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CONFIDENTIAL (FR)

May 16, 1979

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
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	Apr.	5-4-79	102.1	-7.0	-.3	2.3
Unemployment rate (%) 1/	Apr.	5-4-79	5.8	5.7	5.8	6.1
Insured unemployment rate (%) 1/	Apr.	5-4-79	3.0	3.0	3.1	3.2
Nonfarm employment, payroll (mil.)	Apr.	5-4-79	88.3	1.0	3.6	3.4
Manufacturing	Apr.	5-4-79	20.9	-1.1	2.2	3.2
Nonmanufacturing	Apr.	5-4-79	67.4	1.6	4.0	3.4
Private nonfarm:						
Average weekly hours (hr.) 1/	Apr.	5-4-79	35.4	35.9	35.7	36.1
Hourly earnings ($) 1/	Apr.	5-4-79	6.04	6.05	5.96	5.59
Manufacturing:						
Average weekly hours (hr.) 1/	Apr.	5-4-79	39.1	40.8	40.7	40.8
Unit labor cost (1967=100)	Mar.	4-30-79	176.6	3.4	13.6	5.9
Industrial production (1967=100)	Apr.	5-16-79	150.5	-11.8	-1.1	5.1
Consumer goods	Apr.	5-16-79	149.0	-21.4	-4.3	1.0
Business equipment	Apr.	5-16-79	170.8	-8.4	2.6	7.2
Defense & space equipment	Apr.	5-16-79	89.4	-4.0	3.2	7.8
Materials	Apr.	5-16-79	153.0	-8.6	-.3	6.5
Consumer prices all items (1967=100)	Mar.	4-26-79	209.6	12.1	12.4	10.1
All items, excluding food & energy	Mar.	4-26-79	200.4	9.7	9.0	9.3
Food	Mar.	4-26-79	230.5	12.6	16.6	12.6
Producer prices: (1967=100)						
Finished goods	Apr.	5-3-79	211.2	10.9	11.7	10.3
Intermediate materials, nonfood	Apr.	5-3-79	235.7	18.6	14.4	10.8
Crude foodstuffs & feedstuffs	Apr.	5-3-79	245.5	-3.4	14.9	16.4
Personal income ($ bil.) 2/	Mar.	4-18-79	1851.2	12.5	8.7	12.4
					(Not at annual rates)	
Mfrs. new orders dur. goods ($ bil.)	Mar.	5-1-79	81.9	-.1	4.2	18.7
Capital goods industries	Mar.	5-1-79	26.0	-4.7	3.7	18.3
Nondefense	Mar.	5-1-79	22.6	-2.9	8.7	29.1
Defense	Mar.	5-1-79	3.4	-14.8	-20.4	-23.7
Inventories to sales ratio: 1/						
Manufacturing and trade, total	Mar.	5-11-79	1.37	1.41	1.39	1.43
Manufacturing	Mar.	5-1-79	1.43	1.49	1.46	1.52
Trade	Mar.	5-11-79	1.31	1.33	1.31	1.35
Ratio: Mfrs.' durable goods inventories to unfilled orders 1/	Mar.	5-1-79	.541	.544	.560	.605
Retail sales, total ($ bil.)	Apr.	5-10-79	72.2	.5	1.9	10.8
GAF 3/	Apr.	5-10-79	15.4	-.4	2.6	8.7
Auto sales, total (mil. units.) 2/	Apr.	5-3-79	11.4	-7.5	3.7	-6.2
Domestic models	Apr.	5-3-79	8.7	-8.2	-2.8	-13.9
Foreign models	Apr.	5-3-79	2.7	-5.1	31.8	30.9
using starts, private (thous.) 2/	Mar.	4-17-79	1,793	29.6	-13.5	-10.8
indicators (1967=100)	Mar.	4-30-79	142.3	-.5	-1.2	1.4

1/ Actual data used in lieu of per cent changes for earlier periods.
2/ At annual rate.
3/ Excludes mail order houses.

DOMESTIC NONFINANCIAL DEVELOPMENTS

On balance, economic activity has been advancing at a distinctly slower pace so far in 1979 than late last year, but the rate of inflation has accelerated substantially. In April, retail sales continued their sluggish performance, while payroll employment growth slowed and industrial production fell, in part reflecting the effects of the trucking strike/ lockout. There was a weather-related rebound of spending in March for both residential and nonresidential construction, but for housing particularly this surge is likely to be transitory. Prices in the spring continued rising at the double-digit pace seen since the beginning of the year with especially sharp increases in energy prices. Some slowdown in food price increases, however, has become evident.

Employment and Production

Nonfarm payroll employment rose by 130,000 (strike adjusted) in April--following average monthly gains of about 320,000 in the first quarter of the year. The service-producing industries accounted for all of the April payroll increase, while employment in the goods-producing sector was essentially unchanged. The secondary effects of the trucking shutdown, which ended during the reference week for the labor market surveys, probably depressed employment. The impact of the trucking dispute appears to have been greatest in the transportation equipment industry where employment fell 20,000. The factory workweek also was affected by the strike and by religious holidays during the reference week. As a result, overtime hours were sharply reduced, and in total the average workweek fell 1.7 hours to 39.1 hours.

CHANGES IN EMPLOYMENT 1/
(Thousands of employees; based on seasonally adjusted data)

	1977	1978	1978 H1	1978 QIII	1978 QIV	1979 QI	1979 Apr.
	- - - Average monthly changes - - -						
Nonfarm payroll employment 2/	284	297	380	56	373	320	72
Strike adjusted	302	281	349	73	352	322	128
Manufacturing	66	62	55	-10	148	77	-19
Durable	50	53	43	19	108	69	-15
Nondurable	16	9	12	-29	39	8	-4
Construction	30	37	54	7	33	45	2
Trade	79	66	84	45	50	84	43
Services and finance	82	79	78	71	90	79	75
Transportation & public utilities	9	18	22	-9	37	19	-66
State and local government	28	16	47	-44	15	3	35
Private nonfarm production workers	215	224	260	69	306	243	-8
Manufacturing production workers	52	45	37	-20	128	58	-19
Total employment 3/	342	275	347	123	282	329	-668
Nonagricultural	336	268	327	129	288	344	-512

1/ Changes are from final month of preceding period to final month of period indicated.
2/ Survey of establishments. Not strike adjusted, except where noted.
3/ Survey of households.

SELECTED UNEMPLOYMENT RATES
(Per cent; based on seasonally adjusted data)

	1973 Annual average	1978 QI	1978 QII	1978 QIII	1978 QIV	1979 QI	1979 Apr.
Total, 16 years and older	4.9	6.2	6.0	6.0	5.8	5.7	5.8
Teenagers	14.5	16.9	16.1	16.1	16.3	15.8	16.5
20-24 years old	7.8	10.2	9.5	9.4	9.0	8.7	8.5
Men, 25 years and older	2.5	3.5	3.3	3.3	3.2	3.2	3.3
Women, 25 years and older	4.0	5.0	5.1	5.2	4.9	4.9	4.9
White	4.3	5.4	5.2	5.2	5.1	5.0	4.9
Black and other	8.9	12.4	12.1	11.7	11.5	11.4	11.8
Fulltime workers	4.3	5.7	5.5	5.5	5.2	5.2	5.3
White collar	2.9	3.6	3.6	3.6	3.3	3.4	3.3
Blue collar	5.3	7.2	6.7	6.8	6.7	6.5	6.9
Craft and kindred	3.7	5.1	4.4	4.4	4.6	4.6	4.2
Operatives, ex. transport	6.1	8.3	8.2	8.4	7.6	7.6	8.6

Total employment, as measured by the household survey, declined about 670,000 in April. This sharp drop followed average monthly increases of almost 300,000 in the preceding 12 months. It appears that the April decline was related to reporting difficulties as well as other special factors and is likely to be reversed in May. A large drop in the civilian labor force accompanied the April employment decline, and the unemployment rate was little changed at 5.8 per cent.

Industrial production is estimated to have declined 1 per cent in April. About three-fourths of the drop appeared in autos, trucks and related industries. Auto makers had initially scheduled a 4 per cent decline in April assemblies from the March rate, partly because of an inventory overhang. As a result of the strike, however, assemblies in April actually fell 16 per cent from March to a seasonally adjusted annual rate of 7.9 million units. Preliminary reports indicate that, with sales relatively weak at all other producers, only General Motors plans output increases in May and June. Weekly raw steel figures show a small increase in April, but output of finished steel was curtailed late in the month due to a strike by steel-haulers.

With the estimated large decline in industrial production, capacity utilization in manufacturing apparently fell more than 1 percentage point in April to about 85 per cent. This is close to the level that prevailed last summer, but still relatively high.

INDUSTRIAL PRODUCTION
(Per cent change, based on seasonally adjusted data)

	1978		1979		
	H1	H2	QI	March	April
	— Compound annual rate —			— Monthly rate —	
Total	6.9	8.1	4.3	.7	-1.0
Final products	5.5	5.8	5.1	.7	-1.4
Consumer goods	2.6	3.6	3.2	.7	-1.8
Durables	6.5	1.1	.5	1.6	6.4
Nondurables	1.0	4.9	4.2	.3	.1
Business equipment	9.3	9.2	7.6	.9	-.7
Materials	9.1	10.6	1.8	.9	-.7
Durables	9.4	16.2	-.3	.5	-1.4
Nondurables	10.9	4.6	6.1	.6	.4

SELECTED CAPACITY UTILIZATION RATES FOR U.S. INDUSTRY
(Per cent, seasonally adjusted)

	1973-1974 High	1978 Apr.	1979 Mar. 1/	1979 Apr. 2/	Apr. 79 less Apr. 78 3/
Manufacturing	88.0	83.7	86.1	84.9	1.2
Primary Processing	93.6	85.7	87.9	87.4	1.7
Advanced Processing	85.4	82.7	85.1	83.5	.8
Electrical Machinery	88.2	82.9	87.7	87.0	4.1
Instruments	86.7	88.3	89.8	89.5	1.2
Materials	93.1	84.0	87.5	86.7	2.7
Durable Goods Materials	92.5	81.6	87.0	85.5	3.9
Basic Iron and Steel	105.2	79.4	86.2	86.0	6.6
Nondurable Goods Materials	94.6	88.2	89.1	89.1	.9

1/ Preliminary.
2/ Estimated.
3/ Percentage points.

Capacity utilization for a number of industries has been quite high recently. Indeed, before the drop in April, the utilization rate for advanced processing industries was about the same as the 1973 peak level. In particular, utilization rates are relatively high for certain primary metals, fabricated metal products, electrical machinery, aerospace, railroad equipment, and instruments. Some of these items also have been reported in short supply by purchasing managers in recent months.

Purchasing managers also have reported paper and paper products, petrochemicals, and petroleum products as being in short supply. To some extent shortages of these items result from strikes or special factors. For example, it is estimated that about 5 per cent of basic paper capacity had been shut down by strikes which began last summer. Moreover, the supply disruptions reported for various petroleum products partly reflect the earlier interruption in the flow of crude oil from Iran and the shift of production toward increased fuel oil output. Additionally, the supply disruptions reported for petroleum-based materials appear to reflect regulations forcing a shift to the use of unleaded gasoline from leaded gasoline. Production of unleaded gasoline requires more crude oil input per unit of output than leaded gasoline and this has reduced available supplies of other refined products such as benzene and toluene--inputs to the chemical industry.

Personal Income and Consumer Spending

Total personal income growth, which was depressed early in the year, picked up in March to a 12-1/2 per cent annual rate--slightly below the 14 per cent rise in the fourth quarter of 1978--reflecting strong

PERSONAL INCOME
(Based on seasonally adjusted annual rate data)

	1977	1978 H1	1978 QIII	1978 QIV	1979 QI	1979 Feb.	1979 Mar.
	- - Average monthly change, in billions of dollars - -						
Total personal income	$12.3	$14.4	$16.3	$22.3	$13.2	$13.0	$19.2
Nonagricultural income	12.1	14.9	16.0	19.2	14.4	13.3	19.1
Agricultural income	.3	-.5	.4	3.1	-1.2	-.2	.1
Wage and salary disbursements	7.8	11.9	7.2	13.8	12.1	10.4	14.2
Private	6.7	10.9	6.4	11.8	11.3	10.2	13.3
Manufacturing	2.4	2.9	1.8	5.3	3.9	4.5	3.5
Other income	5.0	3.7	9.5	9.1	3.4	3.2	5.7
Less: Personal contributions for social insurance	.5	1.1	.4	.6	2.3	.6	.7
	- - Percentage change, compound annual rates 1/ - -						
Total personal income							
Current dollars	11.4	11.5	12.2	13.9	10.5	8.6	12.5
Constant dollars 2/	4.4	2.3	3.1	4.4	-.5	-5.3	.4
Wage and salary disbursements							
Current dollars	11.0	14.0	8.7	13.7	12.9	10.7	14.4
Constant dollars 2/	4.1	4.6	-.1	4.1	1.6	3.3	2.2

1/ Changes over a period longer than one quarter are from final quarter of preceding period to final quarter of period indicated. Monthly per cent changes at annual rates, not compounded.

2/ Deflated by the CPI for all urban consumers, seasonally adjusted.

gains in private wage and salary disbursements. But with prices rising sharply, real personal income was about unchanged in March and declined slightly over the first quarter as a whole. Over the last year, real personal income rose 2-1/2 per cent, somewhat below the 3 per cent trend of the last decade.

Consumer activity continued weak in April as moderate gains in nominal retail sales were probably about matched by the continued surge in consumer prices. Retail sales excluding autos and mainly nonconsumer items rose 1.1 per cent for the month. However, this gain partly reflected a sharp price-related advance in the current dollar sales by gasoline service stations and grocery stores. Sales at discretionary-spending type stores--furniture and appliance, general merchandise, and apparel--declined a trifle in April.

Total unit auto sales were at an 11.4 million unit annual rate in April, down substantially from the rapid March selling rate, but only slightly below the average earlier this year. Sales continued to be boosted by increased concern about fuel efficiency, as import sales were sustained at a brisk pace--2.6 million units--and sales of American-made small cars held at the high March rate. In the first ten days of May, sales of domestic-model cars were at a 9.1 million unit rate, the same as in April as a whole.

A weakening of consumer confidence has accompanied the recent moderation of consumer spending. According to the University of Michigan and The Conference Board surveys, consumer confidence in their economic

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

	1978	1979			
	QIV	QI	Feb.	Mar.	Apr.
Total sales	4.2	1.8	.4	1.0	.5
(Real) 1/	2.4	-1.2	-.8	.0	n.a.
Total, less auto and nonconsumption items	4.0	1.6	1.2	.8	1.1
GAF 2/	3.2	-.3	-.6	3.6	-.4
Durable	5.7	1.5	-.9	1.3	-.4
Auto	4.6	3.4	-.5	-.3	-1.6
Furniture & appliances	3.9	1.7	-.1	.8	1.7
Nondurable	3.4	2.0	1.1	.9	1.0
Apparel	4.4	-1.2	-1.8	6.7	-1.1
Food	3.1	3.4	-.1	-.2	1.4
General merchandise 3/	2.5	-.8	-.3	3.6	-.9
Gasoline	4.2	4.1	4.0	-1.0	1.7

1/ BCD series 59.
2/ General merchandise, apparel, furniture and appliance stores.
3/ General merchandise excludes mail-order nonstores; mail-order sales are also excluded in the GAF composite sales summary.

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

	1978	1979			
	QIV	QI	Feb.	Mar.	Apr.
Total	11.1	11.5	11.3	12.3p	11.4
Imports	2.0	2.4	2.3	2.8p	2.7
Domestic	9.1	9.1	9.0	9.5	8.7
Small	3.5	3.8	3.8	4.2p	4.1
Intermediate & large	5.6	5.4	5.2	5.2p	4.6

Note: Components may not add to totals due to rounding.
p = Preliminary.

and financial situation dropped sharply last month to levels low by historical standards. The Michigan survey indicates that heightened inflationary expectations were a prime factor in this deterioration. The April surveys also reported less optimism about buying conditions for household durables; in addition, the surveys indicated that views about purchasing automobiles and housing deteriorated, but remained quite high by historical standards.

Business Fixed Investment

Investment activity rebounded substantially in March, following the weather-related disruptions earlier in the year. Shipments of non-defense capital goods rose 5-1/2 per cent, after little change in the preceding two months. In the first quarter, these shipments advanced 5-1/2 per cent, about 1 percentage point faster than the fourth quarter rise. Nonresidential construction put-in-place also snapped back noticeably in March, after declining in the first two months of the year; nonetheless for the first quarter as a whole, growth of such building activity was below the average pace recorded during 1978.

Advance indicators of capital spending still appear to suggest some slowing in investment demand over the course of this year. In the construction area, commitments for new commercial and industrial buildings remain strong, but recent trends in nonbuilding commitments (primarily power plants and pipelines) indicate some weakness. Contracts for new building activity climbed 10-1/2 per cent in the first quarter, about

BUSINESS INVESTMENT SPENDING
(Per cent change from preceding comparable period, based on seasonally adjusted data)

	1978		1979				Mar. 1978 to Mar. 1979
	QIII	QIV	QI	Jan.	Feb.	Mar.	
Nondefense capital goods shipments	6.3	4.4	5.5	1.3	-0.5	5.5	24.5
Nonresidential construction put-in-place	5.1	6.5	1.1	-2.9	-0.4	5.9	24.1
Building	8.3	4.5	0.5	-4.6	-0.4	11.4	34.0
Nonbuilding	1.0	9.2	1.9	-0.8	-0.5	-0.7	12.7

BUSINESS SPENDING COMMITMENTS
(Per cent change from preceding comparable period, based on seasonally adjusted data)

	1978		1979				Mar. 1978 to Mar. 1979
	QIII	QIV	QI	Jan.	Feb.	Mar.	
Equipment							
Nondefense capital goods orders	5.4	12.4	6.8	6.1	5.5	-2.9	29.1
Machinery	4.2	8.8	3.9	4.9	-2.3	1.3	17.0
Nonmachinery	8.3	21.4	13.4	9.0	23.3	-10.6	63.9
Construction							
Contracts for private nonresidential construction 1/	12.7	-7.8	-1.0	32.0	-5.8	-19.3	6.4
Building	14.4	-3.2	10.5	21.0	-4.4	-10.7	28.4
Nonbuilding	7.8	-22.0	-45.6	180.6	-13.6	-74.7	-78.3

1/ FRB seasonal factors.

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

	Anticipated for 1979		
	Commerce 1/ February Survey	McGraw-Hill Fall Survey	McGraw-Hill Spring Survey
All business	11.3	9.9	15.7
Manufacturing	14.7	10.3	20.3
Durables	19.5	12.2	23.3
Nondurables	10.4	8.6	17.8
Nonmanufacturing	8.6	9.5	12.0

1/ Results are adjusted for systematic bias. Without this adjustment, the February Commerce survey showed a 13.5 per cent increase.

Recent Performance of Plant and Equipment Surveys
(Per cent change from prior year)

Year	Actual	Commerce February Survey	McGraw-Hill Fall Survey	McGraw-Hill Spring Survey
1976	6.8	6.5	8.8	12.9
1977	12.7	11.7	13.0	18.0
1978	13.3	10.9	11.1	17.3

in line with the rise over 1978. In contrast, the value of contracts for private nonbuilding projects has been declining since early 1978 and activity in this sector will likely temper the strength in overall construction outlays later this year.

New orders for nondefense capital goods fell almost 3 per cent in March, following two months of large increases. For the quarter as a whole, these bookings were up 6.8 per cent, well below the exceptional fourth quarter pace, but about in line with the average advance over 1978. Machinery orders--a good indicator of underlying trends in equipment outlays--rose 3.9 per cent in the first quarter, less than half the rise in the fourth quarter.

The slowing of advances in machinery orders is consistent with a general weakening of investment growth over the course of this year implied by the Commerce Department survey of anticipated capital outlays taken last February. In contrast to the Commerce Department readings, which are to be updated next month, the McGraw-Hill survey of business spending plans suggests a more robust investment outlook. The results of this survey, however, should be interpreted with caution. The spring survey, which reports an upward-revised 16 per cent increase in business spending plans in 1979, has overstated the actual change in the past three years by an average of about 5 percentage points, and has overstated actual spending in 24 out of the last 28 years.

BUSINESS INVENTORIES
(Billions of dollars; annual rate of change
in seasonally adjusted book values)

	1978				1979		
	QI	QII	QIII	QIV	QI(p)	Feb.(r)	Mar.(p)
Manufacturing and trade	45.5	44.6	36.7	39.5	51.5	42.3	58.1
Manufacturing	16.6	22.8	18.0	15.0	30.5	31.5	26.2
Durable	13.2	15.9	14.0	11.9	25.2	26.9	19.8
Nondurable	3.4	6.9	4.1	3.1	5.3	4.6	6.5
Trade, total	28.9	21.8	18.7	24.5	21.0	10.8	31.9
Wholesale	18.5	10.2	7.7	14.6	15.4	17.5	19.4
Retail	10.4	11.6	11.0	9.9	5.6	-6.8	12.5

r = Revised.
p = Preliminary.

INVENTORY TO SALES RATIOS

	1978				1979		
	QI	QII	QIII	QIV	QI(p)	Feb.(r)	Mar.(p)
Manufacturing and trade	1.46	1.43	1.43	1.40	1.41	1.41	1.37
Manufacturing	1.56	1.52	1.54	1.49	1.48	1.49	1.43
Durable	1.90	1.86	1.87	1.80	1.81	1.80	1.75
Nondurable	1.17	1.15	1.16	1.13	1.10	1.11	1.07
Trade, total	1.37	1.33	1.33	1.32	1.34	1.33	1.31
Wholesale	1.26	1.20	1.20	1.20	1.24	1.23	1.20
Retail	1.47	1.46	1.46	1.44	1.43	1.42	1.42

r = Revised.
p = Preliminary.

Inventory Investment

Total business inventory accumulation, as measured in book value terms, was at a generally brisk pace throughout the first quarter. Accelerating prices continued to be a significant factor in boosting book values as total manufacturing and trade inventories rose at a $58 billion annual rate in March; this increase was about 20 per cent faster than the average rise in the first two months of the year. At the same time, however, total business sales rebounded sharply from the earlier weather-affected pace and the ratio of total book value stocks to sales fell back below its low level of late last year.

The book value of manufacturers' inventories rose at a seasonally adjusted annual rate of $26.2 billion in March, somewhat below the average pace for the first two months of the year. The bulk of the March accumulation was in durable goods, mainly by producers of machinery. The limited stock-building in the nondurable goods area continued to be characterized by relatively large increases in food products.

By stage of fabrication, the March accumulation at manufacturers was heavily concentrated in materials and supplies, particularly fabricated metal products and transportation equipment. This follows two months of fairly even distribution at all stages of processing. Part of the increase in materials inventories appears to reflect some advance building in anticipation of a trucking strike.

In contrast to the pickup of manufacturing accumulation in the first quarter, stock-building at the trade level was off somewhat from the fourth quarter pace. The book value of total trade inventories rose at a $32 billion annual rate in March, about twice as rapid as the January-February rate. Retail stocks increased somewhat faster than last year's average pace, following the liquidation in February; most of this increase was at nondurable retailers where stocks had declined for three consecutive months. Stocks of wholesale merchants rose in March at a pace somewhat above the February rate.

Residential Construction

Housing activity improved in March, following two months of being severely depressed by weather, but it appears to have slowed considerably from last fall. Total private housing starts rose by almost 30 per cent in March to a 1.8 million unit annual rate, reflecting sharp increases for both single and multifamily units. Nonetheless, the March rate for all units was 14 per cent below the fourth quarter starts rate, and the average for the first quarter as a whole was 22 per cent below the fourth quarter.

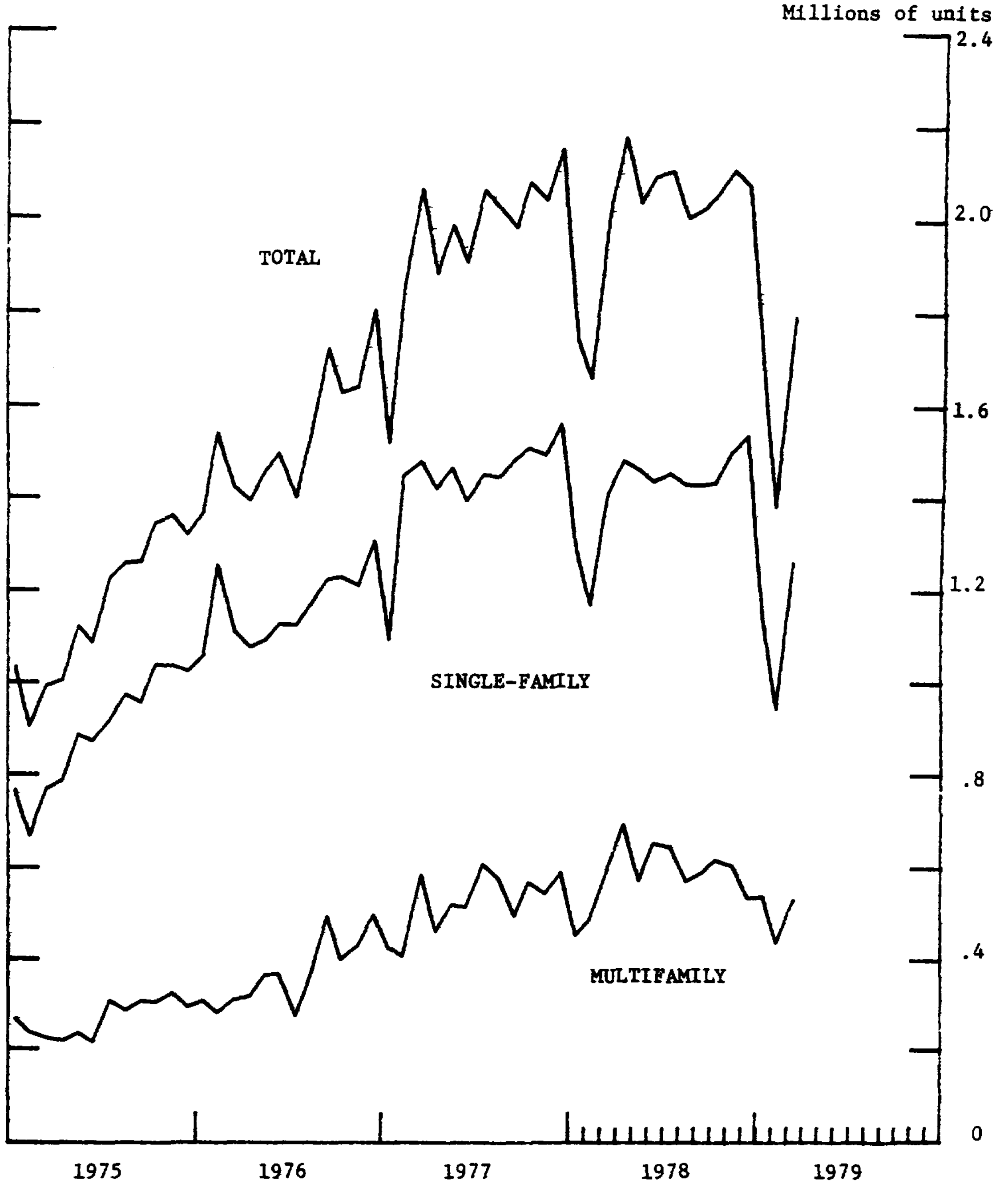
Starts in all parts of the country in March were well below their 1978:QIV averages. In particular, starts in the West census region were almost 20 per cent below the exceptionally rapid pace that generally prevailed throughout 1977 and 1978. In addition, sales of existing homes in the West remained at a low level in March and recent reports from California suggest that gasoline shortages currently are having a further damping effect on sales; however, new home sales in March were at a level well above the fourth quarter rate.

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

	1978		1979			
	Annual	QIV	QI	Jan. 1/	Feb. 1/	Mar. 2/
Total						
Permits	1.66	1.71	1.40	1.32	1.32	1.54
Starts	2.02	2.08	1.62	1.68	1.38	1.79
Single-family						
Permits	1.08	1.13	.87	.84	.79	.98
Starts	1.43	1.49	1.12	1.14	.95	1.26
Sales						
New homes	.82	.84	.76	.77	.70	.81
Existing homes	3.91	4.27	3.66	3.71	3.62	3.65
Multifamily						
Permits	.58	.57	.53	.48	.53	.56
Starts	.59	.59	.50	.54	.44	.53
Mobile home shipments	.28	.29	.28	.31	.27	.27

1/ Regular monthly revision.
2/ Preliminary estimates except permits which reflect first monthly revision.

NEW PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



For the nation as a whole, sales of both new and existing homes were up slightly in March, rising 3 per cent from February levels. Despite this increase, the level of sales is well below last fall's strong pace. Even with the emerging weakness in home sales, however, builders do not appear to be severely overstocked with unsold houses. On a seasonally adjusted basis, homes for sale at the end of March were below the peak reached last summer, and industry sources indicate that contractors are continuing to be conservative about speculative building.

Government Sector

The Federal deficit (NIA basis) in the first quarter is now estimated to have been $20 billion at an annual rate, down slightly from the previous quarter and $32 billion below a year earlier. The declining trend is due in part to a slowdown in the growth of Federal spending, especially for grants to States and localities. Receipts have risen rapidly reflecting growth in incomes. In the first quarter, total receipts rose, partly reflecting the January increase in Social Security taxes. As expected, high personal and corporate tax payments in the first quarter about offset the tax cuts contained in the Revenue Act of 1978.

Incoming unified budget data for April indicate continuing strength in Federal receipts, particularly for final settlements on 1978 personal tax liabilities. These larger-than-expected tax payments and upward-revised income assumptions have led the Administration to raise expected receipts for fiscal year 1979 by $8 billion to $464 billion. For 1980, the receipts estimate has been increased to $513 billion, up $11 billion from earlier this year.

FEDERAL NIA RECEIPTS AND EXPENDITURES
(Billions of dollars; seasonally adjusted annual rates)

	1978:QI	1978:QIV	1979:QI
Receipts	396.2	463.1	467.2 1/
Personal Tax and Nontax	176.8	209.7	206.1
Corporate Profits	59.6	80.6	75.1 1/
Indirect Business	26.5	28.8	29.1
Social Insurance	133.3	144.0	156.9
Expenditures	448.8	483.8	487.2
Purchases	151.5	162.5	164.7
Defense	97.9	102.1	103.9
Nondefense	53.6	60.4	60.8
Transfers	180.2	191.9	195.6
Grants	73.9	80.3	76.9
All Other	43.2	49.1	50.0
Surplus (+)/Deficit(-)	-52.6	-20.8	-19.9 1/

1/ Corporate profits tax component based on staff estimate.

State and local government employment rose by 35,000 in April. Hiring by these units has risen substantially since last fall, but this has offset only about two-thirds of the job losses that occurred throughout the country last summer following the passage of Proposition 13. Construction outlays by State and local governments remained at a comparatively low level in March, following sharp weather-related declines early in the year. Consequently, the value of new construction put-in-place was down over 5 per cent in real terms from the year-earlier level. March investment activity was concentrated in building construction and highway and road work, while water facility projects--the largest single category of State and local construction--declined for the fifth month in a row.

Prices

Recent data continue to show inflation running at a double-digit pace in 1979. Consumer prices increased at about a 12 per cent annual rate in March, and in April producer prices for finished goods rose at nearly an 11 per cent rate despite some decline in food prices.

The sharpest inflation so far this year has been in the energy sector. During the first quarter, consumer prices for both gasoline and fuel oil rose at more than a 30 per cent annual rate, with prices accelerating late in the quarter. The sharp price increases reflect a number of factors, including higher OPEC crude oil prices, an apparent jump in gasoline demand and a reduction in stocks, a relaxation of Department of

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

	Relative importance Dec. 1978	1977	1978	1979 Q1	1979 Mar.	1979 Apr.
Finished goods	41.0	6.6	9.2	13.7	11.6	10.9
Consumer foods	10.4	6.6	11.9	20.1	15.0	-3.2
Consumer nonfoods	18.6	6.1	8.4	12.9	12.9	16.5
Capital equipment	12.1	7.2	8.0	9.8	6.9	13.6
Materials:						
Intermediate 2/	44.8	6.4	8.3	13.2	13.1	18.6
Construction	8.3	8.2	11.0	11.6	9.0	12.5
Crude nonfood	4.8	6.8	15.6	29.5	25.7	-6.6
Crude food	6.8	1.4	18.3	30.6	2.9	-3.4
Memorandum:						
Energy Commodities 3/	11.0	11.8	7.1	20.8	28.4	39.0

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/ Fuels and related products and power. This series is on a commodity basis, while the other data in this table are on a stage of processing basis.

RECENT CHANGES IN CONSUMER PRICES 1/
(Per cent change at compound annual rates; based on seasonally adjusted data) 2/

	Relative importance Dec. 1978	1977	1978	1979 Q1	1979 Feb.	1979 Mar.
All items	100.0	6.8	9.0	13.0	14.0	12.1
Food	18.2	8.0	11.8	17.7	19.2	12.6
Commodities (nonfood)	41.1	4.9	7.7	12.9	12.5	13.6
Services	40.8	7.9	9.3	10.6	13.0	10.8
Memoranda:						
All items less food and energy 3/	73.3	6.4	8.5	9.3	11.0	9.7
Gas and electricity	3.4	8.7	7.9	10.7	10.0	10.0
Gasoline	4.2	4.9	8.5	35.6	23.8	45.1
Homeownership	23.6	9.2	12.4	16.7	21.9	15.1

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

Energy gasoline pricing regulations, and a third successive cold winter which pulled down fuel oil stocks. The indirect effects of higher OPEC crude oil prices also have begun to be evident, particularly in April, with accelerating producer prices for such intermediate materials as industrial chemicals and plastic resins and materials.

Food prices at the retail level continued rising rapidly through March, but there have been indications of a slowdown. Producer prices for finished foods declined in April for the first time since last August--primarily because of lower prices for vegetables, pork, and poultry and a slower rate of increase in beef prices. At the farm level, increases in livestock prices--an indicator of near-term retail meat prices--have slowed from their pace of earlier months and prices of fresh vegetables have declined sharply.

Excluding food and energy items, consumer prices rose at a 9.7 per cent annual rate in March, somewhat above the first quarter rate. Homeownership costs, which reflect both house prices and mortgage rates, continued to be a major factor in this rapid rise. Apparel prices also rose sharply in March after 10 months of relatively small increases.

At the producer level, widespread large increases were evident outside the food and energy-related sectors in April, particularly for motor vehicles and for construction and agricultural machinery and equipment. Consumer finished goods excluding food rose at close to an 18 per cent annual rate in April; excluding gasoline and fuel oil, this component of the index rose at about a 10 per cent rate. Intermediate materials prices also rose quite rapidly in April.

Wages, Collective Bargaining Settlements, and Productivity

The hourly earnings index rose 0.6 per cent in April, and was up at an 8.3 per cent annual rate during the first four months of the year--the same pace as in 1978. The continuation of the 1978 wage trend so far this year reflects, in part, the relatively light collective bargaining calendar in the first quarter. Average wage rates in the second quarter, however, will be affected by the initial impact of large first-year increases in the recent Teamsters' contract, and will be further boosted when a settlement is reached in the rubber industry collective bargaining negotiations.

Sizable increases in compensation and a decline in productivity have continued to put upward pressures on unit labor costs. Including the effects of increases in the minimum wage and Social Security taxes, hourly compensation in the nonfarm business sector rose at a 10-1/4 per cent annual rate during the first quarter. This, combined with a sharp decline in estimated productivity--at a 4-1/4 per cent annual rate, unit labor costs in the nonfarm business sector were up at a 15 per cent annual rate. Over the past year, such costs had risen at nearly a 9 per cent annual rate. In manufacturing, a smaller decline in productivity in the first quarter along with a 10 per cent rate rise in hourly compensation resulted in a

HOURLY EARNINGS INDEX 1/
(Per cent change at compound annual rates;
based on seasonally adjusted data) 2/

	1977	1978	1979 Mar.	1979 Apr.	Dec. 1978- Apr. 1979
Total private nonfarm	7.5	8.3	7.5	7.1	8.3
Manufacturing	8.3	8.4	9.0	11.2	9.4
Contract construction	4.0	7.5	2.6	7.5	8.1
Transportation and public utilities	9.1	6.9	8.7	-10.6	3.8
Total trade	7.4	9.5	7.6	5.7	8.5
Services	7.1	7.6	7.5	10.0	9.2

1/ Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.
2/ Changes over a period longer than one quarter are from final quarter of preceding period to final quarter of period indicated. Monthly per cent changes at annual rates, not compounded.

PRODUCTIVITY AND COSTS
(Per cent change from preceding period at compound annual rates;
based on seasonally adjusted data)

	1978 QI	1978 QII	1978 QIII	1978 QIV	1979 QI	1978:QI to 1979:QI
Output per hour						
Total private business	-4.5	1.2	3.5	1.7	-4.5	.4
Nonfarm business	-3.1	1.7	2.3	1.9	-4.2	.4
Manufacturing	-5.1	8.3	10.8	1.7	-2.8	4.3
Durable	-6.8	11.3	10.2	-.5	-4.8	3.8
Nondurable	-2.6	3.9	11.8	5.2	.2	5.2
Compensation per hour						
Total private business	12.1	8.1	10.4	8.7	11.1	9.5
Nonfarm business	12.2	8.2	9.6	9.1	10.2	9.3
Manufacturing	11.6	7.4	10.6	9.3	10.0	9.3
Durable	10.4	7.5	10.4	9.7	10.1	9.4
Nondurable	13.6	7.2	9.7	7.6	9.3	8.4
Unit labor costs						
Total private business	17.4	6.8	6.7	6.8	16.3	9.1
Nonfarm business	15.7	6.4	7.1	7.0	15.0	8.8
Manufacturing	17.7	-.8	-.2	7.5	13.2	4.8
Durable	18.5	-3.4	.2	10.2	15.6	5.4
Nondurable	16.6	3.2	-1.9	2.3	9.0	3.1

13-1/4 per cent per year rise in unit labor costs. Over the past year, however, factory employment gains have been in better balance with the rise in this sector's output. As a result, output per hour is up 4.3 per cent from a year ago--well above the trend rate of increase. The gain in productivity has offset a large part of the compensation increases and manufacturing labor costs advanced only 4-3/4 per cent over the last year.

SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data Period	Latest data Level	Net Change from: Month ago	Net Change from: Three months ago	Net Change from: Year ago
		$ billions	Per cent at annual rates		
Monetary and credit aggregates 1/					
Total reserves	April	40.7	-4.1	-7.8	2.1
Nonborrowed reserves	April	39.8	-2.0	-7.1	1.2
Money supply					
M1	April	364.1	17.0	4.7	4.7
M2	April	889.8	13.6	6.6	7.2
M3	April	1531.6	11.0	7.3	8.5
Time and savings deposits (less CDs)					
CDs 2/	April	525.7	11.5	7.9	9.0
Thrift deposits (S&Ls + MSBs + Credit Unions)	April	641.8	7.1	8.3	10.4
Bank credit (end of month)	April	1027.7	13.6	10.2	12.5

Indicator		Latest data Period	Latest data Per cent or index	Net Change from: Month ago	Net Change from: Three months ago	Net Change from: Year ago
Market yields and stock prices						
Federal funds	wk. endg.	5/9/79	10.25	.32	.19	2.93
Treasury bill (90 day)	"	5/9/79	9.65	.01	.42	3.26
Commercial paper (90-119 day)	"	5/9/79	9.92	-.05	-.02	2.96
New utility issue Aaa	"	5/11/79	—	—	—	—
Municipal bonds (Bond Buyer) 1 day		5/10/79	6.30	-.03	-.01	.31
FNMA auction yield (FHA/VA)		5/14/79	10.88	.36	.26	1.25
Dividend price ratio (common stocks)	wk endg.	5/9/79	5.42	.07	-.03	.17
NYSE index (12/31/65=50)	end of day	5/14/79	55.22	-2.31	-.20	.04

	Period	Net Change or Gross Offerings: Latest Data	Year ago	Year to Date 1979	Year to Date 1978
Credit demands					
Business loans at commercial banks 1/	April	4.1	5.5	16.8	10.5
Consumer instalment credit outstanding 1/	March	3.7	4.1	10.1	9.4
Mortgage debt outstanding (major holders) 1/3/	February	7.8	8.1	16.5	15.9
Corporate bonds (public offerings)	April	2.9e	2.0	7.2e	6.7
Municipal long-term bonds (gross offerings)	April	3.0e	3.8	12.9e	14.7
Federally sponsored agcy. (net borrowing)	April	2.3e	1.7	8.6e	6.3
U.S. Treasury (net cash borrowing)	April	-5.0 4/e	-2.3	5.6e	18.5

1/ Seasonally adjusted.
2/ $ billions, not at annual rates
3/ Includes comm'l banks, S&Ls, MSBs, life ins. cos, FNMA, and GNMA.
4/ Includes $2.6 billion special certificate that was issued to the Fed on 3/31/and redeemed as of 4/4.
e - Estimated.

DOMESTIC FINANCIAL DEVELOPMENTS

The volume of funds raised in credit and equity markets by private domestic nonfinancial sectors apparently continued at a reduced level in April following small declines during the previous two quarters. Businesses borrowed heavily at banks and in the commercial paper market last month, but gross offerings of bonds and stocks by nonfinancial corporations remained moderate. Meanwhile, home mortgage borrowing by households probably held around the first quarter pace, and issuance of tax-exempt bonds in April was only a little above the average pace of earlier months of the year. In the public sector, net issuance of marketable Treasury securities increased sharply in April on a seasonally adjusted basis, reflecting to a large extent offerings that had been postponed in March due to the delay in extending the Federal debt ceiling. Federally sponsored credit agencies also increased their borrowing somewhat, largely to support the residential mortgage market.

M-1 increased at a record rate in April after declining in the first quarter. Outflows of commercial bank time and savings deposits subject to fixed-rate ceilings moderated significantly while net inflows to MMC accounts increased. Banks were thus able to reduce their managed liabilities despite strong bank credit expansion. Deposit growth at nonbank thrift institutions fell sharply in April, partly reflecting a loss of MMC market share following elimination of the rate differential over commercial banks. S&Ls borrowed heavily from the FHLBanks to help meet takedowns from the large volume of mortgage commitments outstanding.

Short-term market interest rates have fluctuated widely since mid-April in response to shifting expectations about System policy. Short-term rates generally declined around the time of the April meeting but subsequently

SELECTED FINANCIAL MARKET QUOTATIONS
(per cent)

	1978 1/		1978 - 1979 2/					Change from:	
	High*	Low	End of 1978	FOMC Mar.20	FOMC Apr.17	May 8	May 15	End of 1978	April FOMC
Short-term rates									
Federal funds 1/	10.25	6.58	10.25	10.09	9.96	10.25	10.27 3/	+.02	+.31
Treasury bills									
3-month	9.30	6.16	9.26	9.52	9.50	9.66	9.60	+.34	+.10
6-month	9.51	6.45	9.48	9.47	9.49	9.65	9.53	+.05	+.04
1-year	9.62	6.55	9.69	9.38	9.24	9.43	9.31	-.38	+.07
Commercial paper									
1-month	10.29	6.48	10.32	9.78	10.03	9.81	9.91	-.41	-.12
3-month	10.52	6.68	10.55	9.93	10.13	9.93	9.99	-.56	-.14
6-month	10.56	6.70	10.61	9.98	10.15	9.98	10.03	-.58	-.12
Large negotiable CDs 4/									
1-month	10.36	n.a.	10.29	9.96	10.04	9.93	10.00	-.29	-.04
3-month	10.96	6.77	10.83	10.22	10.21	10.19	10.20	-.63	-.01
6-month	11.52	6.97p	11.44	10.51	10.40	10.64	10.50	-.94	+.10
Euro-dollars									
3-month	11.95	7.20	11.69	10.94	10.88	11.06	10.94	-.75	+.06
Bank prime rate	11.57	7.75	11.75	11.75	11.75	11.75	11.75	0	0
Intermediate- and long-term rates									
U.S. Treasury (constant maturity)									
3-year	9.59	7.40	9.59	9.39	9.45	9.55	9.50	-.09	+.05
7-year	9.22	7.72	9.23	9.15	9.20	9.35	9.31	+.08	+.11
20-year	9.00	8.01	8.99	9.09	9.12	9.31	9.25	+.26	+.13
Municipal (Bond Buyer) 5/	6.67	5.58	6.61	6.30	6.33	6.27	6.30	-.31	-.03
Corporate Aaa									
New issue 6/	9.30	8.61	--	--	9.68	--	--	--	--
Recently offered 7/	9.54	8.48	9.51	9.65	9.68	9.93	9.94p	+.43	+.26
Primary conventional mortgage 7/	10.38	8.98	10.38	10.40	10.48	10.60	10.68	+.30	+.20

	Low 8/	High 8/	End of 1978	FOMC Mar.20	FOMC Apr.17	May 8	May 15	End of 1978	April FOMC
Stock prices									
Dow-Jones Industrial	742.12	907.74	805.01	850.31	857.93	834.89	825.88	+20.87	-32.05
NYSE Composite	48.43	60.38	53.62	56.45	57.05	55.79	55.26	+1.64	-1.79
AMEX Composite	119.73	176.87	150.56	173.02	178.65	175.66	176.05	+25.49	-2.60
NASDAQ (OTC)	102.66	149.53	117.98	128.79	132.26	129.60	129.01	+11.03	-3.25

1/ Daily averages for statement week, except where noted.
2/ One-day quotes except as noted.
3/ Average for first 6 trading days of statement week ending May 16.
4/ Secondary market.
5/ One-day quotes for preceding Thursday.
6/ Averages for preceding week.
7/ One-day quotes for preceding Friday.
8/ Calendar week averages.
* All highs were reached at or close to the end of 1978.

rose markedly following release of the unexpectedly strong money supply data and an upward adjustment in the Federal funds rate to the 10-1/4 per cent area. On balance, Treasury bill rates are currently close to their levels just prior to the April meeting, and private short-term rates are unchanged to slightly lower. In contrast, yields on most longer-term securities have risen further since the last FOMC meeting, possibly reflecting in part a more pessimistic inflation outlook. Rates on home mortgages also have increased significantly.

Monetary Aggregates and Bank Credit

M-1 grew at a record 17 per cent annual rate in April, finally surpassing its level of last September. About half of the April increase apparently reflected delays in the processing of income tax payments and a bunching of refunds. However, continued shifts of funds from demand deposits into ATS accounts nationally and NOW accounts in New York reduced measured M-1 growth by an estimated 2-1/2 percentage points during the month.[1/]

The recent Demand Deposit Ownership Survey suggests that both households and businesses reduced their holdings of demand deposits in the first quarter. Deposits of individuals declined by an amount roughly equivalent to the estimated shift of demand deposits into ATS accounts and New York NOW accounts. In the business sector, the generally volatile demand deposits of financial firms fell substantially, while deposits of nonfinancial businesses declined moderately despite an apparent rise at large banks. The relative strength of business demand deposits at large banks is consistent

1/ It should be noted that April has been the month most affected by revisions of seasonal factors for M-1 in recent years, and it is likely that the April growth rates will be revised further downward when the factors are reestimated in the future.

ESTIMATED RECENT CHANGES IN GROSS DEMAND DEPOSITS
AT ALL COMMERCIAL BANKS BY SELECTED OWNERSHIP SECTORS[1]

(Seasonally adjusted annual rates of change in per cent)

	Demand deposits owned by:			
	Financial businesses	Nonfinancial businesses	Individuals	All IPCs[2]
1978				
Q3	22.1	12.4	8.1	11.1
Q4	9.0	8.9	2.9	6.1
1979				
Q1	-31.7	-1.3	-9.0	-7.8
Memo:				
Level in March 1979 (billions of dollars)	24.5	140.3	94.7	275.8

1/ Changes are between end months of quarters.
2/ Includes foreign and other IPC depositors.

MONETARY AGGREGATES
(Seasonally adjusted) 1/

	1978 H1	1978 QIII	1978 QIV	1979 Q1	1979 Mar.	1979 Apr.e/	Apr. '78 to Apr. '79e
Major monetary aggregates							
1. M-1 (currency plus demand deposits)	8.0	8.1	4.4	-2.4	0.7	17.0	4.7
2. M-2 (M-1 plus time & savings deposits at CBs, other than large CDs)	7.7	9.9	7.7	1.6	3.7	13.6	7.2
3. M-3 (M-2 plus all deposits at thrift institutions)	8.3	10.4	9.3	4.6	6.1	11.0	8.5
Bank time and savings deposits							
4. Total	12.2	11.3	12.4	8.4	-1.4	1.9	9.7
5. Other than large negotiable CDs at weekly reporting banks (interest bearing component of M-2)	7.6	11.1	10.2	4.4	5.6	11.5	9.0
6. Savings deposits	2.9	2.3	-0.9	-10.2	-6.1	-1.1	-2.5
7. Individuals 2/	2.7	3.5	-0.8	-10.2	-5.3	-0.6	-2.1
8. Other 3/	5.2	-12.7	-2.6	-10.5	-16.3	-8.3	-7.7
9. Time deposits	11.7	18.5	19.2	15.9	14.0	20.5	18.7
10. Small time 4/	6.8	12.0	15.1	17.2	26.0	46.0	19.3
11. Large time 4/	21.5	30.3	26.2	13.4	-6.4	-24.8	17.6
12. Time and savings deposits subject to rate ceilings (6+10)	4.7	6.3	6.1	2.1	8.9	21.1	6.9
Deposits at nonbank thrift institutions 5/							
13. Total	9.2	11.1	11.6	8.8	9.5	6.8	10.3
14. Savings and loan associations	9.5	12.3	13.1	11.3	9.9	7.1	11.9
15. Mutual savings banks	5.6	6.8	7.8	4.6	6.8	2.5	6.0
16. Credit unions	17.0	13.7	10.1	0.8	16.0	n.a.	n.a.
MEMORANDA:	Average monthly changes, billions of dollars						
17. Total U.S. Govt. deposits 6/	0.3	1.1	-0.5	-2.0	-0.8	-1.2	-0.2
18. Total large time deposits 7/	3.6	3.3	4.9	1.3	-3.7	-6.3	2.3
19. Nondeposit sources of funds 8/	0.7	1.4	3.0	2.4	2.8	3.3	2.0

e--estimated. n.a.--not available.
1/ Quarterly growth rates are computed on a quarterly average basis.
2/ Savings deposits held by individuals and nonprofit organizations.
3/ Savings deposits of business, 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 are based on average of current and preceding end-of-month data.
6/ Includes Treasury demand deposits at commercial banks and Federal Reserve Banks and Treasury note balances.
7/ All large time certificates, negotiable and nonnegotiable, at all CBs.
8/ Nondeposit borrowings of commercial banks from nonbank sources include Federal funds purchased and security RPs plus other liabilities for borrowed money (including borrowings from the Federal Reserve), gross Eurodollar borrowings, and loans sold, less interbank borrowings.

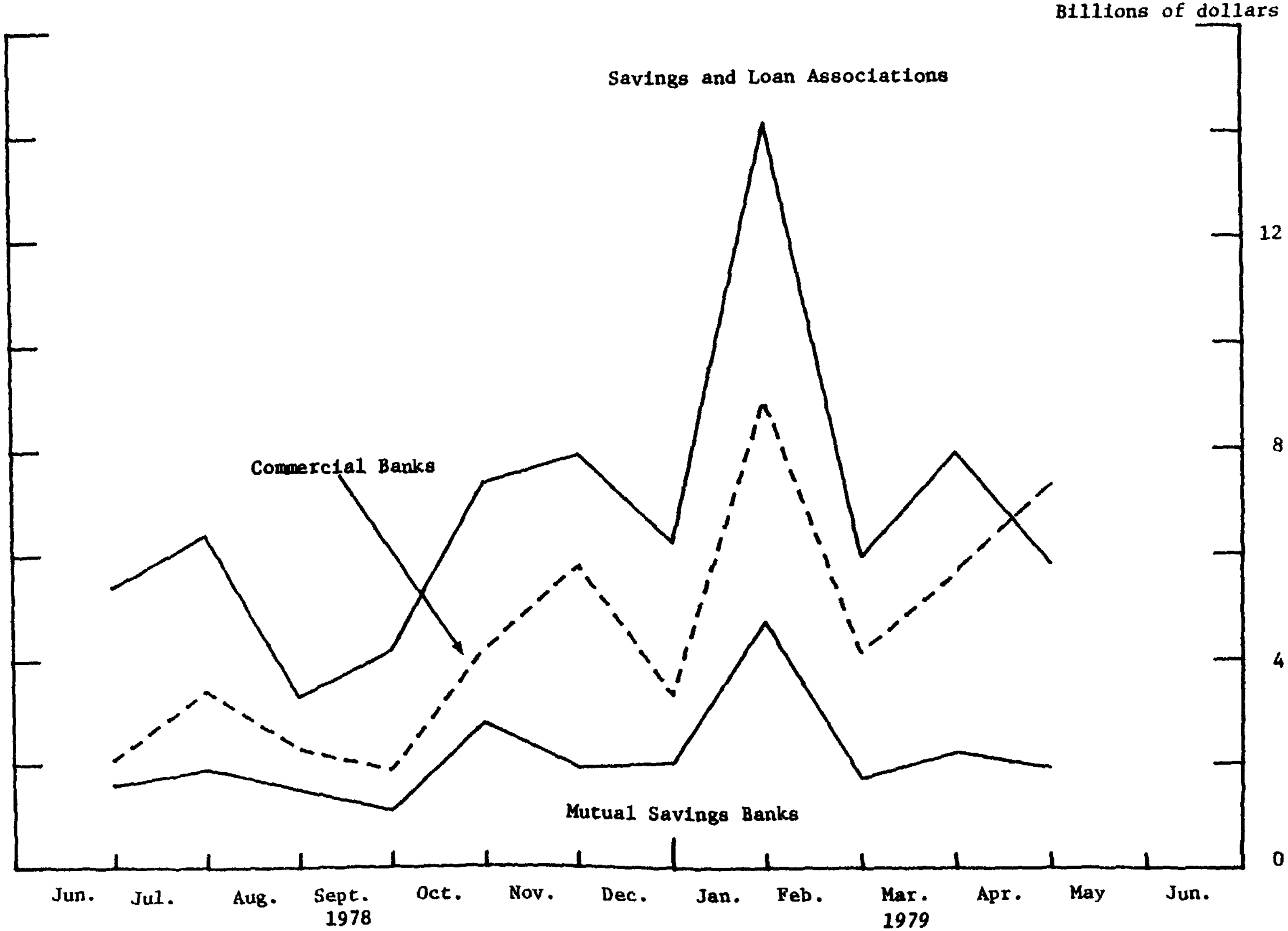
with the hypothesis that recent improvements in cash management techniques have been most pronounced at medium- and smaller-sized corporations.[1/]

Savings deposits at commercial banks were reduced slightly in April, following large runoffs during the previous five months. Small time deposits subject to fixed-rate ceilings were about unchanged in April, breaking an extended decline since mid-1978 when MMCs were introduced. MMC accounts at banks expanded rapidly in April, and growth of total time deposits other than large negotiable CDs accelerated despite a sharp decline in the large-time-deposit component of M-2. With the rise in M-1, growth in M-2 picked up to a 13-1/2 per cent rate, the largest monthly increase since late 1976.

Net issuance of MMCs at commercial banks rose to $7-1/4 billion during April (see chart on page III-7). Commercial banks reportedly have marketed MMCs more aggressively since the mid-March elimination of the 1/4 percentage point rate advantage for MMCs at nonbank thrift institutions. MMC growth at the thrifts moderated in April, and for the first time the dollar increase at S&Ls was smaller than at commercial banks. While seasonal influences are unclear, it thus far appears that growth of MMCs at banks and thrifts combined has not been reduced significantly by the new regulation eliminating interest compounding on all new issues of MMCs the April increase in total MMCs was close to the volume in March. Moreover, the growth of money-market mutual funds and the volume of noncompetitive tenders at April Treasury bill auctions does not suggest a pronounced shift in investor preferences away from MMCs.

1/ These estimates should be treated as only suggestive, for three reasons. First, the reliability of the Demand Deposit Ownership Survey has never been tested because no independent ownership data exist. Second, the survey sample size was reduced by over 25 per cent beginning with the March survey. Third, cash items in process of collection and Federal Reserve float declined substantially over the period, thereby reducing growth of gross demand deposits.

NET MONTHLY GROWTH OF MONEY MARKET CERTIFICATES BY TYPE OF INSTITUTION
(Not seasonally adjusted)



Growth of total deposits at thrift institutions receded in April from the already reduced first quarter pace, and M-3 expanded at an annual rate of about 11 per cent. The slowdown in thrift deposit flows reflected the reduced growth of MMCs and continued outflows from fixed-ceiling accounts. On a month-end basis, combined deposits at S&Ls and MSBs expanded at an estimated 2-1/2 per cent annual rate, less than one-third the average pace for the previous three months and the slowest growth since July 1974.

Commercial banks reduced their reliance on managed liabilities in April. Large-denomination time deposits declined $6-1/4 billion, while the rise in nondeposit funds moderated to $3-1/2 billion--although the gross borrowings from own foreign branches component increased by $1-1/2 billion, as in March. Banks also reduced gross claims on foreign branches by $1 billion, extending the first quarter decline. (See the Appendix for a discussion of domestic bank transactions with their foreign branches thus far in 1979.)

Commercial bank loans and investments expanded at a 13-1/2 per cent annual rate in April, up sharply from March and above the average pace during the past year. Holdings of Treasury securities rose markedly in April, after declining in March, but banks added little to their portfolios of other securities. Total bank loans expanded at a 15-1/2 per cent rate in April, with business loans increasing sharply, especially at large New York City banks. Growth of real estate loans picked up slightly but remained well below the 1978 pace. At large banks, the increase in consumer loans was greater than seasonal.

Business Finance

Growth of bank business loans and commercial paper issued by nonfinancial firms in April exceeded the brisk first quarter pace. In light of

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

	1978 H1	1978 QIII	1978 QIV	1979 Q1	1979 Mar.	1979 Apr.e/	12 months ending Apr.e/
1. Total loans and investments 2/	14.0	11.1	7.9	14.1	5.8	13.6	12.5
2. Investments	8.5	3.2	-8.6	10.5	-0.9	8.5	3.1
3. Treasury securities	9.6	-9.6	-36.8	7.7	-20.8	17.2	-6.6
4. Other securities	7.8	11.0	7.8	12.0	9.5	4.0	8.9
5. Total loans 2/	16.2	14.2	14.1	15.5	8.2	15.4	16.3
6. Business loans	16.7	11.4	9.3	21.8	14.8	20.0	16.2
7. Security loans	23.5	-28.7	-43.3	43.9	-36.4	162.5	7.4
8. Real estate loans	18.7	18.9	18.6	15.1	11.6	14.2	19.1
9. Consumer loans	20.5	15.6	16.1	14.2	12.0	n.a.	n.a.
MEMORANDA:							
10. Commercial paper issued by nonfinancial firms 3/	11.5	28.9	42.7	24.4	92.8	91.9	38.9
11. Sum of items 6 & 10	12.4	12.6	11.7	22.0	20.6	25.6	17.8
12. Memo item 11 plus business loans from finance companies	13.2	10.7	15.4	20.5	19.4	n.a.	n.a.

n.a.--not available. e--estimated.

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

2/ Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.

3/ Measured on an end-of-month basis.

continued high nominal corporate profits and large Treasury tax receipts, some of the increase in such borrowing may have been tax-related.

Data for large banks indicate that in April, as in previous months this year, strength in business loan demand was widespread by industry. Non-financial commercial paper increased by a record $1.6 billion in April, as some industrial firms and telephone utilities floated large amounts of paper and several firms entered the market for the first time. Business credit at finance companies grew by $2.4 billion during the first quarter, an expansion of nearly 15 per cent (SAAR). Wholesale automotive paper accounted for two-thirds of this increase, reflecting a rise in inventories at auto dealers.

Gross public issuance of corporate bonds climbed to $2.9 billion in April, the largest monthly total since June 1976. Although bond offerings by nonfinancial corporations increased somewhat due to an enlarged slate of public utility issues, most of the April increase was attributable to a rise in intermediate- and long-term bond offerings by financial corporations. Finance companies issued more than $500 million of notes and bonds, reflecting continued growth in consumer and business lending by these institutions. In addition, bank holding companies marketed more than $1 billion of floating-rate notes.

Corporate bond yields have risen significantly over the past month, reaching new cyclical highs. Increased inflationary expectations may have affected bond prices generally, and utility bonds have been somewhat weaker than other issues owing to investor reaction to the nuclear accident at Three Mile Island in late March.[1/] This has contributed to a widening of the spread

1/ Nuclear facilities currently account for nearly 15 per cent of the electrical generating capacity of the investor-owned utility industry, and many public utilities are constructing or are planning to build nuclear power plants.

GROSS OFFERINGS OF CORPORATE AND FOREIGN SECURITIES
(Monthly totals or monthly averages, in millions of dollars)

	1978		1979				
	Year	QIV	QI e/	Mar. e/	Apr. e/	May f/	June f/
			Seasonally adjusted				
Corporate securities--total	3,776	3,510	3,257	2,920	4,525	3,225	3,000
Publicly offered bonds	1,662	1,528	1,332	1,400	2,825	1,775	1,500
Privately placed bonds	1,270	1,011	1,350	1,200	1,100	1,100	1,100
Stocks	844	971	575	320	600	350	400
			Not seasonally adjusted				
Publicly offered bonds	1,662	1,495	1,444	1,800	2,900	1,600	1,600
By quality 1/							
Aaa and Aa	853	885	950	1,175	1,900	--	--
Less than Aa 2/	809	610	494	625	1,000	--	--
By type of borrower							
Utility	612	625	605	590	875	--	--
Industrial 3/	532	415	349	485	475	--	--
Financial	518	455	490	725	1,550	--	--
Foreign securities--total	504	479	617	321	220	--	--
Publicly offered 4/	362	333	428	0	200	250	300
Privately placed	142	146	189	321	20	--	--

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.

between high-grade utility and Treasury bond yields since early April (see chart on page III-13). Moreover, the spread between A- and Aaa-rated utility bonds has increased significantly, possibly reflecting investor concerns about the greater vulnerability of lower-rated firms to higher costs likely to be associated with tighter regulation of nuclear power generating facilities.

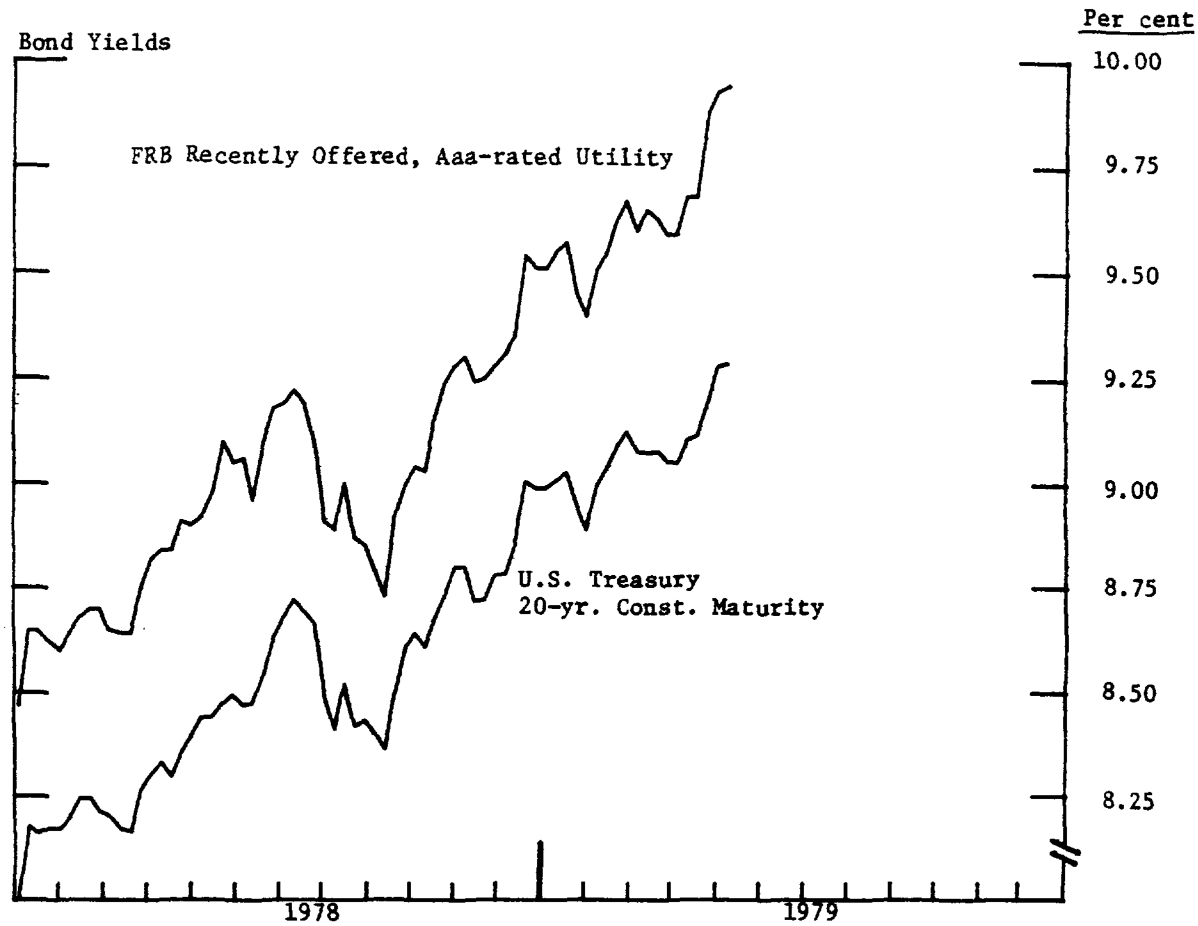
Stock offerings rebounded in April, led by public utilities, and slightly exceeded the pace recorded in the first quarter. Stock prices of NYSE-listed industrial corporations generally have declined about 3 to 4 per cent since the April FOMC meeting, although composite indexes of AMEX-listed and NASDAQ-traded issues remain quite close to record levels. Major stock price indexes of public utilities have declined about 3-1/2 percent since the April FOMC meeting. Moreover, Standard and Poor's index of 22 electric utilities has dropped by 7 per cent since the nuclear mishap in late March.

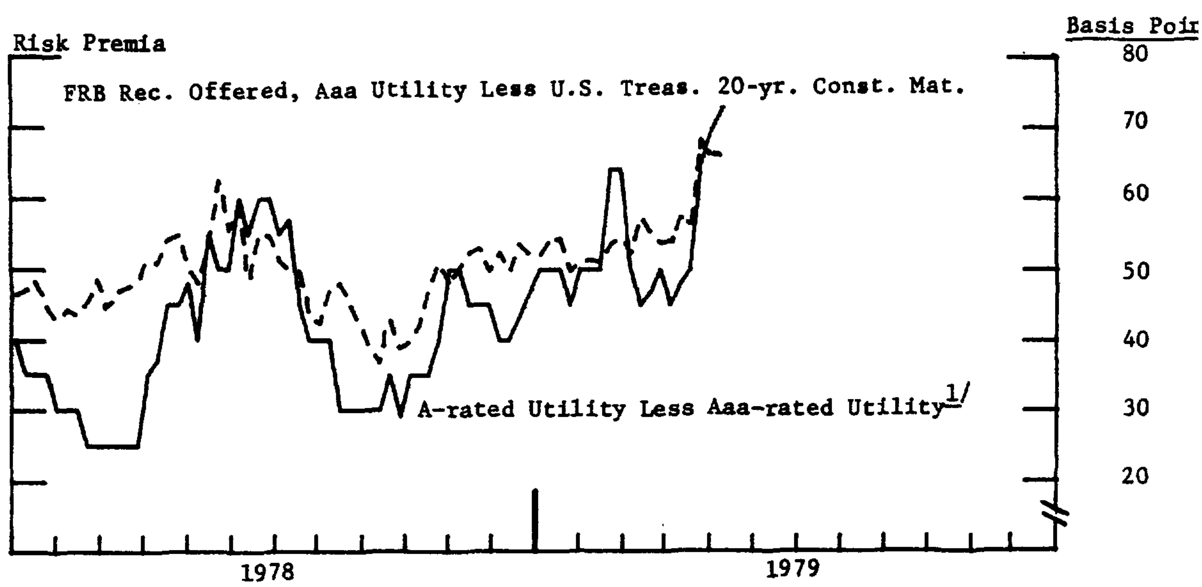
Municipal Securities

Gross offerings of tax-exempt bonds totaled $3.4 billion (seasonally adjusted) in April, less than in March but a bit above the monthly average for the first quarter of the year. The decline from March largely reflected a reduced volume of issues of mortgage-revenue bonds by State housing finance agencies. Bonds issued by localities under home mortgage programs amounted to about $750 million, close to March's record volume.

Nearly all the proceeds of tax-exempt bonds sold this year have represented new capital, and a relatively large share has been used to support residential mortgage financing. Legislation recently introduced in the Congress, however, would prohibit Federal tax exemption of interest on most State and local government bonds issued after April 24 to provide subsidized home mortgage credit. As a result, the May calendar of offerings has been trimmed substantially.

BOND YIELDS AND RISK PREMIA
(weekly)





1/ Source: Salomon Brothers
Latest data shown: May 11, 1979

Movements in municipal bond yields have been mixed since March. Average yields on general obligation issues, as measured by the Bond Buyer index, have remained virtually unchanged. However, yields on tax-exempt bonds issued by publicly-owned utilities that operate or depend upon nuclear facilities have been subject to upward pressure. On the other hand, the cessation of new offerings of mortgage-revenue bonds has enhanced the attractiveness of outstanding issues, and their yields have fallen by about 25 basis points.

Treasury and Sponsored Agency Securities Markets

The Treasury has paid down $14 billion of maturing cash management bills since the last FOMC meeting, and has run off a total of $1 billion of 3- and 6-month bills at its regularly scheduled weekly auctions. Meanwhile, the Treasury raised $5 billion of new cash in coupon issues, including $2.5 billion at the May mid-quarter financing. The May refunding package included $2.25 billion of 10-year notes and $2 billion of 30-year bonds.

The Treasury cash balance burgeoned, as usual, following the mid-April tax date. Nevertheless, marketable borrowing (other than cash management bills) has remained substantial in order to offset a large decline in nonmarketable debt--$5.8 billion so far in the second quarter. About $2.6 billion of this decline is attributable to redemption of the special certificate issued to the Federal Reserve at the end of March when Treasury borrowing was temporarily constrained by the debt ceiling. In addition, foreign official institutions have run down their holdings of nonmarketables, and sales of savings bonds have been weak. The Treasury recently raised the yield on Series E and H savings bonds to 6-1/2 per cent, effective June 1, in an attempt to stimulate sales of such securities.

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

	1978		1979				
	Year	QIV	QI	Mar.	Apr.e/	May f/	June
			Seasonally adjusted				
State and local government securities, gross offerings							
Total	5,851	5,813	4,825	5,393	6,800	3,600	3,60
Long-term	4,042	4,018	3,110	4,143	3,400	2,500	2,55
Short-term	1,809	1,795	1,715	1,250	3,400	1,100	1,05
U.S. Government securities, net offerings							
U.S. Treasury 1/	2,337	-945	1,732	-2,406	6,717	11,300	-5,25
Sponsored agencies	1,930	1,788	2,608	1,568	2,355	2,530	1,41
			Not seasonally adjusted				
State and local government securities, gross offerings							
Total	5,851	5,187	4,790	5,841	7,500	4,500	4,400
Long-term	4,042	3,747	3,291	4,487	3,000	3,100	3,000
Short-term	1,809	1,440	1,499	1,354	4,500	1,400	1,400
U.S. Government securities, net offerings							
U.S. Treasury 1/	2,337	1,152	2,998	-1,177	289	9,500	-8,700
Sponsored agencies	1,930	1,635	2,120	1,412	2,590	2,770	1,875

1/ Marketable issues only.

e/ Estimated.
f/ Forecasted.

Treasury bill yields have changed little, on balance, since mid-April despite substantial sales of these securities by foreigners; foreign holdings of Treasury bills have dropped by $4 billion since then, bringing the cumulative decline for this year to $13-1/2 billion. Such sales have contributed to a significant narrowing of the abnormally wide spread between Treasury bill and short-term private market rates that had prevailed late last year.

Federally-sponsored credit agencies raised an estimated $2.4 billion (seasonally adjusted) in April, about the same as the monthly average for the first quarter and above last year's record rate. FNMA used about half of its $1.2 billion borrowing to increase its liquid assets in anticipation of large deliveries of mortgages under outstanding purchase commitments. The FHLB System, on the other hand, ran off about $100 million in notes during April while drawing down its liquidity to finance a large volume of advances to S&Ls. The Farm Credit System borrowed about $1.3 billion in April, compared with a monthly average of $931 million in the first quarter.

Mortgage Markets

Total mortgage debt formation in the first quarter was more than a tenth below the cyclical peak reached late last year. Mortgage borrowing by both households and businesses declined significantly. Net mortgage lending by S&Ls and commercial banks was off by about a fifth; and some other major components, including issues of GNMA-guaranteed securities, declined significantly. Net mortgage purchases by FNMA picked up somewhat, but direct market support provided by GNMA remained modest. The volume of low-rate residential mortgage credit associated with tax-exempt bond issues of State and local governments increased markedly in the first quarter, substituting to some degree for mortgage investment by private institutions.

NET CHANGE IN MORTGAGE DEBT OUTSTANDING
(In billions of dollars, seasonally adjusted annual rates)

	1978				1979
	Q1	Q2	Q3	Q4	Q1e/
Total	133	146	154	161	142
By type of debt:					
Residential	105	114	116	125	113
Home	96	105	104	115	103
Multifamily	9	9	12	10	10
Nonresidential	28	32	38	36	29
Commercial	19	22	27	25	22
Farm	9	10	11	11	7
By type of holder:					
Commercial banks	27	36	39	37	28
Savings and loans	53	52	48	52	43
Mutual savings banks	7	6	7	6	6
Life insurance companies	6	9	10	12	10
FNMA and GNMA	5	12	9	9	11
GNMA pools	6	7	11	14	10
FHLMC and FHLMC pools	3	4	5	8	5
Other1/	26	20	25	23	29

1/ Includes, among other institutions, mortgage pools backing securities issued and guaranteed by the Farmers Home Administration, pools of conventional home loans backing issues of privately-insured pass-through securities, mortgage companies, pension and retirement funds, REITs, and state and local credit agencies.

e/ Partially estimated.

Mortgage lending by depositary institutions apparently continued relatively weak in April. The net increase in mortgage loans at commercial banks rose somewhat from the first quarter pace, but was still well below the peak rates recorded last year. At S&Ls, commitments outstanding to acquire mortgages declined to $31.4 billion at the end of March (latest data available), down 8 per cent from the recent high in November. S&Ls increased their reliance on high-cost FHLB advances to meet mortgage commitments outstanding as deposit flows slowed in April, and it is unlikely that S&L commitment activity recovered much, if at all, last month--although loan volume may have picked up somewhat from the weather-affected first quarter rate. In early April, the proportion of major mortgage lending institutions offering commitments for conventional home loans continued well below year-earlier levels, especially for contracts with relatively high loan/value ratios.

Average interest rates on new commitments for 80-per cent 30-year conventional home loans at sampled S&Ls have risen by 20 basis points since the last FOMC meeting to a record 10.68 per cent, and average rates have reached 11-1/8 per cent in the western part of the country. About three-fourths of the S&Ls in the national sample reported supplies of mortgage funds below normal seasonal patterns in early May, and more than a fourth considered funds to be in substantially short supply. In secondary markets, mortgage yields have risen 25 to 35 basis points since mid-April, with the largest increases recorded in the FNMA forward-commitment auctions. Bidding in the recent auctions has reflected heightened uncertainty about future rate movements, and the proportion of bids accepted by FNMA has declined. FNMA has come under some financial pressure in the last two quarters as its marginal cost of funds has exceeded its marginal portfolio yield.

INTEREST RATES AND SUPPLY OF MORTGAGE FUNDS
AT SELECTED S&Ls

Period	Conventional home mortgages: 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 mortgage funds in short supply
1978--High	10.38	--	+ 10	60
Low	8.98	--	+ 30	17
1978--Oct.	9.88	+10	+ 65	59
Nov.	10.11	+23	+ 84	59
Dec.	10.38	+27	--	58
1979--Jan.	10.40	+ 2	+ 95	61
Feb.	10.40	0	+ 77	57
Mar.	10.45	+ 5	+ 86	54
Apr. 6	10.48	+ 3	+ 87	57
13	10.48	0	+ 80	56
20	10.50	+ 2	+ 80	61
27	10.53	+ 3	+ 65	63
May 4	10.60	+ 7	+ 67	73
11	10.68	+ 8	+ 74	76

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

Period	FNMA auctions of forward purchase commitments: Conventional: Amount ($ millions) Offered	Accepted	Yield to FNMA 1/	Govt.-underwritten: Amount ($ millions) Offered	Accepted	Yield to FNMA 1/	Yields on GNMA-guaranteed mortgage-backed securities for immediate delivery 2/
1978--High	716	363	10.92	1249	605	10.60	9.68
Low	75	48	9.28	130	80	9.13	8.43
1979--Apr. 2	168	99	10.92	261	139	10.44	9.72
9							9.72
16	253	158	11.01	327	192	10.51	9.77
23							9.84
30	241	107	11.17	735	308	10.82	9.84
May 7							10.05
14	250	102	11.30	279	119	10.88	10.03

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.

Eight States have adjusted or eliminated interest rate ceilings on home mortgages since the beginning of the year, but in early May nine States still had ceilings fixed at 10 per cent or less for conventional home loans, and two States and the District of Columbia had ceilings of 11 per cent. On FHA/VA home loans, which generally are exempt from State usury limits, the ceiling rate was raised by the Administration to a record 10 per cent on April 23. Even so, private investors required nearly 5 discount points on newly originated loans in mid-May as market conditions tightened further.

Consumer Credit.

Growth in consumer installment credit outstanding slowed significantly during the first quarter, despite some rise in the rate of expansion in March. As disposable income moved up further, the burden of consumer debt--as measured by the ratio of installment credit liquidations to disposable personal income--edged down in the first quarter. Moreover, measures of adverse loan repayment experience--delinquency rates and personal bankruptcies--either remained essentially stable or improved moderately from previous levels.

Typical finance rates on most types of consumer installment credit--normally quite steady--have moved up noticeably during the past year. In almost a dozen States, liberalization of statutory rate ceilings has permitted increases in some consumer loan rates.[1/] By February (latest available data), finance rates on closed-end installment credit at commercial banks were up 45 to 75 basis points from year-earlier levels, while rate increases

1/ Conversely, a Maryland court recently ruled that finance charges on mortgage-secured consumer lending are subject to the ceiling for second mortgages rather than the higher limit for consumer loans. As a result, finance companies in Maryland have curtailed such lending.

at finance companies have ranged as high as 60 basis points. Moreover, some non-price terms on automobile installment credit have continued to tighten at commercial banks and finance companies, and press and trade reports suggest that credit standards have become somewhat more stringent at certain types of lenders.

CONSUMER INSTALLMENT CREDIT 1/

	1976	1977	1978	1978 QIV	1979 QI	1979 Feb.	1979 Mar.
Total							
Change in outstandings							
Billions of dollars	21.1	35.0	45.1	47.5	40.4	39.7	44.8
Per cent	12.4	18.3	19.7	18.3	14.8	14.4	16.0
Bank share (per cent)	50.2	52.7	53.4	47.4	43.8	49.3	39.3
Extensions							
Billions of dollars	210.0	254.1	298.6	313.9	313.8	314.4	320.4
Bank share (per cent)	46.2	46.4	47.9	47.4	47.2	47.4	46.5
Liquidations							
Billions of dollars	188.9	219.2	253.5	266.4	273.4	274.7	275.6
Ratio to disposable income	15.9	16.8	17.5	17.6	17.5	17.6	17.5
Automobile Credit							
Change in outstandings							
Billions of dollars	10.4	15.3	19.6	19.6	18.9	18.8	17.8
Per cent	18.2	22.6	23.4	19.8	18.5	18.0	16.8
Extensions							
Billions of dollars	63.6	75.8	89.0	92.5	92.4	93.1	93.6

1/ Quarterly and monthly dollar figures and related per cent changes are seasonally adjusted annual rates.

FINANCE RATES ON CONSUMER INSTALLMENT CREDIT 1/
(annual percentage rate, not seasonally adjusted)

Type	February 1977	February 1978	February 1979	Change, in Basis Points 1977-1978	Change, in Basis Points 1978-1979
Commercial Banks					
New Auto	11.14	10.86	11.60	-28	+74
Mobile Home	11.83	11.92	12.37	+ 9	+45
Other Consumer Goods					
24-month	12.95	12.94	13.59	- 1	+65
12-month	13.23	13.40	13.90	+17	+50
Credit Card	16.89	16.90	17.05	+ 1	+15
Finance Companies					
New Auto	13.16	13.15	13.30	- 1	+15
Used Auto	17.35	17.38	17.58	+ 3	+20
Mobile Home	13.59	13.46	13.46	-13	0
Other Consumer Goods	19.17	19.19	19.80	+ 2	+61
Personal Loans	20.75	20.38	20.71	-37	+33

1/ For commercial banks, data are for "most common" rate; for finance companies, they are average rate.

APPENDIX

Bank Reliance on Foreign Sources of Nondeposit Funds During Early 1979*

Thus far in 1979 large domestic commercial banks have allowed large time deposits to run off and have increased their reliance on nondeposit funds, particularly funds from abroad, to finance the growth of bank credit. During the first 4 months of this year, domestic commercial banks tapped sources other than their own foreign branches for about $6-1/2 billion in nondeposit funds.[1] This amount includes about $1 billion in borrowing from foreign offices of unrelated foreign banks and other foreign entities, as well as $1 billion of Federal funds purchased from U.S. agencies of foreign banks who themselves raised substantial fwnds abroad. The remainder of the $10-1/2 billion increase in nondeposit sources of funds consisted of nearly

Funds Obtained by Domestic Commercial Banks
from Selected Sources in 1979
(Billions of dollars)

	Total (2)+(5)+(6)	Nondeposit Sources: Total (3)+(4) (SA)	Nondeposit Sources: Gross Eurodollar borrowing from own foreign branches (NSA)	Nondeposit Sources: Other than own foreign branches (SA)	Reduction in gross claims on own foreign branches (NSA)	Lar time depos (S
	(1)	(2)	(3)	(4)	(5)	(
01	15.0	7.2	2.3	4.9	3.9	3.
April	-2.0	3.3	1.6	1.7	1.0	-6.
First 4 Months	13.0	10.5	3.9	6.6	4.9	-2.

1/ With the recent decline in the liquidity of nonbank suppliers of Federal funds, most of banks' nondeposit funds were raised through security repurchase agreements.

* Prepared by Barbara N. Opper and John R. Williams, Economists, Banking Section, Division of Research and Statistics, and by Allen B. Frankel, Economist, U.S. International Transactions Section, Division of International Finance.

$4 billion of gross borrowing from own foreign branches. Over the same period, banks acquired an additional $5 billion--not included in the non-deposit sources measure--by liquidating claims on their foreign branches. Meanwhile, domestic banks allowed $2-1/2 billion of large time deposits to run off on balance since December, reflecting the sharp declines in March and April.

Although there appears to have been a shift by banks from domestic to foreign sources, a substantial portion of the funds obtained by domestic banks from abroad may have originated in the United States. On an end of month basis, U.S. nonbank residents added over $5 billion to their deposits at foreign branches of domestic banks in the first quarter.[1] In addition, money market mutual funds invested nearly $1 billion in Eurodollar CDs over the first quarter, and U.S. residents increased their deposit holdings at Canadian banks by $1-1/2 billion during the first two months of the year. Finally, there exists an unreported volume of sales of Eurodollar CDs to U.S. residents sold through U.S. and foreign brokers located abroad.

Early in 1970, outstanding net Eurodollar borrowings by member banks from their own foreign branches stood at nearly $15 billion. (see chart on page III-A-5.) Unlike large time deposits, Eurodollar borrowings have never been subject to rate ceilings and in the late 1960's, as market rates rose above large time deposit ceilings, Eurodollars were substituted for these liabilities. The removal of Regulation Q rate ceilings from large time

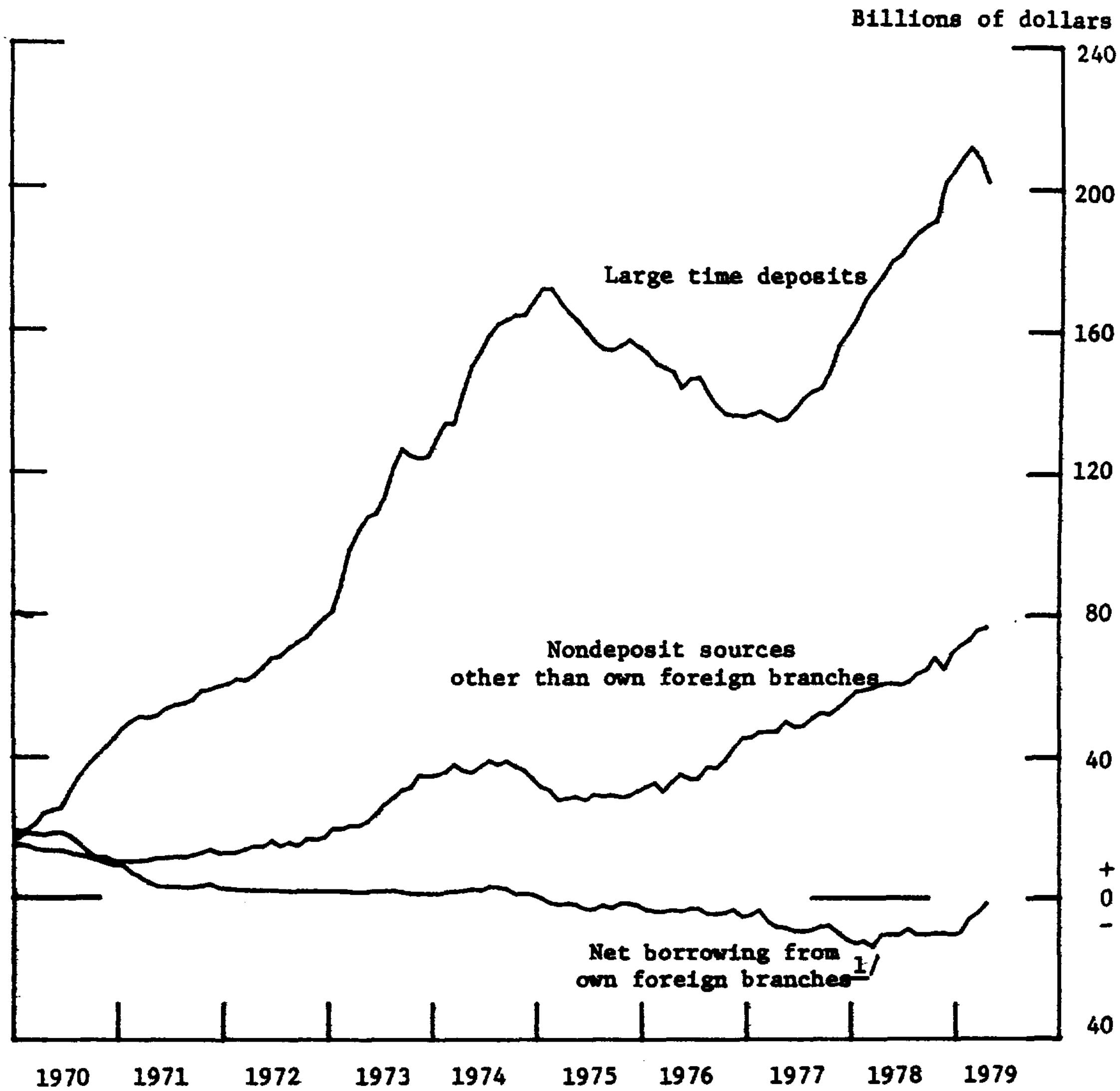
1/ An unknown quantity of these deposits represents holdings at Caribbean branches by U.S. corporations of interest-bearing overnight deposits that are eligible for transfer in immediately available funds via demand deposit accounts at domestic banks. The staff recently became aware of such facilities and has proposed a survey of some banks with Caribbean branches having deposits of U.S. residents to determine the extent of such accounts and the dollar amounts involved.

deposits maturing in less than 90 days in June 1970, combined with the Board's implementation of a marginal reserve requirement on Eurodollar borrowing in 1969, resulted in a sharp decline in Eurodollar borrowings in 1970-1971 and a concomitant increase in issuance of large time deposits. On balance, over the next 7 years, banks moved into a large net claims position vis-a-vis foreign branches (i.e., were net advancers of funds to their own foreign branches) while increasing their reliance on large time deposits--all maturities of which became free of Regulation Q ceilings in May 1973--and on domestic nondeposit sources. In early 1979, however, Eurodollar borrowing and other nondeposit funds have been substituted for domestic large time deposits.

These recent changes in the composition of commercial bank funding can be related to the interaction between investor/depositor preferences for high yield and bank preferences for low-cost funds. As the outlook for the dollar improved in early 1979, private investors became more willing to hold dollar-denominated assets. Owing to the segmentation of the Eurodollar and domestic dollar markets (associated with the customary preference of foreign residents to deal with Eurobanks), this tended to narrow the spread of Eurodollar yields over domestic yields. Combined with the 2 per cent supplemental reserve requirement on domestic CDs implemented in November and the reduction to zero of Eurodollar reserve requirements last August, these rate movements reduced member banks' cost of Eurodollar funding relative to domestic CDs. These banks, therefore, became more willing to accommodate U.S. residents' demand for higher yielding Eurodollar deposits.

Banks took advantage of changing yield differentials in another way as well in January. As at various times in 1978, in January 1979, the foreign branches of some major banks apparently issued deposits to nonbank members of their holding companies as a means of receiving proceeds of commercial paper issued by their domestic nonbank affiliates. At that time commercial paper offered domestic investors a premium over domestic CDs, and for banks this was a less expensive alternative to paying Eurodollar yields to finance foreign branches. (Such transactions are not subject to the reserve requirement that applies when the proceeds of holding company commercial paper are channeled directly to domestic branches of member banks.) Later in the first quarter, however, affiliates' sales of commercial paper slackened although large banks continued to finance their domestic asset growth with funds routed through their foreign branches.

LEVELS OF LARGE TIME DEPOSITS, NONDEPOSIT SOURCES OF FUNDS, AND NET BORROWING FROM OWN FOREIGN BRANCHES
All Commercial Banks
(Seasonally adjusted)



1/ Member banks only, not seasonally adjusted.

RESTRICTED

U.S. International Transactions

(in millions of dollars; receipts, or increase in liabilities, +)

	1977 Year	1978 Year	1978 Q2	1978 Q3	1978 Q4	1979 Q1	1979 Jan.	1979 Feb.	1979 Mar.
1. Trade balance 1/	-31,059	-34,144	-7,869	-7,992	-6,363	-6,224	-3,274	-1,667	-1,283
2. Merchandise exports	120,585	141,844	35,256	36,486	39,315	41,161	13,306	13,345	14,510
3. Merchandise imports	-151,644	-175,988	-43,125	-44,478	-45,678	-47,385	-16,580	-15,012	-15,793
4. Change in net foreign positions of banking offices in U.S. (excl. liab. to foreign official inst.)	-3,909	-15,088	2,700	2,112	-12,414	13,648	6,678	2,980	3,990
Through interbank transactions with									
5. a) Own offices in foreign countries	-2,718	4,655	5,107	5,704	-1,760	14,190	1,678	4,680	7,831
6. b) Unaffiliated banking offices in foreign countries	-2,204	-4,502	-981	-1,420	-6,631	746	4,976	-1,464	-2,766
Through nonbank transactions									
7. a) Claims on nonbanks in foreign countries (increase, -)	-424	-16,362	-1,818	-2,651	-4,788	-766	366	-590	-542
8. b) Liabilities to private nonbanks in foreign countries (inc. custody liab.)	1,436	1,121	392	479	765	-521	-342	353	-532
9. Private securities transactions, net (excl. U.S. Treas. Oblig.)	-3,068	-692	126	-114	-120	-488	-484	-331	327
10. Foreign net purchases of U.S. corp. bonds	1,112	1,124	159	378	513	-11	-25	-59	72
11. Foreign net purchases of U.S. corp. stocks	1,326	1,674	1,065	-17	285	440	81	77	283
12. U.S. net purchases (-) of foreign securities	-5,506	-3,490	-1,098	-475	-918	-917	-540	-349	-28
13. Foreign net purchases of U.S. Treasury obligations 2/	534	2,278	902	-1,054	1,548	2,586	1,109	154	1,323
14. Change in foreign official reserve assets in U.S. (increase +)	35,448	31,210	-5,323	4,656	16,902	-8,108	353	-2,886	-5,575
By Area									
15. G-10 countries and Switzerland	29,414	29,950	-3,100	5,151	15,567	-7,172	979	-2,990	-5,162
16. OPEC	5,743	-1,263	-2,334	-1,528	1,146	-1,311	-254	-531	-527
17. All other countries	291	2,523	111	1,033	189	375	-372	635	114
By Type									
18. U.S. Treasury securities	30,266	24,069	-5,685	3,167	13,602	-8,340	897	-3,415	-5,822
19. Other 3/	5,182	7,141	362	1,489	3,300	232	-544	529	247
20. Change in U.S. reserve assets (increase -)	-237	662	328	14	200	-3,008	-1,818 4/	179	-1,369
21. All other transactions and statistical discrepancy	2,291	15,774	10,038	2,378	247	1,594	-2,564	1,571	2,587
MEMO:									
Current Account (bil. $, seasonally adj., annual rates)	-15.3	-16.0	-30.3	-13.3	-14.8	-5.4	n.a.	n.a.	n.a.

1/ International accounts basis, seasonally adjusted.
2/ Includes U.S. Treasury notes publicly issued to private foreign residents.
3/ Includes deposits in banks, commercial paper, bankers' acceptances, and borrowing under repurchase agreements.
4/ Includes $1,103 million of newly allocated SDR's.

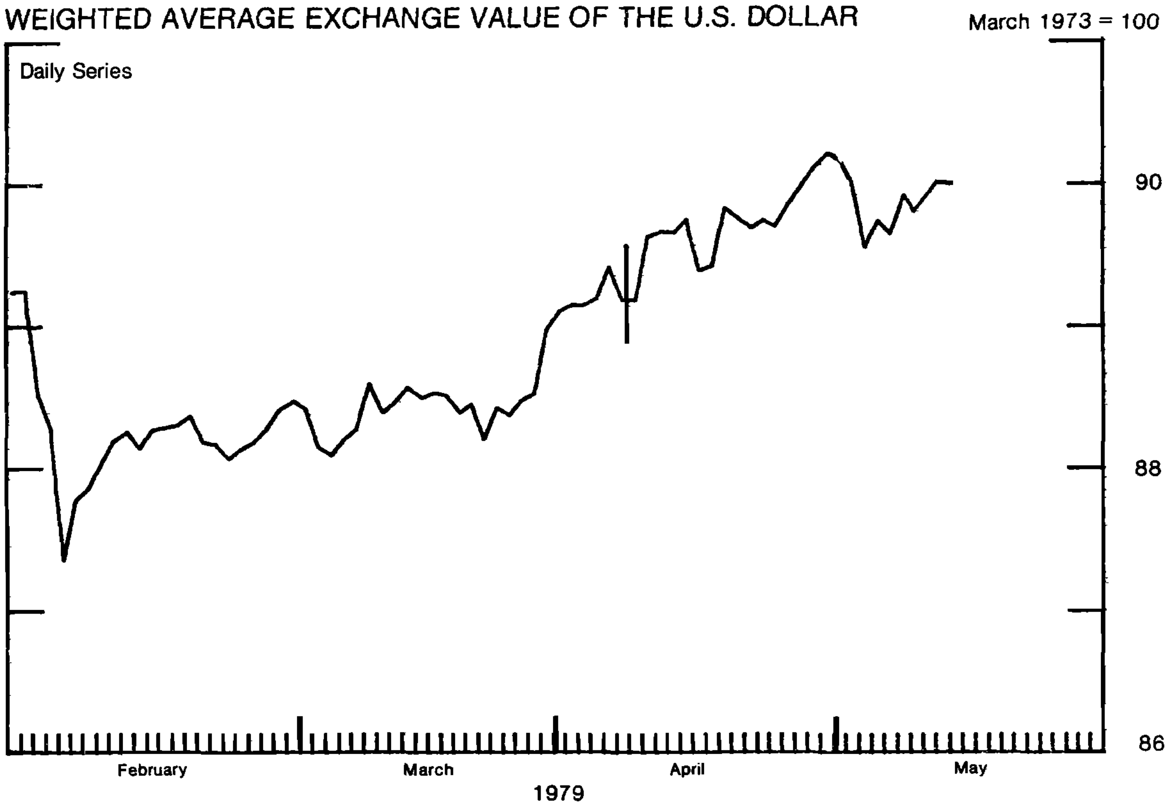
INTERNATIONAL DEVELOPMENTS

Foreign exchange markets. The dollar has continued in generally strong demand on exchange markets in the five-week period since the last greenbook. As shown in the chart, the average exchange value of the dollar increased by a further 1 per cent over this period,

U.S. intervention operations resulted in sales of about $1 billion. The sustained strength of the dollar has been aided by the announcement of a reduced U.S. trade deficit in March, as well as further indications of an acceleration of inflation rates abroad.

Developments involving the Japanese yen have been the focus of attention on exchange markets in the recent period. In late April the yen extended its decline against the dollar. Selling pressure on the yen continued to be generated by market recognition of Japan's heavy dependence on energy imports at a time of rising energy prices, further indications of a greater-than-anticipated reduction in Japan's current account surplus, and rising Japanese prices. After reaching a low of 226 yen per dollar in early May, the yen reversed direction and started to rise sharply after publication of various statements by Japanese officials and others that the Japanese government, with U.S. support, intended to stabilize the yen at a substantially higher level. A subsequent series of press reports that Japanese authorities had adopted a target range for the yen around 200 to 210 yen per dollar alternated with official denials of any change in Japanese intervention policy, causing sharp fluctuations in the yen's exchange rate. By mid-May, the yen

WEIGHTED AVERAGE EXCHANGE VALUE OF THE U.S. DOLLAR



had risen about 6 per cent from its low point earlier in the month. As a net result of these movements the yen remains about unchanged against the dollar compared with its value of five weeks ago.

. In a further effort to boost the yen, Japanese authorities also announced a relaxation of restrictions on capital inflows.

In contrast with the yen, European currencies have fluctuated in a narrow range against the dollar in the period since the last greenbook. The mark and related European currencies depreciated by less than 1 per cent against the dollar.

. The Belgian franc came under moderate downward pressure within the European Monetary System and Belgian authorities responded by raising their discount rate from 6 per cent to 7 per cent

.

The pound and Canadian dollar have also weakened against the dollar over the past five weeks, depreciating by 2 per cent and 1 per cent respectively,

. Data indicating an acceleration of British inflation into the double-digit range contributed to the downward pressure on the pound.

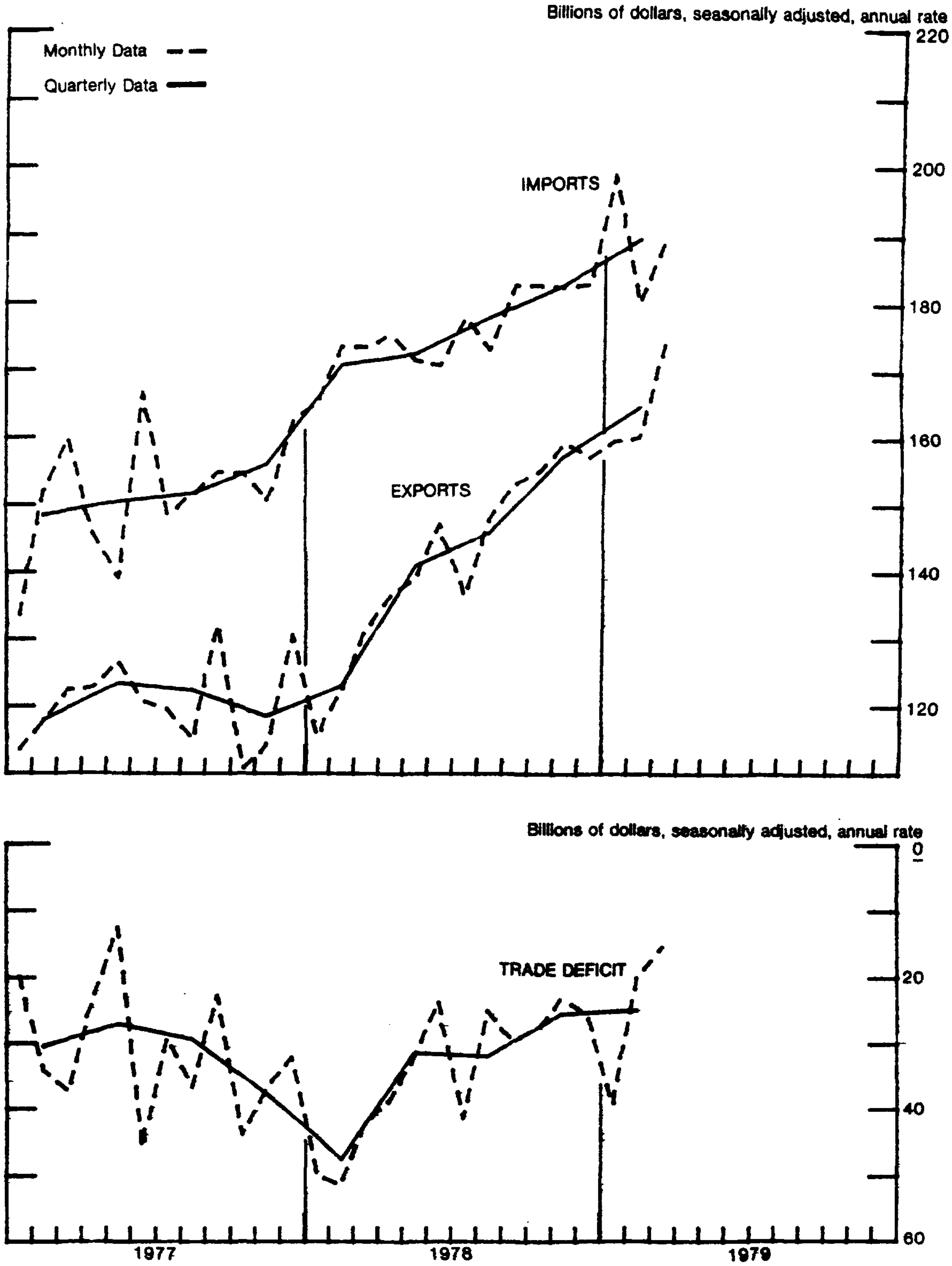
U.S. intervention activity over the past five weeks consisted entirely of purchases of German marks. Desk purchases of nearly $600 million equivalent of marks in the last two weeks of April enabled the System to repay all of its outstanding swap debt, and left the System with net realized losses of

$10 million on swap drawings and repayments since October 1977. Desk purchases of marks totaling nearly $300 million equivalent so far in May have been added to Treasury balances.

U.S. International Transactions. In the first quarter of this year the merchandise trade deficit was roughly $25 billion at an annual rate (international accounts basis), slightly less than the fourth-quarter deficit. Large intervention sales of dollars reduced foreign official reserve assets in the United States by $8.1 billion during the first quarter and an estimated additional $10 billion during the first six weeks of the second quarter, which more than liquidated the build-up of reserves that resulted from intervention to support the dollar during the final three months of 1978.

Total merchandise exports during the first quarter exceeded their fourth-quarter level by almost 5 per cent in value and about 3 per cent in volume, as the continuing strong growth of nonagricultural exports -- reflecting a continuing response to the large depreciation of the dollar during 1977-78 -- far outweighed a decline in agricultural shipments. The expansion of nonagricultural exports was widespread. The value of capital goods exports increased by 8 per cent, first quarter over fourth quarter, with half of the increase accounted for by the growth of civilian aircraft shipments. Exports of industrial supplies increased by 15 per cent, half accounted for by increased exports of nonmonetary gold (associated with the increase in Treasury gold sales) and one-third accounted for by increased chemical shipments. The decline in agricultural exports -- 3 per cent in value and nearly 8 per cent in volume, first quarter over fourth quarter -- was partly due to weather interruptions and partly the expected result of much-improved harvests in the Southern Hemisphere.

U.S. Merchandise Trade
International Accounts Basis



Imports of petroleum increased by nearly 8 per cent in value during the first quarter, with volume increasing to 9.2 million barrels per day (mbd), about 5 per cent higher than both the fourth-quarter and annual averages for last year. A sharp drop in imports from Iran was more than offset by increased deliveries from other sources. The average price of imported oil during the first quarter was $13.96 per barrel, 4-1/2 per cent higher than during the fourth quarter; and in March the average price reached $14.56 per barrel.

Iranian oil production, which started to pick up in March, now appears to have leveled off at around 4 mbd. Iranian exports are expected to run about 3.3 mbd, compared with a pre-revolution level of more than 5 mbd. Several countries, including Saudi Arabia and Kuwait, have cut back production in the wake of the increase in Iranian output. Spot prices of petroleum products, which had declined in March, have since been moving upward.

Gasoline imports averaged about .05 mbd in the first quarter, less than one per cent of U.S. consumption. The unit value of imported gasoline increased by 30 per cent between January and March, reflecting a substantial increase in world spot-market prices. Gasoline import volumes have been up to three times as high in the past. An increase to previous peak levels in the next few months, to relieve some of the pressure on U.S. stocks, would add about $1 to $1-1/2 billion (annual rate) to the U.S. import bill.

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

	1978 Year	1978 Q-3	1978 Q-4	1979 Q-1	1979 Jan.	1979 Feb.	1979 Mar
1. Private capital trans. adj. 1/	-13.5	1.2	-10.0	15.7	7.3	2.8	3.0
2. Private capital as rept. net	-13.5	.9	-11.0	15.7	7.3	2.8	3.0
3. Reporting bias 2/	--	.3	1.0	--	--	--	--
4. OPEC official net investments	-1.3	-1.5	1.1	-1.3	-.3	-.5	-.5
5. Other foreign official assets	32.5	6.2	15.8	-6.8	.6	-2.4	-5.0
6. U.S. reserve assets	.7	*	.2	-3.0	-1.8 5/	.2	-1.4
7. Trade balance, n.s.a. 3/	-34.1	-9.6	-6.1	-5.3	-3.5	-1.2	-.6
8. All other 4/	15.7	3.7	-1.0	.7	-2.3	1.1	4.5
Memoranda: (Seasonally adjusted annual rates)							
9. Trade balance	-34.1	-32.0	-25.5	-24.9	-39.3	-20.0	-15.4
10. GNP net exports of goods and services	-12.0	-10.7	-7.6	-10.3	n.a.	n.a.	n.a.
11. Current account balance	-13.3	-14.8	-5.4	n.a.	n.a.	n.a.	n.a.

1/ Includes bank-reported capital, foreign purchases of U.S. Treasury securities, and other private securities transactions. Also includes U.S. Treasury notes publicly issued to private foreign residents in December, January and March.

2/ Adjusted for reporting bias in bank-reported data associated with week-end transactions. See page IV 10-11 in the June 1976 greenbook.

3/ International accounts basis. For seasonally-adjusted number see line 9.

4/ Includes service transactions, unilateral transfers, U.S. government capital, direct investment, nonbank capital transactions, and statistical discrepancy.

5/ Includes $1.1 billion of newly allocated SDR's.

*/ Less than $50 million.

Intervention sales of $13 billion from January through the second week of May more than liquidated the large fourth-quarter increase in foreign official reserve holdings in the United States. The first-quarter decline involved foreign official sales of $8.3 billion worth of short-dated U.S. Treasury securities, with the large volume of these sales exerting upward pressure on Treasury-bill interest rates relative to private short-term rates.

U.S. banks reported a net private capital inflow of $13.6 billion during the first quarter. Not netted against this figure is a $6-1/2 to 7-1/2 billion outflow of funds that U.S. residents (other than banks) deposited in Eurobanks -- predominantly in foreign branches of U.S. banks. The outflow into Eurodollar deposits may have been encouraged by last November's two per cent increase in the reserve requirement on time deposits held at domestic offices of member banks, which reduced yields on reservable domestic deposits relative to yields on reserve-free Eurodeposits.

Available data on recorded transactions leave an unexplained residual inflow of $3.7 billion in the first quarter, much of which may have been accounted for by the corporate sector both through direct borrowings and through transactions involving inter-company accounts. In contrast, the unexplained fourth-quarter residual was a $4 billion net outflow, much of which may reflect corporate outflows to foreign firms (including own foreign affiliates) and foreign credit markets. The reversal in the direction of these flows can be attributed to increased confidence in the dollar.

Foreign Economic Developments. Inflationary pressures in most major industrial countries continue to be strong. Whereas increases in consumer prices recorded earlier in the year derived primarily from seasonal factors, it appears now that the pass-through of previous increases in wholesale prices from non-seasonal factors has become a more important force in consumer price inflation. Although recently announced oil price increases have not yet been fully reflected in wholesale prices in most countries, external factors, including higher prices for imported oil and commodities as well as the dollar's strength, have continued to drive wholesale prices upward at rapid rates. There are also signs in Germany and Japan that pressure from domestic demand has started to make a stronger contribution to inflation.

In Japan, the authorities have responded to the prospect of accelerating inflation and a sharp depreciation of the yen with a 3/4 point increase in the discount rate, the first increase in more than five years. In Germany, both the discount rate and lombard rate were raised by a percentage point at the end of March, and interest rates in Canada have been kept high even though the growth rate of the Canadian money stock is well below its target level. Indications of tighter monetary policy have also become evident in Switzerland.

The level of activity in most major industrial countries has not changed significantly in the past month. There are signs, however, of prospective strength in investment in Japan and Germany, while exports have continued to be an important source of growth in Italy. Labor market conditions also have improved somewhat in Canada, Germany, Japan, and the United Kingdom.

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

	1976	1977	1978	1978 Q1	1978 Q2	1978 Q3	1978 Q4	1979 Q1	Latest 3 Months from: Previous 3 Months (at Ann. Rate)	Latest 3 Months from: Year Ago	Latest Month
Canada: CPI	7.5	8.0	8.9	1.8	2.4	2.5	1.6	2.3	9.4	9.1	March
Canada: WPI	5.1	7.7	8.7	2.6	2.4	2.8	2.1	5.1	22.0	12.9	March
France: CPI	9.6	9.5	9.2	1.6	2.9	2.7	2.1	2.2	9.0	10.2	March
France: WPI	7.4	5.6	4.3	1.4	1.9	1.9	2.9	4.3	18.4	12.9	March
Germany: CPI	4.6	3.9	2.6	1.3	0.9	0.0	0.1	2.1	8.4	3.2	April
Germany: WPI	5.8	1.8	-0.3	1.0	0.3	-0.6	0.0	3.5	14.6	3.3	March
Italy: CPI	16.8	18.4	12.1	2.6	3.0	2.4	3.0	3.8	17.8	13.2	April
Italy: WPI	22.9	17.4	8.4	2.1	2.3	1.8	2.2	4.4	18.8	11.2	March
Japan: CPI	9.7	8.3	4.3	0.9	2.0	0.8	0.2	-0.2	2.7	2.5	April
Japan: WPI	5.0	1.9	-2.5	-0.5	-0.3	-1.7	-0.6	1.9	10.5	0.5	April
United Kingdom: CPI	16.6	15.8	8.3	1.7	2.7	1.7	1.7	3.1	13.5	9.8	April
United Kingdom: WPI	17.3	19.8	9.1	2.3	1.8	1.9	1.7	2.7	13.0	8.9	April
United States: CPI	5.7	6.5	7.6	1.7	2.6	2.4	2.0	2.5	10.4	9.8	March
United States: WPI	4.6	6.1	7.8	2.4	3.0	1.5	2.3	3.5	17.0	11.1	April

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

		1976	1977	1978	1978 Q2	1978 Q3	1978 Q4	1979 Q1	1978 December	1979 January	1979 February	1979 March	1979 April
Canada:	GNP	5.5	2.7	3.4	1.0	0.8	0.5	n.a.	*	*	*	*	
	IP	5.1	4.0	5.3	1.3	1.8	2.7	n.a.	1.5	0.8	0.7	n.a.	
France:	GDP	5.8	1.9	3.3	1.8	0.3	1.2	n.a.	*	*	*	*	
	IP	9.4	1.7	2.0	1.8	-0.5	1.8	1.0	0.8	0.8	-1.5	1.5	
Germany:	GNP	5.2	2.6	3.4	2.1	0.7	0.9	n.a.	*	*	*	*	
	IP	7.9	2.7	2.0	-0.6	3.2	0.8	-0.3.	0.0	0.0	-0.8	0.8	
Italy:	GDP	5.9	2.0	2.6	0.4	0.6	2.9	n.a.	*	*	*	*	
	IP	12.4	1.1	1.7	-2.2	1.0	5.7	1.1	-1.5	-0.1	4.6	-2.7	
Japan:	GNP	6.4	5.4	5.6	1.0	0.8	1.7	n.a.	*	*	*	*	
	IP	11.1	4.2	6.2	1.7	0.5	2.3	2.1	1.4	0.3	0.7	-0.3	
United Kingdom :	GDP	3.0	1.9	3.0	2.4	0.7	-0.4	n.a.	*	*	*	*	
	IP	1.9	3.8	3.7	3.5	0.7	-1.6	n.a.	1.6	-7.4	7.2	n.a.	
United States:	GNP	5.7	4.9	4.0	2.1	0.6	1.7	0.2	*	*	*	*	
	IP	10.1	5.6	5.8	3.1	2.1	1.9	1.0	0.9	0.0	0.1	0.7	-1.0

* GNP data are not published on monthly basis.

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

		1977	1978	1978 Q1	1978 Q2	1978 Q3	1978 Q4	1979 Q1	1979 Jan.	1979 Feb.	1979 March
Canada:	Trade	2.7	3.0	1.2	0.6	0.6	0.6	n.a.	0.3	0.1	n.a.
	Current Account	- 3.9	- 4.6	- 0.8	-1.1	-1.2	-1.5	n.a.	*	*	*
France:	Trade	- 2.2	0.7	0.0	0.2	0.4	0.1	0.3	0.0	0.0	0.3
	Current Account	- 3.3	4.2	- 0.2	1.9	0.7	1.8	n.a.	*	*	*
Germany:	Trade	16.5	20.5	4.3	5.0	5.5	5.7	4.4	1.5	1.5	1.3
	Current Account[b]	3.8	8.2	1.6	2.0	-0.8	5.5	2.9	1.5	0.4	1.0
Italy:	Trade	- 2.8	- 0.2	- 0.2	0.3	-0.8	0.5	n.a.	-0.4	0.6	n.a.
	Current Account[b]	2.3	6.3	0.3	1.8	2.6	1.6[e]	n.a.	*	*	*
Japan:	Trade	17.4	24.7	7.4	6.8	6.7	3.9	2.7	0.9	1.0	0.8
	Current Account	10.9	16.5	5.5	4.8	4.5	1.7	0.3	0.3	0.2	-0.2
United Kingdom:	Trade	- 3.0	- 2.3	- 1.1	-0.3	-0.7	-0.1	n.a.	-0.2	n.a.	n.a.
	Current Account	0.6	0.5	- 0.7	0.3	0.1	0.8	n.a.	0.0	n.a.	n.a.
United States:	Trade	-31.1	-34.1	-11.9	-7.9	-8.0	-6.4	-6.2	-3.3	-1.7	-1.3
	Current Account	-15.3	-16.0	- 7.6	-3.3	-3.7	-1.3	n.a.	*	*	*

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

The Japanese current-account surplus has continued to decline at a rapid rate. Even abstracting from the government's program of emergency imports, the first quarter current-account surplus was less than $6 billion (s.a.a.r.), as compared with a $18-1/2 billion surplus in 1978 (again, not including emergency imports). The German first-quarter current-account surplus of $1.5 billion, however, was only $100 million below its level of a year ago.

Individual Country Notes. In Japan, previous sharp increases in wholesale prices are now being passed on to consumers. In March the CPI rose by 1.0 per cent, and in April it jumped by 1.2 per cent. Upward pressure on wholesale prices also continues to be strong as indicated by the 1.7 per cent rise in April. About two-thirds of recent increases in the WPI can be traced to external factors including higher prices for imported commodities, increased oil prices, and the yen's depreciation, but domestic factors have started to play a stronger role lately. The outlook for moderation of further inflationary pressure from domestic sources now appears somewhat more favorable, however, in view of expected wage increases in FY1979 of only about 6 per cent and recent steps taken to slow the expansion of the domestic economy. On April 17 the Bank of Japan raised the official discount rate from 3.5 to 4.25 per cent for the first time in over five years. The authorities also indicated that they would adjust their planned front-loading of fiscal expenditure to a more even phasing during the current fiscal year.

The recovery of activity appears to have continued strongly in the first quarter. Industrial production (s.a.) rose at an annual rate of more than 8 per cent, despite a slight decline in the index in March, and the unemployment rate fell to its lowest level in almost two years.

Erosion of the current-account surplus is still progressing at a rapid pace. The first deficit in the seasonally-adjusted current-account since November 1976 was recorded in March; for the quarter as a whole, the current-account surplus was less than $1-1/2 billion at an annual rate (about $5-3/4 billion excluding emergency imports). Increases in both dollar import prices and import volume were important factors in the lower first-quarter figures. Prospects for maintaining the surplus at about the first-quarter level in 1979 appear quite good, especially in view of Prime Minister Ohira's commitment to a reduction of the surplus, announced after discussions with President Carter earlier this month.

The German economy continues to show signs of strengthening activity. Unemployment was down to 3.9 per cent (s.a.) in March and 3.8 per cent in April from an average 1978 rate of 4.4 per cent, and business climate indicators, capacity utilization, and investment intention surveys all point toward stronger activity. Inflation, as measured by all major price indices, has picked up considerably compared to the low rates of 1978. The CPI during the first four months of 1979 rose at an annual rate of nearly 8-1/2 per cent. Among the major factors in this development was the 21 per cent (a.r.) rise in import prices during the first quarter of 1979. The effect of higher oil prices alone on the year-over-year change in the CPI has been estimated at 0.5 to 0.7 percentage points. While some German inflation may be due to external factors, such as the recent strength of the dollar, there are signs that the recovery of domestic demand is also generating price pressures, as seen, for example, in the construction industry. The spring round of wage negotiations has produced settlements in the 4 to 5 per cent range; after taking into account this year's planned tax cuts, net wages are expected to increase by about 6 per cent in 1979.

Germany's current-account surplus (n.s.a.) recorded a $1.5 billion surplus for the first quarter, compared to a $5.5 billion surplus for the fourth quarter of 1978. This decline, however, was largely due to seasonal factors; the year-ago figure was a $1.6 billion surplus.

In the United Kingdom, industrial production (s.a.) in February recovered sharply from its strike-depressed January level and was at a level slightly above that prevailing in the fourth quarter of 1978. Preliminary data indicate that real personal consumption expenditures rose some 2-1/2 per cent (s.a.a.r.) between the final quarter of last year and the first quarter of this year. A labor dispute involving civil servants has delayed publication of British foreign-trade statistics and therefore the U.K.'s recent external performance cannot be assessed.

In the Parliamentary election held on May 3, the Conservatives won an overall majority of 43 seats. The new government's budget for the fiscal year which began last month is scheduled to be announced on June 12. During the course of their government, the Conservatives are expected to attempt some labor-market reforms, reduce government intervention in industry, liberalize exchange controls, reduce government spending and taxes as a proportion of GDP, and switch some taxation from direct to indirect taxes.

Inflation accelerated rather sharply in the United Kingdom in the first quarter of 1979, with consumer prices rising some 13 per cent (a.r.) over the previous quarter, as compared with 7 per cent (a.r.) between the third and fourth quarter of 1978. Excluding seasonal foods, these figures are 10-3/4 and 7-1/4 per cent, respectively. Similarly, wholesale-price inflation has accelerated in recent months, reflecting in part movements in world commodity and raw material prices. The strength of sterling on foreign-exchange markets has helped to restrain the rate of price increases in recent months. Wage increases, after accelerating in 1978, may be leveling off at an annual rate of 14-15 per cent.

Economic conditions in France remain on an uncertain trend as regards industrial output, and price increases still show no signs of decelerating. Industrial production fell by 1.8 per cent in February, but recovered again to the January level in March, with average output in the first quarter 4.2 per cent higher than a year earlier. The unemployment rate in March rose to an estimated 6.1 per cent, and most observers anticipate further gradual increases ahead. Preliminary national accounts data indicate that French GDP rose 3.3 per cent in 1978, with private consumption the strongest component (4 per cent gain) and fixed investment making a rather weak contribution to growth (0.7 per cent). Data for the first quarter, during which France had a seasonally-adjusted trade surplus of about $290 million, suggest continued strength in the external accounts, although the impact of higher oil and commodities prices has not yet been fully absorbed.

Recent price data call into doubt the government's goal for a deceleration of inflation this year. Wholesale prices for industrial goods rose faster, month by month, in the January to March period than at any time during 1978, and in March the index stood almost 13 per cent above its year-earlier level. Wholesale prices already show the influence of oil-price hikes, and increases in dollar prices of other commodities suggest further pressure on consumer prices ahead. The acceleration of consumer prices to date has been less pronounced, but retail prices in the first quarter were over 10 per cent above year-earlier levels. The March increase of 0.9 per cent was fairly uniformly spread across major categories of CPI components -- food, manufactures and services.

Industrial production in Canada rose by 0.7 per cent in February to a level 8.3 per cent above that of a year earlier. Mining, utilities and manufacturing all recorded increases output during February. The employment situation also improved noticeably in the first quarter. Employment increased at an annual rate of 5.2 per cent, and as a consequence the unemployment rate dropped from 8.1 per cent at the end of 1978 to 7.9 per cent for March.

The all-items consumer price index for Canada increased by 1.2 per cent in March. As a result, the twelve-month rise between March 1978 and March 1979 was 9.2 per cent, unchanged from year-to-year increases observed in recent months. Higher food prices were once again a significant factor, having been responsible for about one-half of the increase. Food prices advanced by 2.5 per cent between February and March (17.4 per cent above March 1978 level), unchanged from the increase observed in the previous month. Seasonally adjusted figures show M1 rising at an annual rate of 4.5 per cent from the June 1978 base, which is well below the target range of 6-10 per cent. Despite a rate of money-stock growth below target levels and recent strengthening of the Canadian dollar, the Bank of Canada has maintained its high interest rate policy. Federal elections will be held in Canada on May 22 with Prime Minister Trudeau facing Conservative opposition leader Joe Clark.

The high rate of inflation in Italy is continuing according to the most recent data. Wholesale prices, which rose over 5 per cent between December and March, have reflected oil and commodity price increases. Rent increases have had a major impact on consumer prices in January and April, the months in which quarterly adjustments are made. Further inflationary pressure is expected to arise from wage-escalator increases in May, as the cost-of-living index (for February-April) used for calculating these increases rose nearly 5 per cent over the previous three-month period. The major labor negotiations are continuing at a deliberate pace. Exports have been a major source of the continued strength of economic activity. The trade account so far this year on a customs basis has been in surplus, despite import increases outstripping the pace of recovery, presumably due to re-stocking.

The Scandinavian economies provide exceptions to the general inflationary trend among the industrial countries. First-quarter increases in consumer prices in Norway, Sweden, and Denmark were all significantly below year-ago levels, due in part to price control programs in all three countries. In Switzerland, the Swiss National Bank (SNB) moved to a tighter monetary policy in the first 4 months of 1979 in response to increased inflation and the stabilization of the Swiss franc. M1 fell slightly in both January and February, and clearing accounts of banks, trade, and industry with the SNB fell in April to their lowest level in six months.