 million in the fiscal year 1977/78.

-- The budget deficit on a National Accounts Basis is expected to rise from an estimated $C4.5 billion 1976/77 to a forecast $C5.7 billion in 1977/78. Total financial requirements (excluding foreign exchange transactions) are expected to rise from an estimated $C5.4 billion in 1977/78 to a forecast $C6.4 billion in 1977/78.

-- Controls over prices and incomes introduced in October 1975 for a three-year period are to be retained at least until October 1977 (unless a voluntary arrangement to limit prices and incomes is agreed upon before that date). The phasing-out process will be gradual.