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Confidential (FR) Class II FOMC

Part 2

March 15, 1978

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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

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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	Feb.	3-10-78	99.1	-.2	.9	2.9
Unemployment rate (%)1/	Feb.	3-10-78	6.1	6.3	6.7	7.6
Insured unemployment rate (%)1/	Feb.	3-10-78	3.7	3.5	3.7	4.3
Nonfarm employment, payroll (mil.)	Feb.	3-10-78	84.1	5.0	4.0	4.0
Manufacturing	Feb.	3-10-78	20.1	7.1	7.7	4.2
Nonmanufacturing	Feb.	3-10-78	64.0	4.3	2.8	3.9
Private nonfarm:						
Average weekly hours (hr.)1/	Feb.	3-10-78	35.7	35.6	36.2	36.2
Hourly earnings ($)1/	Feb.	3-10-78	5.49	5.48	5.41	5.10
Manufacturing:						
Average weekly hours (hr.)1/	Feb.	3-10-78	39.9	39.6	40.5	40.3
Unit labor cost (1967=100)	Jan.	2-28-78	162.1	23.4	13.0	7.5
Industrial production (1967=100)	Feb.	3-15-78	139.2	6.1	-.3	4.5
Consumer goods	Feb.	3-15-78	144.0	12.6	-3.3	2.5
Business equipment	Feb.	3-15-78	154.8	11.0	3.4	7.9
Defense & space equipment	Feb.	3-15-78	80.7	-10.3	7.1	2.8
Materials	Feb.	3-15-78	137.8	.9	-3.5	3.8
Consumer prices (1967=100)	Jan.	2-27-78	187.4	9.0	6.5	6.7
Food	Jan.	2-27-78	199.2	15.3	8.6	8.6
Commodities except food	Jan.	2-27-78	169.5	7.8	6.5	4.8
Services	Jan.	2-27-78	201.5	7.2	5.6	7.6
Wholesale prices (1967=100)	Feb.	3-9-78	202.1	12.6	9.3	6.2
Industrial commodities	Feb.	3-9-78	203.1	8.3	7.6	6.7
Farm products & foods & feeds	Feb.	3-9-78	196.4	29.4	15.7	4.4
Personal income ($ bil.)2/	Jan.	2-16-78	1626.4	3.2	10.7	11.8
				(Not at annual rates)		
Mfrs. new orders dur. goods ($ bil.)	Jan.	3-3-78	63.0	-4.7	.8	14.5
Capital goods industries	Jan.	3-3-78	19.8	-11.1	-4.9	19.2
Nondefense	Jan.	3-3-78	16.6	-4.3	.7	13.7
Defense	Jan.	3-3-78	3.1	-35.3	-26.5	60.9
Inventories to sales ratio:1/						
Manufacturing and trade, total	Dec.	3-13-78	1.41	1.44	1.47	1.44
Manufacturing	Jan.	3-3-78	1.56	1.51	1.56	1.62
Trade	Dec.	3-13-78	1.30	1.33	1.37	1.30
Ratio: Mfrs.' durable goods inventories to unfilled orders1/	Jan.	3-3-78	.599	.608	.629	.631
Retail sales, total ($ bil.)	Feb.	3-10-78	60.1	.6	-2.4	4.9
GAF	Feb.	3-10-78	13.4	2.9	-3.5	7.1
Auto sales, total (mil. units)2/	Feb.	3-7-78	10.5	5.0	1.0	-2.3
Domestic models	Feb.	3-7-78	8.5	6.5	2.3	-3.9
Foreign models	Feb.	3-7-78	1.9	-1.5	-4.2	5.6
Plant & Equipment expen. ($ bil.)2/						
All industries	1978 3/	3-9-78	150.68	—	—	10.9
	QI '78 3/	3-9-78	146.25	5.9	—	12.4
	QII '78 3/	3-9-78	149.16	2.0	—	11.1
	H2 '78 3/	3-9-78	153.24	2.7	—	10.0
Capital Appropriations, Mfg.	QIV '77	3-1-78	17,646	-.2	—	22.9
Housing starts, private (thous.)2/	Jan.	2-16-78	1,549	-29.4	-27.6	11.2
Leading indicators (1967=100)	Jan.	2-28-78	132.8	-1.9	-1.0	5.1

1/ Actual data used in lieu of per cent changes for earlier periods.
2/ At annual rate.
3/ Planned-Commerce March Survey.

DOMESTIC NONFINANCIAL DEVELOPMENTS

Economic activity exhibited underlying strength despite the lengthy coal strike and a continuation of severe weather. Payroll employment increased substantially further in February while industrial production recouped much of its January decline. In addition, the latest Commerce survey provided further evidence that capital spending will grow moderately in 1978. At the same time, increases in wholesale and retail prices have been considerably larger than during the second half of 1977, mainly reflecting sharp gains in food prices.

Employment and industrial production. Reflecting the fundamental strength of aggregate activity, employment growth was brisk in February. Nonfarm payroll employment (strike adjusted) rose 350,000, following a January rise of 265,000 and an average monthly advance of 240,000 over the last six months of 1977. Widespread gains in the private service-producing industries continued at a pace similar to that of the second half of last year, while growth of manufacturing employment has accelerated in recent months. The average number of hours worked in February rose just 0.1 hour from January's weather-depressed level. The rebound in the manufacturing workweek was somewhat stronger, but average factory hours remained 0.6 below that for the final quarter of 1977.

Total employment edged up only fractionally in February as a healthy gain in nonfarm employment was partially offset by a decline in agricultural jobs. The civilian labor force was little changed in

AVERAGE MONTHLY CHANGES IN EMPLOYMENT
(Thousands; based on seasonally adjusted data)

	Dec. 75 to Dec. 76	Dec. 76 to June 77	June 77 to Dec. 77	Dec. 77 to Jan. 78	Jan. 78 to Feb. 78
Nonfarm payroll employment[1/]	195	298	212	296	349
(Strike adjusted)	191	305	239	266	354
Manufacturing	45	83	43	107	118
(Strike adjusted)	45	90	46	88	128
Durable	38	53	44	83	94
Nondurable	8	30	-1	24	24
Construction	3	47	10	-34	34
Trade	53	57	58	168	53
Services and finance	68	70	87	20	88
State and local government	18	25	31	28	31
Total employment[2/]	246	367	327	272	122
Nonagricultural	246	352	328	241	234

1/ Survey of establishments.
2/ Survey of households.

SELECTED UNEMPLOYMENT RATES
(Per cent, seasonally adjusted)

	1976	1977				1978	
	QIV	QI	QII	QIII	QIV	Jan.	Feb.
Total, 16 years and older	7.8	7.4	7.1	6.9	6.6	6.3	6.1
Men, 20 years and older	6.0	5.7	5.2	5.0	4.8	4.7	4.5
Women, 20 years and older	7.5	7.1	7.0	7.0	6.8	6.1	5.7
Teenagers	19.1	18.6	18.1	17.6	16.7	16.0	17.4
Married men	4.3	3.9	3.6	3.4	3.4	2.9	2.9
Full-time workers	7.4	6.9	6.6	6.5	6.2	5.8	5.7
White	7.1	6.7	6.3	6.1	5.8	5.5	5.3
Black and other	13.4	12.9	12.8	13.6	13.3	12.7	11.8

February, and the unemployment rate fell 0.2 percentage points to 6.1 per cent--the lowest level since late 1974. The drop in joblessness occurred largely among adult workers while the often-volatile unemployment rate for teenagers jumped nearly 1-1/2 percentage points.

A special Labor Department tally of layoffs at large factories due to energy shortages in 11 coal-dependent States totaled 9,500 during the week ending February 18--the week in which the regular labor market survey was conducted. At that time, establishments in the affected areas evidently adjusted to energy curtailments by cutting back hours of work rather than employment. Despite the continuation of the coal strike, layoffs due to coal shortages among manufacturing firms in the 11 coal-dependent States only had risen to 25,500 by March 4, a small share of the 7.8 million factory workers in the affected area. Layoffs at trade establishments were negligible, although cutbacks in hours of work were reported.

Industrial production increased half a per cent in February recovering much of the January decline. Output of most consumer goods and equipment industries increased somewhat. Auto assemblies rose by 300,000 units to an 8.2 million unit annual rate. Raw steel production declined slightly, but output of many other materials increased moderately. The secondary effects of the coal strike on February industrial production are estimated to have limited the gain by roughly 0.2 percentage point. Output in February was at about the same level as the average for the fourth quarter of 1977.

INDUSTRIAL PRODUCTION
(Per cent change from previous period; seasonally adjusted)

	At compound annual rates					
	1977				1978	
	QI	QII	QIII	QIV	Jan.	Feb.
Total	6.3	10.5	4.3	2.5	-.8	.5
Products	8.2	8.0	6.3	2.6	-.9	.7
Consumer goods	7.7	6.3	4.9	1.0	-2.3	1.1
Durable	10.4	14.8	7.9	.1	-6.0	2.7
Nondurable	6.6	2.9	3.5	1.2	-.7	.5
Business equipment	12.5	15.3	7.5	5.2	-.5	.9
Intermediate products	7.2	4.7	8.0	6.8	.6	.5
Construction supplies	2.1	7.6	10.3	13.4	.5	.7
Materials	3.5	14.5	1.4	2.0	-.7	.1
Durable	2.6	19.6	2.5	5.2	-.6	.4
Nondurable	7.4	14.3	-.5	1.1	-1.0	1.0
Energy	-.1	2.2	2.4	-5.2	-.2	-1.8

With the resumption of output growth, capacity utilization in manufacturing edged up slightly in February, following a drop of more than 1 percentage point in January. Even excluding the adverse effects of the special factors of the past few months, the operating rate has been little changed for more than half a year. The operating rate in the materials sector edged down further in February and stands significantly below its historical average.

Consumer sector activity. Compared to production, sales apparently did not recover as fully from the severe weather. Total retail sales rose 0.6 per cent in February after falling considerably in January. Sales excluding autos and mainly nonconsumption items rose 2.2 per cent after falling 3-1/2 per cent in the previous month. Sales at food outlets increased in January and February, probably largely because of sharp increases in food prices.

Total auto sales were at a 10.5 million unit annual rate in February up somewhat from the January sales pace. Sales of domestic models rose 500,000 units to an 8.5 million unit annual rate and rose further to a 9.3 million unit rate in early March. Foreign car sales in February edged down for the second successive month and also were slightly below the fourth quarter average; even so, imports accounted for 18 per cent of unit sales.

Surveys of consumer attitudes continue to indicate a sustained high level of confidence, supporting the expectation of a brisk recovery of retail sales. The Michigan survey indicated

RETAIL SALES
(Per cent change from previous period;
based on seasonally adjusteu data)

	1977			1978	
	QII	QIV	Dec.	Jan.	Feb.
Total sales	1.5	4.4	.8	-3.8	.6
(Real)1/	.7	3.4	.3	-4.7	n.a.
Total, less auto and nonconsumption items	1.9	4.1	.7	-3.5	2.2
GAF	3.4	6.3	2.0	-8.1	2.9
Durable	.8	5.6	.9	-6.2	-2.8
Auto	-.5	6.4	1.9	-6.3	-3.7
Furniture & appliances	2.1	3.6	-.7	-7.1	1.1
Nondurable	1.9	3.9	.7	-2.6	2.3
Apparel	1.3	6.9	-5.0	-5.0	3.7
Food	.4	2.5	-1.2	1.3	1.1
General merchandise	4.7	7.2	5.8	-9.5	3.2
Gasoline	.0	2.3	2.1	-1.6	4.0

1/ Deflated by all commodities SA consumer price index.

AUTO SALES
(Seasonally adjusted, millions of dollars)

	1976	1977					1978	
	QIV	QI	QII	QIII	QIV	Dec.	Jan.	Feb.
Total	10.0	11.1	11.7	10.9	10.8	11.0	10.0	10.5
Imports	1.7	1.8	2.4	2.0	2.0	2.1	2.0	1.9
Domestic	8.3	9.3	9.3	8.9	8.8	8.9	8.0	8.5
Large	5.2	6.1	5.9	5.5	5.4	5.6	4.9	5.2p
Small	3.1	3.1	3.3	3.4	3.4	3.3	3.1	3.3p

MANUFACTURERS' INVENTORIES AND SHIPMENTS
(Seasonally adjusted)

	Inventories (bil. $, annual rate)		Shipments (per cent change)[2/]	
	77Q4	Jan. 78	77Q4	Jan. 78
All manufacturing	2.2	9.0	3.2	-2.8
Durable goods[1/]	3.1	4.6	3.8	-3.3
Primary metals	-1.1	-3.4	1.1	-2.9
Machinery	4.1	3.0	4.5	-2.1
Transportation equipment	-1.2	.8	3.3	-3.7
Nondurable goods[1/]	-.9	4.4	2.6	-2.2
Food & kindred products	-2.9	-.1	2.2	-1.8
Textile mill products	.2	.9	5.6	-3.5
Paper & allied products	-.2	.8	2.2	-3.3
Chemicals	1.1	2.4	3.3	-1.6
Petroleum & coal products	.7	-.4	3.0	-2.3

1/ Includes industries not shown separately.

2/ Per cent change from previous comparable period.

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

	1976	1977						1978
	QIV	QI	QII	QIII	QIV(r)	Nov.	Dec.(r)	Jan.(p)
Manufacturing and trade	11.4	34.2	32.1	26.4	12.5	26.6	-.5	n.a.
Manufacturing	6.5	11.2	17.8	9.4	2.2	4.5	-5.3	9.0
Durable	6.4	7.8	10.9	5.5	3.1	7.7	+.1	4.6
Nondurable	.0	3.3	6.8	3.9	-.9	-3.3	-5.4	4.4
Trade, total	4.9	23.0	14.3	17.1	10.3	22.1	4.8	n.a.
Wholesale	3.5	12.0	2.6	4.7	7.5	10.1	11.4	8.1
Retail	1.5	11.1	11.8	12.4	2.8	12.0	-6.6	n.a.
Auto	1.3	2.2	2.4	1.3	1.8	3.9	-.6	n.a.

INVENTORY RATIOS

	1976	1977						1978
	QIV	QI	QII	QIII	QIV(r)	Nov.	Dec.(r)	Jan.(p)
Inventory to sales:								
Manufacturing and trade	1.49	1.46	1.46	1.48	1.44	1.44	1.41	n.a.
Manufacturing	1.66	1.58	1.58	1.59	1.54	1.56	1.51	1.56
Durable	2.04	1.94	1.94	1.93	1.88	1.90	1.83	1.89
Nondurable	1.25	1.20	1.20	1.21	1.18	1.19	1.16	1.19
Trade, total	1.34	1.34	1.34	1.37	1.33	1.33	1.30	n.a.
Wholesale	1.24	1.24	1.21	1.24	1.23	1.21	1.19	1.22
Retail	1.42	1.43	1.45	1.48	1.43	1.44	1.42	n.a.
Inventories to unfilled orders:								
Durable manufacturing	.632	.635	.631	.640	.608	.623	.608	.599

a further small improvement in sentiment in February. Evaluations of present economic conditions deteriorated about as much as they had last winter, but this was offset by a strong increase in longer-term expectations. The Conference Board index of consumer confidence held near the 5-year high recorded in the January survey.

Business Investment. Severe weather apparently led to increased inventory accumulation in January. The book value of manufacturers' stocks increased at a $9.0 billion annual rate, as winter storms evidently curtailed shipments more than production. The January rise in stocks was fairly evenly divided between the producers of durable and nondurable goods. By stage of processing, inventories of materials and supplies declined further. However, stocks of work-in-process increased for the second straight month and inventories of finished goods, which had declined sharply in December, rose strongly in January. Wholesale trade inventories rose at an $8 billion annual rate in January, close to the average pace for the fourth quarter.

Liquidation of coal stocks has partially offset the accumulation of other types of inventory. In the first two months of the year, coal stocks at electric utilities, oven-coke plants, and other coal users declined by about 62 million tons, or in value terms about $1-1/2 billion (not at annual rate). Based on current consumption rates, total coal stocks at electric utilities were still estimated to average about 66 days supply as of March 4. However, there are significant regional disparities in the distribution of such stocks.

PLANT AND EQUIPMENT EXPENDITURES
(Per cent increase from prior year)

	1977	Anticipated for 1978 Commerce Survey Dec. 1977	Anticipated for 1978 Commerce Survey Feb. 1978
All Business	12.7	10.1	10.9
Manufacturing	14.6	10.4	11.7
Durable	17.3	11.7	12.0
Nondurable	12.4	9.2	11.5
Nonmanufacturing	11.2	9.9	10.4
Mining	12.4	18.6	14.1
Railroads	11.4	15.2	12.8
Nonrail Transp.	-16.2	-1.0	-.2
Electric Utilities	14.8	11.5	15.0
Gas Utilities	21.3	14.1	10.7
Communications	16.2	8.9 2/	9.8
Commercial and Other	9.4	7.9 2/	7.1

1/ Commerce surveys are adjusted for systematic bias. Without adjustment the December survey showed a 10.9 per cent increase and the February survey showed a 13.9 per cent increase.

2/ Confidential breakdown, for use within FRB only.

Indicators of capital spending suggest further moderate growth. The Commerce Department February survey of planned outlays for plant and equipment indicates a 10.9 per cent increase for 1978, some deceleration from last year's 12.7 per cent advance. The level of capital spending now anticipated for 1978 is virtually the same as that reported in the Commerce December survey. However, because actual spending in 1977 fell short of earlier expectations, the percentage increase from 1977 to 1978 is now larger.

Contracts and orders for plant and equipment fell about 3-1/2 per cent in January after rising strongly at year-end. Nondefense capital goods orders were responsible for the weakness in January, declining 4.3 per cent after rising 9.3 per cent in December. The level of these orders in January was about equal to the average for the fourth quarter. Nonresidential construction contracts, on the other hand, rose about 2 per cent in January. Contracts for nonresidential building, in particular, have been strong recently. However, severe weather apparently curtailed construction activity in January--the value of nonresidential buildings put-in-place was 4 per cent below the fourth quarter average.

Capital appropriations, which typically lead outlays by about a year, continued at a high level in the fourth quarter. For all manufacturing, new appropriations net of cancellations declined 1 per cent after rising sharply in the previous quarter. Excluding the petroleum industry, where appropriations are volatile, the total rose 9 per cent in the fourth quarter. On either basis, net new appropriations have risen about 20 per cent over the past 4 quarters.

CONTRACTS AND ORDERS FOR PLANT AND EQUIPMENT[1/]
(Per cent change from preceding comparable period, seasonally adjusted)

	1977 QI	1977 QII	1977 QIII	1977 QIV	1977 Dec.	1978 Jan.	Jan. 77 to Jan. 78
Current dollars							
Total	3.0	9.6	.7	3.9	15.1	-3.5	19.6
Nondefense capital goods orders	6.7	4.1	.1	9.9	9.3	-4.3	13.7
Construction contracts[2/]	-14.7	43.0	3.2	-22.0	50.6	1.8	57.7
1972 dollars							
Total	1.4	8.2	-1.3	1.9	14.3	-3.3	12.5
Nondefense capital goods orders	5.0	2.8	-1.5	7.7	9.0	-5.6	6.0
Construction contracts[2/]	-17.3	41.1	1.8	-23.3	50.0	2.1	48.5

1/ 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 for private nonbuilding projects (e.g., electric utilities, pipelines, etc.).

2/ FRB staff estimate. Derived by subtracting new orders for nondefense capital goods from the published total for contracts and orders.

MANUFACTURERS' NET NEW CAPITAL APPROPRIATIONS[1/]
(Seasonally adjusted quarterly rate)

	Millions $	Percentage change		
	77QIV	77QII to 77QIII	77QIII to 77QIV	76QIV to 77QIV
All Manufacturing	16942	19.4	-1.0	21.3
Ex. Petroleum	12544	.7	9.3	19.3
Durables	7359	-8.8	18.8	24.7
Nondurables	9583	44.8	-12.3	18.8
Petroleum	4398	92.1	-22.0	27.5
Other Nondurables	5185	14.7	-1.9	12.3

1/ Newly approved capital appropriations minus cancellations.

Residential Construction

As was the case last winter, residential construction activity appears to have been severely hampered by the unusually bad weather. Reflecting both the 29 per cent (not at annual rate) drop in total private housing starts and slower progress on units already under construction, total residential expenditures fell 6 per cent in January to the lowest rate since last September. In real terms, these expenditures declined 7 per cent as increases in home prices and construction costs showed no significant slackening. Merchant builder sales also reflected the bad weather, declining 10 per cent in January. Inventories of new homes available for sale continued to edge up; at the end of January, these inventories represented a 6.4 month supply.

Government Sector Activity

Federal sector spending on a unified budget basis appears to have been about $2 billion below Administration expectations during recent months. The anticipation of further shortfalls has prompted the Administration to reduce its estimate of fiscal year 1978 spending by around $8-1/2 billion to $453-1/2 billion. The largest downward revisions occurred in the areas of defense, interest payments, energy, and grants for highways and waste treatment facilities. Looking at the receipts side of the budget, tax refund payments appear to be going out more slowly than last year. The number of tax returns processed and the number of refund checks mailed through the first week of March were substantially below a year earlier.

Spending by State and local governments appears to have been slowed by bad weather. Construction outlays, which at year-end had fallen 12 per cent since the summer, dropped an additional 10.5 per cent in January. Employment growth continued to be moderate in February, as the build-up in new public service jobs reportedly reached its targeted goal of 725,000 jobs.

Prices and Wages

Price increases accelerated in early 1978. This pickup mainly reflected sharp advances in food and in items most affected by legislated cost increases. The Producer (Wholesale) Price Index for finished goods rose 1.1 per cent in February--significantly more than in recent months. Most of the acceleration was due to a 2.9 per cent rise in consumer food prices. In contrast, the price increase of consumer finished goods other than food returned to the moderate pace of the last half of 1977. The sharp acceleration at earlier stages of processing was also due to farm and food prices.

Among nonfood commodities, price increases for crude (0.8 per cent) and intermediate materials (1.0 per cent) slowed somewhat in February but were still substantially larger than those posted during most of 1977. Spot prices for coal jumped dramatically in response to shortages caused by the strike.

The increase in consumer prices accelerated to 0.8 per cent in January, after rising at about half that pace over the previous six months. Reflecting recent increases at wholesale, consumer food prices rose sharply,

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

	Relative Importance Dec. 1977	1977 QI	1977 QII	1977 QIII	1977 QIV	1978 Jan.	1978 Feb.
Finished goods	41.2	10.0	6.4	2.9	7.0	7.8	12.9
Consumer foods	10.3	17.9	4.3	-2.9	8.1	13.1	35.1
Consumer nonfoods	18.7	9.0	7.8	4.2	4.2	6.1	4.1
Producer goods	12.2	5.0	6.8	6.0	10.5	5.7	8.1
Intermediate materials 2/	45.5	8.9	5.5	7.3	3.8	10.4	9.8
Crude materials 3/	4.6	25.6	-8.1	-5.6	18.8	18.1	12.5
All Commodities	100.0	11.1	4.0	1.9	6.9	10.3	12.0
Farm and food products	21.0	19.3	-3.1	-15.0	14.7	13.3	29.4
Industrial commodities	79.0	8.8	6.4	7.0	4.7	9.0	8.3
Industrial commodities ex. fuels and power	67.7	6.7	4.5	7.0	5.5	10.2	8.2

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
2/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.
3/ Excludes crude foodstuffs and feedstuffs.

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

	Relative Importance Dec. 77 2/	1977 QI	QII	QIII	QIV	1978 2/ Jan.
All items	100.0	10.0	7.8	4.5	4.9	9.0
Food	17.7	15.3	11.5	1.9	4.2	15.3
Commodities (nonfood)	41.6	7.4	4.2	2.7	5.4	7.8
Services	40.7	9.8	9.4	7.6	4.9	7.2
Memoranda:						
All items less food and energy 3/	73.7	8.5	6.9	5.1	5.3	10.6
Petroleum products 4/	5.2	12.5	9.9	.8	2.0	1.7
Gas and electricity	3.4	12.5	11.9	12.0	-.9	1.1

1/ Changes are from final month of preceding period to final month of period indicated. Monthly changes are not compounded.
2/ Based on new index for all urban consumers.
3/ Energy items excluded: gasoline and motor oil, fuel and coal, gas, and electricity.
4/ Not seasonally adjusted.

with the largest rises occurring for meat and poultry. Prices also accelerated in those sectors most affected by the minimum wage increase. Food away from home and housekeeping services rose at about twice the December rate. However, energy prices continued to rise only moderately as large stocks exerted a dampening influence.

The average hourly earnings index was about unchanged in February following a 15 per cent (annual rate) increase in January when the minimum wage was boosted. This is a fairly typical pattern for a month following a minimum wage hike. Over the December-February period, the wage index rose at a 7.6 per cent annual rate, about the same pace as during 1977.

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

	1977				1978	
	QI	QII	QIII	QIV	Jan.[2/]	Feb.[2/]
Private nonfarm	8.1	6.7	7.7	8.3	15.0	.4
Construction	5.7	4.5	4.0	5.6	9.8	3.2
Manufacturing	7.9	7.8	9.2	7.9	10.1	4.9
Trade	9.0	6.9	6.5	8.0	21.7	.4
Transportation and public utilities	6.0	7.3	8.0	10.8	7.4	-2.2
Services	10.3	5.7	8.4	8.9	22.8	-4.3

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.

III-T-1

SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data Period	Latest data Level	Net change from: Month ago	Three months ago	Year ago
		$ billions	Per cent at annual rates		
Monetary and credit aggregates 1/					
Total reserves	February	36.96	2.2	10.5	7.4
Nonborrowed reserves	February	36.55	4.9	16.0	6.5
Money supply					
M1	February	336.3	-3.9	3.6	7.1
M2	February	814.3	3.4	5.8	8.5
M3	February	1387.8	4.2	6.5	10.3
Time and savings deposits (less CDs)	February	258.4	15.0	11.6	13.0
CDs 3/	February	79.4	3.1	16.2	16.1
Thrift deposits (S&Ls + MSBs + Credit Unions)	February	573.5	5.3	7.5	13.0
Bank credit (end of month)	February	886.2	10.1	7.2	10.5

Indicator		Latest data Period	Latest data Per cent or index	Net change from: Month ago	Three months ago	Year ago
Market yields and stock prices						
Federal funds	wk. endg.	3/8/78	6.76	.01	.07	2.13
Treasury bill (90 day)	"	3/8/78	6.33	-.11	.28	1.69
Commercial paper (90-119 day)	"	3/8/78	6.75	-.01	.21	2.00
New utility issue Aaa	"	3/10/78	8.72	.03	.37	.42
Municipal bonds (Bond Buyer)	1 day	3/9/78	5.58	-.01	.04	-.34
FNMA auction yield (FHA/VA)		3/6/78	9.36	.09	.47	.70
Dividend price ratio (common stocks)	wk endg.	3/8/78	5.75	.39	.62	1.58
NYSE index (12/31/65=50)	end of day	3/13/78	49.54	-.36	-2.15	-5.56

Indicator	Period	Net Change or Gross Offerings: Latest Data	Year ago	Year to Date 1978	Year to Date 1977
		$ billions			
Credit demands					
Business loans at commercial banks 1/	Feb.	2.4	1.8	4.6	2.9
Consumer instalment credit outstanding 1/	Jan.	2.4	2.2	2.4	2.2
Mortgage debt outstanding (major holders) 1/	Dec.	9.5	6.4	96.2 3/	63.5 4/
Corporate bonds (public offerings)	Feb.	1.3e	1.1	2.5e	3.9
Municipal long-term bonds (gross offerings)	Feb.	2.8e	3.4	6.0e	7.0
Federally sponsored agcy. (net borrowing)	Feb.	1.6	-.6	2.6	-.2
U.S. Treasury (net cash borrowing)	Mar.	10.5	5.4	22.0	17.7

1/ Seasonally adjusted.
2/ $ billions, not at annual rates.
3/ 1977
4/ 1976
e Estimated

DOMESTIC FINANCIAL DEVELOPMENTS

Borrowing by nonfinancial sectors in February continued at about the same pace as in January, with some money and credit flows likely restrained by weather and strike-related factors. The volume of credit extended to businesses in both short- and long-term markets showed little change from the previous month, although borrowing by utilities declined noticeably. In the household sector, mortgage and consumer instalment credit apparently continued to expand at a rate below the very high rates late last year. Public sector borrowing moderated, as the Treasury raised about the same amount of funds as in January while tax-exempt issues fell off.

The key monetary aggregates weakened in February, due primarily to a contraction in M-1. Demand deposits fell sharply, in part because of dampening effects of the weather and the coal strike. The rate of expansion of the time and savings deposit component of M-2 was little changed from the January pace, while thrift deposit inflows slowed somewhat further.

Market interest rates generally have remained unchanged or edged down slightly since the last FOMC meeting. Money market rates have been anchored by the steadiness of the Federal funds rate, which has remained around 6-3/4 per cent since mid-January. However, some market rates have tended in recent weeks to register moderate declines following releases of weekly monetary statistics indicating generally weaker money growth than anticipated by many market participants. In addition, rates on short-term Treasury bills have fallen slightly in response to increased demand for

SELECTED FINANCIAL MARKET QUOTATIONS
(per cent)

	1977 1/		1978 2/				Change from:	
	High	Low	Jan. FOMC 17	Feb. FOMC 28	Mar. 7	Mar. 14	Jan. FOMC	Feb. FOMC
Short-term rates								
Federal funds 1/	6.65	4.47	6.78	6.80	6.76	6.77 3/	-.01	-.03
Treasury bills								
3-month	6.27	4.41	6.50	6.42	6.32	6.30	-.20	-.12
6-month	6.51	4.55	6.74	6.71	6.65	6.64	-.10	-.07
1-year	6.62	4.67	6.83	6.83	6.81	6.82	-.01	-.01
Commercial paper								
1-month	6.58	4.53	6.69	6.50	6.50	6.53	-.16	+.03
3-month	6.66	4.63	6.83	6.75	6.75	6.75	-.08	0
Large negotiable CDs 4/								
3-month	6.62	4.60	7.05	6.85	6.75	6.85	-.20	0
6-month	6.84	4.65	7.35	7.20	7.18	7.15	-.20	-.05
Bank prime rate	7.75	6.25	8.00	8.00	8.00	8.00	0	0
Intermediate- and long-term rates								
Corporate								
New AAA 5/	8.36	7.90	8.70	8.71	--	8.72p	+.02	+.01
Recently offered 6/	8.48	7.95	8.65	8.70	8.70	8.65p	0	-.05
Municipal (Bond Buyer) 7/	5.93	5.45	5.75	5.65	5.63	5.58	-.17	-.07
U.S. Treasury (constant maturity)								
3-year	7.39	5.74	7.65	7.70	7.70	7.64	-.01	-.06
7-year	7.66	6.48	7.89	7.95	7.94	7.91	+.02	-.04
20-year	7.96	7.20	8.17	8.21	8.21	8.17	0	-.04

	Low 8/	High 8/	FOMC Jan.17	FOMC Feb.28	Mar. 7	Mar. 14	Jan. FOMC	Feb. FOMC
Stock prices								
Dow-Jones Industrial	807.74	985.74	779.02	742.12	746.79	762.56	-16.46	+20.44
N.Y.S.E. Composite	50.13	56.98	49.67	48.43	48.62	49.75	+.08	+1.32
AMEX	110.37	126.86	120.62	122.85	123.23	125.77	+5.15	+2.92
Keefe Bank Stock 6/	530	633	558	561	561	561	+3	0

1/ Daily average for statement week, except where noted.
2/ One-day quotes except as noted.
3/ Average for first 6 days of statement week ending March 15.
4/ Highest quoted new issues.
5/ 1978 figures are averages for preceding week.
6/ 1978 figures are one-day quotes for preceding Friday.
7/ 1978 figures are one-day quotes for preceding Thursday.
8/ Calendar week averages.

these instruments by foreign buyers. But any tendency for a sustained rally in financial markets has been restrained by the continued apprehension over the declining value of the dollar in international exchange markets.

Monetary Aggregates and Commercial Bank Credit

M-1 declined at about a 4 per cent annual rate in February, reflecting a sharp decrease in demand deposits. This decrease is partly attributable to the depressing effects of the severe weather conditions and the coal strike on spending patterns as well as the lagging disbursement of Federal income tax refunds late in the month.[1/] While demand deposit flows appear quite weak even after allowing for these special factors, some of the remaining weakness reflects intraquarterly variability in this series not fully captured by current seasonal factors.

The weakening in February of the broader monetary aggregates, M-2 and M-3, was mainly attributable to the decline in M-1. Although interest-bearing deposits included in M-2 grew at about the same pace as in January, the composition of this growth changed significantly. With market interest yields in excess of regulatory ceilings on savings and small-denomination time deposits at banks throughout the month, inflows of such deposits

1/ The principal effects of both the severe winter weather and the coal strike have been to dampen retail sales and other types of economic activity which, in turn, reduce the demand for money for transactions purposes. In addition, income tax refunds in the last two weeks of February were substantially less than the average of the past three years.

MONETARY AGGREGATES
(Seasonally adjusted)1/

	1977 QIII	1977 QIV	1978 January	1978 February	1978 Jan-Feb
	Net changes at annual rates, per cent				
Major monetary aggregates					
1. M_1 (currency + demand deposits)	9.3	6.8	7.2	-3.9	1.6
2. M_2 (M_1 + time and savings deposits at CBs other than large CDs)	10.3	7.6	8.2	3.4	5.8
3. M_3 (M_2 + all deposits at thrift institutions)	12.4	10.8	7.9	4.2	6.0
Bank time & savings deposits					
4. Total	10.0	12.9	11.2	13.9	12.6
5. Other than large negotiable CDs at weekly reporting banks	10.9	8.1	8.9	8.6	8.8
6. Savings deposits	6.6	4.4	6.0	1.1	3.6
7. Individuals2/	10.0	6.8	6.4	1.2	3.8
8. Other3/	-36.8	24.3	0.0	0.0	0.0
9. Time deposits	15.0	11.2	11.4	15.0	13.3
10. Small time4/	7.4	1.0	5.8	2.9	4.3
11. Large time4/	32.6	32.7	20.7	40.6	31.0
Deposits at nonbank thrift institutions5/					
12. Total	15.5	15.4	7.2	5.3	6.2
13. Savings & loan associations	16.8	16.1	7.4	5.5	6.5
14. Mutual savings banks	10.5	10.2	3.6	1.8	2.7
15. Credit unions	19.3	24.8	15.4	12.6	14.1
	Average monthly changes, $ billions				
MEMORANDA:					
16. Total U.S. Govt. deposits	0.2	0.2	-1.7	-2.2	-2.0
17. Total large time deposits6/	1.4	6.6	3.1	6.0	4.6
18. Nondeposit sources of funds7/	1.4	1.3	2.2	2.5	2.4

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, government, and others, not seasonally adjusted.
4/ Small time deposits are time deposits in denominations less than $100,000. Large time deposits are time deposits in denominations of $100,000 and above excluding negotiable CDs at weekly reporting banks.
5/ Growth rates computed from monthly levels based on averages of current and preceding end-of-month data.
6/ All large time certificates, negotiable and nonnegotiable, at all CBs.
7/ Nondeposit borrowings of commercial banks from nonbank sources include Federal funds purchased and security RPs plus other liabilities for borrowed money, Euro-dollar borrowings and loans sold, less interbank loans.

decelerated toward the slow pace of the fourth quarter of 1977.[1/] Large-denomination time deposits not subject to Regulation Q ceilings, but included in M-2, increased about $3 billion last month and offset the slowdown in savings and small time deposit inflows.

Thrift institutions reported continued weak deposit inflows during February, as market interest rates were above ceiling rates on all but the longer-term time accounts. The weakness of thrift flows in recent months appears to have been most pronounced in the area of passbook accounts, although time deposit growth also has slackened. Increases in market interest rates early in the year enhanced the attractiveness of other investment alternatives relative to interest-bearing deposits subject to regulatory ceilings at both banks and thrifts. Total assets of money market mutual funds increased by more than $1 billion in January and February combined, and the volume of noncompetitive tenders at weekly Treasury bill auctions also was quite large.

On the asset side of commercial banks' balance sheets, total loans and investments increased at a 10 per cent annual rate in February, about in line with growth in January and all of last year. However, in sharp contrast to the rundowns in holdings of U.S. Treasury issues in the

1/ There was an unexpected bulge in savings and small time deposits in January. However, as noted in last month's Greenbook, all of the surge in these deposits occurred early in the month, suggesting that existing seasonal adjustment factors may not adequately capture the full effects of interest crediting and possibly the effects of flows into IRA and Keogh accounts.

COMMERCIAL BANK CREDIT
(Per cent changes at annual rates, base on seasonally adjusted data)[1/]

	1977				1978		
	QI	QII	QIII	QIV	Jan.	Feb.	Jan-Feb
Total loans & investments[2/]	10.6	12.6	8.6	8.3	12.1	10.1	11.2
Investments	10.9	9.4	-2.9	-5.8	-2.9	21.9	9.5
Treasury securities	26.7	5.4	-19.4	-26.4	-12.8	64.9	25.7
Other securities	0.5	12.1	8.4	7.4	3.0	-3.0	--
Total loans[2/]	10.5	14.0	13.7	14.3	18.3	5.4	11.9
Business loans	11.4	12.6	10.2	16.0	12.8	13.9	13.4
Security loans	--	18.1	4.3	19.3	91.8	-182.0	-52.0
Real estate loans	15.0	17.6	16.6	15.0	13.7	12.2	13.1
Consumer loans	11.8	16.5	18.4	16.2	11.2	n.a.	n.a.
MEMORANDA:							
1. Commercial paper issued by nonfinancial firms[3/]	15.2	38.0	5.3	15.8	-68.4	-40.3	-53.2
2. Business loans at banks net of bank holdings of bankers acceptances	16.4	13.3	8.9	14.9	19.2	16.5	18.0
3. Sum of memo items 1 & 2	16.3	15.0	8.6	14.9	12.8	12.6	12.8
4. Memo item 3 plus business loans from finance companies	17.1	16.6	9.0	18.2	13.3	n.a.	n.a.

1/ Last-Wednesday-of-month series except for June and December, which are adjusted to the last business day of the month.
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 end of month.

n.a.--not available

preceding seven months, banks acquired a substantial amount of these securities last month.[1/] Growth of bank loans slowed in February to a 5-1/2 per cent annual rate, down from the 14 per cent average since mid-1977. However, the weaker loan expansion primarily reflects the reduction in security loans associated with a decrease in the System's outstanding matched sale-purchase agreements. While real estate and consumer lending appeared to slow moderately, business loans continued to expand at a rate near last year's average pace.

Against a backdrop of continued growth in bank credit and a net decline in demand deposits and interest-bearing deposits subject to rate ceilings, banks increased managed liabilities $8-1/2 billion. In addition to the increase in large time deposits included in M-2, large banks issued $3 billion in large negotiable CDs. Banks also raised about $2-1/2 billion from nondeposit sources, principally through Federal funds and RP borrowings from nonbank sources.

Business Credit

The overall pattern of borrowing by nonfinancial businesses was little changed from that of January, as business loans continued strong while commercial paper outstanding declined and public offerings of bonds slowed. Bank loans to commercial and industrial firms (excluding large-

1/ Not seasonally adjusted data for weekly reporting banks suggest that growth in holdings occurred in all maturity classes and was accounted for in large part by acquisitions by large banks outside of New York City. An examination of the data on dealer positions suggests that this increase in bank holdings cannot be attributed to increased acquisitions by primary bank dealers in U.S. government securities.

bank holdings of bankers acceptances) grew at a 16-1/2 per cent annual rate in February (memorandum item 2 in Commercial Bank Credit Table). At large banks, sizable demand was evident from manufacturing firms as well as from wholesale and retail trade concerns. On the other hand, bank loans to public utilities declined last month; the needs of many gas and electric utilities for external funds apparently diminished as their receipts increased and these firms ran down fuel inventories which had been enlarged in preparation for the coal strike. Utilities also accounted for much of the $500 million decline in outstanding commercial paper issued by nonfinancial businesses.[1/]

The strong business borrowing at banks more than offset the decline in commercial paper issuance, resulting in expansion of total short-term business credit at a 12-1/2 per cent annual rate--about the same pace as in the preceding seven months. At finance companies, business loans in January (most recent data) increased at a 15-1/4 per cent annual rate, above the average rate recorded since mid-1977. As in most recent months, automobile-related credit led the advance.

In long-term markets, gross public offerings of corporate bonds were $1.3 billion in February, slightly above the total in January but well below last year's $2.0 billion monthly average. February's small offerings reflected a modest volume of nonfinancial issues. Public utility

1/ Total commercial paper outstanding was unchanged in February, as increases in bank-related paper offset declines in nonfinancial and finance company issues.

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

	1977			1978			
	H1	QIII	QIV e/	Jan. e/	Feb. e/	Mar. f/	Apr. f/
			Gross offerings				
Corporate securities--total	4,148	3,767	4,417	2,600	2,550	3,700	2,800
Publicly offered bonds	2,018	2,122	2,000	1,200	1,300	1,900	1,400
By quality 1/							
Aaa and Aa	1,152	1,075	1,020	625	900	--	--
Less than Aa 2/	866	1,047	980	575	400	--	--
By type of borrower							
Utility	753	588	660	565	165	--	--
Industrial 3/	678	930	515	485	460	--	--
Financial	587	604	825	150	675	--	--
Privately placed bonds	1,215	1,019	1,257	800	800	1,000	800
Stocks	915	626	1,160	600	450	800	600
Foreign securities--total	629	744	486	439	9	--	--
Publicly offered 4/	443	520	342	325	--	750	300
Privately placed	186	224	144	114	9	--	--
State and local govt. securities--total	6,450	5,436	4,719	4,900	4,300	4,700	4,600
Long-term	4,157	3,719	3,500	3,200	2,800	3,200	2,600
Short-term	2,293	1,717	1,219	1,700	1,500	1,500	2,000
			Net offerings				
U.S. Treasury	1,383	3,800	7,167	1,500	7,200	9,400	-4,700
Sponsored Federal agencies	701	448	554	638	2,059	1,838	1,155

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

bond issuance fell to less than a third of the January level and was the lowest monthly amount in several years. Industrial bond offerings also continued relatively light. Since last summer, public offerings by industrial corporations have been predominantly small and medium-sized issues; only seven public offerings of $100 million or more have been brought to market in the last six months. Partly offsetting the small volume of nonfinancial issues, however, was an increase in bond offerings by financial concerns--mostly finance companies.

Corporate bond yields have declined slightly since the last FOMC meeting. The Board's index of recently offered, Aaa-rated bond yields declined to 8.65 per cent in mid-March, but remains close to its highest level since mid-1976. Stock prices have edged higher since the last FOMC meeting, retracing a small portion of their sharp decline since the beginning of the year.

The retreat in stock market prices since year-end has reduced the market value of virtually all stocks, although equity prices of smaller firms have performed somewhat better than those of large industrial concerns. Most corporations have continued to report earnings gains in recent months, and the further decline in stock prices has resulted in reduced price-earnings (P/E) ratios. The P/E ratio of the S&P 500, for example, is 8.1, as compared to an average of about 14 for the last decade. Also, average dividend yields are at their highest levels in 25 years.

Government Securities Markets

Treasury borrowing has continued at a moderately strong pace during the intermeeting period. New money offerings included $3.0 billion of short-term cash management bills as well as $300 million of bills in regular weekly and monthly auctions. While Treasury demands for credit were substantial during the first two months of the year, it appears that borrowing--especially through marketable securities--is falling below the pace anticipated by the Treasury's quarterly financing announcement in late January.

Foreign official institutions have continued to be heavy purchasers of marketable Treasury securities, reflecting heightened intervention to support the dollar in international exchange markets. Following net acquisitions of about $13 billion in the final quarter of 1977, System holdings in custody for foreign accounts increased by $8.6 billion through the first week in March. Custodial holdings surged by $5.0 billion in the latter half of February and in early March, with well over half of this most recent increase apparently accounted for by acquisitions of Treasury bills.1/

Sponsored credit agencies borrowed about $1.6 billion during February, following net debt issuance of nearly $1 billion in the preceding month. By comparison, agency borrowing totalled about $2 billion in the fourth quarter of 1977. The Federal Home Loan Banks' mid-quarterly

1/ In addition, foreign accounts have purchased nearly $400 million of nonmarketable securities so far this year. Sales to State and local governments of nonmarketable arbitrage issues, while slowing from the exceptionally rapid pace of the fourth quarter, have amounted to $1.5 billion since the first of the year.

financing accounted for the bulk of the growth, although borrowing by FNMA also increased significantly during February. The recent expansion in borrowing by sponsored agencies reflects their support of the mortgage markets in the face of slackening deposit growth at banks and thrifts.

The volume of municipal bond offerings declined $400 million to $2.8 billion in February. Preliminary data indicate that this larger-than-seasonal decrease can be attributed in part to a reduced volume of general obligation financings by smaller borrowing units. On the other hand, issues sold to advance refund outstanding obligations increased to about $650 million in February, with more than one-half of this total accounted for by a single issuer.

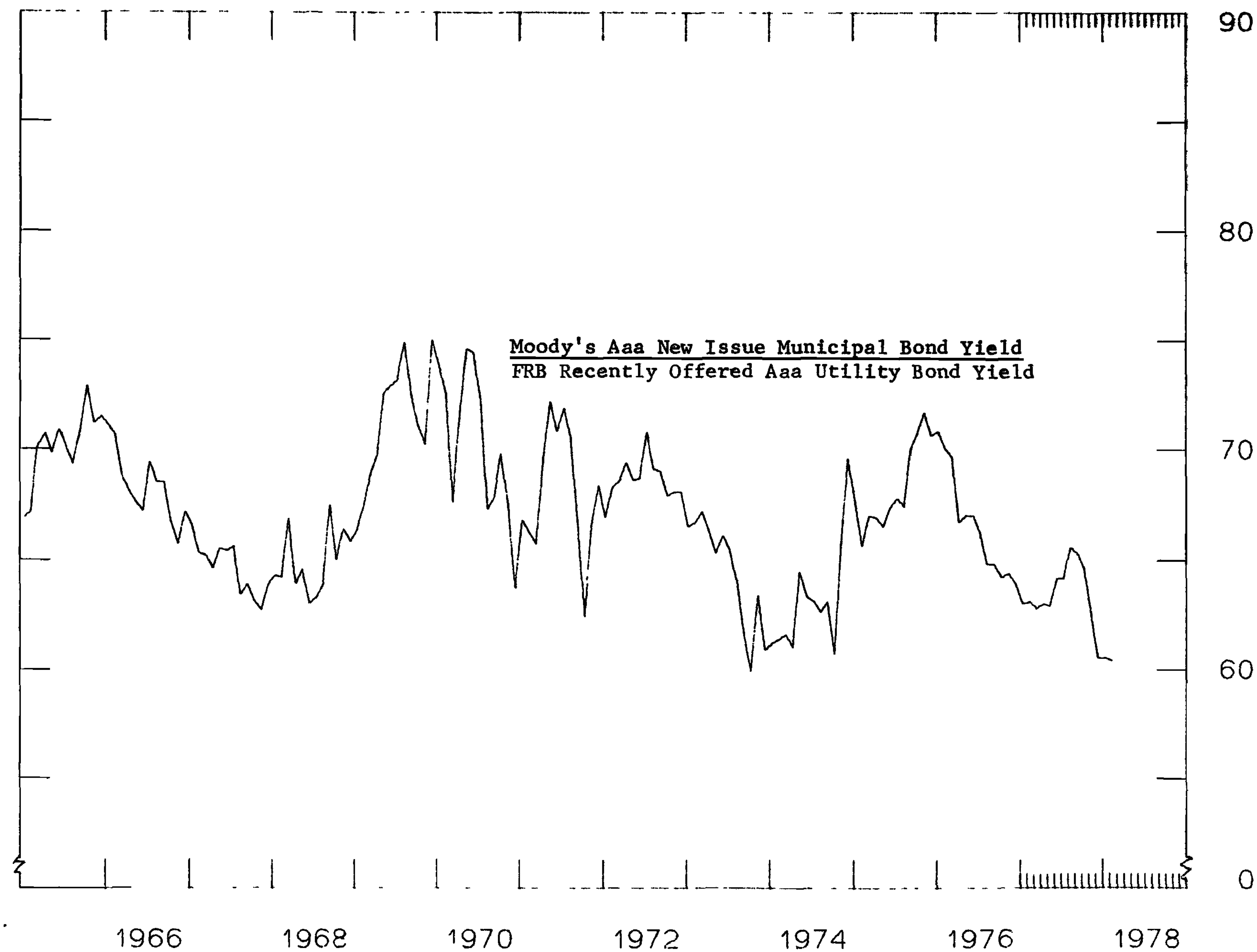
Yields on long-term tax-exempt securities have edged down since the last FOMC meeting, and currently are near their lowest levels of the year. This downward movement has caused the ratio of tax-exempt to taxable bond yields--as measured by Moody's index of Aaa-rated, new issue municipal bond yields and the Board's index of recently offered, Aaa-rated utility bond yields--to move close to its lowest level on record (chart).

Mortgage Markets

Mortgage activity in February apparently continued to diminish from the record pace of late last year. At commercial banks, the increase in mortgage loans last month was the smallest since early 1977. Growth of S&L mortgage portfolios slowed markedly in January (latest data available). In addition, mortgage commitments outstanding at S&Ls declined in

RATIO OF TAX-EXEMPT TO TAXABLE BOND YIELDS

(MONTHLY, PER CENT)



January--the first decrease in more than three years.[1/] Outstanding mortgage commitments at New York MSBs--which account for more than half of MSB industry assets--declined in both December and January, presaging a slowing of MSB mortgage lending.

Issues of GNMA-guaranteed mortgage-backed securities fell off in February, in part because of a slowdown in originations of FHA/VA mortgages at mortgage companies and other lending institutions. At the same time, deliveries of FHA/VA mortgages to FNMA increased as prices offered under previous commitments apparently were attractive relative to GNMA issues. FNMA has more than $6 billion in purchase commitments outstanding--still well below levels of nearly $10 billion in mid-1973.[2/3/]

Average interest rates on new commitments for home mortgages at a sample of S&Ls have changed little since the last FOMC meeting; at 9.15

1/ Despite the recent slowdown in mortgage lending, S&Ls have continued to rely heavily on FHLB advances, as deposit flows have weakened substantially from the rapid pace last year. Such advances have increased $2.3 billion in the first two months of the year to bring the seasonally adjusted total above the previous record level of December 1974.

2/ FNMA's debt ceiling under continuing review by HUD. It does have sources of funds other than net new borrowing to help support its purchase programs, including loan sales and repayments of mortgages of over $800 million per quarter from its $35 billion mortgage portfolio.

3/ The Federal Home Loan Mortgage Corporation currently has about $1 billion in purchase commitments outstanding, mostly to S&Ls. Although FHLMC has authority to borrow funds through the FHLB System, its primary objective is to enhance the liquidity of conventional mortgages. Thus, it has been closely matching mortgage purchases with sales through issuance of Participation Certificates.

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 month or week earlier	Spread[1/] (basis points)	Per cent of S&Ls[2/] with funds in short supply
1976--High	8.95	--	+92	18
Low	8.65	--	+37	2
1977--July	8.93	+5	+76	7
Aug.	8.93	0	+92	14
Sept.	8.90	-3	+65	12
Oct.	8.90	0	+62	11
Nov.	8.93	+3	+70	18
Dec.	9.00	+7	--	22
1978--Jan.	9.05	+2	--	27
Feb. 3	9.13	+8	+48	26
10	9.15	2	+46	29
17	9.15	0	--	33
24	9.15	0	+44	38
Mar. 3	9.15	0	--	36
10	9.15	0	+43	n.a.

1/ Average mortgage rate minus average yield on new issues of Aaa utility bonds.
2/ Per cent reporting supply of funds slightly or substantially below normal seasonal patterns.

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)		Yield to FNMA[1/]	Amount ($ millions)		Yield to FNMA[1/]	
	Offered	Accepted		Offered	Accepted		
1977--High	416	278	9.21	855	570	8.98	8.43
Low	123	83	8.81	50	35	8.45	7.56
1978--Feb. 6	634	299	9.45	641	338	9.27	8.62
13							8.65
20							8.68
21	581	267	9.53	558	286	9.35	
27							8.61
Mar. 6	445	266	9.59	359	219	9.36	8.63
13							8.55

1/ Average gross yield before deducting fee of 38 basis points for mortgage servicing. Data, based on 4-month FNMA purchase commitments, reflect the average accepted bid yield for home mortgages, assuming a prepayment period of 12 years for 30-year loan without special adjustment for FNMA commitment fees and related stock requirements. Mortgage amounts offered by bidders relate to total eligible 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.

per cent, these rates stand 20 basis points above the level of late December.[1] Field reports and trade sources suggest that nonrate terms and credit standards have tightened somewhat in recent months, reflecting the reduced deposit flows.

Mortgage rates in the secondary markets also are about unchanged since the February FOMC meeting, following increases on the order of 50 basis points over the two previous months. With 8-1/2 per cent government-underwritten home mortgages selling at discounts of 5 points or more in the secondary markets, the ceiling rates on such loans were raised to 8-3/4 per cent at the end of February. The interest rate ceiling for multifamily mortgages remained unchanged at 9 per cent.

Consumer Credit

Growth in consumer instalment credit outstanding slowed during January to an annual rate of 13-3/4 per cent, compared to almost 17 per cent for all of last year. Weakening auto credit extensions by commercial banks and finance companies contributed to the slowdown, reflecting the declines in auto sales in recent months. However, lower percentage down-payments and increasing automobile prices have contributed to a rapid gain in the average size of new-auto contracts at finance companies,

1/ Usury ceilings may be constraining home mortgage lending in some states. Five states currently have interest rate ceilings of 9 per cent or less. However, FHA/VA mortgages are exempt from the ceilings in all of these states, and in some cases lenders can increase the effective yield on conventional loans through discount points.

partially offsetting the impact of the reduction in unit sales on instalment credit. A sharp contraction of home improvement loans apparently was associated with the adverse weather conditions.

Commercial banks in several areas where production and employment were hampered by severe weather or the coal strike have indicated increased consumer loan delinquencies. Certain banks have granted temporary amnesties on instalment payments or have extended the deadline for currently-due payments. Also, some institutions report that demand for refinancing of existing obligations is strong.

CONSUMER INSTALMENT CREDIT[1/]

	1975	1976	1977	1977 QIII	1977 QIV	1977 Dec.	1978 Jan.
Total							
Change in outstandings							
Billions of dollars	7.3	19.9	30.8	29.9	32.8	32.8	29.1
Per cent	4.7	12.3	16.9	15.1	16.0	15.6	13.7
Bank share (per cent)	39.6	54.0	50.7	51.2	52.5	58.9	46.0
Extensions							
Billions of dollars	163.9	192.4	226.0	228.0	238.3	241.3	235.0
Bank share (per cent)	47.2	48.9	49.1	49.1	49.9	50.9	49.1
Liquidations							
Billions of dollars	156.6	172.4	195.2	198.1	205.5	208.5	205.9
Ratio to disposable income	14.4	14.6	14.9	15.0	15.1	15.1	14.8
Automobile Credit							
Change in outstandings							
Billions of dollars	3.2	10.2	13.3	12.9	13.8	16.4	14.2
Per cent	6.1	18.3	20.2	17.8	18.2	21.0	17.9
Extensions							
Billions of dollars	51.5	62.8	73.1	72.9	76.6	80.9	75.2
New car loans over 36 months as per cent of total new car loans at:							
Commercial banks[2/]	14.0	25.4	40.7	42.8	44.8	n.a.	n.a.
Finance companies	23.5	33.9	47.7	51.1	52.7	53.5	n.a.

1/ Quarterly and monthly dollar figures and related per cent changes are seasonally adjusted annual rates.
2/ Series was begun in May 1974, with data reported for the mid-month of each quarter.
n.a.--not available.

U.S. International Transactions
(in millions of dollars, seasonally adjusted 1/)

IV - T - 1

		1976	1 9 7 7				
		YEAR	YEAR	Q3	Q4	Dec.	Jan.
1.	Merchandise exports	114,694	120,402	30,867	29,489	10,878	9,917
2.	Merchandise imports	124,014	151,803	38,429	38,365	13,341	13,001
3.	Trade Balance	-9,320	-31,401	-7,562	-8,876	-2,463	-3,084
4.	Bank-reported private capital flows	-10,377	-4,821	946	-5,827	-1,016	-3,737
5.	Claims on foreigners (increase -)	-21,368	-11,469	-1,709	-8,878	-5,540	-1,729
6.	Long-term	-2,362	-746	-445	-13	-306	-118
7.	Short-term	-19,006	-10,723	-1,264	-8,865	-5,234	-1,611
8.	(of which on commercial banks in offshore centers 2/)	(-12,961)	(-7,554)	(-841)	(-6,157)	(-3,813)	(-2,078)
9.	Liabilities to foreigners (increase +)	10,991	6,648	2,655	3,051	4,524	-2,008
10.	Long-term	231	361	193	22	38	8
11.	Short-term	10,760	6,287	2,462	3,029	4,486	-2,016
12.	to commercial banks abroad	8,030	5,150	3,804	2,071	4,520	-2,174
13.	(of which to commercial banks in offshore centers 3/)	(4,115)	(4,600)	(3,206)	(1,540)	(3,859)	(-1,469)
14.	to other private foreigners	2,719	1,693	186	445	264	66
15.	to int'l and regional organizations	11	-556	-1,528	513	-298	92
16.	Foreign private net purchases (+) of U.S. Treasury securities	2,783	562	1,252	-297	166	23
17.	Other private securities transactions (net)	-7,480	-2,466	-1,676	71	-5	-467
18.	Foreign net purchases (+) of U.S. corp. securities	1,250	2,932	514	803	266	*
19.	(of which stocks)	(853)	(1,383)	(138)	(579)	(195)	(14)
20.	U.S. net purchases (-) of foreign securities	-8,730	-5,398	-2,190	-732	-271	-467
21.	(new foreign issues of bonds and notes)	(-10,122)	(-7,054)	(-2,344)	(-1,366)	(-539)	(-727)
22.	Change in foreign official res. assets in the U.S.	13,091	35,425	7,908	15,156	3,003	3,829
23.	OPEC countries (increase +)	6,820	5,973	1,415	741	-719	986
24.	(of which U.S. corporate stocks)	(1,828)	(1,365)	(362)	(318)	(97)	(107)
25.	Other countries (increase +)	6,271	29,452	6,493	14,415	3,722	2,843
26.	Change in U.S. reserve assets (increase -)	-2,530	-232	151	-2	40	-140
27.	Other transactions and statistical discrepancy (net payments (-)	13,833	2,933	-1,019	-225	275	3,576
28.	Other current account items	8,355		3,224			
29.	Military transactions, net 4/	-34		477			
30.	Receipt of income on U.S. assets abroad	21,369		6,430			
31.	Payment of income on foreign assets in U.S.	-11,561		-3,215			
32.	Other services, net	2,743		767			
33.	Remittances and pensions	-1,878		-567			
34.	U.S. Gov't grants 4/	-2,284		-668			
35.	Other capital account items	-4,761		-878			
36.	U.S. Gov't capital, net claims 4/ (increase -)	261		-873			
37.	U.S. direct investment abroad (increase -)	-4,596		-1,100			
38.	Foreign direct investment in U.S. (increase +)	2,176		511			
39.	Nonbank-reported capital, net claims (increase -)	-2,602		584			
40.	Statistical discrepancy	10,239		-3,365			
MEMO:							
41.	Current account balance 4/	-965	n.a.	-4,338	n.a.	n.a.	n.a.
42.	Official settlements balance	-10,561	-35,193	-8,059	-15,154	-3,043	-3,689
43.	O/S bal. excluding OPEC	-3,741	-29,220	-6,644	-14,413	-3,762	-2,703

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 Bermuda).

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

4/ Excludes grants to Israel under U.S. military assistance acts, exports financed by those grants, and offsetting capital transactions.

*/ Less than $50,000.

INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. In the three weeks since the last green book the dollar has fluctuated widely in anticipation of, and in reaction to, various measures to halt the dollar's decline. These included (a) the tightening of exchange controls and the reduction of the discount rate by the Swiss during the first two weeks of the period, (b) similar measures by the Japanese this week, and (c) the announcement on Monday by the U.S. and German governments of a doubling of the Federal Reserve-Bundesbank swap line to $4 billion and the Treasury's sale of 600 million SDR's (about $730 million equivalent) to the Bundesbank for marks. In addition, downward pressure on the French franc reversed itself this week following the first round of French elections. On net over the period, the trade-weighted value of the dollar has appreciated 1/3 per cent, reducing its decline since late September to 7 per cent.

. The Desk sold $567 million equivalent of marks during the period. Half of these mark sales were for the System's account and half for the Treasury's, and they increased the System's swap debt to the Bundesbank to $1,795 million (and the Treasury's swap debt to $951 million). The System's share of the unrealized loss on these drawings now stands at about $36 million. Since the end of February the System has also purchased small amounts of marks

, increasing its mark balances by $32 million equivalent. The System also purchased $22 million equivalent of Swiss francs from the Swiss National Bank during the last three weeks to reduce the 1971 Swiss franc swap debt to $426 million. The Swiss franc swap debt incurred in January and February of this year remained unchanged at $69 million.

The Japanese yen continued under very strong upward pressure during the period, rising 2-1/2 per cent against the dollar,

. This morning (March 15) the Japanese announced:

a) a ban on purchases by non-residents of domestic Japanese bonds that mature in less than five years.

b) an increase in the marginal reserve requirement on non-resident yen bank accounts from 50 to 100 per cent, and

c) a 3/4 percentage point cut in the Bank of Japan's discount rate to 3-1/2 per cent.

After appreciating about 32 per cent against the dollar during the previous twelve months, the Swiss franc reached a peak of 55.7 cents on February 23. Since then, in highly volatile trading, the Swiss currency has fallen back about 8 per cent in response to the announcement of a series of new Swiss capital controls. The most important of these measures were: a) an almost complete ban on the sale of Swiss franc denominated securities to non-residents, and b) imposition of a negative interest rate charge on

Swiss franc balances held by foreign central banks. In addition, on February 27, the Swiss central bank lowered its discount rate 1/2 percentage point to 1 per cent.

The French franc was under some downward pressure through last Friday in advance of the French elections,

. However, when the left-wing parties did less well in the first round of the elections last Sunday than had generally been expected, the pressure on the franc reversed, and the French currency quickly rose about 3 per cent.

Downward pressure on the Canadian dollar continued during the last three weeks, and the Canadian government took several steps to support its currency.

, and it announced that it would sell $750 million of Canadian government bonds in the U.S. Also, on March 9 the Bank of Canada increased its discount rate 1/2 percentage point to 8 per cent. During the last 14 months, Canadian reserves have decreased by about $2 billion to a level of $3-3/4 billion, of which only about $1-1/2 billion is foreign exchange.

Gold initially rose about $7.00 to a peak of $190 on March 8 -- the first time it has reached this level since late 1974. The price since then has fallen back slightly to its present level of about $187.

Effective March 16 the National Bank of Belgium cut its discount rate from 6.5 to 6 per cent.

U.S. bank lending to foreigners. Claims on foreign countries held by domestic offices and foreign branches of U.S. banks continued in the fourth quarter of 1977 to rise more slowly than in the comparable period of 1976. For 1977 as a whole, U.S. banks increased their claims on foreign countries by 13 per cent, compared with almost 24 per cent in 1977. Claims on international financial cneters (G-10 countries, Switzerland, and offshore banking centers) increased by $10.5 billion, not much more than one-half as much as in the previous year. To a limited extent the decrease reflected the fact that Swiss banks' seasonal demand for liquidity from the Euro-currency market was less intense in December 1977 than at the end of 1976. However, because most of the claims on international financial centers are interbank placements, it is not possible to say to what extent (if any) their smaller rise in 1977 reflected less buoyant demand for credit in those countries themselves rather than slackening credit demand in the rest of the world which borrows from banks in international financial centers, or a decrease in interbank redepositing relative to credit demands from final borrowers.

Claims on countries in the rest of the world rose about $17 billion last year compared with $21 billion in 1976. Most of this slowing was concentrated in the non-oil developing countries, and all of that can be accounted for by three countries -- Brazil, Mexico, and Peru. Both Brazil and Mexico achieved large reductions in their current account deficits last year as a result of slower domestic

U.S. Bank Claims on Foreigners[1/]
(in billions of dollars; end of year)

Claims on:	Outstanding, 12/31			Increase	
	1975	1976	1977	1976	1977
I. International Financial Centers (G-10 Countries, Switzerland, and Offshore Banking Centers)	107.4	126.7	137.2	19.3	10.5
II. All Other Countries	60.1	81.1	98.0	21.0	16.9
Smaller developed countries	10.7	15.0	19.6	4.3	4.6
Greece	1.4	1.7	2.0	.3	.3
Spain	1.9	2.8	3.5	.9	.7
Scandinavian countries[2/]	2.9	3.6	4.7	.7	1.1
South Africa	1.2	2.2	2.4	1.0	.2
Turkey	.6	1.3	1.4	.7	.1
Other	2.7	3.4	5.6	.7	2.2
Oil-exporting countries	6.9	12.6	17.8	5.7	5.2
Venezuela	2.3	4.1	5.5	1.8	1.4
Indonesia	1.6	2.2	2.2	.6	.0
Middle East	1.6	4.2	6.9	2.6	2.7
Other	1.4	2.1	3.2	.7	1.1
Non-oil developing countries	34.0	43.3	49.3	9.3	6.0
Brazil	8.0	11.1	12.7	3.1	1.6
Mexico	9.0	11.7	11.9	2.7	.2
Peru	1.4	1.8	1.9	.4	.1
Korea	2.4	3.1	3.9	.7	.8
Philippines	1.7	2.2	2.5	.5	.3
Taiwan	1.7	2.3	3.1	.6	.8
Other	9.0	11.1	13.3	2.1	2.2
Eastern Europe	3.7	5.2	6.2	1.5	1.0
U.S.S.R.	1.0	1.5	1.9	.5	.4
Other	2.7	3.7	4.3	1.0	.6
III. Miscellaneous and Unallocated	4.8	5.4	5.1	.6	-.3
IV. Grand Total	167.5	207.8	235.2	40.3	27.4

1/ Excludes 1) claims of U.S. offices of foreign banks, and 2) intrabank claims.
2/ Denmark, Finland, Norway.

economic growth or devaluation. This diminished their needs for external credit, and the figures for U.S. claims on those countries in part reflect those developments as well as the recently increased ability of Brazil and Mexico to raise funds in the Euro-bond market. The very small amount of the rise in claims on Mexico also reflects some special factors including a bunching of repayments in late 1977 and possibly an enlarged role for non-U.S. banks in lending to Mexico. In the case of Peru, the near-absence of any increase in U.S. bank claims in 1977 was indicative of the unwillingness of banks to lend further sums to Peru until that country took decisive action to correct its external payments deficits.

Last year saw a smaller rise in U.S. bank loans to Eastern Europe, as several countries in that area reduced their trade deficits with the rest of the world. Although claims on the smaller developed countries rose somewhat more in 1977 than in 1976, the pickup was considerably held back by a leveling early in 1977 in claims on South Africa, to which banks became reluctant to lend, and in claims on Turkey, where economic difficulties made banks unwilling to increase their exposure.

U.S. International Transactions. The U.S. trade deficit widened in January to a rate well above both the December rate and the average monthly rate for the year 1977. Both exports and imports declined, though exports by a substantially greater amount. Private capital flows reported by banks showed a larger net outflow in January,

U.S. International Transactions Summary
(in billions of dollars, (-)= outflow)

		Year		1977				
		1976	1977	Q-3	Q-4	Nov.	Dec.	Jan.
1.	Trade balance 1/	-9.3	-31.4	-7.6	-8.9	-2.9	-2.5	-3.1
2.	(annual rate)	--	--	(-30.2)	(-35.5)	(-34.4)	(-29.6)	(-37.0)
3.	Private capital trans. adj. 2/	-15.0	-6.7	-2.0	-3.6	*	-.9	-4.2
4.	Private capital as rept. net	-15.0	-6.7	.5	-6.1	*	-.9	-4.2
5.	Reporting bias 3/	--	--	-2.5	2.5	--	--	--
6.	OPEC net investments in U.S.	6.8	6.0	1.4	.7	1.1	-.7	1.0
7.	Other foreign official assets	6.3	29.5	6.5	14.4	5.1	3.7	2.8
8.	U.S. reserve assets	-2.5	-.2	.2	*	-.1	*	-.1
	All other 4/	13.7	2.9	1.5	-2.6	-3.4	.3	3.6
9.	Not seasonally adjusted	13.7	2.9	3.0	-3.2	-3.3	.2	4.6
10.	Seasonal component 5/	--	--	-1.5	.6	.1	.1	-1.0
	Memorandum:							
11.	GNP net exports 6/	7.7	-9.0e	-1.7	-3.1e	n.a.	n.a.	n.a.
12.	Current account balance	-1.4	-19.1e	-4.3	-5.9e	n.a.	n.a.	n.a.

1/ Seasonally adjusted.
2/ Includes bank-reported capital, foreign private purchases of U.S. Treasury securities, and other private securities transactions.
3/ Adjustment for reporting bias in bank-reported data associated with weekend transactions. See page IV 10-11 in the June 1976 green book.
4/ Includes service transactions, unilateral transfers, U.S. government capital, direct investments, nonbank capital transactions, and statistical discrepancy. The reporting bias (line 5) is netted out of this total.
5/ Equal but opposite in sign to the seasonal component of the trade balance.
6/ Includes revisions not yet included in published GNP accounts.
*/ Less than $50 million.
e/ Estimated.

probably reflecting a seasonal reversal of some year-end inflows. Private dealings in securities showed both a reduction in net foreign purchases of U.S. corporate stocks and Treasury securities, and an increase in U.S. purchases of new foreign bond issues. Official foreign assets in the United States increased by $2.8 billion (excluding OPEC), somewhat less than in December. The rate of increase in these official holdings increased again in February and March,

The U.S. merchandise trade deficit was estimated to be $37 billion at an annual rate, international accounts basis, compared with $29 billion in December, and $31 billion for all of 1977. Exports fell by nearly $12 billion at an annual rate from levels in December that had been inflated by makeup of shipments that had been delayed by the dock strike in preceeding months. Imports declined by $4 billion, also from very high December levels.

Trade data for January are still at a preliminary stage of compilation because of delays caused by several major revisions in the methods by which the data are assembled by the Census Bureau. The most notable change involves the presentation of import statistics on a date of arrival basis. Formerly, imports were recorded as of the date that documents were filed and duties paid, which can be up to ten weekdays after the physical arrival of the goods. This revision places the recording of imports on a basis that is more consistent with the recording of exports. The prior inconsistency between imports and exports was a source of significant distortion, for example, in the measurement of the impact of the East and Gulf Coast dock strike late last year on the trade balance. Because of delays caused by this and other changes in the methods of data compilation, most of the normal commodity details and price-volume breakdowns are not yet available for January.

From the information that is available at this time (which may be subject of substantial further revision), it appears that the decline in <u>exports</u> from December's high level was broadly based across major commodity categories. In most cases, the levels achieved were little changed from average levels for the year 1977, during most of which exports stayed flat reflecting the slow growth in activity abroad. For the materials category, however, there was a substantial drop in January (by $2 billion at an annual rate) from the 1977 average. This drop reflected in part a decline in coal exports resulting from the coal strike and in part the impact of weather-related transportation difficulties at several ports.

<u>Imports</u> in January, while below December levels, were in most cases well above their average levels for the year 1977. The rise in total imports was about what might be expected from the growth in real GNP over the past year. Imports of fuels were down sharply from the 1977 average, however, as domestic stocks were drawn down from unusually high levels. The coal strike had probably not yet affected the demand for oil in January.

<u>Bank-reported private capital transactions</u> showed a net outflow of $3.7 billion in January, a substantial increase over the average monthly net outflow recorded in late 1977. This increase included a substantial rise in funds made available by U.S. based banks to their foreign branches. Part of this increased outflow may have reflected an unwinding of seasonal increases in liabilities taken at the end of 1977 for tax purposes.

<u>Foreign private net purchases of U.S. corporate stocks</u> fell to $14 million, compared with a monthly average of $125 million in the second half of 1977. Foreign private net purchases of U.S. Treasury securities also fell in January.

<u>U.S. net purchases of foreign securities</u> rose in January to a level about in line with the monthly average for 1977. New foreign bond issues, amounting to more than $700 million, included two large Canadian issues. The Government of Canada, which has not borrowed in the U.S. market for over a decade, is scheduled to market a $750 million issue in the second quarter. This issue has been slated as a source of funds to help finance the expected Canadian current account deficit in 1978.

U.S. net purchases of foreign securities in January also included up to $200 million of yen-denominated bonds, while U.S. residents continued to sell off their holdings of Japanese corporate stocks. The shift into Japanese bonds away from Japanese stocks continues a pattern established in 1977, which may have reflected the anticipated impact of the yen's appreciation on the earnings prospects of export-oriented Japanese corporations.

Foreign official assets in the United States (excluding OPEC's) increased by $2.8 billion in January, down from December's increase, but slightly above the average monthly rate for 1977.

OPEC banking and security holdings in the United States increased by $1.0 billion in January. Most of that increase has been held in the form of repurchases agreements, which are essentially overnight investments involving Treasury securities. Preliminary indications for February are that OPEC holdings remained little changed from their end-January level.

Foreign economic developments. Growth in foreign industrialized countries was generally weak during 1977. However, there are indications that in at least two of the major countries -- Germany and Japan -- output growth strengthened toward the end of last year and has continued its recovery in the beginning of this year. For the 3-month period ending January 1978, German industrial production was 2.3 per cent above the level for the preceding 3-month period, and Japanese industrial production was 2.1 per cent higher. A pickup in these two countries is corroborated by fourth-quarter GNP data, especially for Germany. An interesting aspect of recent German and Japanese production activity is the relative strength of fixed investment. Moreover, latest figures on domestic orders for capital goods in Germany indicate that the German recovery in capital-goods production may continue in 1978. These signs of strength in Germany and Japan may be transitory, but, nevertheless, they are encouraging, particularly since recovery in these two economies is often viewed as crucial to a satisfactory recovery of the rest of the industrialized world. So far, output growth remains generally sluggish in the other major foreign industrialized countries.

Inflation rates have continued the downward trend generally established in 1977, but rates of increase in consumer prices remain relatively high in most countries. The current-account performance has been mixed and current-account imbalances persist. Some countries have continued to reduce their deficits, but Japan's current account in January again recorded a strong surplus. (A preliminary report indicates that the February current account was even larger.)

Real GNP and Industrial Production in Major Industrial Countries
(percentage change from previous period; Seasonally adjusted)

		1975	1976	1977	1977 Q1	Q2	Q3	Q4	1977 Nov.	Dec.	Jan.
Canada:	GNP	1.1	4.9	2.6	1.8	0.0	1.3	0.8		*	
	IP	-4.8	5.0	3.3	2.1	0.3	0.0	0.7	0.5	0.2	n.a.
France:	GNP	0.1	5.2	n.a.	2.1	-1.3	0.2	n.a.		*	
	IP	-9.2	10.1	1.7	2.4	-2.1	-1.3	-0.3	4.1	-3.1	n.a.
Germany:	GNP	-2.5	5.7	2.5	0.9	-0.2	-0.1	1.3		*	
	IP	-5.6	7.8	3.0	1.4	-1.1	0.3	1.1	0.9	1.7	1.7
Italy:	GNP	-3.5	5.6	n.a.	1.8	-2.6	-0.6	n.a.		*	
	IP	-9.2	12.9	0.8	3.3	-7.2	-3.7	-0.4	1.4	-2.8	n.a.
Japan:	GNP	2.5	6.2	5.1	2.1	1.7	0.4	1.0		*	
	IP	-11.0	11.1	4.1	1.3	-0.3	-0.2	1.2	2.1	0.9	1.1
United Kingdom:	GNP	-1.5	2.0	n.a.	-0.9	0.3	-0.2	n.a.		*	
	IP	-4.9	0.5	0.1	0.3	-1.2	0.5	-1.0	0.1	0.8	n.a.
United States:	GNP	-1.3	6.0	4.9	1.8	1.5	1.3	1.0		*	
	IP	-8.9	10.1	5.6	1.5	2.5	1.1	0.6	0.3	0.2	-0.7

* GNP data are not published on monthly basis.

Consumer and Wholesale Prices in Major Industrial Countries
(percentage change, from previous period or as indicated)

				1977				Latest 3 Mos. from:		
	1975	1976	1977	Q1	Q2	Q3	Q4	Prev. 3 Mos. (at Ann. Rate)	Year Ago	Latest Month
Canada: CPI	10.8	7.5	8.0	2.1	2.4	2.2	2.2	8.6	9.2	Jan.
WPI	6.5	4.3	9.1	5.1	2.9	0.9	1.0	4.2	10.2	Dec.
France: CPI	11.7	9.6	9.5	1.6	3.1	2.4	2.0	6.4	9.1	Jan.
WPI	-5.7	7.4	5.6	1.3	1.1	-0.9	-0.1	0.4	1.4	Jan.
Germany: CPI	5.9	4.6	3.9	1.9	1.4	0.2	0.2	4.1	3.3	Feb.
WPI	6.9	5.4	1.8	0.4	0.4	-1.3	-0.9	-0.4	-1.2	Jan.
Italy: CPI	16.9	16.8	18.4	4.7	3.8	2.5	3.3	12.6	14.2	Jan.
WPI	8.5	22.9	17.4	4.3	2.4	1.5	2.0	7.3	9.5	Jan.
Japan: CPI	12.1	9.7	8.3	2.6	2.5	0.3	0.8	0.0	4.7	Feb.
WPI	3.0	5.5	2.0	0.4	0.1	-0.5	-0.7	-4.0	-1.5	Feb.
United Kingdom: CPI	24.2	16.6	15.8	5.0	4.5	1.6	1.5	6.2	11.7	Jan.
WPI	24.1	16.4	19.2	6.0	4.5	3.3	1.6	8.8	13.6	Feb.
United States: CPI	9.1	5.7	6.5	1.8	2.1	1.5	1.1	4.9	6.6	Jan.
WPI	9.2	4.6	6.1	2.2	2.5	0.2	1.1	8.0	6.2	Feb.

Trade and Current-Account Balances of Major Industrial Countries [a/]
(billions of U.S. dollars; seasonally adjusted)

		1975	1976	1977	1977 Q1	1977 Q2	1977 Q3	1977 Q4	Dec. '77	Jan. '78	Feb. '78
Canada:	Trade	-0.6	1.2	2.7	0.8	0.3	0.6	1.0	0.4	0.3	n.a.
	Current Account	-4.7	-4.2	-4.0	-0.8	-1.4	-1.1	-0.7		*	
France:	Trade	1.5	-4.2	-2.4	-1.1	-0.6	-0.5	-0.2	0.3	-0.5	n.a.
	Current Account	0.0	-6.0	-3.1	-1.3	-0.6	-0.8	-0.3		*	
Germany:	Trade	15.3	13.5	16.4	3.7	4.2	3.7	4.8	1.4	n.a.	n.a.
	Current Account	3.9	3.4	3.6	0.6	1.5	-0.5	1.9		*	
Italy:	Trade	-3.5	-6.5	-2.5	-1.4	-0.8	0.1	-0.4	0.1	n.a.	n.a.
	Current Account [b/]	-0.6	-2.9	n.a.	-0.9	0.2	2.4	n.a.		*	
Japan:	Trade	5.0	9.9	17.5	4.2	4.4	4.2	4.6	1.5	2.1	n.a.
	Current Account	-0.7	3.7	11.1	2.3	2.8	2.7	3.1	1.0	1.5	n.a.
United Kingdom:	Trade	-7.1	-6.3	-2.8	-1.6	-1.2	-0.1	0.1	-0.1	-0.6	0.2
	Current Account	-3.7	-2.0	0.0	-0.9	-0.6	0.8	0.6	0.1	-0.5	0.4
United States:	Trade	9.0	-9.3	-31.4	-7.2	-7.8	-7.6	-8.9	-2.5	n.a.	n.a.
	Current Account	11.5	-1.4	n.a.	-4.2	-4.6	-4.3	n.a.		*	

a/ The current account includes goods, services, and private and official transfers.
b/ Not seasonally adjusted.
* Comparable monthly current-account data are not published.

Notes on individual countries. Preliminary 1977 German national-accounts data indicate that real GNP rose 5.3 per cent (s.a.a.r.) in the fourth quarter. Particularly strong expansion occurred in fixed investment, which increased 6.7 per cent, following an equally strong increase in the third quarter. Construction also picked up in the fourth quarter. New orders to manufacturing industry through January 1978 showed little change from their depressed mid-1977 level, but there has been an upward trend in domestic orders for capital goods, which were more than 10 per cent above year-earlier levels in each of the most recent four months. Reflecting this trend, capital goods output in January was 3-1/2 per cent (s.a.) above the December level.

Progress on the two key economic fronts in Japan -- more rapid expansion of the domestic economy and reduction of the current-account surplus -- has been mixed. In January the index of industrial production (s.a.) rose for the third consecutive month; this increase, together with a continuing decline in the ratio of inventories to shipments, suggests that domestic activity may finally be starting to recover from the slump it has undergone since mid-1977. Revival of domestic demand will be helped by a moderate cut in personal income taxes that apparently will be added to the government's already expansionary budget for FY1978 (which starts in April). Budgetary expenditure also will be heavily front-loaded to generate a strong stimulus in the first half of FY1978. Unemployment, however, remains historically high in

Japan; and increased lay-offs are expected in the next few months in industries that have been adversely affected by appreciation of the yen. The current account in January was very strongly positive ($18 billion, s.a.a.r.), and the current-account surplus for FY1977 (ending in March) is now expected to reach at least $12.5 billion -- more than $2.5 billion above the government's most recent official forecast in October.

The British current-account deficit in January has created some doubts about the U.K.'s external situation, although most observers still forecast a substantial current-account surplus for 1978. The February current-account figure showed a strong recovery -- to $357 million, an increase of $810 million -- and reinforces the view that the current account will be in surplus for the year. Recently, British money supply (sterling M3) growth has been somewhat above the government's target rate and it is expected that the nature of the target will be changed in April. It is also widely expected that the April budget will contain a fairly extensive fiscal stimulus intended to boost domestic production, which has shown little evidence of buoyancy despite recent strength in personal consumption and private fixed investment.

The external situation in Italy has continued to show significant strength throughout the winter months. For 1977 the current-account surplus is now estimated to be in the $2-2.5 billion range, attributable in part to an improved trade account but also to a substantial improvement in tourism and emigrant remittances. The strong external situation has allowed Italy to continue to repay its external indebtedness on schedule.

Canadian GNP growth fell back in the fourth quarter but remained moderately strong, with the external sector providing much of the strength. On February 23, in response to the weakness of the Canadian dollar, the federal government announced its decision to borrow abroad for the first time since 1968. The $750 million loan (all figures are in U.S. dollars) in 3 equal tranches due 1983, 1985, and 1998 roughly equals Canada's February loss of foreign-exchange reserves. The government announced also that it had drawn $200 million on its standby credit with Canadian banks of $1.5 billion. Further, after a period of inactivity, several provincial borrowers also made known their intention to borrow a total of $250 million on foreign markets. On March 9, in another measure aimed at strengthening the Canadian dollar, the Bank of Canada raised its discount rate from 7-1/2 to 8 per cent.

In Switzerland, the appreciation of the Swiss franc has created problems for the international competitiveness of the industrial sector. Until recently, it appeared unlikely that the government would do anything to alleviate these problems, but the sharp appreciation in February has produced a sudden and dramatic shift in Swiss exchange-rate policy. A variety of measures were taken to discourage capital inflows, including the banning of foreign purchases of Swiss securities.

Economic policy in the Scandinavian countries continues to be dominated by the need to reduce current-account deficits through the restoration of price competitiveness. Norway's mid-February devaluation of the kroner by 10 per cent was accompanied by a tightening of monetary policy and wage and price controls. Finland followed Norway's lead with an 8 per cent devaluation of the markka. There does not appear to be significant pressure on Sweden or Denmark to devalue since the Swedish kroner was automatically adjusted to the new rates, and Denmark's current account and reserves are improving.

Trade balances in the six major foreign industrial countries in 1977. The trade deficits of France, Italy and the United Kingdom decreased during 1977, while the trade surpluses of Canada, Germany and Japan rose. The combined swing in the trade balances for the six countries was over $20 billion during the year, with Japan accounting for about one third of the change. Most of the change resulted from shrinking import volumes, while export volumes expanded, though at a slower pace. Some of the gain also resulted from a slight improvement in the terms of trade for the average of the six countries. (See table.) Also, for each of the six countries, current-account deficits declined or surpluses grew during the year.

Changes in trade balances are decomposable, approximately, into changes in the volume of exports relative to the volume of imports (i.e., relative trade volumes) and changes in relative unit values (i.e., the terms of trade). In each of the six major countries, relative trade volumes rose. In Canada and Japan -- the two largest trading partners of the United States -- large increases in export volumes contributed significantly to this pattern, whereas weak growth or actual declines in import volumes were the most significant factors in the other countries. There was no discernable trend in the terms of trade. The depreciation of the Canadian dollar caused a significant decline in the Canadian terms of trade, partially offsetting the rise in relative volumes. In contrast, the appreciation of sterling contributed to a rise in the U.K. terms of trade.

Whereas relative trade volumes increased in all six countries last year, the movement in relative trade volumes varied widely across countries in 1975 and 1976. In both years, the volume of exports increased relative to imports -- by varying degrees -- in Canada, Italy, Japan and the United Kingdom while it decreased in France and Germany. Similarly, changes in the terms of trade varied widely.

A recent study by the staff was conducted in order to determine the effect of changes in relative demand and in relative domestic prices and exchange rates upon changes in the volume of exports and imports across the OECD countries during recent years. The results of the analysis demonstrate that relative demand factors affect trade volumes significantly and rather quickly, while prices and exchange rates affect trade volumes to a much lesser extent and only after one to two years.

Following the 1974-75 recession, the expansion of worldwide demand was reasonably uniform, with the demand in the six major foreign countries, on average, expanding at a rate similar to that of their trading partners. Accordingly, for the six countries combined, the volume of exports and imports rose at roughly similar rates. In contrast, as domestic activity weakened in the six countries during 1977, exports rose sharply relative to imports.

Of course, other factors affected the change in trade balances in 1977, such as the increased production of North-Sea oil and the drought in France during 1976. However, relative demand factors -- especially since the terms of trade have been relatively constant -- seem to have had a predominant effect.

Trade Volume and Unit Value Indices
for Major Industrial Countries
(Percentage change; annual rate)

	Trade Volume (SA)			Unit Value (domestic currency)		
	1975QIV / 1974QIV	1976QIV / 1975QIV	1977QIII / 1976QIV	1975QIV / 1974QIV	1976QIV / 1975QIV	1977QIII / 1976QIV
Canada						
Export	-4.4	8.5	11.3	6.0	1.0	11.0
Import	-4.7	5.8	-2.1	5.7	1.1	19.7
France						
Export	-2.4	12.3	0.6 a/	0.6	14.2	7.3
Import	2.2	21.3	-11.2 a/	-7.1	19.1	7.0
Germany						
Export	-4.9	10.4	5.8	2.7	3.0	0.4
Import	6.1	14.4	3.8	0.8	0.7	2.4
Italy						
Export	8.6	13.1	-2.0	4.3	27.4	18.7
Import	5.2	11.4	-19.4	-0.3	32.0	16.6
Japan						
Export	1.4	14.3	11.2	-10.0	8.3	-3.9
Import	-7.4	12.4	1.2	1.9	1.2	-6.2
United Kingdom						
Export	0.3	8.6	5.2 b/	19.5	24.6	12.3 b/
Import	-4.7	8.4	1.3 b/	12.4	27.1	5.0 b/
Average of above c/						
Export	-0.6	11.6	4.9	1.9	11.8	6.2
Import	0.6	13.0	-4.6	1.7	11.1	4.6
United States						
Export	1.4	2.2	-3.3	2.6	6.0	2.6 b/
Import	-7.7	22.8	7.3	-1.6	6.6	7.4 b/

a/ 1977QII/1976QIV.
b/ 1977QIV/1976QIV.
c/ Using 1976 GNP weights.

APPENDIX A*
CPI REVISION

With the January CPI report the Bureau of Labor Statistics introduced a new index covering the expenditures of all urban consumers (about 80 per cent of noninstitutional civilian population) as well as its revised index for the previously covered population of wage earners and clerical workers (about half the urban grouping). The unrevised index will be continued through June to facilitate the changeover for users.

The CPI measures the changing cost of a fixed basket of goods. Because consumption habits and available products change over time, the CPI has undergone a number of revisions for the purpose of updating the basket of goods and also to improve the statistical techniques used for constructing the index.

For this fifth major revision, a new survey of consumer expenditures patterns was undertaken in 1972-73 to update the previous market basket which was based on a survey taken in 1960-61. An additional survey was made of where people do their shopping as an aid in selecting retail stores to be included in the canvass.

The revision has improved the statistical foundation of the index in a number of additional ways. Data are being collected on a more timely basis. Data which previously had been collected quarterly are now collected bimonthly, and the percentage of items that are priced on a monthly basis has been increased from 48 per cent to 53 per cent. Food is now priced throughout the month instead of at the beginning of the month. And, the rent survey now reflects the increase in rent since the previous month, rather than the change from six months earlier. In addition, the geographic coverage has been expanded from 56 urban areas to 85.

It is not known whether the two new indexes will diverge to any significant extent. There are observable differences in expenditure weights for some items (as shown in the table below) and any pronounced price movements in those components could cause the indexes to diverge. For example, housing costs which have been rising at rates well above the average rate of inflation have a significantly higher relative importance in the all-urban index than in the revised wage earner index. Food, on the other hand, has a lower weight in the all-urban index than in the wage earner index. Divergence also would occur if price changes at outlets patronized by wage earners differ from those at stores patronized by nonwage earners.

*Prepared by Rosemary Quintano, Economist, Wages, Prices and Productivity Section, Division of Research and Statistics.

RELATIVE IMPORTANCE OF MAJOR EXPENDITURE CATEGORIES IN CONSUMER PRICE INDEX (December 1977)

	New All Urban	Revised Wage Earners and Clerical Workers
All items	100.0	100.0
Food	17.7	19.3
Housing	43.9	40.7
Apparel and upkeep	5.8	5.8
Transportation	18.0	20.2
Medical Care	5.0	4.5
All other items	9.6	9.5

Appendix B*

A CLOSER LOOK AT AUTO DEMAND

Auto sales averaged 10.2 million units at an annual rate in January and February, off half a million units from the fourth quarter pace and the lowest rate since the Ford stike in late 1976. The lower volume is partly a result of unusually bad weather but sales of domestic-model autos have trended unevenly lower since the middle of last year, raising serious concerns about near-term prospects for this important sector. This appendix reviews the recent situation, presents factors believed to be dampening current sales, and then examines the longer-run determinants of auto demand.

THE RECENT SITUATION

Total unit auto sales reached an 11.7 million unit annual rate in the second quarter of 1977, and have declined in each quarter since then. The high level of sales early in 1977 was partly a result of temporary factors: (1) sales that were deferred as a result of the Ford strike as well as shortages of the popular General Motors redesigned large models; (2) replacement demand which was deferred during the 1974-75 recession was probably completed during the early months of 1977;1/ and (3) a sharp rise in foreign car sales which may in part have resulted from an emotional reaction to the President's energy message last April.2/

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* Prepared by Susan W. Burch, Economist, National Income Section, Division of Research and Statistics.

1/ In the 1973-74 period, there was a 2 million unit decline in the capital stock of autos which was not made up until 1977-I. Some additional shortfall from a 'desired' capital stock might be inferred because of income and population growth after 1973, if the premise is accepted that the capital stock was not undesirably high in 1972.

2/ In April and May, the market share of foreign cars averaged almost 22 per cent--up sharply from 16 per cent in first quarter and well above the 18.5 per cent share of the third quarter.

In the current quarter, by contrast, adverse weather has had a dampening effect on the sales pace but even aside from these factors sales have drifted lower since last spring. This weakness appears to be due to several cyclically sensitive factors.

(1) Prices of new cars relative to the prices of nondurable goods and services improved steadily from 1954 to 1974, but there has been no further improvement over the past three years (Chart 1). Because of the treatment of some safety and environmental control items as quality improvements in the official price measures, the relative price problem may actually be worse than the Chart indicates. The share of household disposable personal income which is absorbed by the average new car purchase--total price without removing quality adjustments--has trended upward the last few years. At 33.3 per cent of DPI in 1977-IV, the average new car purchase price--as translated into the GNP new auto component--was up from the 1973 average of 31.3 per cent, when the market share of large domestics was notably higher. Despite substantial growth in income, the price of a car relative to income is now as high as it was in the mid-sixties.

(2) The ratio of used car prices to new car prices has begun to level off. Since more than two-thirds of new car purchases are accompanied by a trade-in, this development could effectively increase the out-of-pocket cost of a new car. This ratio could come down further in the near term. This is because used car prices surged to very high levels early last year due to the shortage of 1974-75 large cars available for the used car market.[3/] Over the longer term, used car prices relative to new car prices were up quite dramatically in the 1970's from the general range maintained throughout the 1960's.

(3) As is normal in the later years of an expansion, the burden of instalment credit has increased. The share of disposable personal income devoted to repayments was 15 per cent in the second half of 1977, almost one percentage point higher than earlier in the recovery and the highest share since mid-1974. While this is not unusually high

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3/ In the not too distant future, this shift should be eliminated by the high volume of cars sold in the 1976-77 period.

historically (in 1970-I the ratio reached a record 15.9 per cent), it is clear that households do not have the leeway which they had earlier in the recovery to take on more debt.

(4) Although consumers evidently remained optimistic in February despite the unusual weather problems, the two major attitudinal surveys report the consumer somewhat less interested in cars than earlier in the current expansion. In the Conference Board survey, for example, plans to purchase new cars were expressed by 4.5 per cent of the respondents in February. This contrasts with 6.5 per cent planning to buy a new car in December 1976. Work based on the Michigan survey question on market conditions for autos suggests that sales would have been 275,000 units higher in the final months of 1977 if evaluations had remained at the level of 1977-I.

(5) Finally, there is the problem of the unpopularity of the new General Motors intermediate-sized cars. It is, of course, still possible that the public will come to like these trim but expansive cars this spring when the major selling season starts. In 1957, however, the public did not like the Edsel and did not buy it despite a vast amount of publicity and a whole new dealer network.

FUNDAMENTAL DETERMINANTS OF AUTO DEMAND

An analysis of the fundamental factors affecting underlying trends in automotive demand for the 1952-69 period suggested that 20 per cent of the longer-run increase in car demand was attributable to income growth, 30 per cent was from the trend toward multi-car ownership, and 50 per cent can be explained by the increase in the number of households.4/ In this section the longer-term trend for auto demand is evaluated by looking at prospects of these three determinants.

Income Growth. Real income growth is currently projected to increase a strong 5 per cent over the year. This alone implies more than a 600,000 unit increase in sales to a level of 11.4 in 1978-IV.

4/ R.P. Smith, Consumer Demand for Cars in the USA, Cambridge University Press, 1975.

Discretionary purchasing power (DPI less such basics as food, utilities, and medical costs) was 53.9 per cent in the fourth quarter--up marginally from a year-earlier and more than a point above the 1975-I trough of the last recession.

Multi-car Ownership. The government has not collected information on multi-car ownership since the 1974 energy crisis. However, multi-worker families, typically are also multi-car families, and there has been a continuation of the steep rise in female labor force participation in recent years. On this basis, it seems reasonable to assume that the trend toward multi-car ownership also continues its upward trend. In addition, multi-car ownership might expand further because of the growing popularity of recreational vehicles.

Growth in the Number of Households. Household formation is more rapid than population growth at the present time. The most conservative of the Census Bureau household projections (Series C) has an 11.9 million increase in the number of households between 1976 and 1985. If there is not to be a decrease in auto ownership per household, this alone implies about a 150,000 unit annual rate of increase in unit sales (Table 1). Changes in the composition of the population could be partly offsetting, but available evidence suggests that the youngest household heads--the War Babies--have more, rather than less, interest in autos. A 1972-73 survey of expenditures indicates that households with heads aged-25 or less spent twice as much on new automobiles as their income change would indicate.5/

CONCLUSION

Continued income growth, the strong interest in recreational vehicles, and new household formation all point to a long-run uptrend in new auto sales. A simple extrapolation of trend over 1953 to 1977 (Chart 2) suggests a sales pace of 11.65 units late this year. However,

5/ Susan W. Burch, "Demographic Saving Determinants as Revealed by Surveys of Consumer Expenditures," AEA Meetings, New York, December 30, 1977.

several short-run considerations suggest a level of sales by year-end which is below trend: (1) the relative price advantage of new cars compared with other goods and services is no longer improving; (2) the prices of used cars show signs of deteriorating relative to new cars; (3) the debt burden of households is now at high levels; (4) consumer attitudes towards new cars were more favorable earlier in the recovery; and (5) the new General Motors intermediates do not appear to be gaining public acceptance. Taking both the underlying determinants and the more topical special factors into account, the staff now is projecting a gradual rise in unit sales from about 10.5 million in the current quarter to 11.0 million at year-end.

Table 1

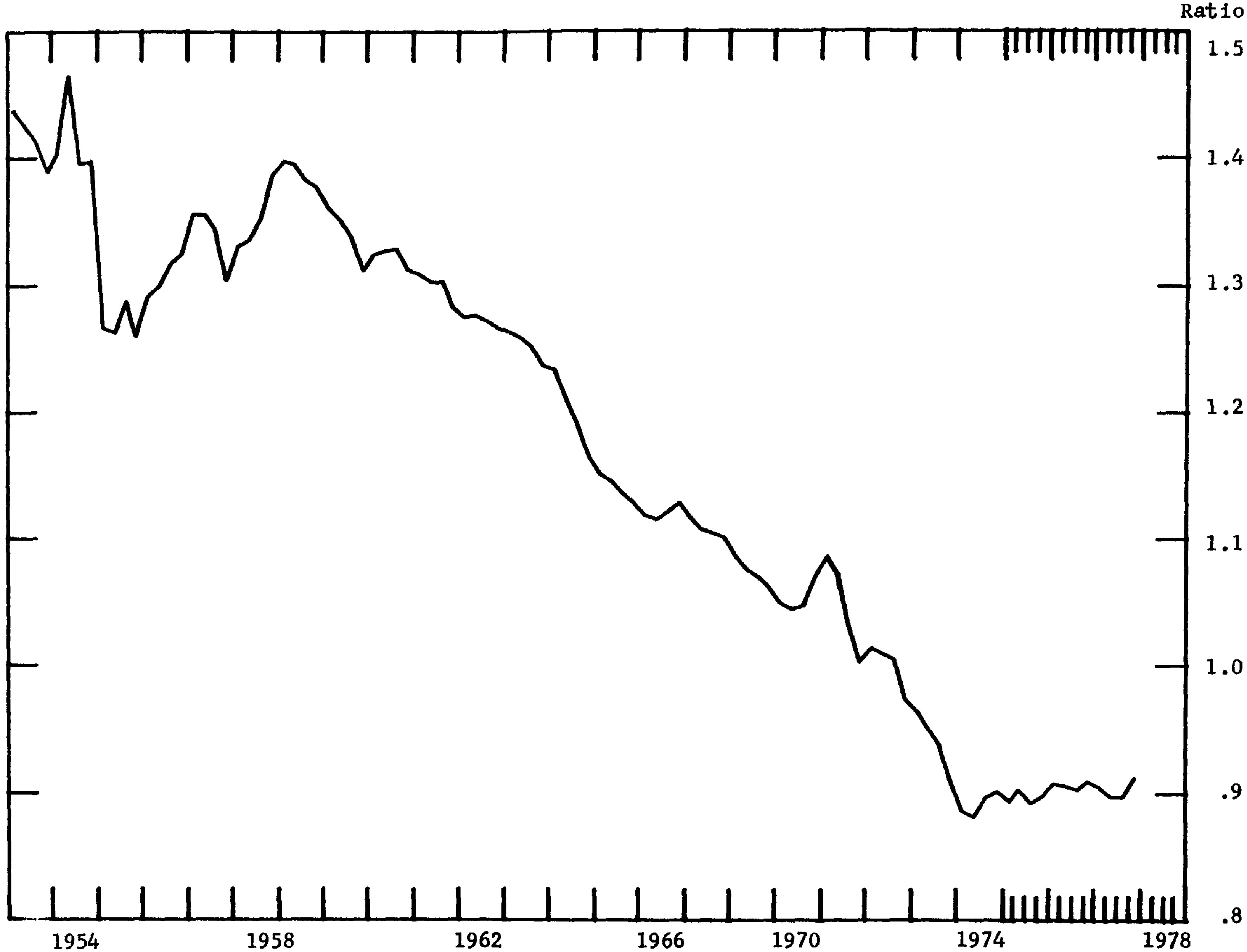
PROJECTED NEW CAR DEMAND 1976, 1980, AND 1985

Age of head of household	Purchase rate per 100 households[1]	Number of households (100)			Cars demanded[2] (000)		
		1976	1980	1985	1976	1980	1985
Under 25	16	6,242	6,699	6,591	999	1,072	1,055
25 - 29	15	8,423	9,057	9,954	1,263	1,359	1,493
30 - 34	13	7,270	8,854	9,951	945	1,151	1,294
35 - 44	14	11,858	13,259	16,251	1,660	1,856	2,275
45 - 54	17	12,862	12,385	12,257	2,187	2,105	2,084
55 - 64	12	11,530	12,144	12,440	1,384	1,457	1,493
65 and over	5	14,603	15,761	17,211	730	788	861
Total		72,788	78,159	84,655	9,168	9,788	10,553

1/ Actual average during 1968-72; Census Bureau Series P-65.
2/ Excludes fleet purchases; no allowance for income growth 1970 to 1976 or 1976 to 1985.

CHART

RATIO OF NEW CAR PRICES TO NONDURABLE AND SERVICE PRICES
(PCE basis)



CHART

TOTAL AUTO SALES
Foreign Plus Domestic