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USA

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Prime Minister

(Summary only)

PNS. 11/6

MONTHLY ECONOMIC REPORT FOR THE UNITED STATES
SUMMARY

1. There is now firmer evidence that the US economy is entering a sustained period of slower growth. The growth rate of GNP for the first quarter is estimated to have been only 0.4% p.a. and output probably declined during April. Special factors, such as unusually severe weather conditions, have been partly responsible for the recent poor performance, but real incomes have been so severely squeezed by the recent high rate of inflation that they seem unlikely to be able to support any significant growth in personal consumption this year. The housing sector has already begun to decline.

2. Retail sales increased only marginally in April in money terms. So far this year they have probably declined in real terms by over 3%. Industrial production, which was particularly heavily affected by the effect of the Teamsters' dispute on the automobile industry, fell by 1% in April and total hours worked in the economy failed in April and May to maintain the steady expansion of previous months. Unemployment has stayed at roughly 5.8% of the labour force since last August.

3. There is little good news on inflation. Consumer prices rose by 1.1% in April, taking the average annual rate of increase so far this year to roughly 13%. Although there has been some moderation in price increases recently at the crude goods stage, the energy situation threatens to delay any further improvement and prices of wholesale finished goods have continued to rise at well over 12% p.a. These rates of increase have not so far been matched by wages. Average earnings increased by only 7½% in the year to May, compared with over 8% the year before and a short period in excess of 8½% p.a. Some of this small deceleration was evident before the most recent phase of the anti-inflation programme was announced in October, but the fact that few settlements have recently been made at rates approaching the current rate of inflation may be taken as a sign that the wage guidelines have had at least a temporary effect on earnings. However, their continued effectiveness has been put in further doubt by the probable psychological impact of the recent Court ruling that use of Federal procurement sanctions to support the guidelines is illegal.

4. The monetary aggregates have slowed down in recent weeks since the

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sudden strong burst recorded in April, which followed a long period of zero growth. There are still wide differences of opinion about the implications of these movements in the monetary indicators, but the Federal Reserve Board seem to be holding to a policy of keeping interest rates fairly steady. The key short-term interest rate - the Federal Funds rate - remained at about 10¼% throughout May. Much of the change in behaviour of the monetary aggregates can be explained by moves towards deregultion of the financial system. The momentum of these changes has been recently maintained by allowing better terms to small savers and endorsement in principle by the Administration of proposals designed to allow interest rates on all deposits to adjust, in time, to market levels.

5. The merchandise trade deficit widened in April to $2.2 billion, but overall the performance of manufactured trade so far this year has nevertheless been very encouraging. The Administration expect the current account deficit for 1979 to fall to about $10 billion compared with $16 billion in 1978. This forecast assumes that the fuel import bill will rise by about 25% between the years, but for each additional increase in the price of oil of 5% the trade balance is expected to worsen by over $2½ billion in a full year. The dollar fell slightly on news of the worse-than-expected trade deficit but it is still over 5% above the level of the beginning of the year in effective (trade-weighted) terms.

6. With the continuing uncertainty about the depth of the slowdown in the economy through the remainder of this year and into 1980, fiscal and monetary policies are very much in the balance. The energy issue seems likely to be crucial. The sharp increases in oil prices have worsened the already worrying outlook for inflation and there is little scope for the effect of these increases on the level of domestic demand to be offset by fiscal action. The Federal Reserve Board has shown a reluctance to tighten monetary policy further in case it should precipitate a recession, but it seems equally unwilling to lower interest rates because of inflationary risks.

7. Congress has now completed work on the First Budget Resolution for fiscal year 1980, which starts this October, and the targetted deficit of $23 billion is even lower than the President proposed in January. It allows for less real growth in Federal expenditure and does not include the small tax cut which the President intended to give through his Real Wage Insurance scheme. In fiscal 1981, both the Administration and Congress are aiming for a balanced budget target. No thought is being given to ways in which a stimulus might be given to the economy in this period, although the position may change if unemployment starts to rise sharply.

/Principal

Principal Monthly Indicators

		% change (annual rate)		
		On Previous Month	Last 3 months on previous 3 months	Last 3 months on 3 mths yr earlier
Industrial Production	Apr	-11.2	1.9	7.2
Retail Sales (current prices)	Apr	5.9	9.5	11.9
Consumer Prices	Apr	14.0	12.7	10.2
Average Earnings (adjusted)*	May	1.6	7.2	7.9
Index of Leading Indicators	Apr	-33.5	-4.4	0.8
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 (%)	May	5.8%	5.8%	6.1%
Merchandise Trade Balance	Apr	-$2.2 b.	-$1.4 b	-$3.4 b
Interest Rate on CD's	May	10.2 %	10.1 %	7.1 %

Quarterly National Expenditure Data

(1979Q1)

	% change (annual rate)	
	On 1 qtr earlier	On 1 year earlier
GNP	0.4	4.6
Consumers' Expenditure	0.3	4.5
Business Fixed Investment	5.3	9.7
Government Expenditure	-4.2	1.6
Exports of goods and services	11.2	15.7
Imports of goods and services	6.0	7.1

Balance of Payments

(1978Q4)

	Latest quarter	Previous quarter
Current Account ($ billion)	-1.3	-3.7

Exchange Rate

		Actual % Change	
		On Previous Month	On Year Earlier
Dollar effective rate	Apr	1.2	-3.9

* Average hourly earnings of production or nonsupervisory workers in the private nonfarm economy adjusted for interindustry employment shifts and for overtime in manufacturing.

8. GNP is now estimated to have risen at an annual rate of only 0.4% in the first quarter of the year. Final domestic demand fell in the period and only a slight increase in the rate of inventory accumulation and an improving trade balance produced the positive overall growth rate. It is clear that unusually severe weather conditions contributed to the slowdown in the quarter, with construction in the residential, business and local government sectors particularly severely hit, but personal consumption was also weak throughout the quarter and some of the build-up of inventories may have been an involuntary reflection of this.

9. Industrial production increased at an annual rate of 4½% in the first quarter according to Federal Reserve Board data, though this figure does not seem to be consistent with the expenditure-based estimates of activity. Some compensating statistical adjustment in April or May was therefore to be expected, but the extent of the decline (1%) in April seems mainly to have been due to special factors operating during the month. The sharp decline in the output of the automobile industry alone contributed ½% to the measured drop and a significant proportion of this can probably be attributed to the effect of the Teamsters' dispute which prevented components being delivered to the assembly lines There is however evidence to suggest that the automobile manufacturers were not unhappy to interrupt their production because of inventory problems. A further difficulty with the industrial production index was its reliance on employment data which were seriously affected by the timing of the survey in April which coincided both with religious holidays and the Teamsters' dispute.

10. Even allowing for the fall in April, the growth of industrial production in this cycle has been impressively strong. The output of business equipment rose by 7.2% in the year to April and of total industrial output by 5.1%. Capacity utilisation in manufacturing in March was 86.1% on the FRB index compared with a peak of 88% in the last boom period of 1973.

11. The slowdown in consumers expenditure reflects in large part the effect of an accelerating inflation rate on consumer purchasing power. Even after a sizeable tax cut in the first quarter of the year, real personal disposable income grew at an annual rate of under 3% compared with increases of 4.3% in 1978. The tax cut was effectively worth about 1% of income in the first quarter and, since it was implemented, real personal disposable income has declined significantly. The savings ratio is estimated to have risen to 5.4% in the first quarter compared with an extremely low figure of 4.8% at the end of 1978, but is still historically very low.

12. There was considerable concern towards the end of 1978 about the growing reliance on consumer credit and fears that households would become over-extended. Consumer credit outstanding rose by over 25% during 1978. This increased credit nevertheless seemed to be concentrated amongst households with two earners and few dependents and there have been no signs of, for instance, increases in delinquency rates or significant extensions in repayment periods which might indicate severe pressure on household finances. The rate of expansion of consumer credit seems to have slowed somewhat in the first few months of this year. Similarly, the apparent use of mortgage credit to finance expenditure on durable goods is less

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likely to be a problem now that housing finance is becoming less easy to obtain.

13. Retail sales increased marginally in April to a level about 11% above that of a year earlier in money terms, at a time when prices had been increasing at roughly the same rate (depending on which price indicator is being used). There has been very little change in nominal retail sales since the end of 1978. However, this was the culmination of a very brisk period and itself followed a period of six months in the middle of the year when there were no indications from the data of any increases at all. Sales of domestic cars fell very heavily in the first half of May, although the importance of this may have been exaggerated in many accounts because the reference level normally specified was the comparable period for 1978, when sales were exceptionally strong, and the impact of scares on the energy side have been to raise the attractiveness of the smaller, imported cars and not necessarily so far on the total volume of purchases being made.

14. The effect of the increases in oil prices and the shortage of gasoline on consumers expenditure is difficult to assess. Apart from the loss in purchasing power which the increased prices undoubtedly imply and the incentive to switch purchases of cars towards more fuel-efficient models, there may be some apparently perverse behaviour because of an increase in general inflationary expectations and an observable tendency to advance purchases of new cars in order to benefit from their apparently higher efficiency. By analogy with last winter's experience of the effect of disruptions to travel, one effect may however be simply to lower total expenditure on all goods temporarily.

15. The strong recovery in <u>housing starts</u> which characterised the period immediately following the severe winter of 1978 has not been repeated this year. Although increasing somewhat from the very low level of 1.4 million per annum in February, the March and April figures do begin to provide some confirmation that the housing sector has already begun a significant decline. The March level of 1¾ million per annum starts was nearly 15% below the average of 1978 and most observers expect the average for the rest of this year to be even lower than this. Activity in the housing sector is estimated to have fallen at an annual rate of over 16% in the first quarter and it seems likely that the total fall between 1978 and 1979 could be in the region of 10%. There was a net outflow of money from savings and loan institutions in April, the first time deposits have failed to keep up with net advances since monetary policy began to be tightened last year.

16. The strength of <u>business fixed investment</u> in the last six months has been a matter of some surprise. Expenditure on equipment rose at an annual rate of nearly 12% in the first quarter of 1979 and 9% at the end of 1978, compared with a rise of less than 7% in 1978 as a whole. Although the dramatic fall of over 13% in new orders for non-defence capital goods in April was the steepest monthly decline since 1971, the series grew very strongly in previous months and individual figures are frequently subject to large revision. There are no signs yet of manufacturers beginning to cancel recent orders and informal reports suggest that investment plans are staying strong in spite of the growing indications of the slowdown in the economy and more reports that this slowdown could be extended for a significant period. First

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reports suggest that the next survey of investment intentions conducted by BEA should confirm a strong first quarter and point to steady growth through the year.

17. Manufacturing inventories rose by 1.6% in April to $208.7 billion. This was in line with the behaviour of inventories in the first part of the year where some continued build-up in stock levels in real terms was evident. There has been considerable concern about the possibility tht excess inventory levels, encouraged by good business liquidity and precautionary buying ahead of expected price increases, could lead to a large adjustment when the slowdown gathers pace, but the overall ratio of both manufacturing and trade inventories to final sales is still low in historical terms. There are some industries where excesses are certainly apparent, the most obvious being in the automobile sector other than General Motors, but these are so far leading only to moderate changes in production schedules.

18. The Federal Budget went into surplus in April, registering a positive balance of $11½ billion, largely because of the annual surge of income tax receipts. So far this fiscal year the deficit has accumulated to $33 billion, broadly the same as officially forecast for the whole of the financial year. Nevertheless, because of the recent unexpected buoyancy of tax receipts, it looks as if the Federal budget will register some further surpluses and the deficit for the whole fiscal year may be no more than $25 billion. On a national income basis, the Federal deficit has declined steadily since the beginning of 1978, from an annual rate of over $50 billion to only $18 billion in the first quarter of 1979.

EXTERNAL ACCOUNT

19. The merchandise trade deficit widened sharply in April to nearly $2.2 billion. Some worsening from the surprisingly low deficits of February and March was expected, but the size of the monthly change gave rise to some pressure on the dollar. Exports declined across the board from their high March level, but they were still nearly 20% above the level of a year earlier. On the imports side, most of the increase between March and April can be explained by higher volumes of imports of petroleum and products and of imported cars. The latter rose in value terms by nearly $0.4 billion between March and April, perhaps partially reflecting restocking as dealers accommodated to the increase in demand for more fuel-efficient vehicles. The US trade deficit with Japan widened to over $1 billion in April, back to last year's levels.

20. The Administration has recently released some detailed forecasts for the trade and current account positions in 1979. They foresee an improvement in the current account balance from a deficit of just over $16 billion in 1978 to between $10 and $11 billion in 1979. The trade deficit, measured on a balance of payments basis rather than the census definition used in the monthly release, is expected to decline from $34 billion in 1978 to $27 billion in 1979 (although Commerce Assistant Secretary Weil has suggested the improvement may in fact be slightly smaller than this). Imports of petroleum products are expected to increase by about 25% in value terms, to $52 billion, but the oil price assumptions on which this is based (a 25% average price increase between the years) may be optimistic. The major offset comes through a sharp rise in the value of non-agricultural exports from $112 billion to over $140 billion. The

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latter forecast is based on an increase in volume of over 12%, which is historically an exceptionally strong performance, but which is at the lower end of the range of estimates available to the Administration. There is clearly a wish not to present over-optimistic forecasts for the current account because of the possibility of much higher fuel imports resulting from further increases in oil prices and concern about creating further pressure on the dollar.

21. Ratification of the trade pact between the US and the People's Republic of China has been complicated by the issue of unimpeded textile imports from China. The US has now imposed quotas on five critical categories of textiles. The question of protection for other vulnerable industries from elsewhere in the world is also of crucial importance in advance of the Administration's plans to obtain accord from Congress for the main elements of the Multilateral Trade Negotiations recently completed in Geneva. The House has approved extra funds for "adjustment assistance" to industries which are being significantly affected by import competition. At present, affected companies receive loans and technical aid to change to other products and employees receive training and larger unemployment compensation. The new funds would extend benefits to workers who manufacture components which are used in products which have been hit by import competition.

22. The dollar has stayed generally firm, apart from worries caused by the increase in the trade deficit. Indicators of a slowing in the economy have generally proved beneficial. The dollar ended May 23% higher against the Yen than the trough reached last October and 9% against the German deutschemark. So far this year it has appreciated 5% in effective (trade-weighted) terms against other major currencies. Nevertheless, the price of an ounce of gold has risen in dollar terms to 280 compared with about 220 at the beginning of the year.

23. The greater strength of the dollar in recent months has allowed the Federal Reserve Board and the Treasury to repay all their outstanding "swap" agreements and to add about a billion dollars to their foreign exchange reserves. In all, about $7 billion of foreign exchange was obtained during the February-to-April quarter, compared with sales of over $9 billion in the previous two quarters.

FINANCIAL MARKETS

24. The rapid spurt in the growth of M1 which caused considerable concern in April has given way to a decline, according to the weekly figures, through the month of May. The series has now dropped to the floor of the long-run target range set for the one-year period from the fourth quarter of 1978. It is clear, however, that data for M1 are particularly vulnerable to incorrect seasonal adjustment on top of the other distorting factors associated with regulatory changes which have made the last eight months' figures exceedingly difficult to interpret. M2 has been subject to similar seasonal problems and has also been affected by some of the technical changes, but it continued to increase steadily through May.

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25. Because of these uncertainties, the Federal Reserve do not seem to be critically affected by the measured movements in the money supply in determining interest-rate policy. The recently-released minutes of the April meetings of the Federal Open Market Committee have been interpreted as providing evidence that the action to raise interest rates during the month was directly dictated by changes in the monetary aggregates, but the fact that a special session was needed to endorse the interest-rate change signifies that these changes on their own might not have been sufficient. Signs of general ease in monetary conditions and further adverse data on prices were probably crucial factors. The FOMC have been divided for much of the year on the direction which policy should take and discussion has focussed more on the general economic and financial situation than on the aggregates themselves.

26. The Fed has kept its key operating rate, the Federal Funds rate, at about 10½% since the end of April. This has opened up an unusually large differential for member banks between market rates on their conventional sources of funds and the current discount rate of 9½% with a consequential increase in use of the discount window. This is expected to be countered soon by a small increase in the discount rate.

27. The steep rise in short-term interest rates during 1978 led to the emergence of very large differentials between market rates and those payable to small savers at commercial banks and thrift institutions. Interest rates on small time and savings deposits are still subject to Regulation Q ceilings which, for example, limit rates on passbook savings at the thrifts to 5¼%. The introduction of the six-monthly money market certificates last June eased the situation considerably, but the minimum denomination of these is $10,000. Small increases in the ceilings have now been announced (¼% for passbook savings) and four-year certificates paying near to market rates are to be allowed. In a further move towards liberalisation of the regulations covering the terms which can be offered by financial institutions, the Administration has presented to Congress an outline of proposals to phase out all ceilings on interest rates, including those on checking accounts. Details of the proposals have however not yet been drafted.

28. The Federal Reserve Board has been operating with only five members since the death of StephenGardner last November and the resignation of Philip Jackson. The first of the Presidential nominees for the two Board vacancies, a black Washington banker named Emmett Rice, is currently being vetted by the Senate Banking Committee and his appointment is expected to be confirmed shortly. The second nominee, Frederick Schulz, has a long history of involvement in the Florida State legislature and has strong ties with Carter aides and the Carter Presidential campaign. It is possible that his confirmation hearings, which have not yet been set in motion, may produce some difficulties for the Administration. If both appointments are confirmed, four of the seven Governors will have been nominated by President Carter.

/LABOUR MARKETS.

LABOUR MARKETS

29. The confusing picture on employment and hours presented by April data has been slightly clarified by the figures for May. Although the timing of the April survey undoubtedly produced an exaggerated estimate of the fall in hours worked, average hours in May were still 1% below those in March and employment, as measured by both establishment and household surveys, was little changed. It therefore now appears increasingly likely that the slowdown in activity has begun, making a strong contrast with the rapid expansion of employment which has characterised the latter stages of this upturn. Even allowing for the slack figures in April and May, employment in May was over 3% above the level of a year earlier.

30. Unemployment remained at 5.8% of the labour force in May. There has been little change in the measured unemployment rate since last August, although in the previous year the rate had dropped dramatically from 7%. The fall in the overall rate was not however shared by all demographic groups. Black teenage unemployment is still well over 30%, little lower than it was in 1977.

31. Hourly earnings, as measured by the adjusted index for private non-farm employees, barely changed between April and May. In the year to May, earnings increased by only 7.6%. This represents a marginal decceleration from the previous year and, at a time when price increases have been accelerating, indicates a certain measure of success for the Administration's voluntary anti-inflation policy announced last October. There have not yet been any significant breaches of the guidelines, which call for increases in annual compensation averaging no more than 7%, but the rules have been bent significantly, particularly for the Teamsters. The Administration has not yet given its verdict on the settlement between United Airlines and its machinists, which ended a six-week stoppage of the airline. The terms of the settlement are clearly well above the quantative guidelines, but they are not formally binding because associated bargaining units obtained large increases before the policy came into effect.

32. The environment in which the dispute between the Union of Rubber Workers and Uniroyal Inc is taking place has been significantly changed by a recent court decision on the use of Federal procurement sanctions. The Rubber Workers were a party to the lawsuit, which successfully claimed that the President's denial of Government contracts to firms in violation of the guidelines has the effect of making the controls mandatory and thereby exceeds the President's current constitutional powers. The Administration has said that it intends to appeal the decision, but the employers' side in the Rubber Work ers' dispute has lost one of its major arguments and the psychological effect of the loss, at least temporarily, of the only real weapon in the anti-inflation programme may be severe.

/ECONOMIC

ECONOMIC PROSPECTS

33. All the signs now point to a sluggish performance for the US economy for the rest of this year and perhaps early into 1980. The crucial questions are whether the economy will slip into a deep recession rather than simply a period of slow growth and how long such an eventuality might last. The outcome on inflation which itself is crucially dependent on the energy situation and possible policy responses will probably be the crucial factors determining the outcome.

34. Much emphasis has been placed by economic analysts on the fact that the economy is apparently much better balanced than has been normal at comparable stages in previous cycles. There are few indications of excessive inventory levels, the housing sector is turning down in quite a smooth fashion, households do not seem to have overstretched their debt position and the trade balance is moving in a favourable direction. Business fixed investment has grown fairly modestly so that it does not seem likely that wide margins of spare capacity will emerge. These are factors which should prevent any recession from becoming too deep. However, the strains on personal income caused by accelerating inflation (and so far unmatched by earnings increases) are already leading to a slow-down in personal consumption expenditure. Without further falls in the savings ratio from its already historically extremely low level there is not much likelihood of significant growth in this area for the remainder of this year. With both personal consumption and housing weak, aggregate demand in the economy is unlikely to show much growth and unemployment can be expected to start rising again. Until inflation starts to ease or the housing sector revives, it is difficult to see any likely source of significant growth in the US economy. This is why the consensus now is that the economy will stay weak for at least a year from now and is unlikely to show any sizeable recovery before the end of 1980 without some additional stimulus, perhaps through tax cuts or significant easing of monetary policy.

35. On the important provisos that wage settlements do not re-accelerate strongly and the energy situation does not deteriorate further, it is possible that inflation rates will peak very shortly and could decline to rates of 8% p.a. by the beginning of 1980. However, real earnings have been so severely squeezed over recent months that most observers expect some catch-up in settlements starting later this year, which would then feed through onto the prices side. The weakening of final demand is expected to prevent this from becoming too serious a factor, but there are doubts about whether monetary policy has really been tight enough to exert a significant moderating influence.

36. The slowdown in the economy should however improve the trade balance, to add to the beneficial effects of the depreciation of the dollar in late 1977 and 1978. Nevertheless, the rise in oil prices and the loss of exports to Iran are expected to provide considerable offsets this year and, once the effects of depreciation have peaked, the current account may well begin to deteriorate again. Although Treasury Secretary Blumenthal has spoken of the current account deficit declining from $10 billion in 1979 to $6 billion at an annual rate at the beginning of 1980, a reversal can be expected to follow unless there is a further significant widening in the differential of growth rates between the US and the rest of the world or further improvements in competitiveness.

/POLICY

37. It has been widely accepted since the end of last summer that the economy needed to be slowed down in order to avoid capacity constraints and reduce inflationary pressures. The outlook for real activity described above is therefore one which would broadly be thought satisfactory by policy-makers in the Administration, Federal Reserve Board and Congress. However, there are as always differences in view about the seriousness of the risks on inflation. Concern about energy prices and supplies has reduced hopes that a deceleration of inflation might be achieved at the same time as a recession is avoided.

38. One important consequence of recent data confirming the slow-down in activity is that senior Administration officials have stopped worrying that the economy might be about to undergo a final excessive burst of growth and have apparently stopped pressuring the Fed to raise interest rates further. Their assessment of the likely course of the economy through the rest of this year now seems to be very similar to that of the Fed, which shows a generally weak economy that might be pushed into recession if monetary policy were to be squeezed too hard.

39 The desire to keep the economy running at a fairly low level of activity, together with pressure from all quarters for a balanced Federal budget, has led Congress to endorse the broad stance of the President's Budget proposals for fiscal year 1980, which starts this October. The First Budget Resolution calls for a target deficit of $23 billion in the year, to be achieved by limiting outlays to $532 billion and ensuring that revenues will exceed $509 billion. The expenditure level is the same as the President originally recommended but, because of more pessimistic assumptions on inflation and unemployment, it implies more stringent real cuts in controllable programmes than the President proposed. The only significant change in policy terms on the revenue side is the removal of the Administration's proposed scheme for Real Wage Insurance, the balance of extra revenue simply reflecting higher assumptions about inflation and average tax rates. Because of this uncertainty about estimating assumptions it is difficult to assess precisely whether this Budget, if it is finally passed into law, will represent a significant tightening of fiscal policy between the financial years. The Federal deficit in the current fiscal year may just turn out to be below the $23 billion total targetted for 1980, but it has benefitted from relatively low unemployment figures and some apparently over-buoyant tax receipts.

40. It has been the case in the previous three years of the current budgetary process that policy incorporated in the First Budget Resolution has been confirmed in the legally-binding Second Budget Resolution, which will not be passed until September. The expectation is that this will be true this year as well. However, several influential members of Congress, particularly Senator Muskie, the Chairman of the Senate Budget Committee, have made it clear that they may need to reassess their attitudes towards the Budget later on in the fiscal year if unemployment begins to rise significantly. There are also likely to be electoral pressures next year to provide some tax relief to middle-income earners who will have suffered a significant increase in their average tax burden because of inflation and who will be facing the prospect of sizeable increases in social security contributions in January 1981.

If tax relief were to be granted during 1980 it would mean that the possibility of obtaining a balanced Federal Budget in fiscal 1981 would be extremely remote. However, a severe slowdown in the economy would probably anyway swell the deficit significantly so that when the President presents his 1981 Budget to Congress in January 1980, the prospect of achieving a balanced budget by holding firm on tax cuts may prove impossible. The President's recent restatement of his commitment to balance the Federal Budget in 1981 assumed that the economy would not go into a recession.

These considerations about macro-economic policy may nevertheless be swamped by measures to deal with the energy situation. The President's proposals to enact a standby gasoline rationing plan have already been rejected by Congress and only limited conservation measures have so far been approved. The President's decision to phase out controls on oil prices has proved to be very unpopular with the Democratic Party in Congress, although there has as yet been no serious challenge to his authority in this area. It is widely recognised that more measures are needed but political problems considerably limit the Administration's scope for action. There is, however, less reluctance now to rule out possible measures solely because of their direct consequences for domestic inflation.

The Administration's voluntary anti-inflation programme has been dealt a severe blow by the recent Court decision declaring unconstitutional the President's use of sanctions in the granting of Federal procurement contracts. An appeal is being lodged by the Administration, but public confidence in the effectiveness of the programme seems at present to be very low. Although there is apparently a large measure of public support for making the controls legally enforceable, the President does not at present have any statutory powers for implementing such a move and the Administration has consistently ruled out the use of mandatory controls.

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A Expenditure on GNP (quarterly data)
(1972 prices $b sa annual rate)

	1979(1)	% pa change over: last qtr	% pa change over: same qtr yr earlier
GNP	1416.3	0.4	4.6
Personal Consumption	912.4	0.3	4.5
durables	148.6	-3.9	7.8
nondurables	345.4	-3.5	3.6
services	418.4	5.2	4.0
Business fixed investment	146.8	5.3	9.7
Housing investment	57.7	-16.2	-3.0
Change in business inventories	11.2	8.2(A)	12.3(A)
Govt purchases of goods & services	276.4	-4.2	1.6
Federal	102.0	-1.9	0.8
State & Local	174.5	-5.3	2.2
Net exports of goods & services	11.7	10.2(A)	2.9(A)
Exports	114.7	11.2	15.7
Imports	103.0	6.0	7.1
Price deflator (1972=100)	159.9	8.8	8.7
GNP (current prices)	2264.8	9.3	13.7
Net exports (current prices)	-5.3	-7.6(A)	-24.1(A)

B Monthly indicators

	Month		% pa change over: 1 mth earlier	% pa change over: 3 mths earlier	% pa change over: year earlier
Industrial production	Apr	150.1	-11.2	-1.6	5.1
Capacity utilisation mfg	Apr	84.9	-15.5	-5.0	1.4
Retail Sales ($b current prices)	Apr	72.2	5.9	7.8	10.8
Car Sales (m units pa)	Apr	11.1	-76.3	5.5	-10.9
Housing Starts (m units pa)	Apr	1.7	-22.2	17.7	-19.6
Merchandise exports ($b)	Apr	13.9	-38.2	24.9	19.4
Merchandise imports ($b)	Apr	16.0	79.5	-4.7	10.7
Civilian employment (Hsehld Svy)	May	96.3	1.8	-1.4	2.3
Unemployment Rate (%)	May	5.8	5.8(A)	5.7(A)	6.1(A)
Consumer Price Index (1) (2)	Apr	211.5	14.0	13.9	10.4
Producer Price Index (2)					
finished products	Apr	211.2	11.4	12.1	10.3
all commodities	Apr	229.7			11.3
Average hourly earnings (pnf)	May	6.1	10.4	4.7	8.0
Average hourly earnings (pnf adj)	May	227.1	1.6	5.8	7.6
Composite indices					
12 leading indicators	Apr	138.7	-33.5	-12.0	-2.0
4 coincident indicators defl	Apr	145.2	-10.1	0.6	4.2
6 lagging indicators	Apr	161.4	18.8	10.6	17.1
Inventory levels ($b cur prices)	Apr	$392.3b	$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.

/C Monetary

C Monetary indicators

	Latest Month		% change at annual rate over previous 4 wks	13 wks	52 wks
Federal reserve credit outstanding $b sa[1]	May	128.5	10.2	8.1	7.6
Monetary base $b[1]	May	145.5	6.0	4.8	7.9
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	May	40.4	-5.2	-3.5	8.4
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]	May	11.75	11.75	11.75	8.25
3 mth Treasury bills	May	9.62	9.47	9.35	6.43
Corporate Aaa bonds	May	9.50	9.38	9.30	8.69
3 mth CD rate	May	10.17	10.07	10.18	7.43
US Govt bond rate (20-yr)	May	9.21	9.10	9.04	8.46
Federal Funds rate	May	10.24	9.98	10.06	7.36

(1) Average of latest 4 weeks