

USA 2
Prime Minister

RESTRICTED [CULL]
TO ECO TELNO 40 SAVING OF 15 MAY 1979

MONTHLY ECONOMIC REPORT FOR THE UNITED STATES
SUMMARY

Summary only.
But 17/5

1. There is still great uncertainty about the course which the US economy is likely to follow over the next year. After four years of expansion a slowdown now seems likely but its severity and timing remain matters of considerable dispute. GNP apparently grew at an annual rate of less than 1% in the first quarter of the year, with the housing sector particularly weak, but there are still some signs of strength in personal consumption. The balance of opinion now is that there will be little growth, or perhaps some decline in output, in the second half of the year resulting in an increase in real GNP between 1978 and 1979 of about 2½%. But few would dismiss the possibility that growth will continue more strongly during much of 1979 and that this will be followed by a full recession during the election year 1980.

2. The evidence on inflation is clearer, but uniformly disappointing. Consumer prices rose at an annual rate of nearly 12% in the first quarter, taking the price level over 10% above that of a year earlier. At the wholesale stage, prices of finished goods accelerated to an annual rate of increase of over 14% in the first quarter. These may however represent peaks for the year as far as published price indices are concerned. On the wagside, settlements have so far been fairly modest, and increases in earnings have been slightly below last year's rates of 8½% p.a. It is difficult to assess how far this moderation is due to the wage standards set in the anti-inflation programme and how long it will continue. The recent bending of wage standards to facilitate a settlement for the Teamsters and the prospects for several other key settlements suggest that the chances of earnings continuing to increase at rates considerably below the current rate of price inflation are not very high.

3. The dollar has been strong despite news on inflation. This seems to have been due mainly to the change in financial policies last November, but the actual and expected improvement in the current account of the balance of payments relative to other major economies has also probably been a major factor. In the first quarter of this year, the deficit on merchandise trade fell to an annual rate of \$21 billion compared with an average of \$28 billion in 1978. The monthly deficit of less than \$1 billion in March was the lowest for nearly two years, with the trend

/GROWTH

RESTRICTED

growth in manufactured exports looking particularly strong. Forecasts for the rest of this year suggest that the deficit on current account may drop to about \$10 billion compared with \$16 billion in 1978.

4. The monetary picture is still difficult to interpret. After more than six months of virtually no net growth, the main monetary aggregates accelerated sharply during April. This may perhaps have marked the end of a period of severe distortion in the monetary aggregates during which technical changes in cash management induced by new monetary regulations and higher interest rates gave a misleading impression of monetary tightness. In fact, borrowing continued to increase fairly steadily through the period and seems to have strengthened considerably recently. Credit conditions have not generally been perceived to be tight. After several months of keeping interest rates steady, the Federal Reserve Board have now moved to firm slightly the rate for Federal Funds - the key short-term rate - to take their target level to apparently about 10 $\frac{1}{4}$ %.

5. Although it is widely accepted that combatting inflation is the top economic priority, differences in view about prospects for economic activity this year have produced varying policy prescriptions. Some senior members of the Administration have hitherto shown concern that further rises in interest rates might tip the economy into recession this year. But they now see risks that growth could actually turn out to be too fast for at least part of this year and consider that increases in interest rates now have less effect on activity than they used to. They have therefore been suggesting that a further tightening of monetary policy might be appropriate. The Federal Reserve Board, on the other hand, faced with a forecast of a weaker economy this year and mixed evidence on the monetary aggregate have up until now chosen a more restrained posture. Their latest moves to increase interest rates came only after pressure had been put on them and the adjustment could turn out to be mainly symbolic.

6. Congress is nearing completion of its first Budget Resolution for fiscal year 1980, which starts in October. An apparently tighter fiscal policy than the President requested in January looks likely, with the projected Federal deficit reduced well below \$30 billion in fiscal 1980, despite an assumption of a weaker economy.

RESTRICTED

/PRINCIPAL

Principal Monthly Indicators

		<u>% change (annual rate)</u>		
		On Previous Month	Last 3 months on previous 3 months	Last 3 months on 3 mths yr earlier
Industrial Production	Mar	10.0	4.6	3.5
Retail Sales (current prices)	Apr	5.9	9.5	11.9
Consumer Prices	Mar	12.7	11.0	9.8
Average Hourly Earnings	Apr	0	6.9	8.7
Index of Leading Indicators	Mar	-5.7	-2.2	2.2
Money Stock (M1)	Apr	18.4	-0.2	4.7
S & P Index of "500" shares	Apr	26.2	14.3	11.1
		Latest Month	Average of latest 3 months	Average of 3 mths yr earlier
Unemployment Rate (%)	Apr	5.8	5.7	6.1
Merchandise Trade Balance	Mar	-\$0.8 b	-\$1.7 b	-\$3.5 b
Interest Rate on CD's	Apr	10.1	10.1	6.9

Quarterly National Expenditure Data

(1979Q1)

		<u>% change (annual rate)</u>	
		On 1 qtr earlier	On 1 year earlier
GNP		0.7	4.7
Consumers' Expenditure		1.7	4.8
Business Fixed Investment		2.8	9.0
Government Expenditure		-3.4	1.8
Exports of goods and services		2.5	13.4
Imports of goods and services		7.7	7.5

Balance of Payments

(1978Q4)

		Latest quarter	Previous quarter
Current Account (\$ billion)		-1.3	-3.7
		Actual % Change	
		On Previous Month	On Year Earli
Exchange Rate			
Dollar effective rate	Apr	1.2	-3.9

ECONOMIC ACTIVITY - CURRENT TRENDS

7. As we expected, provisional estimates for GNP growth in the first quarter of the year showed a considerable deceleration from the 7% annual rate that had been achieved in the last quarter of 1978 (for a breakdown of 1979Q1 figures, see previous Table). The extent of the slowdown, to 0.7% p.a., was nevertheless even greater than had been anticipated and the official estimates may well be revised upwards when later data are incorporated. The preliminary GNP figures did not make adequate allowance for the improvement in the real trade balance which actually occurred through the quarter and industrial production is estimated to have grown at an annual rate of 4 $\frac{1}{2}$ % in the period.

8. It would anyway be premature to interpret the figures as solid evidence of an underlying deceleration in the economy. Particularly severe winter weather delayed construction activity in the residential and road-building areas much more than seasonal adjustment would normally allow for, so that the drops recorded in Housing and in State and Local Government expenditure almost certainly exaggerate the trend. And there has recently been a considerable volatility in quarterly estimates of final demand which have provided confusing pointers to the short-term outlook.

9. There are nevertheless some important features of recent data which do strongly suggest that the economy is beginning to slow down. The housing sector is conventionally the trigger to large cyclical developments and it had been expected since the middle of last year that it would start declining as the effects of rising interest rates and declining mortgage extensions worked through. It was actually protected for some time by the strong liquidity of the thrift institutions on the one hand and, on the other, by a powerful underlying demand built mainly on demographic trends and expectations of large capital gains. These forces now seem to be being moderated, although it is possible that the recent slowdown in housing activity, and in mortgage extensions, could turn out to be purely, rather than merely, partly, seasonal. On the consumption side, and particularly in durables, there are also signs of moderation. Not only is the trend of retail sales now flattening, but the further falls in the savings ratio from already very low levels which would be needed to offset future low or negative rates of increase in disposable income in real terms, do not seem to be materialising. This is not to say, however, that consumption is yet weak and it would probably require some significant increase in personal savings this year to produce a large enough effect to induce a recession.

10. The other most widely-referenced pointers to a slowdown this year are the official "leading indicators" series, which has now (on revised data) shown three successive months of decline, and also some signs of volatility in inventory behaviour. Neither of these provide particularly reliable evidence. Movements in the indicators have been dominated by the sluggishness of the monetary aggregates and these have probably been grossly distorted over the last six months. And inventories are certainly not wildly out of balance, although there may be some sectoral problems.

DEVELOPMENTS BY SECTOR

11. The growth in retail sales has slowed down considerably

since the spurt recorded during the last quarter of 1978. There was little change reported in the level of sales between March and April and from December to April the rate of increase was only about 7% p.a. in money terms, rather less than the current rate of inflation. Automobile sales have held up fairly well despite (or in some cases because of) the uncertainty about fuel prices and availability. March was a record month, with unit sales of 12.6 million at an annual rate compared with an average of 11.3 million in 1978, although there was a subsequent fall in April. Expenditure on consumer services has been rather stronger, partly because of higher weather-induced demand for power and preliminary estimates put growth during the first quarter at 5% p.a.

12. The major question at the moment concerns the behaviour of personal savings. The data in this area are notoriously unreliable and fluctuations in the savings ratio can be expected to mirror changes in the growth rate of personal income because of the time it takes for consumption to adjust to new levels of income, but the outturns on personal savings during 1978 were, on any basis, surprisingly low. There is a little evidence from surveys to support the view that this reflected some anticipatory buying of durables against the expectation of high rates of inflation but this does not seem to afford a complete explanation. It also contrasts strongly with behaviour in previous inflationary periods in the US and in recent years in Europe and Japan when savings have risen markedly to protect the real value of financial balances.

13. Consumer confidence surveys carried out by the Conference Board, Citibank and by the National Family Opinion Survey in Michigan report a sizeable drop in recent months in householders' optimism about their personal economic prospects and in buying plans. This is widely expected to herald a significant rise in the personal savings ratio from the 5.2% level recorded both in the first quarter of 1979 and in most of 1978. Whether the ratio will return to the 6% - 7% range which was prevalent in the 1960's remains uncertain.

14. Housing starts rose to 1.8 million p.a. in March (seasonally adjusted) after two very low weather-affected months at the 1.5 million p.a. level. This is however less of a recovery than occurred during last year's exceptionally severe winter and looks like the start of a significant decline in the housing sector from the situation where a rate of 2 million p.a. starts had been maintained for well over a year. The rate of mortgage closure at S & is currently 15% below last year's rates and the rate of inflow of deposits into the thrift institutions is at last showing some signs of moderation. Nevertheless the liquidity position of the thrifts is still very good (much of their cash being invested in short-term financial investments such as CD's because of the relatively very high yields being obtained compared with mortgage advances). The less attractive yields they are now constrained to provide on six-monthly money-market certificates has probably reduced their deposit inflows but does not yet seriously seem to have affected their ability to raise finance from this source as needed.

15. Although the growth of business fixed investment this

RESTRICTED

cycle has never accelerated to the rates traditionally experienced, it has proved to be a steady source of expansion to the economy. It grew by 9% in 1977 and 8% in 1978 and in the first quarter of 1979 it is estimated to have risen by nearly 3% p.a. despite a sizeable weather-induced fall in construction. Expenditure on equipment rose at an annual rate of 8%.

16. Forward indicators for business fixed investment present a mixed picture. Orders for durable goods and contracts for new construction have been exceptionally strong recently. They point to vigorous growth over the next six months at least. But direct surveys of capital spending plans suggest little further growth in real terms. Even the latest McGraw-Hill survey, which on first reading pointed to a rise of 16% in spending in nominal terms between 1978 and 1979 in fact suggests a rise nearer 11% when adjusted for normal reporting biases and baseline errors.

17. A build-up of inventories in the first quarter was the only net source of GNP growth identified in the provisional GNP data. There were some signs in the quarter of anticipatory buying ahead of expected increases in price and possible delivery delays, but much of the rise seems to be explained by the unexpectedly low level of final sales. Inventory levels are being carefully monitored for the sort of excesses which magnified the depth of the 1975 recession, but in general manufacturers, and to a lesser extent distributors, seem to be keeping them under a tight reign. The strong liquidity position of the private business sector means however that there is potential for an unhealthy movement into stocks at any time and it is this possibility which is the main concern of those Administration economists who have been advocating a further tightening in monetary policy.

18. The drive towards a reduced Federal deficit and the impact on a local level of initiatives like Proposition 13 have probably contributed to the recent slowdown in Government purchases of goods and services, but much of the decline in the first quarter seems to have been weather-related. Road repair work and construction were particularly badly affected. There are also considerable regional disparities, with the demand for services growing very rapidly in the newly-expanding areas despite tax-reducing moves.

EXTERNAL ACCOUNT

19. The merchandise trade balance improved dramatically in March to record a deficit of \$0.8 billion compared with a monthly average (on a census basis) of \$2.4 billion in 1978. Agricultural exports were particularly strong, but all categories of manufactured exports rose significantly. Rising fuel imports provided some offset.

20. Compared with a year earlier, manufactured exports (categories 5-8) had risen 32% by the first quarter in money terms. The comparable rise in imports was only 12½%. Although the first quarter of 1978 was itself a particularly bad period for the trade balance, the rate of improvement seems to confirm the fact that the depreciation of the dollar in 1977 and early 1978 had the effect of restoring much of the competitiveness of US goods which had been lost in 1975 and 1976.

RESTRICTED

21. It is too early however to be confident that this improved performance of the trade balance will be sustained throughout the remainder of this year. The rapidity of the turnaround in both import and export performance may be a reflection simply of a faster speed of adjustment of volumes to the changes in competitiveness, plus recent advantageous price movements. If this is so, the total effect attributable to the depreciation may be no larger than would have been assumed on the basis of previous estimates and the worsening of competitiveness which has occurred since the dollar strengthened last November may produce some deterioration in the trade balance by the end of the year. The full effects of the increases in oil prices have also yet to work their way through.

22. If an optimistic interpretation of recent trade performance were to be taken (i.e. that the underlying trend has strengthened) it is possible that the current account deficit for the US could drop as low as \$5 billion this year (even with further oil price increases to come) compared with \$16 billion in 1977 and 1978. A more central projection would however still probably suggest a deficit of around \$10 billion for 1979 involving some deterioration on the trade side towards the end of the year.

23. This visible and projected improvement in the current account has contributed significantly to the restored health of the dollar in recent months. Relative to Germany, Japan and most other industrialised countries the increases in oil prices can also be expected to have a smaller direct effect on the US economy because roughly half of US oil consumption is still provided from domestic sources. But relative interest rates and the joint resolve shown by the Central Banks over the winter months to defend the dollar has almost certainly played the major role in turning around the performance of the dollar to the point at which indicators of worsening inflation have seemed to have little adverse impact on the exchange rate.

24. In effective (trade-weighted) terms the dollar had appreciated $9\frac{1}{2}\%$ by the end of April from its low point at the end of last October. It has gained 5% so far this year, including a maximum appreciation of 16% against a rather volatile yen.

FINANCIAL MARKETS

25. Uncertainty in financial markets about the interpretation of the monetary aggregates over the previous six months was increased during April by a sudden change in M1 behaviour, signs of an unusually directed policy rift between the Administration and the Fed and apparent contradictions between statements by the Fed Chairman and actions actually taken by the Fed. At the heart of these problems seems to be the genuine difficulty being experienced in assessing what statistical effect new changes in cash management procedures have had on various components of the money supply and hence in estimating what has been the underlying state of financial conditions and what the implications are for the economy.

26. M1 grew by $2\frac{1}{2}\%$ during the month of April alone according to the (normally rather unreliable) weekly figures issued during the month and $1\frac{1}{2}\%$ in the month on the basis of provisional monthly figures. This performance contrasted strongly with that of the

previous six months when there was actually a net downward movement in the narrow aggregate. Seasonal factors may afford a partial explanation for this apparent change in behaviour, but it had anyway been expected that, once the discrete shift in money balances induced by the advent of automatic transfer between savings and chequing accounts and the swift rise in use of repurchase agreements on commercial paper and money market mutual funds was over, M1 would again resume a more positive growth path. The speed of the increase during April nevertheless gave support to those who had been contending that underlying monetary conditions had in fact been rather loose, a viewpoint further supported by the spurt in commercial and industrial borrowing during the month.

27. Against this unfolding background of evidence of considerable liquidity in the economy which might be further fuelling inflation, senior officials and economists in the Administration increased their (previously internal) pressure on the Fed to start raising interest rates. This, and the reaction of the Fed Chairman, attracted a certain amount of publicity as did a subsequent instruction by the President to his advisers to soften their criticism of the Fed's moderate stance. The Fed Chairman then confused the markets further by repeating his view, just in advance of a Federal Open Market Committee meeting, that short-term interest rates need not be pushed any higher, only to be followed two weeks later by a clear move by the Fed to raise rates, if only by a small amount. The immediate triggers to this action seem to have been higher-than-expected monetary figures during those two weeks and disappointing data on consumer prices, but there is an impression that the Administration's view has now prevailed on the Fed, at least to the extent that it has shown the will not to relax monetary policy. Federal Funds rates seem to have been moved up from their previous target range of $10\frac{1}{2}\%$ - $10\frac{3}{4}\%$ to about $10\frac{1}{4}\%$, with all the major banks' prime rates now set at $11\frac{1}{4}\%$.

28. Uncertainty about the policy direction the Federal Reserve Board is taking has helped impede the recovery of the stock market and the Dow Jones Industrial Average index fell from about 830 at the beginning of April to around 830 in the first week of May.

LABOUR MARKET AND PRICES

29. Employment and hours data for April presented a confusing picture. The monthly survey of households showed a massive drop of 670,000 (0.7%) in employment in the month after eight months of very strong growth during which gains averaged 0.3% per month. There was also a very sizeable drop of $\frac{1}{2}$ hour (1.4%) in the recorded average work-week. On the other hand, employment as measured by the monthly survey of establishments was shown to be virtually unchanged over the month and, because of a large drop in the labour force as measured by the household survey, there was only a small rise - to 5.3% - in the unemployment rate.

30. Most commentators have chosen to disregard these data because of their internal inconsistency and the fact that the collection routines were significantly disrupted by religious holidays, the weather and the effects of the Teamsters dispute in

RESTRICTED

the trucking industry. There is nevertheless a possibility that the unusually strong growth of employment which characterised the latter part of the recovery is now beginning to moderate. The disparities between different demographic and occupational groups remain. The average unemployment rate in the black population is reported to be nearly 12%, with male black adults just under 9% and black teenagers well over 30%. In the white population, the average unemployment rate is just below 5%, with adult males down to about 3½% and teenagers about 14%. White-collar workers are estimated to have an unemployment rate of about 3½% and blue-collar workers over 6½%.

31. The most reliable indicator of underlying movements in earnings is normally the hourly earnings index for production or nonsupervisory workers on private non-agricultural payrolls. This excludes from other earnings data both the effects of fluctuations in overtime premiums in manufacturing and the consequences of changes in the proportion of workers in high-to low-paid industries. The index (seasonally adjusted) showed that increases in earnings during 1978 averaged just under 8½% p.a. with some acceleration at the beginning of the year and moderation later on. This moderation seems to have continued into 1979 and increases compared with a year earlier are currently averaging just over 8% (the April figure in fact declined to 7.8%). However, it is not possible to determine the extent to which this might be a reflection of the wage guidelines, which only came into being in October 1978, nor whether the moderation will continue if inflation stays at current rates.

32. The earnings index does not in any case tell the whole story. Non-wage benefits are making up an increasingly important share of total labour compensation and provisional data for the first quarter show that there was a rise of 9½% in total hourly compensation over a year earlier. Furthermore, the wording of the wage standards provides some incentive to postpone a part of agreed wage increases to future periods by loading them into cost-of-living adjustments. The standard has also been shown to be a good deal more flexible on fringe benefit increases than on cash earnings. There were several concessions on pensions inserted into the original wage guidelines with the aim of facilitating a settlement in the negotiations between the Teamsters and the haulage industry and further changes (including some on the wages side) were made during the talks themselves and the short lockout which followed. The rubber workers indicated they were interested in pursuing similar loopholes in their current negotiations and the electrical and automobile workers, who are due to settle later this year, may follow similar lines. Meanwhile, United Airlines have been grounded for over six weeks by a dispute with the machinists' union. Even if there are no dramatic breaks in the guidelines this year, labour compensation increases are likely to stay in the region of 9% p.a.

33. Consumer prices rose by 1½% in March, taking the quarterly rate to the region of 12% p.a. and the rate compared with a year earlier above 10% for the first time since 1974/75. In March, 1973 consumer prices had been less than 7% above those of a year earlier. Much of the acceleration in the index can be attributed to food, fuel and costs of house purchase but there are signs

9
RESTRICTED

/FROM

RESTRICTED

from the producer (or wholesale) price index that there are significant rises in processed goods that have yet to be passed through to the consumers. At the finished goods stage, prices rose by 1.3% during April having increased at an annual rate of 14% in the first quarter. At the crude goods stage prices rose at over 20% p.a. in the six months to March 1979 although there was a fall of 0.4% in April.

ECONOMIC OUTLOOK

34. Beyond the next few months, the outlook for the economy is very uncertain. The consensus amongst economic forecasters, and apparently also in parts of the Administration, is that there will probably be a decline in activity rates for at least one or two quarters before the economy starts a very slow recovery in 1980. There is, however, a fair measure of support for the view that the economy will remain reasonably strong for the remainder of this year (although growing at a significantly slower rate than in 1978) and will then dip into a perhaps severe recession during 1980. This prospect is normally thought to be conditional on a continuation this year of high rates of inflation and a monetary policy forced eventually into producing restrictively high rates of interest.

35. Because of the strong growth of the economy through 1978 and the maintenance of the relatively high level of activity in the first quarter of 1979, GNP will show a growth rate between 1978 and 1979 of over 2% even if there is no growth from now on. The Administration are still officially projecting an increase of about 3½% between the years, while most economic analysts who do not see a recession developing in 1979 are projecting a growth rate of just over 2½%. Consumer prices are expected to rise by about 9% through 1979, with some commentators foreseeing the possibility that the inflation rate will not in fact dip below 10%.

36. One brighter aspect of recent developments is the fast improvement in the trade account and the renewed health of the dollar. It is however not certain how long these circumstances will continue. The relatively high rates of inflation currently being experienced in the US compared with most of its competitors in the developed world suggest that a significant proportion of the competitiveness which was recovered during 1978 is being eroded. Although the relatively slower growth now expected for the US this year and next will help the trade position, these developments suggest that overall the improvement in the current account will probably be short-lived so that renewed pressure may be felt on the dollar.

POLICY PROSPECTS

37. Congress is currently completing work on the first Budget Resolution for fiscal 1980 which starts this October. The Resolution is not at this stage binding on Congress but provides normally a good indication of the direction in which fiscal policy will be determined. The Senate has proposed a Federal deficit of \$29 billion on the assumption of a somewhat weaker economy than the Administration specified when originally recommending the same target deficit. The House on the other hand have opted

for a target of \$21 billion but on the basis of economic assumptions which themselves reduce the projected deficit by \$10 billion. The situation is further complicated by latest calculations e.g. of tax yield being made by the Administration (but not timely enough to be processed into the Congressional Resolution) which suggest that even the House estimates could over-state the likely deficit under the policies currently being debated. A conference committee is now charged with reconciling the two sets of proposals to produce a "concurrent" Resolution for adoption by both Houses.

38. Despite these doubts about the basis on which the forecasts ought to be made, the mood of Congress is fairly clear. A strict rein will be kept on projected expenditure programmes and at the moment there is no support for any tax cuts. This policy has the full support of the Administration and there do not appear to be signs of any serious consideration being given to possible changes in fiscal policy should the economy in fact turn down as most people are predicting. This means that there is considerable uncertainty about how fiscal policy might actually develop during the election year of 1980. It is possible for Congress to revise its budget Resolution at any time during the financial year and the possibility of a change in direction, precipitated by electoral concerns about unemployment and the rise in tax burden on middle-income earners, cannot be ruled out. The prospect of achieving a balanced Federal budget in 1981 seems, however, to be conditional both on a strong economy and on no large changes in tax rates from present law being permitted.

39. The major tax measures currently under consideration by Congress are associated with the President's efforts to clawback part of the expected windfall gains to the oil companies which would follow his decision to move towards decontrol of oil prices. The regional and sectoral conflicts which characterised Congressional consideration of the President's energy programme in 1977 and 1978 are again of vital importance.

40. With very little scope for further fiscal changes within the current year and some evidence that the state of liquidity in the corporate sector might be excessive, there has been a tendency in the Administration to think of monetary policy as providing the appropriate instrument for economic management at the present time. The Federal Reserve Board, on the other hand, have been less certain that the tightening in monetary policy which they had already instituted had not already gone far enough to bring about a serious slowdown in the economy this year. As data on the monetary side and for the economy at large become more coherent, there could be a rather firmer decision by the Fed on whether to proceed with another round of monetary tightening.

41. Most of the components of the Administration's anti-inflation programme are still in place despite some bending of the rules to allow a settlement in the Teamsters dispute and the loss in Congress of the Real Wage Insurance Programme. However, there is considerable scepticism about the effectiveness of the prices standards and little prospect, because of cost pressures already in the pipeline, that price inflation can be measurably reduced. One aspect currently being considered is whether Federal regulations affecting industry can be eased, for a short period at least, in order to mitigate some of the costs they would otherwise impose.

Expenditure on GNP (quarterly data)
 (1972 prices \$5 as annual rate)

	1979(1)	% pa change over	
		last qtr	same qtr yr earlier
GNP	1417.3	0.7	4.7
Personal Consumption	915.7	1.7	4.8
durables	150.1	0	8.9
nondurables	347.1	-1.6	4.1
services	418.5	5.3	4.0
Business fixed investment	145.9	2.8	9.0
Housing investment	58.1	-13.8	-2.4
Change in business inventories	11.8	8.2 (A)	12.3 (A)
Govt purchases of goods & services	277.0	-3.4	1.8
Federal	102.1	-1.6	0.9
State & Local	174.9	-4.4	2.4
Net exports of goods & services	8.9	10.3 (A)	2.9 (A)
Exports	112.4	2.5	13.4
Imports	103.4	7.7	7.5
Price deflator (1972=100)	159.9	8.7	8.7
GNP (current prices)	2265.6	9.5	13.7
Net exports (current prices)	-10.3	-7.6 (A)	-24.1 (A)

Monthly indicators

	Month	% pa change over			
		1 mth earlier	3 mths earlier	year earlier	
Industrial production	Mar	152.2	10.0	3.5	8.0
Capacity utilisation mfg	Mar	86.3	5.7	0	4.4
Retail Sales (\$b current prices)	Apr	72.2	5.9	7.8	10.8
Car Sales (m units pa)	Apr	11.1	-76.3	5.5	-10.9
Housing Starts (m units pa)	Mar	1.8	2135.3	-44.1	-10.8
Merchandise exports (\$b)	Mar	14.5	125.1	40.1	29.6
Merchandise imports (\$b)	Mar	15.3	45.2	6.6	9.1
Civilian employment (Hsehold Eqv)	Apr	96.2	-8.0	-0.5	2.6
Unemployment Rate (%)	Apr	5.8	5.7(A)	5.8(A)	6.0(A)
Consumer Price Index (1) (2)	Mar	209.1	12.7	13.0	10.2
Producer Price Index (3)					
finished products	Apr	211.2	11.4	12.1	10.3
all commodities	Apr	229.7			11.3
Average hourly earnings (pnf)	Apr	6.0	0	4.1	7.7
Average hourly earnings (pnf adj)	Apr	226.6	7.1	7.0	7.8
Composite indices					
12 leading indicators	Mar	142.3	-5.7	-4.9	1.4
4 coincident indicators defl	Mar	145.5	6.8	-0.5	6.3
6 lagging indicators	Mar	158.8	-3.7	8.0	15.7
Inventory levels (\$b cur prices)	Apr	\$392.3b(A)	\$387.4b(A)	\$379.4b(A)	\$349.2b(A)

(1) All urban consumers

(2) % changes are seasonally adjusted; levels are not seasonally adjusted

(A) Implies actual value in the period specified NOT percentage change.

RESTRICTED

3 Monetary indicators

	Latest Month	% change at annual rate over previous			
		4 wks	13 wks	52 wks	
Federal reserve credit outstanding \$b sa ⁽¹⁾	Apr	127.5	14.1	-5.3	9.4
Monetary base \$b ⁽¹⁾	Apr	144.8	6.9	4.5	8.3
M1 \$b	Apr	364.1	18.4	4.7	4.7
M2 \$b	Apr	889.8	14.5	6.7	7.2
Total bank reserves ⁽¹⁾ \$b	Apr	40.6	-4.6	-6.9	10.1
Consumer instalment credit	Mar	278.3	11.6	5.0	19.0
Commercial & industrial loans by large banks	NOT AVAILABLE				
	Latest Month	Previous Month	3 mths Previous	Year Previous	
Commercial bank prime rate ⁽¹⁾	Apr	11.75	11.75	11.75	8.25
3 mth Treasury bills	Apr	9.47	9.49	9.35	6.29
Corporate Aaa bonds	Apr	9.38	9.36	9.26	8.56
3 mth CD rate	Apr	10.07	10.15	10.46	7.01
US Govt bond rate (20-yr)	Apr	9.10	9.09	8.98	8.32
Federal Funds rate	Apr	9.98	10.09	10.05	6.85

(1) Average of latest 4 weeks

FINANCIAL DIST:

NAD