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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

March 31, 1971

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**SUMMARY AND OUTLOOK**

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**Nonfinancial**

We are now estimating an increase of \$27.5 billion in current dollar GNP in the first quarter. This is \$1-1/2 billion below our projection of four weeks ago, reflecting a number of small downward revisions in categories of final sales. Available information on inventory investment is still very limited. Our current estimate is that real GNP increased at an annual rate of 6.5 per cent compared to about 7 per cent in our previous projection.

Apart from housing, recent economic information has not been on the ebullient side. Most of the unusually large expansion in GNP in the first quarter arose from the special and temporary circumstances in autos and steel. Auto assemblies in March remained at the advanced February annual rate of 9 million units; but the period of rebuilding of dealer stocks appears to be at or near an end with second quarter assemblies now scheduled to be cut to an 8.2 million rate, close to the first quarter rate of sales of domestic units.

Retail sales apart from autos are estimated to have risen moderately in March, but for the first quarter as a whole were little changed from the fourth quarter. New orders for durable goods changed in February but orders for capital equipment, which have been rising irregularly for some time, were off. Sharply revised manufacturers'

inventory book value data for January and preliminary data for February indicate little net change over these two months, following moderate increases in the second half of 1970, and the stock-sales ratios has declined to about the pre-strike level. Unemployment compensation data for March suggest continued weakness in the demand for labor. The rise in the consumer price index slowed considerably in January and February, with sharp declines in mortgage interest rates on important influence.

Outlook. We are now projecting an increase of \$17 billion in current dollar GNP in the second quarter, with an increase of 2.7 per cent in real GNP, annual rate. The fall-off from the first quarter reflects the ending of the temporary auto recovery boost and the anticipated tapering of the upsurge in housing activity. The second quarter figures are below our previous projections, however, mainly because of a cut-back in the projected increase of consumer spending. The retroactive increase in social security benefits as enacted will provide some \$5 billion (annual rate) less than we had assumed in personal income and is being paid out in late June rather than in May. On the other hand, a moderate increase in business spending on fixed capital is now projected, in line with the latest Commerce-SEC survey.

The third quarter projections of both current dollar and real GNP have been raised appreciably. The retroactive increase in social security benefits, because of the lateness of the payment, should have a more expansive effect on third quarter consumer spending than assumed

earlier. Moreover, the projection now incorporates an assumed substantial increase in military pay scales, effective July 1, in a move towards establishment of a volunteer army. For the second half of the year-- still assuming a two-month steel strike ending around the end of September--we now project real GNP to increase at an annual rate of 4.3 per cent, compared to 3.7 per cent in the preceding Greenbook.

The unemployment rate is now expected to approach 6-1/2 per cent by mid-year, but to change little thereafter as expansion in employment about matches growth in the labor force. Continued sharp increases in labor compensation are expected to be offset to a greater extent than in recent years by productivity gains; the rise in the GNP deflator is still expected to slow to an annual rate of about 3.5 per cent in the fourth quarter.

#### Financial

Financial market sentiment changed notably during March, as evidence accumulated that economic recovery was less rapid and credit availability greater than many market participants had expected. A record March volume of over \$6 billion of public issues of corporate and tax-exempt bonds were sold at rapidly declining yields; and by the end of the month most of the previous increase in long-term rates had been erased, with yields on 10-year Treasury issues falling to the lowest level in 3 years. On the other hand, short-term rates--with the exception of the prime and CD offering rates--increased somewhat on balance in March partly in reflection of a new round of Treasury bill financing and somewhat firmer money market conditions.

Further cuts in rates on both loans and time and savings deposits at commercial banks occurred in March as deposit inflows continued large and loan growth slowed. Consumers, in particular, continued to acquire time and savings deposits at a near record pace and--with the exception of U.S. Government deposits--other deposit categories also rose sharply. With most sectors of the economy still sluggish and with increased repayments of bank loans from the proceeds of the enlarged volume of capital market financing, business loans probably declined in March (after seasonal adjustment). In these circumstances, banks placed most of their new funds in the securities markets.

Nonbank depository institutions also maintained an unusually rapid pace of deposit growth, despite reports of widening cuts in offering rates. While their mortgage closings and commitments apparently continued to expand, the S and L's again increased their already large holdings of liquid assets. Savings banks, on the other hand, with their greater asset diversification, have been able to use their large inflows to acquire a significant volume of corporate securities.

Outlook. Growth of business loans at commercial banks over the early spring will probably continue to be limited by loan repayments from the proceeds of capital market financing. And the continuing rate advantage of commercial paper over even the newly lowered prime rate should also tend to divert credit demands from banks. If these substi-

tutions for business financing at banks do remain significant, the prime rate may once again come under downward pressure. In any event, cuts in the rates on consumer-type time and savings deposits are likely to spread as flows to banks from this source remain large and banks' desire for funds is dampened by sluggish net loan demand. In such an environment, banks can be expected to continue to repay Euro-dollar borrowings, to remain unaggressive in competing for short-term CD funds, to continue a high rate of security acquisitions, and to increase their pace of construction and real estate lending.

The upward pressure on short-term interest rates arising from the recent bunching of sizable new Treasury bill offerings seems unlikely to persist. The Treasury is still expecting to repay some debt on balance over the second quarter, although in considerably less than seasonal amounts, and may elect to pre-refund some shorter maturities under its new leeway to borrow outside the 4-1/4 per cent interest rate ceiling. The housing agencies are expected to retire substantial amounts of maturing debt this spring. Finally, finance companies, like banks, will probably continue to tap money markets at a reduced rate, while corporations and State and local governments can be expected to continue placing much of the proceeds of their capital markets offerings temporarily in short-term financial assets.



In long-term markets, although most recently the bond market rally has stalled, further net yield declines seem likely between now and mid-year. Corporate bond volume, while still very large by historical standards, is expected to moderate in the second quarter since many large corporations apparently have completed their funding operations. The large volume of available funds at thrift institutions and banks is likely to keep downward pressure on mortgage rates, although the current seasonal pickup in demand for mortgage funds may tend to moderate the extent of decline. Finally, with banks likely to have a continued excess of funds available for investment, and with a somewhat reduced forward calendar of issues, tax-exempt yields may well decline further.

International developments and the balance of payments

We have again revised downward substantially our projection of the balance on goods and services for the year 1971, to about \$2-1/2 billion compared with \$3.7 billion in 1970. The recovery in the trade balance in February was disappointingly small, and recent data suggest that import demand in leading foreign countries may be weakening more than we earlier expected. The U.S. trade surplus was at an annual rate of only \$1/2 billion in January-February, and is now projected to decline somewhat further during the year.

The over-all payments deficit, however measured, reached record levels in the first quarter: about \$2-1/2 billion on the liquidity basis and nearly \$5 billion on the official settlements basis (not annual rates).

In addition to the deterioration on current transactions, there must have been a very large increase in net capital outflows.

Probably net outflows of corporate funds have rebounded to the very high levels of early 1970. Foreign plant and equipment outlays of affiliates of U.S. corporations are expected to increase 16 per cent this year, after a rise of 22 per cent in 1970; with U.S. credit conditions easing, corporations are likely to use as much U.S.-source financing as the restraint programs will allow. Repayments of Euro-dollar borrowings by U.S. banks continued large through March. Meanwhile, net inflows of foreign funds into U.S. equities dwindled to almost zero in February. Finally, the size of the deficit implies that net outflows of short-term funds not covered by restraint programs have risen, presumably in response to the large international interest rate differentials recently prevailing. These differentials are expected to diminish as a result of rate reductions in Europe; central bank discount rates were reduced by 1/2 per cent in Belgium effective March 25 and by 1 per cent in Germany effective April 1. But differentials in market rates could remain sizable for several more months at least.

March 30, 1971

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SELECTED DOMESTIC NONFINANCIAL DATA  
(Seasonally adjusted)

	1970		1971		Per Cent Change* From		
	Nov.	Dec.	Jan.	Feb.	1 mo. ago	3 mos. ago	Year ago
Civilian labor force (mil.)	83.5	83.6	83.9	83.4	-0.6	-0.1	1.4
Unemployment rate (%)	5.9	6.2	6.0	5.8	--	--	[4.2] <sup>4/</sup>
Insured unempl. rate (%)	4.4	4.0	3.7	3.8	--	--	[2.6] <sup>4/</sup>
Nonfarm employment, payroll (mil.)	70.1	70.3	70.6	70.5	-0.1	0.6	-0.9
Manufacturing	18.5	18.8	18.8	18.7	-0.4	1.1	-6.0
Nonmanufacturing	51.5	51.5	51.8	51.8	0.0	0.4	1.1
Industrial production (57-59=100)	161.5	164.4	165.4	164.8	-0.4	2.0	-3.3
Final products, total	159.4	163.1	163.7	163.0	-0.4	2.3	-4.1
Consumer goods	157.0	162.5	164.7	164.2	-0.3	4.6	1.1
Business equipment	177.8	177.9	174.9	174.0	-0.5	-2.1	-11.6
Materials	163.8	165.6	166.9	166.7	-0.1	1.8	-2.8
Capacity util. rate, mfg.	71.9	73.0	73.2	72.3	--	--	[79.8] <sup>4/</sup>
Wholesale prices (1967=100) <sup>1/</sup>	110.9	111.0	111.8	112.8	0.9	1.7	2.8
Industrial commodities (FR)	111.1	111.4	112.0	112.3	0.3	1.1	3.6
Sensitive materials (FR)	110.0	109.3	108.8	109.9	1.0	-0.1	-4.0
Farm products, foods & feeds	109.9	109.3	110.7	113.6	2.6	3.4	0.7
Consumer prices (1967=100) <sup>1/</sup>	118.5	119.1	119.2	119.4	0.2	0.8	4.8
Food	114.9	115.3	115.5	115.9	0.3	0.9	1.6
Commodities except food	115.1	115.5	115.2	115.2	0.0	0.1	4.4
Services	124.9	125.6	126.3	126.6	0.2	1.4	7.3
Hourly earnings, pvt. nonfarm (\$)	3.28	3.32	3.33	3.34	0.3	1.8	6.0
Hourly earnings, mfg. (\$)	3.39	3.46	3.49	3.50	0.3	3.2	6.7
Weekly earnings, mfg. (\$)	134.04	136.27	139.30	139.33	0.0	3.9	5.4
Net spend. weekly earnings, mfg. (3 dependents 1967 \$) <sup>1/</sup>	98.38	100.20	101.13	100.53	-0.6	2.2	0.7
Personal income (\$ bil.) <sup>2/</sup>	812.6	817.5	826.7	828.9	0.3	2.0	6.1
Retail sales, total (\$ bil.)	30.2	30.5	31.0	31.2	0.6	3.4	4.2
Autos (million units) <sup>2/</sup>	5.0	5.0	8.1	8.1	0.5	63.3	7.4
GAAF (\$ bil.) <sup>3/</sup>	8.6	8.5	8.5	8.6	0.8	0.2	4.0
12 leaders, composite (1967=100)	114.2	116.4	117.9	118.6	0.6	3.9	1.8
Selected leading indicators:							
Housing starts, pvt. (thous.) <sup>2/</sup>	1,693	2,054	1,709	1,715	0.4	1.3	31.3
Factory workweek (hours)	39.6	39.6	39.8	39.4	-1.0 <sup>5/</sup>	-0.5 <sup>5/</sup>	-1.3 <sup>5/</sup>
Unempl. claims, initial (thous.)	334	292	283	284	-0.1 <sup>5/</sup>	15.2 <sup>5/</sup>	-9.8 <sup>5/</sup>
New orders, dur. goods, (\$ bil.)	29.0	30.6	31.4	31.4	0.1	8.4	7.1
Capital equipment	8.9	8.7	8.8	8.5	-3.9	-5.2	-4.9
Common stock prices (41-43=10)	84.28	90.05	93.49	97.11	3.9	15.2	11.4

\* Based on unrounded data. <sup>1/</sup> Not seasonally adjusted. <sup>2/</sup> Annual rates.

<sup>3/</sup> Gen'l. merchandise, apparel, and furniture and appliance. <sup>4/</sup> Actual figures.

<sup>5/</sup> Sign reversed.

## SELECTED DOMESTIC FINANCIAL DATA

	1970			Averages		1971	
	<u>QII</u>	<u>QIII</u>	<u>QIV</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Week ended March 24</u>	
Interest rates, per cent							
Federal funds	7.88	6.71	5.57	4.14	3.72	3.70	
3-mo. Treasury bills	6.67	6.33	5.35	4.44	3.70	3.37	
3-mo. Federal agencies	7.09	6.67	5.50	4.37	3.60	3.48	
3-mo. Euro-dollars	8.87	8.34	7.46	5.92	5.25	5.04	
3-mo. finance co. paper	7.41	7.31	6.12	5.07	4.37	4.13	
4-6 mo. commercial paper	8.16	7.73	6.28	5.11	4.47	4.05	
Bond buyer municipals	6.81	6.33	5.92	5.36	5.23	5.00	
Aaa corporate-new issues	8.94	8.51	8.26	7.24	7.28	7.14	
20-year Treasury bonds	7.14	6.96	6.57	6.18	6.14	5.74	
FHA mortgages, 30-year	9.12	9.06	8.77	--	--	n.a.	
	<u>1970</u>			<u>1971</u>			
	<u>QII</u>	<u>QIII</u>	<u>QIV</u>	<u>Jan.</u>	<u>Feb.</u>		
Change in monetary aggregates (SAAR, per cent)							
Total reserves	2.6	19.1	6.6	12.2	11.4		
Nonborrowed reserves	4.1	24.4	9.4	8.8	15.1		
Credit proxy	6.0	24.1	15.1	16.1	19.3		
Credit proxy + nondep. funds	6.5	17.2	8.3	10.5	12.9		
Money supply	5.8	6.1	3.4	1.1	14.0		
Time and savings deposits	14.1	32.2	21.8	25.5	28.6		
Deposits at S&L's and MSB's	7.0	9.3	11.5	24.9	18.5		
Bank credit, end-of-month <u>1/</u>	6.6	13.9	6.1	14.9	15.3		
Treasury securities	30.2	25.9	2.8	8.3	24.7		
Other securities	11.0	20.3	34.5	39.3	19.0		
Total loans <u>1/</u>	1.4	9.8	-1.0	9.1	12.7		
Business <u>1/</u>	9.8	1.8	-9.2	5.4	14.0		
	<u>1970</u>			<u>1971</u>			
	<u>QII</u>	<u>QIII</u>	<u>QIV</u>	<u>Jan.</u>	<u>Feb.</u>		
Change in commercial paper (\$ millions)							
Total (SA)	1,652	-4,232	- 760	- 552	- 280		
Bank-related (NSA)	1,126	-2,985	-2,269	- 319	- 129		
	<u>1969</u>	<u>1970</u>		<u>1971</u>			
	<u>QI</u>	<u>Jan.</u>	<u>Feb.</u>	<u>QI</u>	<u>Jan.</u>	<u>Feb.</u>	
New security issues (NSA, \$ millions)							
Total corp. issues	6,218	2,636	1,802	7,977	3,017	3 100 e	
Public offerings	4,680	2,120	1,536	6 715	2,520 e	2,800 e	
State and local government bond offerings	2,787	1,340	1,214	4,109	2,700 e	1,800 e	
Fed. sponsored agency debt (change)	1,149	682	1,616	3,635	- 171	- 209 e	
Fed. govt. debt (change)	157	- 194	- 139	1,981	660	240	

n.a. - Not available.

e - Estimated.

p - Preliminary.

SAAR - Seasonally adjusted annual rate.

NSA - Not seasonally adjusted.

1/ Adjusted for loans sold to bank affiliates.

I -- T - 3  
U.S. Balance of Payments  
In millions of dollars; seasonally adjusted

	1 9 7 0				1971 <sup>e/</sup>	
	Year	II	III	IV	Jan.*	Feb.*
<u>Goods and services, net</u> <sup>1/</sup>	<u>3,672</u>	<u>1,039</u>	<u>1,000</u>	<u>784</u>		
Trade balance <sup>2/</sup>	2,185	757	713	192	-20	100
Exports <sup>2/</sup>	42,041	10,586	10,700	10,503	3,655	3,630
Imports <sup>2/</sup>	-39,856	-9,829	-9,987	-10,311	-3,675	-3,530
Service balance	1,487	282	287	592		
<u>Remittances and pensions</u>	-1,387	-360	-364	-336		
<u>Govt. grants &amp; capital, net</u>	-3,235	-725	-804	-852		
<u>U.S. private capital</u>	<u>-6,351</u>	<u>-1,944</u>	<u>-1,176</u>	<u>-1,518</u>		
Direct investment	-3,967	-1,434	-711	-410		
Foreign securities	-878	66	-549	-261	-317	-7
Banking claims	-883	-477	141	-679	519	-86
Other	-623	-99	-57	-168		
<u>Foreign capital</u>	<u>5,232</u>	<u>1,747</u>	<u>1,080</u>	<u>637</u>		
Official foreign, liquid	7,613	474	1,477	2,605	429	1,721
Official reserve holders, nonliq.	-271	501	-246	-106	-64	-74
Other official foreign, nonliq.	-437	-196	-1	-210		
Foreign commercial banks, liquid	-6,511	-111	-1,396	-3,142	-223	<sup>e/</sup> 1,312
New direct investment issues <sup>3/</sup>	840	267	170	248		
U.S. corporate stocks	702	-87	387	487	130	-43
Other	3,297	899	689	755		
<u>U.S. monetary reserves (inc.-)</u>	<u>3,344</u>	<u>1,022</u>	<u>801</u>	<u>1,040</u>	<u>505</u>	<u>165</u>
Gold stock	787	14	395	422	32	1
Special drawing rights <sup>4/</sup>	16	-37	-34	140	100	--
IMF gold tranche	389	227	406	9	235	--
Convertible currencies	2,152	818	34	469	138	164
<u>Errors and omissions</u>	<u>-1,274</u>	<u>-779</u>	<u>-535</u>	<u>245</u>		
<u>BALANCES (deficit -) <sup>4/</sup></u>						
Official settlements, S.A.		-1,997	-2,032	-3,539		
" " , N.S.A.	-10,686	-2,069	-2,612	-3,172	-870	-1,812
Liquidity, S.A.		-1,452	-817	-780		
" " , N.S.A.	-4,715	-1,432	-1,639	-91	-950	-506
Adjusted over-all, S.A.		-1,886	-636	-397		
" " , N.S.A.	-4,175	-1,873	-1,466	315	-647	<sup>e/</sup> -500
Financed by: <sup>5/</sup>						
Liab. to comm. banks	-6,511	-196	-1,146	-3,487	-223	<sup>e/</sup> -1,312
Official settlements	10,686	2,069	2,612	3,172	870	1,812

\* Only exports and imports are seasonally adjusted. <sup>e/</sup> Estimate.

<sup>1/</sup> Equals "net exports" in the GNP, except for latest revisions.

<sup>2/</sup> Balance of payments basis which differs a little from Census basis.

<sup>3/</sup> New issues sold abroad by U.S. direct investors.

<sup>4/</sup> Excludes allocations of SDRs; \$867 million on Jan. 1, 1970, and \$717 million on Jan. 1, 1971.

<sup>5/</sup> Minus sign indicates decrease in net liabilities. Data not seasonally adjusted.

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THE ECONOMIC PICTURE IN DETAIL

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Domestic Nonfinancial Scene

Gross national product. We now estimate that the first quarter rise in GNP will be slightly smaller than projected a month ago--about \$27-1/2 billion instead of \$29 billion. The shortfall from last month's GNP projections reflects small revisions in a number of items. Practically all sectors appear to be performing about as we had expected, however. The post-strike rebound in auto and truck production continues to dominate the rise in overall activity, contributing about \$20 billion of the estimated rise in GNP.

Unit sales of domestic autos through the first 20 days of March have not been impressive--continuing close to the 8.1 million annual rate we had projected for the quarter last month; nevertheless, this total is some 2-3/4 million units above the strike-reduced fourth quarter rate. Among other retail sales, furniture and appliances sales have recovered well, but nondurables sales were weaker than expected, and apparently only slightly higher in the first quarter than in the fourth. We have therefore reduced our estimate of consumer outlays slightly.

Although exports apparently improved somewhat in the first quarter, imports rose even faster and our estimate of net exports has also been revised down somewhat. The greater strength of imports reflected both continued strong demand for foreign automobiles and other consumer items as well as increased imports of steel, presumably as part of the stockpiling in anticipation of a possible strike in early August.

With the number of residential housing starts for February about the same as in January, the average for the quarter is expected to fall short of our earlier projections by about 50,000 units; in addition, the average price per unit has fallen somewhat, and we have cut the increase in estimated outlays by \$.8 billion. Our projections of residential construction outlays have also been reduced slightly for the year as a whole, reflecting both the smaller increase now expected in the construction of Federally supported units, and a lower unit cost now expected as a result of the increased importance of low and moderate income housing under the subsidy programs now in effect.

Other major components of our preceding GNP projection for the first quarter remain essentially unchanged. We still anticipate a quite modest volume of nonfarm inventory investment--\$2 billion, annual rate--with continued strike-hedge accumulation of steel and a post-strike build-up of auto stocks largely offset by liquidation in some other lines.

Our estimate of business fixed investment for the first quarter has been raised slightly as a result of some additional strength in nonresidential construction outlays and in shipments of capital equipment. The new Commerce-SEC survey of business spending plans also suggests a somewhat larger increase than formerly, both for this quarter and for the remainder of the year.

GNP AND RELATED ITEMS, 1971  
 (Changes in seasonally adjusted totals at annual rates)

	First Quarter		Second Quarter	
	Proj. of 3/3/71	Current	Proj. of 3/3/71	Current
-----Billions of dollars-----				
GNP	29.1	27.5	19.0	17.0
Final sales	30.4	28.8	16.3	14.3
Personal consumption	17.8	17.4	12.9	10.9
Residential construction	4.4	3.6	1.8	1.2
Business fixed investment	4.2	4.7	.0	1.0
Net exports	1.1	.4	-.2	-.5
Federal purchases	.2	-.3	-1.9	-2.0
State & local purchases	2.7	3.0	3.7	3.7
Inventory change	-1.3	-1.3	2.7	2.7
-----Per Cent Per Year-----				
Real GNP	7.2	6.4	3.6	2.7
GNP deflator	4.5 <sup>1/</sup>	4.7 <sup>2/</sup>	3.9	4.0

<sup>1/</sup> Excluding the effects of Federal pay increase, 3.6 per cent per year.  
<sup>2/</sup> Excluding the effects of Federal pay increase, 3.8 per cent per year.

It now appears likely that GNP growth in the second quarter will slow down more rapidly than earlier expected following the post-strike first quarter rebound. This revision reflects largely the difference between the recently enacted increase in social security benefits (10 per cent retroactive to the first of the year), and what we had earlier assumed.



Thus, the actual legislation omits reforms which we had assumed would be incorporated (including an increase in the minimum benefit to \$100 monthly) and results in a smaller than expected increase in personal income by almost \$5 billion (annual rate). The postponement of the wage base increase is reflected in taxes and income beginning in the first quarter, according to OBE accounting procedures, and we have made this adjustment.

In addition, the retroactive social security benefits are now scheduled to be paid out near the end of June; we had assumed a somewhat earlier distribution. Under the current estimated timing, payments probably will not have much effect on consumption until the third quarter. As a result of these two factors, we are now projecting a \$2 billion smaller second quarter rise in consumption. We have added a small increase in business fixed investment in line with the results of the latest Commerce-SEC survey. GNP in the second quarter is now projected to rise by \$17 billion.

Our GNP projections point to a somewhat stronger second half than was previously anticipated, despite the fact that we continue to expect a steel strike lasting about 60 days, which will reduce the rise of inventory investment by \$4 billion. Nevertheless, GNP is now expected to rise by \$19 billion during the third quarter, about \$5 billion more than previously projected. The new element entering our calculations is the support provided by the assumed adoption of military pay increases of about \$2-1/2 billion annually, starting

with the third quarter, as a step towards introduction of a volunteer army. In addition to this stimulus, personal consumption expenditures during this quarter should benefit from the impact of the late second quarter payment of the retroactive increase in social security payments.

GNP AND RELATED ITEMS, 1971  
(Changes in seasonally adjusted totals at annual rates)

	Third Quarter		Fourth Quarter	
	Proj. of 3/3/71	Current	Proj. of 3/3/71	Current
-----Billions of dollars-----				
GNP	14.0	19.0	25.0	25.5
Final sales	18.0	23.0	20.0	20.5
Personal consumption	12.2	13.2	12.0	12.4
Residential construction	.7	.9	.5	.8
Business fixed investment	.7	1.0	1.3	1.5
Net exports	-.5	.0	.5	.0
Federal purchases	.7	3.7	1.7	1.7
State & local purchases	4.2	4.2	4.0	4.1
Inventory change	-4.0	-4.0	5.0	5.0
-----Per Cent Per Year-----				
Real GNP	1.6	2.6	5.9	6.0
GNP deflator	3.8	4.7 <sup>1/</sup>	3.6	3.6

<sup>1/</sup> Excluding the effects of Federal pay increase, 3.8 per cent per year.

We are still projecting a large gain, \$25 billion, in GNP for the fourth quarter, reflecting in part the assumption of a steel strike settlement by about the end of September. We expect a sizable rise in inventory investment of \$5 billion, following the liquidation of steel stocks the previous quarter, moderate acceleration in business

fixed investment and a reasonably strong pattern of consumption relative to strengthening private wages and salary payments.

For the year as a whole, GNP is now projected to average \$1046 billion, virtually unchanged from our last projection. But a somewhat slower growth is now expected in the first half, with a correspondingly faster growth in prospect for the second half year, when the GNP is projected to be rising \$22 billion per quarter. Real growth in the last half, now projected at around 4-1/4 per cent, annual rate, would be about in line with the long-run growth in output potential. But substantial slack in the economy would remain, as reflected in a second half unemployment rate expected to average 6-1/2 per cent.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarter figures at annual rates.)

	1970	1971 Proj.	1970		1971 Projection			
			III	IV	I	II	III	IV
Gross National Product	976.5	1046.0	985.5	989.9	1017.4	1034.4	1053.4	1078.9
Final purchases	973.1	1042.4	980.0	986.3	1015.1	1029.4	1052.4	1072.9
Private	752.6	809.9	759.0	763.1	789.2	801.8	816.9	831.6
Excluding net exports	749.0	807.3	754.8	760.5	786.2	799.3	814.4	829.1
Personal consumption expenditures	616.7	662.3	622.1	627.0	644.4	655.3	668.5	680.9
Durable goods	89.4	98.1	91.2	85.3	95.5	97.0	99.0	101.0
Nondurable goods	264.7	279.8	265.8	271.5	273.2	277.0	282.2	286.6
Services	262.6	284.4	265.1	270.2	275.7	281.3	287.3	293.3
Gross private domestic investment	135.7	148.6	138.3	137.1	144.1	149.0	146.9	154.2
Residential construction	29.7	37.4	29.2	32.2	35.8	37.0	37.9	38.7
Business fixed investment	102.6	107.6	103.6	101.3	106.0	107.0	108.0	109.5
Change in business inventories	3.5	3.6	5.5	3.6	2.3	5.0	1.0	6.0
Nonfarm	2.9	3.5	5.0	3.0	2.0	5.0	1.0	6.0
Net exports of goods and services	3.6	2.6	4.2	2.6	3.0	2.5	2.5	2.5
Gov't. purchases of goods & services	220.5	232.6	221.0	223.2	225.9	227.6	235.5	241.3
Federal	99.7	98.7	98.6	98.2	97.9	95.9	99.6	101.3
Defense	76.6	73.6	75.8	74.6	74.2	71.8	74.1	74.2
Other	23.1	25.1	22.9	23.5	23.7	24.1	25.5	27.1
State & local	120.9	133.9	122.4	125.0	128.0	131.7	135.9	140.0
Gross national product in constant (1958) dollars	724.1	740.6	727.4	720.3	731.8	736.6	741.4	752.6
GNP implicit deflator (1958 = 100)	134.9	141.2	135.5	137.4	139.0	140.4	142.1	143.4
Personal income	801.0	854.2	807.2	813.3	829.0	848.1	860.7	879.0
Wage and salary disbursements	540.1	575.9	543.8	545.2	560.6	569.8	579.9	593.3
Disposable income	684.8	732.0	693.0	697.2	712.5	728.6	737.7	749.3
Personal saving	50.2	50.3	52.7	51.8	49.2	54.1	49.6	48.4
Saving rate (per cent)	7.3	6.9	7.6	7.4	6.9	7.4	6.7	6.5
Corporate profits before tax	81.6	81.0	84.4	77.5	77.5	80.0	81.0	86.5
Corporate cash flow, net of dividends	69.1	76.9	70.7	68.4	73.7	75.9	77.2	80.6
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	194.9	204.3	194.9	192.2	197.2	201.2	205.0	213.9
Expenditures	206.3	223.0	206.7	209.9	213.9	221.0	224.3	232.9
Surplus or deficit (-)	-11.4	-18.7	-11.8	-17.6	-16.7	-19.8	-19.3	-19.0
High employment surplus or deficit (-)	-0.8	0.7	-1.7	1.3	1.6	0.0	2.0	-0.8
Total labor force (millions)	85.9	87.1	86.0	86.5	86.6	87.0	87.2	87.6
Armed forces "	3.2	2.8	3.1	3.0	2.9	2.9	2.8	2.7
Civilian labor force "	82.7	84.3	82.8	83.5	83.7	84.1	84.4	84.9
Unemployment rate (per cent)	4.9	6.3	5.2	5.9	6.0	6.3	6.5	6.5
Nonfarm payroll employment (millions)	70.7	70.9	70.5	70.2	70.6	70.8	70.9	71.1
Manufacturing	19.4	18.8	19.3	18.7	18.7	18.8	18.7	18.9
Industrial production (1957-59=100)	168.2	167.4	167.9	162.7	165.2	166.7	167.4	170.4
Capacity utilization, manufacturing (per cent)	76.6	72.8	76.2	72.3	72.8	72.8	72.4	73.0
Housing starts, private (millions A. R.)	1.43	1.84	1.51	1.78	1.75	1.83	1.88	1.90
Sales new domestic autos (millions, A.R.)	7.12	8.25	7.99	5.38	8.10	8.30	8.30	8.50

NOTE: Projection of related items such as employment and industrial production index are based on projection of deflated GNP. Federal budget high employment surplus or deficit (N.I.A. basis) are staff estimates and projections by method suggested by Okun and Teeters.

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CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1970	1971 Proj.	1970		1971 Projection			
			III	IV	I	II	III	IV
-----Billions of dollars-----								
Gross National Product	45.1	69.5	14.4	4.4	27.5	17.0	19.0	25.5
Inventory change	-5.0	0.1	2.4	-1.9	-1.3	2.7	-4.0	5.0
Final purchases	50.2	69.3	11.9	6.3	28.8	14.3	23.0	20.5
Private	41.9	57.2	9.3	4.1	26.1	12.6	15.1	14.7
Excluding net exports	40.2	58.2	9.2	5.7	25.7	13.1	15.1	14.7
Net exports	1.7	-1.0	0.1	-1.6	0.4	-0.5	0.0	0.0
Government	8.3	12.1	2.6	2.2	2.7	1.7	7.9	5.8
GNP in constant (1958) dollars	-3.0	16.5	2.5	-7.1	11.5	4.8	4.8	11.2
Final purchases	1.2	16.4	0.9	-5.7	12.6	2.7	8.1	7.1
Private	7.2	18.3	1.6	-5.4	14.0	3.4	5.9	5.1
-----In Per Cent Per Year-----								
Gross National Product	4.8	7.1	5.9	1.8	11.1	6.7	7.3	9.7
Final purchases	5.4	7.1	4.9	2.6	11.7	5.6	8.9	7.8
Private	5.9	7.6	5.0	2.2	13.7	6.4	7.5	7.2
Personal consumption expenditures	6.8	7.4	5.0	3.1	11.1	6.8	8.1	7.4
Durable goods	-0.7	9.7	-3.0	-25.9	47.8	6.3	8.2	8.1
Nondurable goods	7.7	5.7	4.9	8.6	2.5	5.6	7.5	6.2
Services	8.7	8.3	8.0	7.7	8.1	8.1	8.5	8.4
Gross private domestic investment	-2.9	9.5	11.9	-3.5	20.4	13.6	-5.6	19.9
Residential construction	-7.2	25.9	11.3	41.1	44.7	13.4	9.7	8.4
Business fixed investment	3.3	4.9	3.1	-8.9	18.6	3.8	3.7	5.6
Gov't. purchases of goods & services	3.9	5.5	4.8	4.0	4.8	3.0	13.9	9.8
Federal	-1.6	-1.0	-4.4	-1.6	-1.2	-8.2	15.4	6.8
Defense	-2.8	-3.9	-5.2	-6.3	-2.1	-12.9	12.8	0.5
Other	2.2	8.7	0.0	10.5	3.4	6.7	23.2	25.1
State & local	9.1	10.8	12.5	8.5	9.6	11.6	12.8	12.1
GNP in constant (1958) dollars	-0.4	2.3	1.4	-3.9	6.4	2.7	2.6	6.0
Final purchases	0.2	2.3	0.5	-3.2	7.0	1.5	4.4	3.8
Private	1.3	3.2	1.1	-3.7	9.7 <sup>1/</sup>	2.3	4.0	3.4
GNP implicit deflator	5.3	4.7	4.6	5.9	4.7 <sup>1/</sup>	4.0	4.7 <sup>1/</sup>	3.6
Fixed-weight index <sup>2/</sup>	5.1	4.3	4.6	4.9	4.5	3.9	3.7	3.6
Personal income	7.0	6.6	2.9	3.0	7.7	9.2	5.9	8.5
Wage and salary disbursements	6.1	6.6	3.2	1.0	11.3	6.6	7.1	9.2
Disposable income	8.4	6.9	5.5	2.4	8.8	9.0	5.0	6.3
Corporate profits before tax	-10.0	-0.7	14.6	-32.7	0.0	12.9	5.0	27.2
Federal government receipts and expenditures (N I.A. basis)								
Receipts	-2.7	4.8	-2.4	-5.5	10.4	8.1	7.6	17.4
Expenditures	7.8	8.1	11.5	6.2	7.6	13.3	6.0	15.3
Nonfarm payroll employment	0.6	0.3	-2.0	-1.9	2.3	1.1	0.6	1.1
Manufacturing	-3.9	-3.1	-6.0	-13.3	0.0	2.1	-2.1	4.3
Industrial production	-2.7	-0.5	-3.3	-12.4	6.1	3.6	1.7	7.2
Housing starts, private	-2.6	28.5	70.3	70.1	-6.1	17.1	11.0	5.3
Sales new domestic autos	-15.8	16.6	2.0	-130.5	202.1	9.9	0.0	9.6

<sup>1/</sup> Excluding effects of Federal pay increase, 3.8 per cent in both 71-I and 71-III<sup>2/</sup> Based on 1970-IV weights (Excludes effects of Federal pay increases.)

Industrial production. The available output data for March are too sketchy for an estimate of the probable change in the production index. While the fragmentary March data do not show any additional weakness, nothing is available as to production developments in business and defense equipment--where recent declines have centered--and in a large segment of consumer durable goods and industrial materials.

Auto assemblies in the first four weeks of March were at a seasonally adjusted annual rate of 9 million units, the same as in February. Production schedules for the second quarter indicate an output rate of 8.2 million units, closely in line with the 8.1 million unit sales rate prevailing so far this year. Output of television sets in the first three weeks of March have increased from the reduced January-February level. Production of household appliances has been fluctuating in recent months around a level about 10 per cent below the mid-1970 peak.

Output of business equipment in February was 13 per cent below the September-October 1969 high. New orders for capital goods have been rising irregularly since mid-1970 and this suggests that the decline in business equipment, which has been the largest since 1957-58, may be approaching an end. In March, truck production changed little but output of commercial aircraft is estimated to have declined further. Production of defense equipment, which dropped from an index level of 180 per cent in mid-1968 to 115 per cent by February 1971, is now only about 7 per cent above the pre-Vietnam build-up level.

Retail sales. Retail sales in March appear to be around 1 per cent higher than February, according to estimates based on weekly data through March 20. Automobile sales maintained the February sales level, and durable sales as a whole were up by about 1-1/2 per cent. Nondurable goods sales were about 1 per cent higher than in February, as most major types of outlets reported higher sales.

Present data indicate that consumer spending on goods in the first quarter--aside from the recovery of GM model auto sales--was far from robust. Domestic unit auto sales, adjusted to exclude the strike rebound effect, appear to be little changed from the weak rate of sales in the spring of 1970. Retail sales--exclusive of autos, building materials, and farm equipment--were apparently no higher in the first quarter than the fourth. First quarter furniture and appliance sales are estimated about 3 per cent above the fourth quarter, but sales of these items were sluggish in late 1970, and the March level is still lower than at the beginning of 1970.

RETAIL SALES  
Seasonally adjusted

	Jan.	Feb.	March*	1970		1971
				QIII	QIV	QI*
----Per Cent Change from Previous Period--						
All retail	1.6	.7	1.3	.9	-1.2	2.9
Durable	8.3	.4	1.5	1.7	-9.0	9.3
Auto	16.0	2.2	.2	2.6	-15.7	18.0
Furn. & appl.	6.3	-1.7	1.0	-3.8	-.7	3.2
Nondurable	-1.0	.8	1.1	.6	2.3	.3
Food group	-1.6	1.5	2.0	.5	1.4	1.2
General merchandise	-.5	1.3	.1	.7	2.9	.2
GAF	.5	.8	.3	-.4	2.7	.9
Total less auto, bldg., materials, farm equip.	-1.1	.5	1.2	.4	2.0	-.1

Manufacturers' orders and shipments. New orders for durable goods were unchanged in February, according to preliminary data, rather than declining as had been indicated by the advance report. The January-February level of orders was equal to last July's pre-auto-strike high.

Orders for motor vehicles and parts (measured by shipments in the case of auto assembly plants) continued their sharp rebound from strike-depressed levels and were considerably higher in February than before the strike. Defense orders also rose. But there were offsetting declines elsewhere, the largest being at iron and steel mills. This is not inconsistent with continued steel stockpiling in coming months; in both 1965 and 1968, the two most recent steel contract



renegotiation periods, steel orders also peaked in January, but users built inventories throughout the first half of the year. The decline of 14 per cent in February 1971 was somewhat sharper than in these two earlier years, probably because the January level was inflated by the large post-strike auto catchup.

Orders for capital equipment also declined in February. By late last year, this series had recovered to around the highs of late 1969, but since then it has declined slightly. Orders for household and other durables were little changed.

MANUFACTURERS' NEW ORDERS FOR DURABLE GOODS  
Seasonally adjusted monthly averages, billions of dollars

	1970		1971		
	Q III	Q IV	Jan. (rev.)	Feb. (prel.)	Per cent change, Feb. from Jan.
Durable goods, total	30.6	29.4	31.4	31.4	.1
Excluding autos and steel	24.2	24.0	24.3	24.1	-.7
Primary metals	4.8	4.6	5.4	5.0	-7.9
Iron and steel	2.3	2.2	2.9	2.5	-14.0
Other primary metals	2.5	2.4	2.5	2.5	-.8
Motor vehicles and parts	4.1	3.2	4.2	4.8	14.4
Household durable goods	2.1	2.1	2.1	2.1	-.2
Defense products	2.3	2.1	2.2	2.4	10.9
Capital equipment	8.3	8.7	8.8	8.5	-3.9
All other durable goods	9.0	8.8	8.7	8.6	-.4

NOTE: Detail may not add to totals because of rounding. Per cent changes calculated from unrounded data.

Durable goods shipments increased in February, mainly because of autos. Unfilled orders rose, reflecting increases for iron and steel and a \$560 million jump in backlogs for defense products.

Inventories. Book value of manufacturers' inventories declined at a \$3 billion annual rate in February, according to preliminary data. In January, revised data indicate a \$2.2 billion annual rate increase, rather than the \$5.4 billion rate decline reported earlier. The average rate for the two months is quite close to the zero rate of accumulation which manufacturers anticipated for the first quarter as a whole.

Steel-using manufacturers built inventories of steel mill shapes in January and February, but at a rate lower than in earlier pre-contract periods, suggesting that the impact of stockpiling may continue to be felt somewhat later this year than in 1965 and 1968.

CHANGE IN BOOK VALUE OF MANUFACTURERS' INVENTORIES  
(Seasonally adjusted annual rate)  
Billions of dollars

	1970		1971	
	Q III	Q IV	January (revised)	February (preliminary)
Manufacturing, total	3.8	3.8	2.2	-3.0
Durable	3.7	.9	.7	-2.8
Nondurable	.1	2.9	1.5	-.2

Manufacturers' ratios of inventories to shipments and unfilled orders declined in February, according to preliminary data, from upward-revised January levels.

## MANUFACTURERS' INVENTORY RATIOS

	<u>1970</u>		<u>1971</u>	
	Jan.	Feb.	Jan. (revised)	Feb. (prel.)
<u>Inventories to shipments</u>				
Manufacturing, total	1.75	1.74	1.77	1.74
Durable	2.14	2.11	2.15	2.11
Nondurable	1.28	1.29	1.32	1.30
<u>Inventories to unfilled orders</u>				
Durable manufacturing	.749	.758	.817	.810

Retail auto dealers continued to rebuild stocks of new domestic autos in February, and with the sales rate off slightly, their stock-sales ratio increased.

Cyclical indicators. The preliminary Census composite index of leading indicators rose 0.6 per cent further in February, to a level equal to its previous high of September 1969. The coincident and lagging composites also rose. Both the leading and the coincident composite indexes rose less in February than in January.

COMPOSITE CYCLICAL INDICATORS  
(1967 = 100)

	12 Leading Trend adjusted	5 Coincident	6 Lagging
1970:			
October	113.8	118.8	131.6
November	114.2	117.9	129.8
December	116.4	119.1	129.9
1971:			
January	117.9	121.0	130.3
February (prel.)	118.6 (H)	121.4	131.3

(H) Current high value. The highs for the coincident composite were December 1969 and April 1970, and the high for the lagging composite was September 1970.

Leading series contributing to the February increase were contracts and orders for plant and equipment, industrial materials prices, common stock prices, the ratio of price to unit labor costs, and initial claims for unemployment insurance, which declined slightly as measured by the special Census series. Series declining were the manufacturing workweek, new orders for durable goods (revised upwards since the index was compiled), and housing permits.

Although the leading composite has regained its previous high, only two of its twelve components have actually come back strongly from their lows--housing permits, which peaked in December and have fallen back slightly since then, and common stock prices, which are still below their earlier peak. Most of the others have recovered somewhat from lows reached during the GM strike or earlier in 1970 but are well below their previous highs.

The reason that the leading composite index shows more strength than most of its parts is that it is adjusted upward to incorporate the long-term trend of the coincident composite. The addition of this trend adjustment to the leading series for the postwar period improved the consistency of the leads at cycle peaks and lengthened somewhat the leads at troughs. However, the leads on upturns are still variable, ranging from two to nine months for the four postwar cycles.

Residential construction and real estate. Seasonally adjusted private housing starts in February continued above a 1.7 million annual rate--except for last December the highest in seven years. With outstanding mortgage commitments and building permits at or near record highs in recent months, indications are that the rate of starts increased in March, although most likely not by enough to bring the first quarter average above last year's fourth quarter pace.

PRIVATE HOUSING STARTS AND PERMITS  
(Units in Thousands)

	Starts			Permits
	<u>1/</u> Total	Per Cent Single-family	Per Cent <u>2/</u> FHA-insured	
	(Census Bureau)		(FHA Series)	
<u>Annual</u>				
1969	1,467	55	16	1,322
1970 1,	1,434	57	29	1,324
<u>Quarterly (SAAR)</u>				
<u>1970</u>				
I	1,252	54	23	1,085
II	1,286	58	28	1,257
III	1,512	56	28	1,358
IV	1,777	58	35	1,593
<u>Monthly (SAAR)</u>				
1970 - December	2,054	60	53	1,768
1971 - January	1,709	55	29	1,635
February	1,715	57	27	1,622

1/ Apart from starts, mobile home shipments for domestic use in January--the latest month for which data are available--were at a seasonally adjusted annual rate of 395 thousand, about the same as in December.

2/ Based on unadjusted totals for all periods. FHA-insured starts include both subsidized and nonsubsidized units.

FHA-insured starts accounted for 27 per cent of total private starts in February, reflecting mainly the extremely heavy absorption of funds for subsidized starts. Even though the percentage was far below the extraordinary figure of last December, the total FHA share was still relatively high in comparison with 1969, as shown in the table.

Moreover, the release by mid-March of \$45 million in additional funds for three of HUD's major subsidy programs should provide further stimulus this spring, in time to have some impact in April. In that month, unadjusted starts, over-all, normally show a seasonal increase to a level almost double that in February.

While mortgage markets have eased considerably further since then, data for January--the latest available--indicate that transactions in both new and used homes had already expanded appreciably. In fact, unit sales of new homes by merchant builders in January were seven-tenths above their early 1970 low and close to the highest rate in the history of the series which began in 1963. Although the median price of new homes sold turned upward in January, at \$23,700, it remained well under the \$26,000 median for new homes available for sale. The median price of used homes sold in January was \$23,670, according to the National Association of Real Estate Boards. This was 7 per cent above a year earlier, about the same as the year-to-year increase in such prices during all of 1970.

Anticipated plant and equipment expenditures. The February Commerce-SEC survey indicated that businessmen plan to expand spending for new plant and equipment in 1971 by 4.3 per cent from 1970. This increase is larger than indicated in the December survey (1.4 per cent), partly because of the sharper than anticipated reduction in fourth quarter 1970 spending. Actual spending in the fourth quarter fell

\$3 billion, due mainly to the greater than anticipated impact of the GM strike which reduced purchases of motor vehicles and trucks. Spending for 1970 as a whole totaled \$79.7 billion, up 5.5 per cent from 1969 but only one-half the 10.6 per cent increase planned at this time last year for 1970.

PLANT AND EQUIPMENT EXPENDITURES  
(Per Cent Change from Prior Year)

	1969	1970		1971	
	(Actual)	(Nov. Plans)	(Actual)	(Dec. Plans)	(Feb. Plans)
Total	11.5	6.6	5.5	1.4	4.3
Manufacturing	11.7	1.8	.9	-2.7	-.3
Durable goods	13.0	-.3	-1.0	-3.1	-2.5
Nondurable goods	10.3	4.1	2.7	-2.4	1.9
Nonmanufacturing <sup>1/</sup>	11.4	10.1	8.8	4.1	7.3
Transportation	8.0	-.7	-.2	-16.8	-7.8
Public utilities <sup>1/</sup>	13.8	14.8	13.2	14.3	17.5
Electric	16.7	21.4	19.1	18.7 <sup>2/</sup>	22.4 <sup>2/</sup>
Communications	21.5	23.4	21.7	14.0 <sup>2/</sup>	10.3 <sup>2/</sup>

<sup>1/</sup> Includes series not shown separately.

<sup>2/</sup> Confidential, not published separately.

The February survey indicated a 3.2 per cent rise, at an annual rate, in first half 1971 outlays--largely attributable to strong increases planned by electric utilities and communications firms. In the second half, manufacturing plans indicate an increase at a 12.3 per cent annual rate compared with a decline of 4.5 per cent in the first half. On the other hand, communications firms report plans to cut second half spending and electric utilities plan a much slower rate of increase than in the first half.



The latest Conference Board survey of capital appropriations by manufacturing firms raises some questions in regard to the projected large increase in outlays in the second half. The Board has reported that new capital appropriations by the 1,000 largest manufacturers declined 7.6 per cent in the fourth quarter of 1970, and that the third quarter increase has been revised downward to 1.6 per cent. Historical evidence suggests that there is about a three quarter lag between appropriations and expenditures, which would imply little strength in manufacturing outlays before the fourth quarter of 1971.

Labor market. Demands for labor continue slack. Initial claims for unemployment insurance benefits in March are estimated to have remained about at the rate of the two preceding months. Although insured unemployment also has shown little net change since December, exhaustions of regular unemployment benefits have risen considerably. The new Federal-State extended benefits program, implemented last October, is now providing benefits to an additional 330,000 workers in 14 States and Puerto Rico. The rapid rise in the number of workers drawing extended benefits primarily reflects the addition of more States to the program. Each State entering the program has a large pool of workers who had exhausted their benefits before the program began.

STATE INSURED UNEMPLOYMENT  
 (Seasonally adjusted, in thousands)  
 Weekly averages for month

	Initial claims	Insured unemployment	Extended benefits (nsa)
<b>1970:</b>			
February	258	1,364	1
March	268	1,440	1
August	298	1,994	6
September	342	2,197	8
October	340	2,334	28
November	334	2,350	64
December	292	2,116	81
<b>1971:</b>			
January	283	1,972	191
February	284	2,008	272
March*	285	2,075	330

\* Estimated. nsa - not seasonally adjusted.

Labor force growth. Slack demands for labor apparently have caused a sharp slowdown in labor force growth. Since mid-1970 the total labor force has averaged only about 1.3 million higher than a year earlier. This year to year increase is about 200,000 smaller than expected on the basis of population growth and long-term trends in labor force participation rates and is well below the large increases of 1969 and early 1970. However, reductions in the armed forces have tended to maintain increases in the civilian work force.

WORKING-AGE POPULATION AND LABOR FORCE  
(Change from a year-earlier, in thousands)

	Noninstitutional Population	Total Labor Force	Armed Forces	Civilian Labor Force
1969: IIIQ	2,288	2,137	-57	2,195
IVQ	2,313	2,339	-53	2,392
1970: IQ	2,336	2,226	-137	2,363
IIQ	2,331	1,775	-295	2,070
IIIQ	2,341	1,323	-399	1,720
IVQ	2,359	1,331	-444	1,772
1971: IQ*	2,386	1,276	-401	1,676

\* January-February averages.

The return of veterans has resulted in large increases in the number of young men aged 20 to 24 years in the civilian labor force. However, labor force growth for other groups has slowed significantly, reflecting declines in labor force participation rates for most groups, and especially older workers. The teenage participation rate declined slightly after a sharp rise in 1970. Among women participation rates are still rising, but much more slowly than in early 1970.

CIVILIAN LABOR FORCE  
(Change from year earlier, in thousands)

	Total	Men aged:		Women aged:		Teenagers
		25+	20-24	25+	20-24	
1969	1,996	287	212	785	362	352
1970: IQ	2,363	466	359	795	286	459
IIQ	2,070	582	352	586	244	306
IIIQ	1,720	309	455	475	299	185
IVQ	1,772	294	543	502	278	156
1971: IQ*	1,676	225	514	572	165	199

\* January-February averages.

Industrial relations. Wage settlements continue large in new collective bargaining agreements. After a four week strike, 32,000 can company employees ratified new contracts similar to the National Can agreement. Wage rates will rise 50 cents in the first year and 12-1/2 cents in both the second and third years. These agreements also include a cost-of-living escalator clause providing unlimited quarterly adjustments beginning the second contract year (February 1972) with a guaranteed minimum adjustment of 12-1/2 cents in each year. In addition, a provision for widening the differential between job classifications is estimated to increase wage rates an average of 10 cents over the life of the contract. In total, these increases (including the 25-cent minimum guaranteed cost-of-living adjustment) amount to \$1.10 over the life of the contract and average about 9 per cent annually. Including an estimate of 40 cents for fringe benefit improvements, average hourly employment costs also will increase at least 9 per cent per year. The settlements in the can industry are likely to provide a pattern for upcoming negotiations in the aluminum, copper and basic steel industries.

Widespread bargaining in the telephone and telegraph industry will occur this year as contracts covering 540,000 communication workers expire between April 30 and early September. Recent union settlements have called for a 25 per cent wage increase in a one-year contract. Gas and electric utilities companies will also be negotiating contracts with about 140,000 workers this year. Consolidated Edison of New York reached agreement March 14 with 19,000 utility workers on a two-year contract providing wage increases of 10 per cent the first year and 8 per cent the second.

Construction wages. Under the authority of the Economic Stabilization Act of 1970, President Nixon has issued an Executive Order designed to restrain wage and price increases in construction. The Order provides for the establishment of a 12-member tripartite Construction Industry Stabilization Committee to supervise and review determinations of separate "craft dispute boards". The craft dispute boards, composed of labor and management representatives, appointed by employer associations and the national unions, are charged with the responsibility "to determine....whether wage and salary increases in the agreement are acceptable" under the criteria established in the Order and "to provide advice and assistance" in the resolution of disputes involving wages and salaries. The boards are also authorized to review wage increases provided in earlier contracts but effective after March 28 "to determine whether any increase is unreasonably inconsistent with the criteria".

After March 28, no negotiated wage increase may be implemented without approval of a craft board or the Committee or both, without being in violation of the Order.

Wage and salary increases deemed acceptable by the boards shall be referred to the Committee, which then has 15 days to either assume jurisdiction or to validate the board's determination by not taking any action. Wage and salary increases deemed unacceptable by the boards are to be reported to the Committee and the Secretary of Labor.

If the Committee finds any labor settlements unacceptable, the Secretary of Labor shall assure that unacceptable wage rates not be used in any Federal or Federally-assisted construction or influence wage determinations under the Davis-Bacon Act, publicize nonconforming settlements, and take any other action authorized by law to carry out the purposes and policies of this Order.

The criteria of an acceptable wage increase are: "...those normally considered supportable by productivity improvement and cost of living trends, but not in excess of the average of the median increases in wages and benefits over the life of the contract negotiated in major construction settlements in the period 1961 to 1968" (about 6 per cent). In addition, equity adjustments may be permitted to restore traditional relationships among crafts in a single locality and within the same craft in surrounding localities.

The Order also establishes an Interagency Committee on construction to develop criteria for the determination of acceptable prices in construction contracts as well as criteria for acceptable compensation, including bonuses, stock options and the like.

Wholesale prices. The final wholesale price index for February (January 12th to February 9th) differs only slightly from the preliminary estimate. The 9.1 per cent increase at a seasonally adjusted annual rate was mainly the result of sharp increases for farm and food products, as the increase for industrial commodities was one of the smallest since mid-1969.

WHOLESALE PRICES

(Percentage changes at seasonally adjusted annual rates)

	Dec. 1969 to June 1970	June to Sept.	Sept. to Dec.	Dec. 1970 to Jan. 1971	Jan. 1971 to Feb. 1971f	Feb. 1970 to Feb. 1971f
All commodities	2.6	3.7	.4	5.9	9.1	2.8
Farm products, and processed foods and feeds	- 1.8	8.6	- 8.9	9.1	33.5	.7
Farm products	- 5.4	12.2	-16.6	12.9	62.5	- .1
Processed foods and feeds	.9	5.9	- 4.2	6.7	18.6	1.1
Industrial commodities	3.9	2.7	4.1	3.9	1.6	3.5

f--Final.

The BLS has discontinued publication of the preliminary estimate of the WPI. Final data for March (February 9th to March 9th) will be released April 1st, and details will be included in the supplement to the Greenbook.

Consumer prices. The rise in consumer prices slowed further in February to a seasonally adjusted annual rate of 2 per cent, with a sharp drop in mortgage interest rates as well as declines in gasoline, used cars

and houses. These, together with a levelling in prices on new cars, moderated continued strong increases for most services and the resumption of advances for food and apparel.

CONSUMER PRICES

(Per cent change, seasonally adjusted annual rates)

	Dec. 1969 to June 1970	June to Sept.	Sept. to Dec.	Dec. 1970 to Jan. 1971	Jan. to Feb.
All items	6.1	4.2	5.5	3.5	2.0
Food	3.4	1.4	.7	.0	5.3
Nondurable commodities less food	3.6	3.6	5.7	1.0	.0
Durables	5.6	4.7	7.3	2.1	- 1.0
Services <sup>1/</sup>	9.3	7.1	7.0	6.9	2.9

Addendum:

Services less home finance <sup>1/2/</sup>	7.2	6.6	7.2	10.3	8.1
Mortgage interest rates <sup>1/</sup>	14.1	1.1	- .8	-15.1	-31.0
Homeownership costs <sup>1/</sup>	12.8	9.0	6.6	.0	- 9.5

<sup>1/</sup> Not seasonally adjusted.

<sup>2/</sup> Confidential.

Sharply declining mortgage costs considerably dampened the rise in consumer prices in both January and February. Mortgage costs, which have a weight of over 4 per cent in the CPI, reflect in the BLS method of computation both changes in mortgage rates and in house prices. According to confidential BLS estimates, if mortgage costs had been excluded, consumer prices, not seasonally adjusted, would have risen at a rate of 4 per cent--instead of 2 per cent--in February. The recent experience is in contrast to that of the immediately preceding



years during which climbing mortgage finance costs contributed appreciably to the rise in the over-all consumer price index. In the three years ending December 1970, the CPI rose at an annual rate of 5.7 per cent, but it would have risen at a rate of about 5.3 per cent had mortgage costs been excluded.

The further decline in used car prices, and a slight drop in house prices, more than offset an advance in the cost of household durables last month. Excluding used cars and houses, durable goods prices continued to rise. The rise in prices of houses has been slowing since last fall; this may reflect in part a failure to allow adequately for the change in house quality as the mix of new homes shifted to less expensive types.

DURABLE GOODS PRICES

(Per cent change, seasonally adjusted annual rates)

	Dec. 1969 to June 1970	June to Sept.	Sept. to Dec. 1970	Dec. 1970 to Jan. 1971	Jan. 1971 to Feb. 1971
All durable goods	5.6	4.7	7.3	2.1	- 1.0
Used cars <sup>1/</sup>	13.4	-12.9	18.7	-24.2	-15.6
Home purchase <sup>1/2/</sup>	8.9	9.2	6.3	3.2	- 1.7
New cars	1.9	6.9	16.9	26.2	.0
Household durables <sup>2/</sup>	2.8	2.2	3.3	.0	3.3
Addendum:					
Durable goods less used cars and home purchase	2.2	4.1	6.3	6.6	2.2

<sup>1/</sup> Not seasonally adjusted.

<sup>2/</sup> Confidential--computed as a residual by FRB.

The drop in home mortgage costs offset most of the substantial advance in other service costs last month. Excluding home finance, service prices rose at an annual rate of 8 per cent. Automobile insurance premiums increased strongly for the second month, rents and gas and electricity costs accelerated, and the rapid advance in medical costs continued. Auto insurance rates, the fastest-rising price among service groups in 1969-70, reached a level in February 34 per cent above December 1968.

Farmers' production plans. March surveys indicate that farmers are adjusting to the short feed supplies and excessive hog production prevailing since late 1970 by planning to expand 1971 crops and to reduce hog output. The expansion in plantings is in line with Department of Agriculture goals.

Farmers intend to plant 4 per cent more acreage this year than last and 7 per cent more than 1969, which produced a record output. If weather is normal and corn blight is no worse than last year, a record crop is a possibility for 1971. Two-thirds of the 11 million net increase in plantings this year will be in corn and grain sorghums with corn up 6 per cent and sorghums up 17 per cent. Soybean acreage will be up 7 per cent reflecting in part prospects for continued strong demand and high prices. Sharp increases in spring wheat are primarily adjustments to program changes.

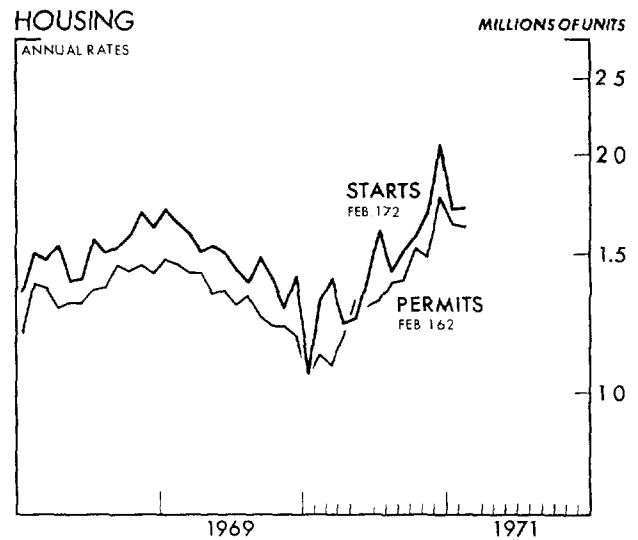
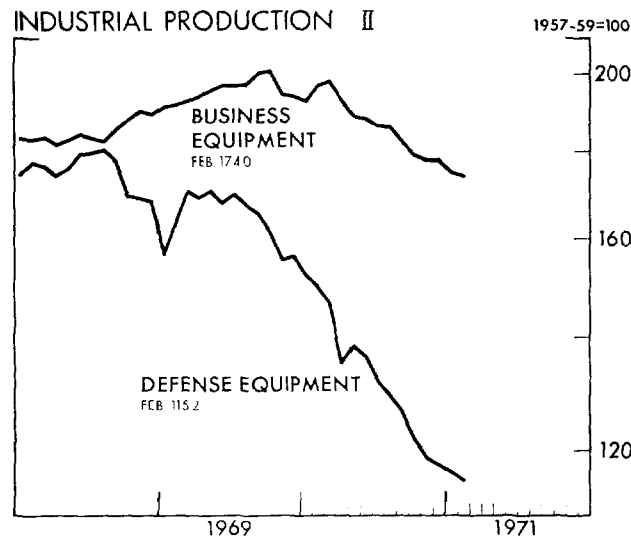
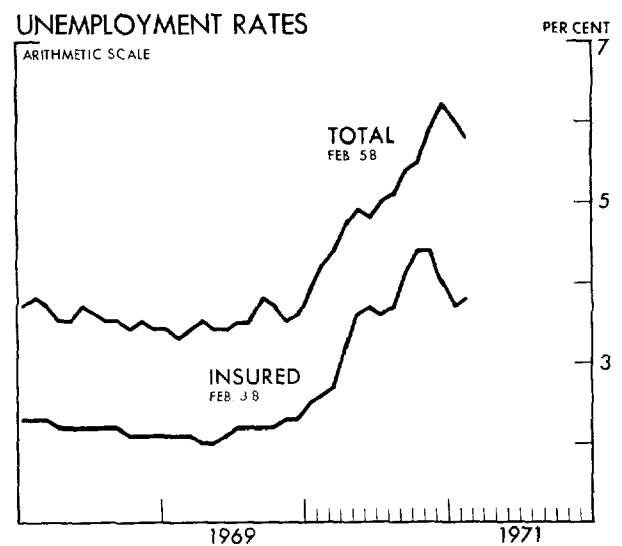
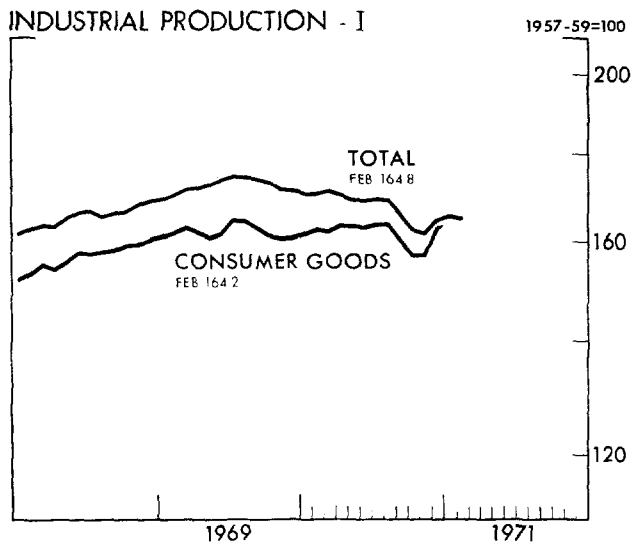
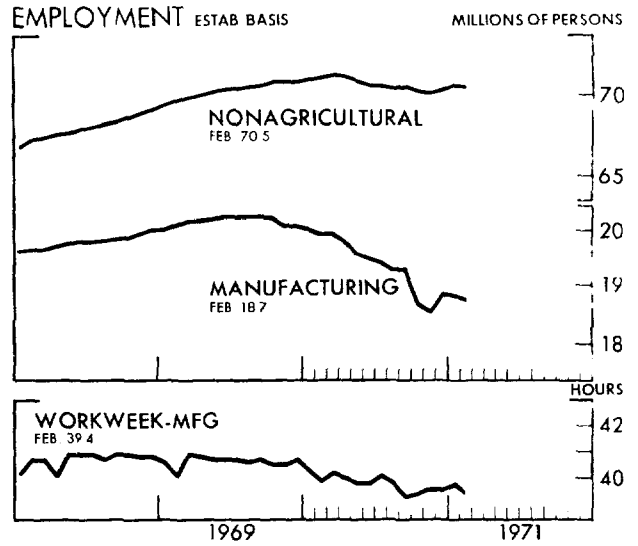
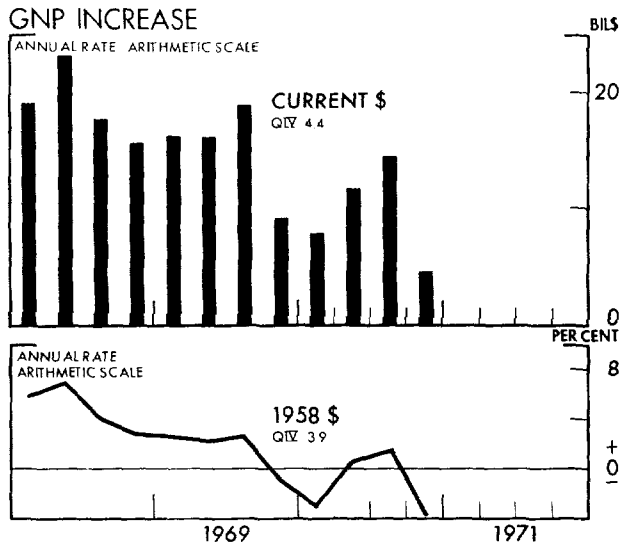
Departures from planting plans may be larger than usual this year because of limited quantities of blight resistant seed corn available. Corn producers in blight affected areas may decide to plant less than their intended corn acreage rather than risk planting susceptible seed. Actual plantings will be surveyed in July and production estimates will be made monthly beginning in August.

Livestock producers face prospects for continued unfavorable livestock-feed price ratios until feed supplies become cheaper and prices of livestock improve. Dairy price supports have been raised, effective April 1, because of high feed costs. For hog producers,

the strain on profits is severe since low hog prices have prevailed since last September. In fact, plentiful supplies of pork have dampened all meat prices since last fall. Corn Belt hog producers surveyed in March propose to cut back 1971 output for the seasonally large fall market 7 per cent below a year earlier and to reduce output for early 1972 markets by 15 per cent. In the meantime the current large marketings are likely to continue until midyear. If hog producers carry out these adjustments, hog prices are likely to decline less than seasonally this fall and rise very substantially in early 1972. Possibly these prospects for higher hog prices may encourage cattle feeders and broiler producers to step up their production plans and hog producers themselves to moderate their intended cutbacks. USDA analysts expect cow and feed cattle slaughter to expand this fall. Reportedly, large feedlot capacity, dry weather, and easier credit availability are encouraging cattle feeding in the Southwest, but this may be partially offset by declines in the Corn Belt. Livestock producers decisions will be strongly influenced by their evaluations of 1971-72 feed supply prospects.

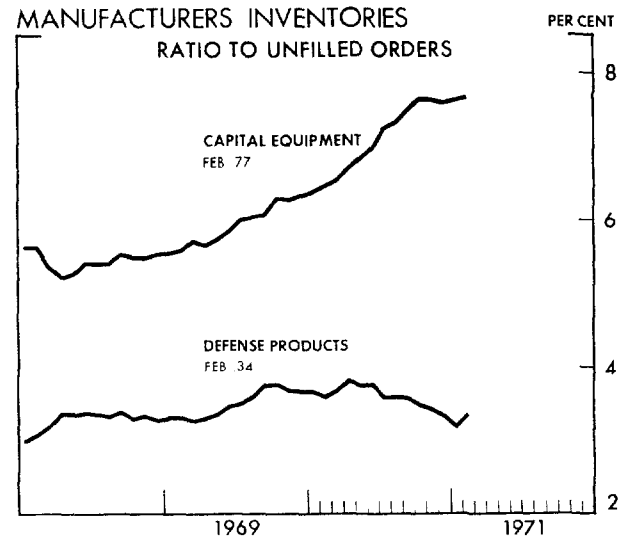
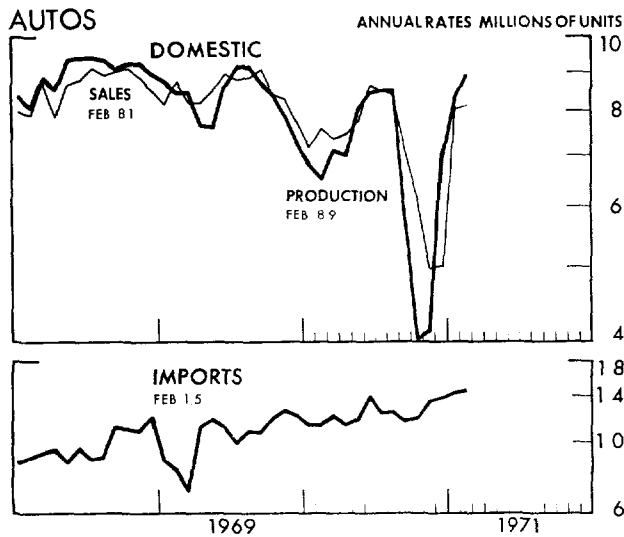
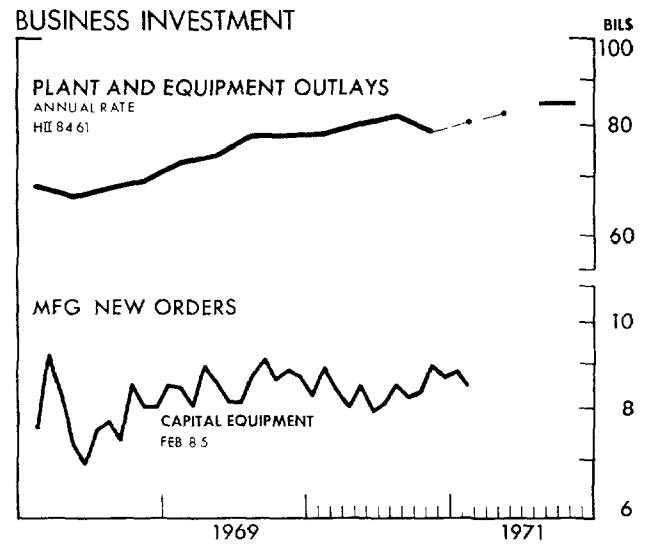
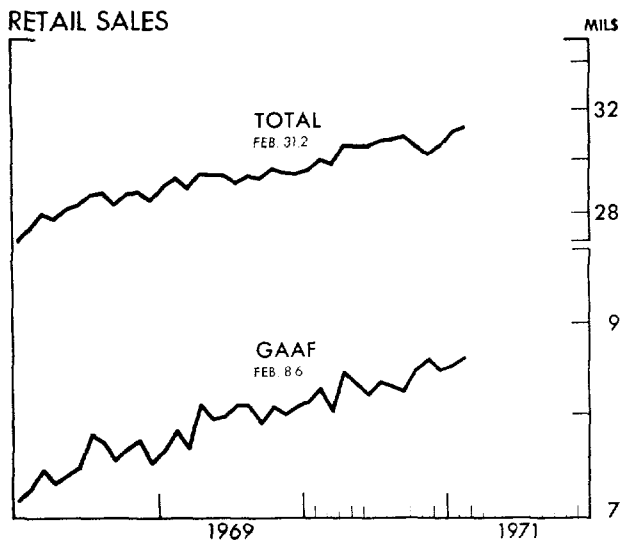
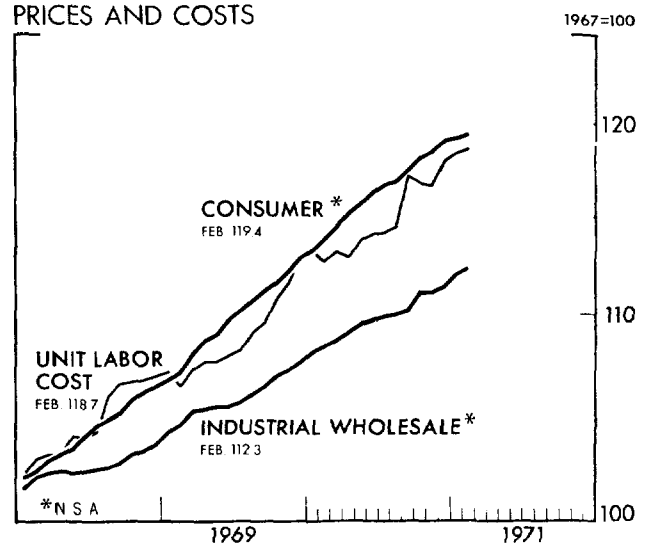
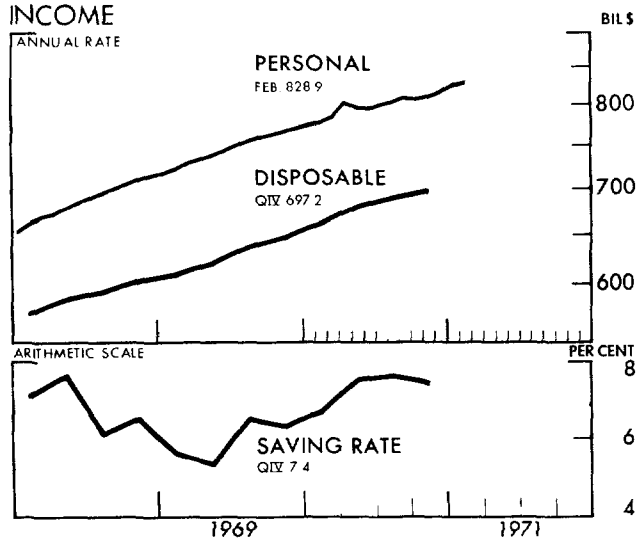
# ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED, RATIO SCALE



# ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED, RATIO SCALE



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 THE ECONOMIC PICTURE IN DETAIL
 

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Domestic Financial Situation

Flow of funds, first quarter. The total flow of credit in the first quarter was large by historical standards but not altogether beyond precedent. Very preliminary estimates, based on partial data, indicate a \$113 billion annual rate for the quarter. At this rate, total credit flows were about 11 per cent of GNP, which is close to the upper end of this ratio on a quarterly basis in the postwar period. The ratio has exceeded this level only in occasional quarters such as in the 1958-59 recovery and in the fourth quarter of 1967. The rate averaged under 10 per cent for each of the years 1969 and 1970.

## SUMMARY OF CREDIT DEMAND

(Net flows in billions of dollars at seasonally adjusted annual rates)

	1969	1970			1971
		H1	QIII	QIV	QIp
1. Total funds raised, net, by nonfinancial sectors <sup>a/</sup>	90.3	91.9	92.2	105.7	113.4
2. U.S. Government <sup>b/</sup>	-3.6	9.4	12.3	19.6	8.7
3. State & local government securities	8.1	9.5	8.9	19.3	22.6
4. Corporate & foreign bonds <sup>c/</sup>	13.1	18.7	22.3	29.9	28.0
5. Mortgages	27.9	21.9	26.3	28.1	31.1
6. Bank loans <sup>d/</sup>	15.5	7.8	2.1	-14.6	3.0
7. Other loans <sup>e/</sup>	24.5	18.5	14.8	14.3	15.0
8. Corporate equities	4.8	6.0	5.4	9.1	4.9

<sup>a/</sup> Nonfinancial sectors comprise households, nonfinancial business, state and local governments, foreign, and U.S. Government.

<sup>b/</sup> Excludes sponsored credit agencies.

<sup>c/</sup> Excludes net issues by financial corporations.

<sup>d/</sup> Mainly business and farm loans. Excludes commercial paper and acceptances held by banks; excludes mortgage loans and consumer credit security loans.

<sup>e/</sup> Consumer credit, commercial paper issued by nonfinancial companies, acceptances, commercial credit from finance companies, and U.S. Government loans.

<sup>p/</sup> Preliminary. First quarter estimates are based on partial data and are very preliminary.

Credit market activity during the quarter was dominated by long-term credit flows of all types, and these financings have contributed at least temporarily to the liquidity positions of borrowing sectors. Municipal securities have been the outstanding case, with State and local government borrowing, at a \$23 billion annual rate, well above the \$19 billion rate of the fourth quarter and roughly twice as high as any earlier high. Local governments are estimated to be in a comfortable surplus position currently, suggesting that much of this borrowing was in anticipation of outlays later this year. Whether or not the spending appears, the rate of borrowing is likely to fall off. For the present, the proceeds of these issues are adding substantially to liquidity holdings of governments.

Corporate bond issues were also large in the first quarter, although not above the fourth quarter and less emphatically above earlier peaks than municipals.<sup>1/</sup> As in 1970 these bond issues were partly a substitute for bank credit and other short-term sources of funds and to some extent are a funding of shorter-term liabilities. The flotations are larger than current financing requirements, however, and are associated with roughly a 10 per cent annual rate of growth in corporate liquid asset holdings.

Mortgage flows recovered from their troughs of the first half of 1970 and in the first quarter were running stronger than construction activity would suggest. Land transactions and trading of existing

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<sup>1/</sup> Net issues in the first table are on a payments basis and exclude offerings in late March, for which payment is due in April.



houses have probably been absorbing part of the funds, and for both buyers and sellers these long-term financing flows are tending to increase liquidity positions.

Taken together the net flow of credit in these private long-term forms was about 8 per cent of GNP and over 70 per cent of total funds raised. This pattern was similar to the fourth quarter of 1970, but the two quarters taken together are without precedent as to the volume of long-term capital market flows. In the total credit flow, these large capital market activities are partly offset by lack of growth in bank loans and commercial paper. Total credit flows have also been held down by the restriction on Treasury borrowing imposed by the debt ceiling through much of the quarter. Until the ceiling was raised, the Treasury was forced to run off cash balances by sizable amounts for current financing, but now seasonally adjusted net issues will need to increase enough to restore a more normal cash position as well as to cover current needs. Seasonally adjusted second-quarter borrowing--by the Treasury and in total--is therefore likely to be well above the first quarter even with some reduction in corporate and municipal flotations.

On the supply side of credit markets, the shortage of new Treasury and agency issues had an important influence in building up the flow of household funds into institutional deposits in the first quarter. As shown in the second table, Federal Reserve and foreign buying of Treasury securities (lines 5 and 6) were substantially larger than the net issue of such securities. Additional demands were generated by

commercial-bank purchases reflecting slack loan demand, the liquidity buildup by savings and loan associations for second-quarter repayments of their Federal Home Loan Bank borrowings, and liquidity investment of proceeds of capital market financing by corporations and local government. These sizable demands for Governments forced short-term interest rates down to levels that brought transfers of household funds out of Government security holdings and accelerated time deposits inflows. The institutions, with no immediately attractive uses for these extra funds, added even further to their buying of Government securities. The net result was a first-quarter liquidation by private nonfinancial investors (line 9 of the second table), apparently at a \$45 billion rate, that eliminated most of the amounts bought in 1968 and 1969. After a liquidation of this scale, this cycling of funds through institutions to the government securities market is likely to be reduced in the second quarter with a resulting decrease in the rate of deposit inflows.

## SECURITY MARKETS

(Net flows in billions of dollars at seasonally adjusted annual rates)

	1969	1970			1971
		HI	QIII	QIV	QIp
<u>U.S. Government and agency securities</u>					
1. Total net issues	<u>5.6</u>	<u>19.4</u>	<u>18.7</u>	<u>23.9</u>	<u>1.6</u>
2. Treasury & budget agencies <sup>a/</sup>	-3.5	9.5	12.4	19.5	8.9
3. Sponsored credit agencies	9.1	9.9	6.3	4.4	-7.3
4. Net purchases	<u>5.6</u>	<u>19.4</u>	<u>18.7</u>	<u>23.9</u>	<u>1.6</u>
5. Federal Reserve	4.2	3.2	7.8	5.6	5.6
6. Foreign	-1.8	8.1	4.8	12.8	13.4
7. Commercial banks	-9.5	3.9	15.5	9.5	19.6
8. Nonbank finance	-2.3	5.2	2.3	9.3	7.7
9. Pvt. domestic nonfinancial	15.0	-1.0	-11.7	-13.2	-44.7
<u>State and local government securities</u>					
10. Total net issues	<u>8.1</u>	<u>9.5</u>	<u>8.9</u>	<u>19.3</u>	<u>22.6</u>
Net purchases by:					
11. Commercial banks	.4	6.9	12.5	18.3	19.7
12. Others	7.7	2.6	-3.6	1.0	2.9
<u>Corporate bonds</u>					
13. Total net issues <sup>b/</sup>	<u>14.8</u>	<u>20.6</u>	<u>25.1</u>	<u>31.8</u>	<u>31.1</u>
Net purchases by:					
14. Households & personal trusts	5.3	10.7	11.8	17.1	12.5
15. Mutual savings banks	.3	1.3	.9	2.8	7.2
16. Insurance & pension funds	5.9	7.6	7.4	8.3	9.4
17. Others	3.3	1.0	5.0	3.6	2.0

a/ Excludes mortgage liabilities that are in U.S. Government borrowing in the first table, line 2.

b/ Includes issues by banks and finance companies in addition to amounts in the first table, line 4.

p/ Preliminary. First quarter estimates are based on partial data and are very preliminary.

Commercial banks, along with their purchases of Government securities, appear also to have acquired almost all of the net new supply of municipals (line 10 of the second table) in the first quarter. Despite the extraordinarily large volume of issues, the municipal market

was thus financed predominantly by time deposit inflows to banks. The corporate bond market was given a similar assist from sharply increased purchases by mutual savings banks (line 14). Purchases of private bonds by individuals, while down from the unusual fourth quarter level, were large compared to all other quarters.

The total structure of credit supply is summarized in the third table, where the credit flow through institutions (line 6) in the first quarter can be seen to be larger than total borrowing (line 1). Heavy intermediation of this kind has occurred occasionally in the past, such as the first half of 1958 and the second half of 1960, although not on the scale indicated for the first quarter. In coming months the degree of intermediation is likely to be reduced, moving closer to the relationships of the second half of 1970, as municipal and corporate security issues tend to decrease and Treasury financing picks up, allowing for seasonal pattern.

STRUCTURE OF CREDIT SUPPLY  
(Net flow in billions of dollars at seasonally adjusted annual rates)

	1969	1970			1971
		H1	QIII	QIV	QI <sup>P/</sup>
1. Total credit-market funds raised by non-financial sectors	90.3	91.9	92.2	105.7	113.4
2. Credit-market borrowing by finance	<u>31.1</u>	<u>23.7</u>	<u>2.6</u>	<u>.7</u>	<u>-2.0</u>
3. Total funds raised in credit markets	<u>121.4</u>	<u>115.5</u>	<u>94.8</u>	<u>106.4</u>	<u>111.4</u>
Funds supplied in credit markets by:					
4. Commercial banks	17.5	22.4	44.7	20.6	56.9
5. Pvt. nonbank finance	<u>49.0</u>	<u>40.0</u>	<u>56.9</u>	<u>51.4</u>	<u>65.3</u>
6. Total private finance	66.5	62.4	101.6	72.0	122.2
7. Federal Reserve & foreign	5.5	12.8	12.9	21.8	21.7
8. U. S. Govt. & sponsored agencies	11.5	13.9	10.7	9.9	.6
9. Pvt. domestic non-financial sectors	<u>37.9</u>	<u>26.5</u>	<u>-30.4</u>	<u>2.7</u>	<u>-33.1</u>
10. U. S. Govt. securities	<u>15.0</u>	<u>-1.0</u>	<u>-11.7</u>	<u>-13.2</u>	<u>-44.7</u>
11. Corporate bonds	7.6	11.5	10.8	17.1	12.4
12. Other credit	15.3	16.0	-29.5	-1.2	-.8
13. Memo: Deposits & currency held by private domestic nonfinancial sectors	4.7	34.0	97.8	81.6	121.6
14. Total of lines 9 & 13	42.6	60.5	67.4	84.3	88.5
15. Commercial-bank credit as per cent of total (line 4 * line 1)	19.3%	24.4%	47.2%	19.4%	50.0%

<sup>P/</sup> Preliminary. First quarter estimates are based on partial data and are very preliminary.

Monetary Aggregates

The narrowly defined money supply, currency plus private demand deposits, ( $M_1$ ), is now estimated to have increased in February at an annual rate of 14 per cent, up sharply from the slow pace of advance recorded in January and during the fourth quarter of last year. Rates of growth in  $M_2$  ( $M_1$  plus commercial bank time and savings deposits other than large CD's) and  $M_3$ , ( $M_2$  plus time and savings deposits at mutual savings banks and savings and loan associations) also picked up markedly in February, each rising at annual rates of 22 per cent.

The February rate of growth in the adjusted bank credit proxy was also above that for January and the fourth quarter. The acceleration was moderated, however, by a marked slowing in the pace of CD sales and by a slight reduction in U. S. Treasury deposits. Repayments of commercial paper indebtedness and Euro-dollar liabilities also continued. The decline in Euro-dollar liabilities was particularly sharp, reflecting reduction in head office liabilities in order to finance foreign branch takedowns of \$1 billion in Export-Import Bank certificates.

Weekly average of daily figures, seasonally adjusted, for the early part of March show continued advance in  $M_1$  although at a somewhat slower pace than in February. The pace of growth in the daily average for  $M_2$  over this period continued quite strong, as time and savings deposits rose sharply further.

The growth in time and savings deposits appears to have occurred at both large and small commercial banks, with significant gains being recorded in most time deposit categories, as suggested by the data in the table below. Many banks across the country have reacted to this continued heavy inflow of time deposit funds by cutting

rates offered on passbook savings deposits and consumer time certificates with short maturities. Banks in California, for example, will lower their passbook savings deposit rates to 4 per cent from 4-1/2 per cent on April 1. A further cut in offering rates on large CD's with maturity dates of less than a year has also taken place since late February, and the differential between these rates and rates on competing money market instruments (such as Treasury bills) has narrowed. Although banks have generally become much less willing to bid for short-term deposit funds, some banks are now aggressively seeking funds for deposits with longer maturities (5 years or over). This is reflected in the recent hike in rates on such deposits instituted by some large banks in California and New York.

MONETARY AGGREGATES  
(Seasonally adjusted percentage changes at annual rates)

	1970			1971	
	QII	QIII	QIV	Jan.	Feb.
1. Currency plus private demand deposits	5.8	6.1	3.4	1.1	14.0
2. Commercial bank time and savings deposits	14.1	32.2	21.8	25.5	28.6
a. large CD's	61.8	256.2	79.4	50.9	12.1
b. other time and savings	11.3	16.5	15.4	22.3	30.5
3. Savings deposits at mutual savings banks and S&L's	7.0	9.3	11.5	24.9	18.5
4. Adjusted bank credit proxy	6.5	17.2	8.3	10.5	12.9
<u>Concepts of money</u>					
5. $M_1 = (1)$	5.8	6.1	3.4	1.1	14.0
6. $M_2 = (1) + (2b)$	8.4	11.0	9.2	11.5	22.1
7. $M_3 = (1) + (2b) + (3)$	7.9	10.3	9.7	14.2	22.1

The pace of growth in the adjusted credit proxy during the early part of March was again moderated by further reductions in commercial paper indebtedness and more importantly by a further sharp decline in Euro-dollar liabilities, the latter reflecting in part the impact of an additional \$500 million sale of Export-Import bank certificates to foreign branches.

NET CHANGE IN TIME AND SAVINGS DEPOSITS  
(Billions of dollars, not seasonally adjusted)

	<u>February 24 - March 17 <sup>1/</sup></u>	
	Average	
	1968-70	1971
<u>Large commercial banks</u>		
Total time and savings	.1	3.2
Consumer-type	.4	2.3
CD's	-.4	0.9
IPC	-.4	0.5
Other	<u>2/</u>	-.4
All other time	<u>2/</u>	<u>2/</u>
<u>Country banks</u>		
Total time and savings	3.7	1.7

<sup>1/</sup> Dates are for 1971; comparable dates used for other years.

<sup>2/</sup> Less than \$50 million.

Bank Credit

Final estimates for February indicate that commercial bank credit, adjusted for transfers of loans between banks and their affiliates, increased at an annual rate of 13 per cent. This is slightly below January's rate of increase but well above the pace set in the fourth quarter of last year. Slightly more than half of the February growth in total bank credit was accounted for by a further sharp increase in security holdings. A pickup on the rate of acquisition



of U. S. Treasury issues compensated for a slowing in the rate of increase of other securities--growth in these latter securities, however, was still quite substantial by the standards of earlier years.

Total loans, adjusted for transfers, increased at a 9.4 per cent annual rate in February, slightly above January's rate of advance and in marked contrast to the decline recorded for the fourth quarter of last year. A sizable increase in business loans was mainly responsible, but real estate lending was also somewhat stronger than in preceding months.

Weekly reporting bank data for the first half of March indicate that commercial bank credit continued to increase rapidly over this period--growth during the three weeks ending March 17 was more than twice as large as the average of gains recorded in comparable periods of other recent years. The pace of expansion in security holdings appears to have been sustained, as holdings of U. S. Treasury issues rose moderately, primarily reflecting the Treasury's sale of strip bills early in the month, and holdings of other securities rose sharply; both gains appear quite strong when compared with other recent years, as shown in the table.

NET CHANGE IN BANK CREDIT AT LARGE COMMERCIAL BANKS  
ADJUSTED FOR TRANSFERS OF LOANS BETWEEN BANKS AND THEIR AFFILIATES 1/  
(millions of dollars, seasonally unadjusted)

	February 24 - March 17 <u>2/</u>	
	1968-70 Average	1971
Total loans and investment <u>3/</u>	1,421	3,282 <u>5/</u>
U. S. Government securities	- 330	115
Other securities	613	1,468
Total loans <u>3/</u>	1,138	1,699 <u>5/</u>
Business loans <u>4/</u>	1,248	779

1/ Weekly series for large commercial banks as of Wednesday.

2/ Dates are for 1971; comparable dates used for other years.

3/ Adjusted for transfers of total loans between banks and their own holding companies, affiliates, subsidiaries, and foreign branches.

4/ Adjusted for transfers of business loans between banks and their own holding companies, affiliates, subsidiaries, and foreign branches.

5/ Adjusted to exclude \$814 million System matched-sale purchase transactions outstanding on February 24.

Total loans also appear to have risen substantially in early March, even though business loan growth appears to have weakened considerably and may even have turned negative. The weaker business loan performance probably reflects the recent exceptionally heavy capital market financing calendar; a considerable part of the new offering volume has been for the stated purpose of funding short-term indebtedness.

Commercial bank liquidity has increased dramatically over this past year, as banks have channelled a major portion of their heavy deposit inflows into investments and liquid assets. The accompanying chart shows the ratio of liquid assets to total liabilities at weekly reporting banks. The ratio for the aggregate of weekly reporting banks,

which reached a low in late 1969, has been rising very sharply since March of last year, and at present is significantly above previous peak levels established in late 1967 and late 1968, There is, however, some difference in the experience of New York weekly reporters and other weekly reporters. While both groups have sharply increased their liquidity from a year ago, the liquidity of New York banks has not surpassed the peaks of 1967 and 1968.

COMMERCIAL BANK CREDIT ADJUSTED TO INCLUDE  
 OUTSTANDING AMOUNTS OF LOANS SOLD TO AFFILIATES 1/  
 (seasonally adjusted percentage changes, at annual rates)

	1970			1971	
	HI	QIII	QIV	Jan.	Feb.
Total loans & investments <u>2/</u>	4.5	13.9	6.1	14.9	13.1 <sup>4/</sup>
U.S. Government securities	8.5	25.9	2.8	8.3	24.7
Other securities	10.4	20.3	34.5	39.3	19.0
Total loans <u>2/</u>	2.4	9.8	-1.0	9.1	9.4 <sup>4/</sup>
Business loans <u>3/</u>	8.1	1.8	-9.2	5.4	14.0

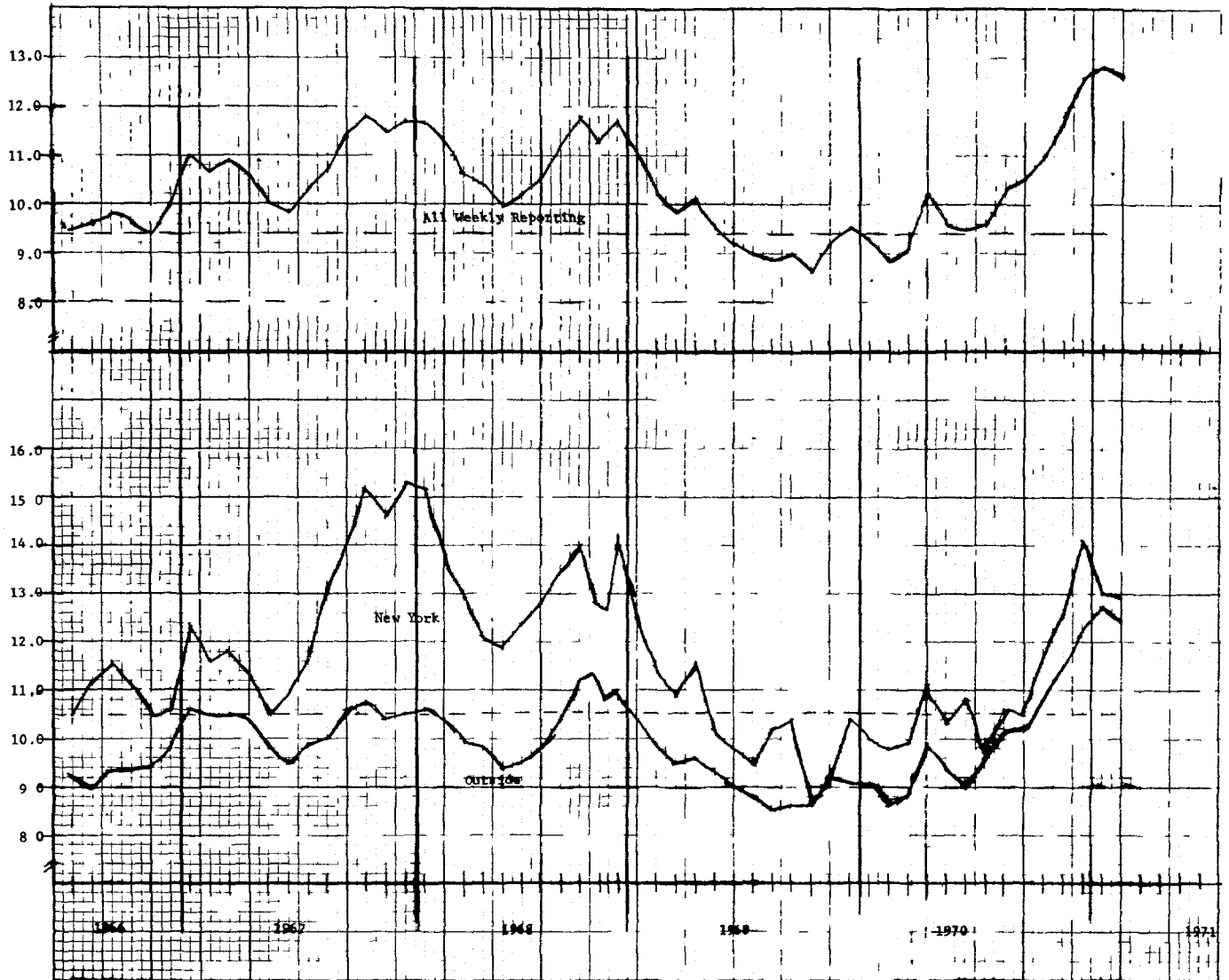
1/ Last Wednesday of month series.

2/ Includes outstanding amounts of loans sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

3/ Includes outstanding amounts of business loans sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

4/ Excludes \$814 million of System matched sale-purchase agreements outstanding on February 24.

LIQUID ASSETS/TOTAL LIABILITIES <sup>1/</sup>



<sup>1/</sup> Monthly averages of weekly figures. Liquid assets include Treasury bills, certificates, and notes and bond maturing in one year, tax warrants and short-term municipals, bankers acceptances, balances with domestic banks, loans to domestic banks, broker-dealer loans, and Federal funds. Data not seasonally adjusted. Liabilities exclude capital accounts and valuation reserves.

Nonbank depository intermediaries. Nonbank thrift institutions continued to receive extraordinarily large deposit inflows during the first half of March, according to sample data.<sup>1/</sup> For the first two months of the current quarter the deposit growth rate for nonbank thrift institutions taken together was about double the already-increased fourth quarter pace. There continue to be press and trade reports of spreading cuts in deposit interest rates by thrift institutions, despite the failure of Congress to renew interest rate ceiling legislation (which fortunately came at a time when market yields on competing assets were well below deposit offering rates). In any event, an interim extension of ceilings has been sent to the President for his signature.

DEPOSIT GROWTH AT NONBANK THRIFT INSTITUTIONS  
(Seasonally adjusted annual rates, in per cent)

	Mutual Savings Banks	Savings and Loan Associations	Both
1970 - QIII	6.9	10.6	9.3
QIV	10.2	12.1	11.5
1971 - January*	15.0	29.8	24.9
February* p/	15.7	19.9	18.5
January and February p/	15.4	25.0	21.9

\* Monthly patterns may not be significant because of difficulties with seasonal adjustment.

p/ Preliminary.

<sup>1/</sup> The decline shown in the table for February at savings and loan associations from the January deposit growth rate is not considered significant, in large part because of seasonal adjustment problems.

Mutual savings banks have been able to convert most of their increased deposit flows into long-term investments. They have acquired a large volume of corporate securities--both debt and equity--in the open market, partly because these assets are readily available and partly because relative yields still favor such acquisitions over home mortgages. Savings banks have not shown much emphasis on increasing liquid assets, perhaps because long-term investment yields are attractive. Additionally, they may view the marketability of their corporate securities as providing an element of liquidity.

By contrast, savings and loan associations, restricted in their long-term investments principally to mortgages, have continued to acquire a massive amount of liquid assets, almost entirely in the form of Treasury bills, other Government issues, and Federal Agency issues maturing within five years. The \$3 billion increase in such assets between November and February is far in excess of any cyclical liquid asset rebuilding and is also far beyond the build-up needed in connection with the \$1 billion increase in outstanding mortgage commitments over that same time span. At the end of February, savings and loan associations held over \$9 billion in liquid assets in excess of FHLBB requirements; even adjusting in advance for the forthcoming increase in FHLBB requirements effective April 1, "free" liquid assets would be very large. That part of the build-up reflects a lack of ready alternative uses for their large inflows is suggested by the continued large volume of mortgages purchased in the secondary market.

But, in addition, a sizable amount of their expanded liquidity undoubtedly will be used to repay Federal Home Loan Bank advances now outstanding. During the first three weeks of March, \$200 million of advances were repaid, in addition to the \$700 million repaid in January and February. April 15 is the first anniversary of the FHLBB's program of subsidized-rate, fixed-term advances, one of the conditions of which was a penalty for prepayment before one year. During April a year ago, \$3.3 billion of advances came under the program, and subsequently another \$5 billion of advances were arranged with the same one-year prepayment penalty. The District Federal Home Loan Banks are now operating autonomously to devise new subsidy schemes in an effort to keep those advances outstanding. They are offering new subsidized-rate terms not only to maturing advances but to all others as well and are offering free conversion in some cases, waiving the prepayment penalty. There are no aggregate data now available to indicate the extent of conversions to new subsidized-rate fixed-term advances, but on the basis of estimates made by the District Banks, FHLB Board staff expects repayments of all outstanding advances to total about \$1 billion each in April and May and about \$.5 billion in June.

LIQUIDITY OF INSURED SAVINGS AND LOAN ASSOCIATIONS<sup>1/</sup>  
(Dollar amounts, in billions)

	December	January	February
<u>Liquid assets held<sup>2/</sup></u>			
1969-70	12.7	12.2	12.6
1970-71	14.8	16.5	17.3
<u>Liquid assets in excess of required<sup>3/</sup></u>			
1969-70	5.5	5.0	5.5
1970-71	6.5	8.0	9.2
<u>FHLB advances outstanding</u>			
1969-70	9.2	9.7	9.8
1970-71	10.5	10.2	9.8

1/ These associations represent about 97 per cent of industry resources.

2/ Consist of cash, U.S. Governments of any maturity, Federal Agency issues maturing within 5 years, and certain other short-term assets.

3/ For the 1969-70 period, the FHLBB required that liquid assets equal at least 5.5 per cent of savings capital. For the 1970-71 months shown, the requirement was 5.5 per cent of the sum of savings capital and borrowed funds. Effective April 1, 1971, that percentage will be increased to 6.5 per cent, which will represent about \$1.5 billion transferred from "excess" to "required" liquidity.

Mortgage market. With deposit flows to thrift institutions remaining unusually large, mortgage activity has picked up further, according to field reports and trade opinion. In February, new and outstanding mortgage commitments reached new seasonally adjusted highs at savings and loan associations, and strengthened further at New York State savings banks. Loan closings by both types of lenders were quite high, although gross lending volume at the more diversified savings banks has slackened somewhat since last fall as corporate securities have remained attractive outlets for funds.



OUTSTANDING MORTGAGE COMMITMENTS AT THRIFT INSTITUTIONS<sup>1/</sup>  
(Billions of dollars, seasonally adjusted)

Date	Both	S&L's	N. Y. State Savings Banks
1969 - High	10.4 (Apr.)	7.2 (Apr.)	3.3 (Apr., May)
Low	8.4 (Dec.)	5.8 (Dec.)	2.6 (Dec.)
1970 - High	10.1 (Dec.)	8.1 (Dec.)	2.6 (Jan.)
Low	7.7 (Mar.)	5.2 (Mar.)	1.8 (Oct., Nov.)
<u>1970</u>			
November	9.6	7.8	1.8
December	10.1	8.1	2.0
<u>1971</u>			
January	10.4	8.3	2.1
February	11.2	8.9	2.3

<sup>1/</sup> Based on data from Federal Home Loan Bank Board and Savings Banks Association of New York State. Data for savings banks and S&L's include a minor amount of nonresidential commitments. S&L commitments include loans in process.

In response to the strong demand for mortgages by all types of private lenders, FNMA sold \$76 million from its own portfolio during the first two months of 1971. FNMA sales of mortgages in February actually exceeded FNMA purchases for the first time in more than six years. Also, there was an acceleration in sales of mortgage-backed pass-through participations issued against pools of Government-underwritten mortgages and guaranteed by GNMA. More than \$268 million in such securities were issued in February, mainly by mortgage companies selling to savings and loan associations.<sup>1/</sup>

<sup>1/</sup> Many S&L's are not set up to service Government-underwritten mortgages, and do not have an established correspondent relationship with mortgage companies. The GNMA guarantee, in effect, assures the securities holder that the mortgage company will perform its services as set forth in the guaranty contract.

The increased volume of funds available for mortgage investment has continued to exert downward pressure on mortgage interest rates. In the most recent FNMA auction, the implicit secondary market yield on 6-month forward purchase commitments for FHA and VA mortgages remained at 7.45 per cent, more than 190 basis points below last year's peak. In the primary market, the average interest rate on conventional first mortgages for home purchase continued to drop in February. Regionally, yields on such loans have declined most sharply in the West and Southwest where, unlike other areas, usury ceilings had posed no barrier to earlier upward rate movements. In addition to downward rate adjustments, lenders during February further liberalized such nonrate terms as loan maturity and loan-to-price ratio, according to the FHLBB conventional home-mortgage survey.

RETURNS ON HOME MORTGAGES

Primary Market (Conventional loans)		Secondary Market (FHA and VA loans)	
Month	Rate	FNMA auction date	Yield
1970 - <u>High</u> , July, August	8.60	January 12	9.36
November	8.45	November 16	8.90
December	8.30	December 28	8.36
1971 - January	7.95	January 25	7.97
February	7.75	March 1	7.43
		March 29	7.45

NOTE: For primary market, average contract interest rate charged to borrowers on conventional first mortgages for new-home purchases, as reported by Federal Housing Administration. For secondary market, average gross yield to lenders, before servicing costs, implied by results of FNMA auctions of 6-month forward purchase commitments for 30-year Government-underwritten mortgages, after allowance for commitment fee and required purchase and holding of FNMA stock, and assuming prepayment period of 15 years.

In contrast to otherwise improving mortgage market conditions, there were additional reports of some further deterioration in the quality of outstanding mortgage credit late last year, judging from such after-the-fact measures as delinquency and foreclosure rates. According to the sensitive Mortgage Bankers Association series, delinquency rates in the fourth quarter of 1970 reached a new high and, while still relatively low, the proportion of mortgages in foreclosure was at the highest fourth-quarter rate since 1966. Regionally, those areas of the nation hardest hit by layoffs in the aerospace industry and by the auto strike reported the largest proportional increase in delinquencies. In addition to localized unemployment problems, the recent increase in various housing programs for lower-income families may have contributed to the rising delinquency and foreclosure rates.

DELINQUENCY AND FORECLOSURE RATES ON HOME MORTGAGES  
(Per cent)

	Fourth quarter averages		Fourth quarter					
	1953-61	1962-70	1965	1966	1967	1968	1969	1970
Delinquent	2.46	3.30	3.29	3.40	3.47	3.17	3.22	3.64
In foreclosure	n.a.	.32	.40	.33	.32	.26	.27	.33

NOTE: Mortgage Bankers Association survey based on several million mortgages on 1-to-4-family properties held or serviced by approximately 400 member respondents, largely involving FHA and VA loans.

Corporate and municipal securities markets. Since the last Committee meeting, yields on new high-grade corporate bonds have dropped almost 70 basis points. With few concrete signs of a near-term upsurge

in the economy and with the latest cut in the prime rate giving additional evidence of the increased availability of bank credit, investor expectations about an upturn in long-term interest rates were revised as the month progressed. Thus, the market was able to absorb a record \$4.1 billion of new public corporate bond offerings at declining yields. The tax-exempt market, which also saw a new offerings record set in the first quarter of 1971, improved further in March, with municipal yields at midmonth reaching the lowest level in over 2 years.

BOND YIELDS  
(In per cent)

	New Aaa Corporate Bonds <sup>1/</sup>	Long-term State and Local Bonds <sup>2/</sup>
1970 - Low	7.68 (12/18)	5.33 (12/10)
High	9.30 (6/18)	7.12 (5/28)
1971 - Low	6.76 (1/29)	5.00 (3/18)
High	7.79 (3/5)	5.74 (1/7)
<u>Week of:</u>		
February 19	7.11	5.27
26	7.59	5.34
March 5	7.79	5.37
12	7.54	5.28
19	7.14	5.00
26	7.08	5.03

<sup>1/</sup> With call protection (includes some issues with 10-year protection),  
<sup>2/</sup> Bond Buyer (mixed qualities).

As corporate yields fell during March, previously postponed issues came to market and one or two large issues originally scheduled for April were accelerated, resulting in an unprecedented four-week

period in which public bond offerings exceeded \$900 million each week. Sale of this volume was facilitated by the fact that much of it was in the form of large, high-quality, negotiated offerings. About half of the enlarged offerings for the month were accounted for by manufacturing corporations, which normally represent about one-third of the total. Banks and bank holding companies--which have seldom financed in long-term markets--accounted for almost one-tenth of the new issues. Bond sales by utilities and communications companies, while high in absolute terms, represented only a little more than one-fifth of offerings; these firms usually account for one-half of the total. And with the steady improvement in stock prices over the month, sales of convertible bonds increased appreciably, amounting to over \$500 million.

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

	Bonds		Stocks	Total
	Public Offerings	Private Placements		
1969 - year	1,051	468	700	2,229
1970 - year	2,099	403	713	3,245
1970 - QIII	1,995	304	553	2,853
QIV	2,609	473	896	3,979
1971 - QI	2,777e	432e	696e	3,906e
March	4,100e	500e	1,000e	5,600e
April	3,000e	400e	1,100e	4,500e
May	2,500e	400e	900e	3,800e

e/ Estimated.

Public bond schedules of April and May are light relative to the March peak, but will average close to the first quarter pace of \$2.8 billion per month. Recent announcements have consisted mainly of issues of \$100 million or less. The April and May calendars of new stock offerings continue to build, as the large public utility volume has recently been expanded by stock issues of smaller and medium sized industrial corporations taking advantage of higher stock prices. There are also some indications that takedowns of private placements may be growing in line with increased fund availability at life insurance companies. The latest SEC figures show a relatively high volume of takedowns for January, following close on the usual December peak, and some underwriters report increased private placement activity this year. Altogether, the staff expects total corporate security offerings for April and May to remain above the first-quarter average, in spite of the prospective slowing of the pace of public bond offerings.

Yields on tax-exempt securities declined about 35 basis points in March, even though sales of long-term debt by State and local governments remained at historically high levels. Commercial banks have continued to be a major factor in the tax-exempt market, lengthening the maturity of their purchases in some cases, and fire and casualty companies remained active in the long-term end of the market. The forward calendar is building somewhat more slowly than the staff anticipated earlier, even though the Board's fourth quarter survey of bond anticipations<sup>1/</sup> suggests that offerings by State and local units for the second

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<sup>1/</sup> An analysis of the FRB-Census fourth-quarter survey of bond anticipations will be presented in an appendix to the Greenbook supplement.

quarter will be high. It is possible that local government officials are temporarily withholding announcements in the expectation of further interest rate declines and perhaps temporarily relying on short-term borrowing to take advantage of the wide spread between long and short rates.

STATE AND LOCAL GOVERNMENT OFFERINGS  
(Monthly or monthly averages, in millions of dollars)

	Long-term	Net short-term
1969 - year	991	294
1970 - year	1,515	383
1970 - QIII	1,490	457
QIV	1,954	521
1971 - QI	2,233e	518e
March	2,200e	500e
April	1,800e	n. a.
May	1,800e	n. a.

e/ Estimated.

NOTE: Long-term offerings are gross. Short-term offerings are Federal Reserve Board estimates of net sales.

Net sales of short-term tax-exempt securities in the first quarter remained close to the record pace of late 1970. Issues of short-term debt are geographically concentrated, with much of the recent activity in this area attributable to New York, which has special financial problems. However, some banks report that there has recently been an increase in the volume of direct short-term bank loans to local government units. Since these loans would not be reflected in the securities data, the series on net short-term financing probably understates the volume of such financing by State and local governments.

Government securities market. Yields on Treasury notes and bonds have generally declined an additional 10-50 basis points since the last meeting of the Committee. Rates on Treasury bills, however, have risen on balance. The yield declines on coupon issues brought the yield on 10-year Governments to around 5.50 per cent, the lowest level for this rate since late 1967; and the spread of corporate bond yields over the Treasury rate has continued to be very wide by historical standards. Shorter maturities showed smaller declines in Treasury coupon issue yields; and the 1-year coupon rate has increased slightly on balance in line with the net rise in bill rates.

MARKET YIELDS ON U.S. GOVERNMENT AND AGENCY SECURITIES  
(Per cent)

	1970		Weekly average for week ending			
	Daily highs <sub>L</sub> /	Daily lows <sub>L</sub> /	Mar. 9	Mar. 16	Mar. 23	Mar. 30
<u>Bills</u>						
1-month	7.84 (1/28)	4.58 (12/28)	3.22	3.11	3.55	3.48
3-month	7.93 (1/16)	4.74 (12/17)	3.33	3.28	3.40	3.46
6-month	7.99 (1/5)	4.78 (12/17)	3.42	3.40	3.54	3.61
1-year	7.62 (1/30)	4.74 (12/31)	3.61	3.50	3.61	3.66
<u>Coupons</u>						
3-year	8.42 (1/7)	5.60 (12/4)	4.68	4.40	4.29	4.50
5-year	8.30 (1/7)	5.85 (12/4)	5.20	4.93	4.78	4.95
7-year	8.12 (4/26)	6.10 (12/4)	5.67	5.40	5.21	5.28
10-year	8.22 (5/26)	6.21 (12/4)	6.00	5.72	5.49	5.47
20-year	7.73 (5/26)	6.15 (12/16)	6.16	5.94	5.78	5.78
<u>Agencies</u>						
6-month	8.65 (12/27)	5.30 (12/31)	3.90	3.72	3.80	3.89
1-year	8.75 (1/2)	5.53 (12/24)	4.06	3.95	3.99	4.13
3-year	8.54 (1/2)	6.16 (12/21)	5.24	4.89	4.73	4.83
5-year	8.43 (1/15)	6.37 (12/21)	5.59	5.38	5.18	5.25



The downward movement in intermediate and longer Treasury yields has reflected in part the rally in the corporate market and the drift in expectations underlying that rally. There has also been a continuing favorable reaction to System purchases of coupon issues, which have totaled about \$400 million since the last meeting compared with nearly \$620 million in the preceding four weeks. These developments have been accompanied by a very heavy volume of trading activity in Treasury coupon issues in March, a month in which there is no Treasury coupon financing. The daily average trading volume for March has been about \$1.1 billion, compared to \$575 million in March of last year. Despite the Desk's purchases of coupon issues, dealers' positions in issues due in over a year have risen slightly since the Committee's last meeting.

DEALER POSITIONS IN GOVERNMENT AND AGENCY SECURITIES  
(In millions of dollars)

	February daily average	Mar. 8	Mar. 15	Mar. 22	Mar. 29
<u>Treasury securities</u>					
Total	<u>4,652</u>	<u>4,081</u>	<u>3,814</u>	<u>3,154</u>	<u>5,020</u>
Treasury bills (total)	<u>3,073</u>	<u>2,917</u>	<u>2,623</u>	<u>1,734</u>	<u>3,727</u>
Due in 92 days or less	844	753	870	495	1,777
93 days or over	2,229	2,164	1,753	1,240	1,951
Treasury notes and bonds (total)	<u>1,579</u>	<u>1,165</u>	<u>1,191</u>	<u>1,420</u>	<u>1,292</u>
Due within 1-year	243	282	322	402	401
1-5 years	569	374	385	541	498
over 5 years	766	509	485	477	392
<u>Agency securities</u>					
Total	<u>946</u>	<u>844</u>	<u>908</u>	<u>1,128</u>	<u>1,180</u>
Due within 1 year	578	505	465	646	595
over 1 year	369	339	443	482	584

Bill rates continued under downward pressure immediately following the Committee meeting as demands remained heavy, particularly from foreign official accounts who had to invest dollar accumulations directly in market instruments as debt ceiling restrictions precluded Treasury issuance of special securities to them. On passage of the increase in the statutory debt ceiling, the Treasury announced a \$5 billion financing operation, entirely in the bill sector. This consisted of \$2 billion of additional April tax bills, auctioned of March 24 for payment on the 30th; a \$2.2 billion bill "strip" of bills in the 4-5 month area; and \$200 million additions to four weekly 6-month bill auctions. In response to this announced increase in bill supplies, short-term bill rates jumped sharply, with the 3-month issue rising 18 basis points to just over 3.50 per cent. Subsequently, bill rates moved briefly back down toward their earlier levels; but with the recent increase in supply and the tauter tone in the money market, rates pushed higher again and are now 5-30 basis points over their levels at the time of the March 9 meeting.

New issue activity in the Federal agency market has been relatively light, but the trend toward somewhat longer maturities continues, with FNMA including a \$200 million 13-year maturity in their latest offering and with the Farmers Home Administration selling a \$200 million in net new funds as a \$450 million reduction in outstanding debt by the FHLB offset a large portion of the new money borrowing by other agencies. As the increase in new agency borrowing has moderated and as interest rates in the Treasury market have moved lower as well,

yields on outstanding agency issues have declined by as much or more than on comparable Treasury maturities. In consequence, spreads of agency issues over direct Treasury issues are generally narrower than earlier in the year and about the same, or a little narrower, than in early 1967.

Other short-term credit markets. As of the end of February, seasonally adjusted commercial and finance company paper outstanding totaled \$32.6 billion, off \$409 million over the month and \$1,061 million since year-end.

Finance company paper accounted for most of the decline, reflecting the weakness in the recovery to date in consumer credit and also probably increased competition from commercial banks in the auto loan area. In addition, several of the large finance companies have issued intermediate-term notes and debentures within the past two months, thus allowing a cutback of short-term liabilities.

Dun and Bradstreet's removal of Chrysler Corporation's prime rating has had little effect of the market. Purchasers have been scrutinizing Chrysler paper carefully since last summer, and Chrysler's financial difficulties had already been widely reviewed in the press. Although Chrysler Finance was unable to roll over most of its maturing paper last week, and expects substantial runoffs to continue, it does have large unused bank credit lines. The parent corporation has no commercial paper outstanding.

Dealer-placed paper changed little in February remaining at \$13.8 billion, following substantial gains in the August 1970-January 1971 period. Outstanding dealer paper grew \$2.8 billion from August through February and is still an attractive alternative to short-term bank

loans for many firms. A large rate differential still persists: 30-270 day commercial paper is quoted at  $3\frac{7}{8}$ -- $4\frac{5}{8}$  per cent as compared with a  $5\frac{1}{4}$  per cent prime rate. Dealers report an average lengthening of maturities into the six-month range, in anticipation of an upward movement in short-term rates.

Bank-related paper outstanding fell \$129 million to \$1.9 billion in February. The runoff since mid-August, when the announcement was made that reserve requirements were to be applied to such paper, now totals \$5.8 billion.

Most short-term interest rates, after moving downward early in the month, have returned to about the levels of five weeks ago. The only significant further declines have been in certificates of deposit maturing in one and three months, which fell 63 and 50 basis points respectively. New issue CD's maturing in 30-59 days are currently being quoted somewhat below Treasury bills for comparable maturity.

SELECTED SHORT-TERM INTEREST RATES  
(Wednesday Quotation - Discount Basis)

	1970		Feb. 24	March 10	March 24	Net change Feb. 24-March
	Highs	Lows				
<u>1-month</u>						
Commercial paper	9.25	5.50	4.00	3.75	3.88	-.12
Finance paper	9.00	5.00	3.25	3.25	3.50	+.25
Bankers' acceptances	9.00	5.50	4.00	3.88	4.00	--
Certificates of deposit--						
new issue <u>1/</u>	7.75	5.00	3.88	3.25	3.25	-.63
Treasury bill	7.84	4.58	3.35	3.16	3.45	+.10
<u>3-month</u>						
Commercial paper	9.25	6.00	4.75	4.50	4.63	-.12
Finance paper	8.25	5.50	3.75	3.88	4.00	+.25
Bankers' acceptances	9.00	5.50	4.00	3.88	4.00	--
Certificates of deposit--						
new issue <u>1/</u>	6.75	5.50	4.13	3.75	3.63	-.50
Treasury bill	7.93	4.74	3.41	3.30	3.39	-.02
<u>6-month</u>						
Bankers' acceptances	9.00	5.50	4.00	3.88	4.00	--
Treasury bill	7.99	4.78	3.55	3.38	3.55	--
<u>12-month</u>						
Certificates of deposit--						
new issue <u>1/</u>	7.50	5.50	4.25	4.50	4.50	+.25
Treasury bill	7.62	4.74	3.67	3.50	3.64	-.03
Prime municipals	5.80	2.95	2.30	2.15	2.15	-.15

1/ Investment yield basis. Highs for certificates of deposit are ceilings effective as of January 21, 1970.

Source: Wall Street Journal's Money Rates for commercial and finance paper and bankers' acceptances; all other data from the Federal Reserve Bank of New York.

COMMERCIAL AND FINANCE COMPANY PAPER  
(End-of-month data, in millions of dollars)

	December 1970	January 1971	February 1971
Total commercial and finance paper <sup>1/</sup>	33,535	32,983	32,574
Bank related <sup>2/</sup>	2,349	2,030	1,901
Nonbank related <sup>3/</sup>	31,186	30,953	30,673
Placed through dealers	13,242	13,759	13,758
Placed directly	17,944	17,194	16,915
	Net change		
Total commercial and finance paper <sup>1/</sup>	+662	-552	-409
Bank related <sup>2/</sup>	-777	-319	-129
Nonbank related <sup>3/</sup>	+1,439	-233	-280
Placed through dealers	+766	+517	- 1
Placed directly	+673	-750	-279

<sup>1/</sup> Combines seasonally adjusted nonbank-related paper and seasonally unadjusted bank-related paper.

<sup>2/</sup> Seasonally unadjusted.

<sup>3/</sup> Seasonally adjusted.

Federal finance. The recent Congressional action on social security has made the budget posture somewhat more expansive than indicated in the January budget document. Compared to previous Board Staff projections, however, the high employment budget in calendar 1971 remains about unchanged, although total receipts and expenditure are both somewhat lower and adjustments have been made in the quarterly pattern.

The 10 per cent social security benefit hike (beginning in June retroactive to January) will add little more to Federal outlays than the Administration's earlier estimate since the 6 per cent increase proposed by the Administration included additional social security

reforms not incorporated into the 10 per cent hike. The Congressional decision to postpone the increase in the social security tax wage base until 1972, however, reduces projected receipts by about \$2.5 billion in calendar 1971. The effect of the social security legislation on Staff estimates was to reduce projected expenditures, since the Staff had already estimated a 10 per cent hike as well as substantial additional benefit reforms that were previously approved by the Senate but not enacted. This cut in expected outlays is about offset on the receipts side, however, because the Staff had not assumed the postponement of the wage base increase.

Judging from data recently becoming available, Federal spending in the first quarter, on a NIA basis, was below the last Greenbook estimate by \$2.5 billion (annual rates) due chiefly to a shortfall in transfers and grants. For the second half of calendar 1971, however, our estimates of expenditures now allow for the large increase in military pay recently approved by the House Armed Services Committee. Since this action is designed to encourage voluntary enlistments, it appears to have a good chance for enactment. Staff estimates, on the other hand, do not include the major reforms in welfare and in health currently under discussion. Should either of these measures pass, expenditures in the second half of the year could be larger than we have estimated. But the probable failure of Congress to pass the general revenue sharing program proposed by the Administration, and included in Staff estimates, would provide some offset to Congressional action in these areas. The proposed special

revenue sharing programs, which may have a better opportunity for Congressional approval than general revenue sharing, will not affect outlays in calendar 1971.

In terms of NIA concepts, the changes in Staff estimates result in a \$.6 billion increase in the projected deficit to a level of \$18.7 billion in this calendar year--partly reflecting weakness in corporate tax receipts as noted further below. This compares with a \$11.1 billion deficit in calendar 1970. On a high employment basis, however, the Staff estimates continue to show a small surplus, of \$.7 billion for 1971, thereby indicating little change in discretionary fiscal policy from the prior year when there was a small high employment deficit of \$.8 billion.

On a cash basis, Staff estimates of receipts and expenditures for fiscal 1971 have been revised downward. Actual receipts in February were nearly \$1.0 billion less than previously estimated by the Staff and although considerable uncertainty remains in these estimates, preliminary data for March suggest that receipts continue to be weaker than estimated earlier. As a result the Treasury's cash balance is expected to remain at low levels until the seasonal increase in receipts in the second half of April--despite the recent new bill financing. The cash balance situation is further clouded by recent activity in special Treasury issues on the part of foreign and agency investors. It is not clear to what extent net investments will continue. If further temporary financing should be required prior to mid-April, the Treasury may resort to special borrowing from the Federal Reserve. During May, the Treasury needs to refund \$5.8 billion of publicly held maturing issues, and is also expected to raise a sizeable amount of new cash.



PROJECTION OF TREASURY CASH OUTLOOK  
(In billions of dollars)

	March	April	May	June
<u>Total net borrowing</u>	1.3	-2.3	3.6	-2.5
Weekly and monthly bills	.2	2.8	--	--
Tax bills	2.0	--	--	--
Coupon issues	-.2	--	-.9	--
As yet unspecified new borrowing	--	--	4.5	--
Other (debt repayments, etc.)	-.7	-5.1	--	-2.5
Plus: <u>Other net financial sources</u> <sup>a/</sup>	.6	.4	-.2	-1.7
Plus: <u>Budget surplus or deficit (-)</u>	-5.4	3.7	-4.0	4.9
Equals: <u>Change in cash balance</u>	-3.5	1.8	-.6	.7
Memoranda: Level of cash balance, end of period	4.4	6.2	5.6	6.3
Derivation of budget surplus or deficit:				
Budget receipts	12.7	22.0	14.6	23.6
Budget outlays	18.1	18.3	18.6	18.7
Maturing coupon issues held by public	1.0 <sup>b/</sup>	--	5.8	--
Net agency borrowing	*	-.1	-.2	*

<sup>a/</sup> Checks issued less checks paid and other accrual items.

<sup>b/</sup> Refunded during February quarterly refinancing.

\*--Less than 50 million dollars.

FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS  
(In billions of dollars)

	F.R. Board Staff estimates										
	Fiscal 1971e/		Fiscal 1972e/		Calendar Years		Calendar Quarters				
	Jan. Budget	F.R. Board	Jan. Budget	F.R. Board	1970 Actual	1971e/ 1970 IV*	1971 I II III IV				
<u>Federal Budget</u>											
(Quarterly data, unadjusted)											
Surplus/deficit	-18.6	-20.0	-11.6	-23.4	-11.4	-25.1	-8.9	-8.1	4.6	-10.0	-11.6
Receipts	194.2	191.4	217.6	211.0	190.5	197.2	41.1	43.6	60.2	49.2	44.2
Outlays	212.8	211.4	229.2	234.4	201.9	222.3	49.9	51.7	55.6	59.2	55.8
Means of financing:											
Net borrowing from the public	17.6	17.3	10.6	24.2	11.8	23.9	8.9	2.2	-1.2	10.5	12.4
Decrease in cash operating balance	n.a.	1.7	n.a.	-1.7	-2.8	.1	.7	3.7	-1.9	-1.7	--
Other <u>1/</u>	n.a.	1.0	n.a.	1.0	2.4	1.1	-.7	2.2	-1.5	1.2	-.8
Cash operating balance, end of period	n.a.	6.3	n.a.	8.0	8.1	8.0	8.1	4.4	6.3	8.0	8.0
Memo: Net agency borrowing <u>2/</u>	n.a.	2.3	n.a.	n.e.	8.2	n.e.	1.5	-.4	-.3	n.e.	n.3.
<u>National Income Sector</u>											
(Seasonally adjusted annual rate)											
Surplus/deficit	-15.0	-16.5	-4.2	n.e.	-11.1	-18.7	-17.6	-16.7	-19.8	-19.3	-19.0
Receipts	200.0	196.4	225.9	n.e.	195.2	204.3	192.2	197.2	201.2	205.0	213.9
Expenditures	215.0	212.9	230.1	n.e.	206.3	223.0	209.9	213.9	221.0	224.3	232.9
High employment surplus/deficit (NIA basis) <u>3/</u>	n.a.	.3	n.a.	-1.3	-.8	.7	1.3	1.6	0.0	2.0	-.8

\* Actual e--projected

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

1/ Includes such items as deposit fund accounts and clearing accounts.

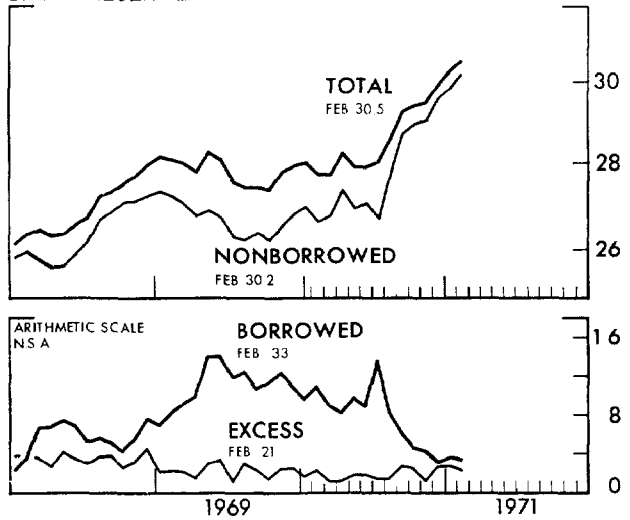
2/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

3/ Estimated by Federal Reserve Board Staff. The level of the estimated series shown here differs considerably from the estimates by the Council of Economic Advisers.

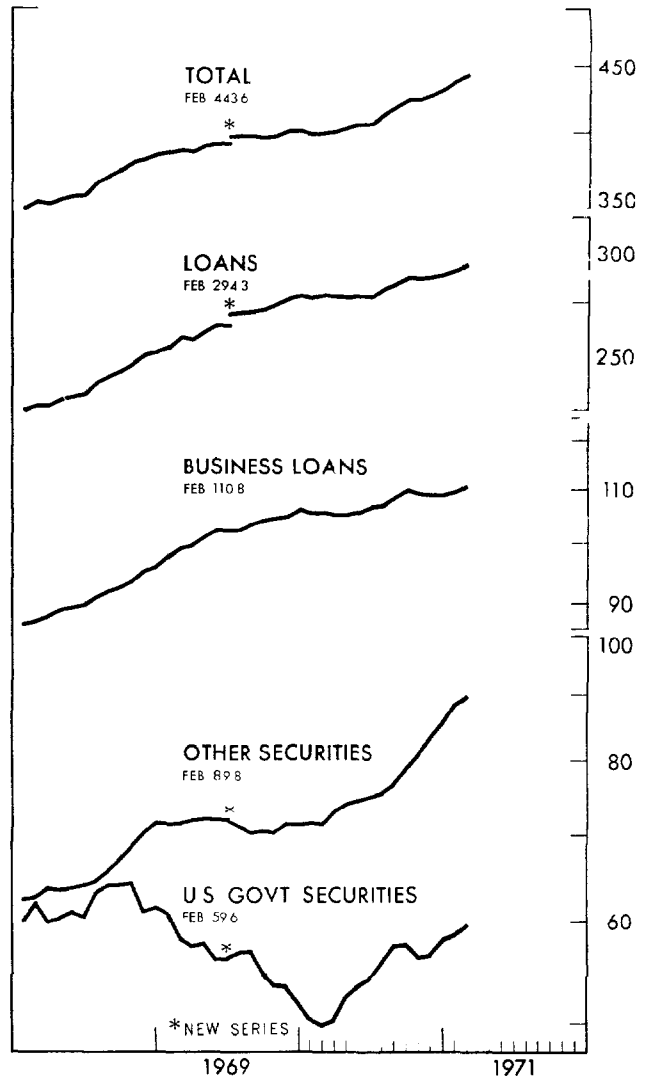
# FINANCIAL DEVELOPMENTS - UNITED STATES

BILLIONS OF DOLLARS, SEASONALLY ADJUSTED, RATIO SCALE

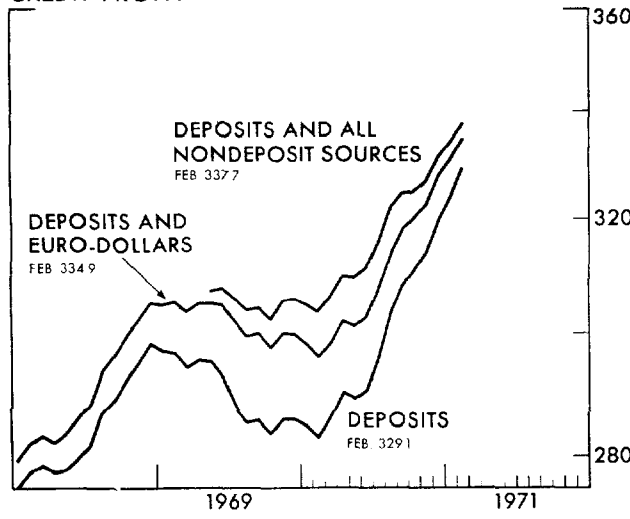
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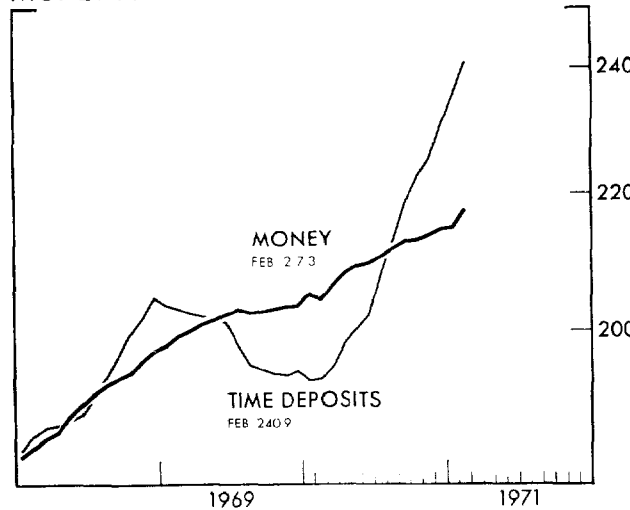
### BANK CREDIT



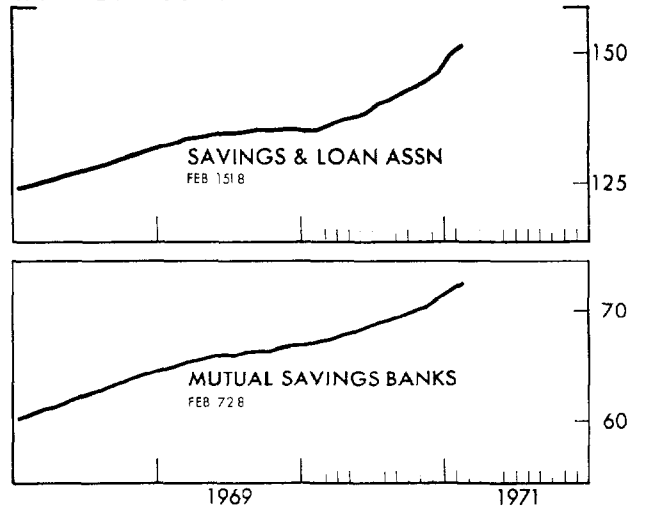
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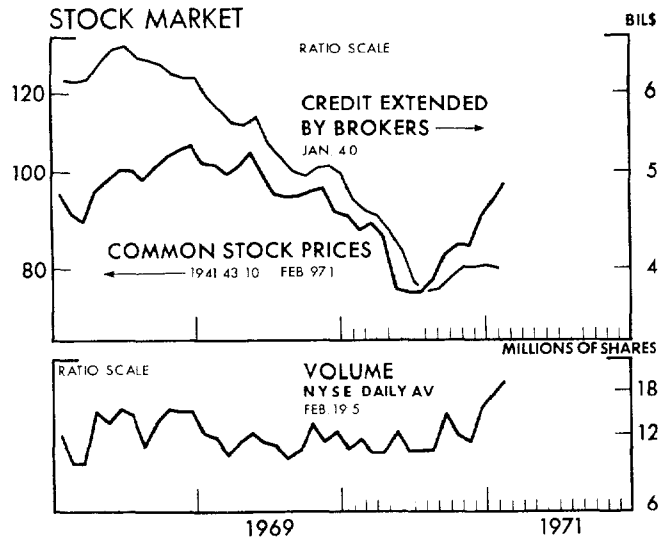
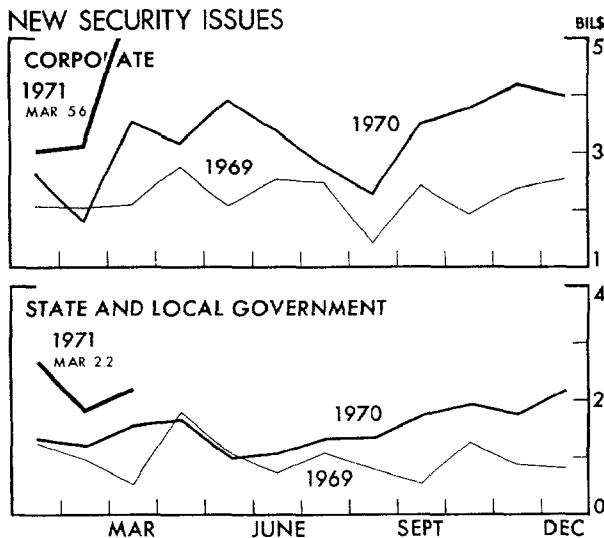
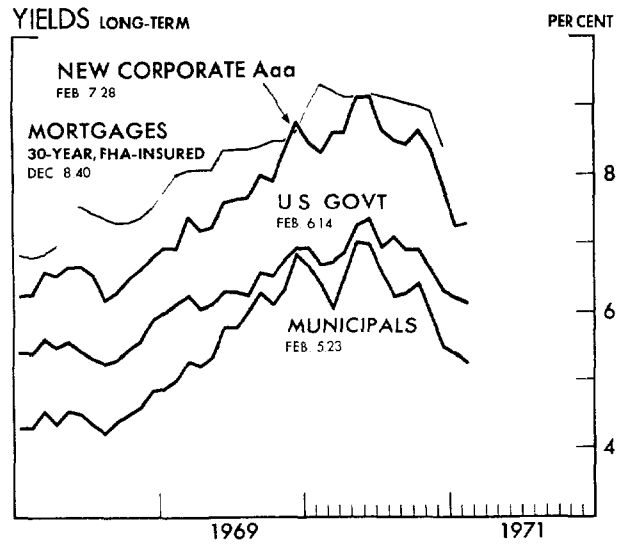
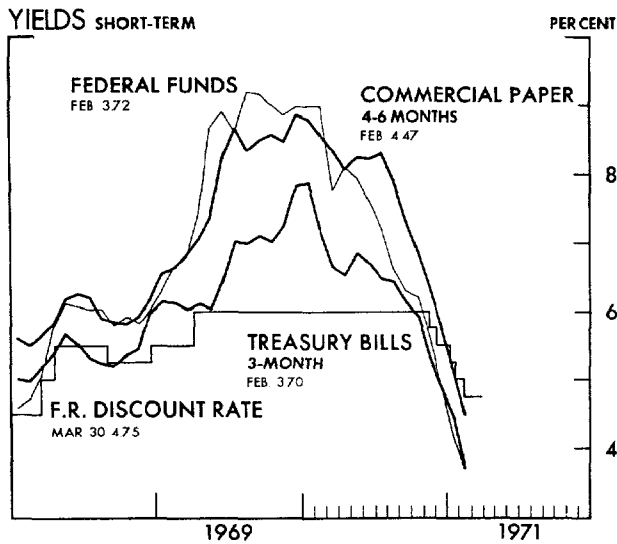
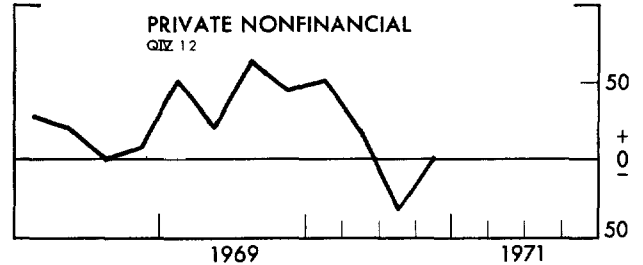
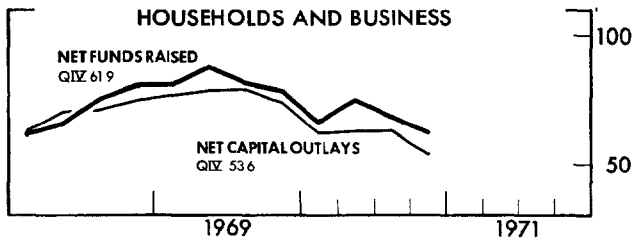
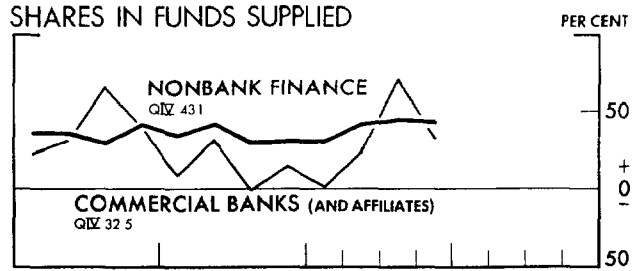
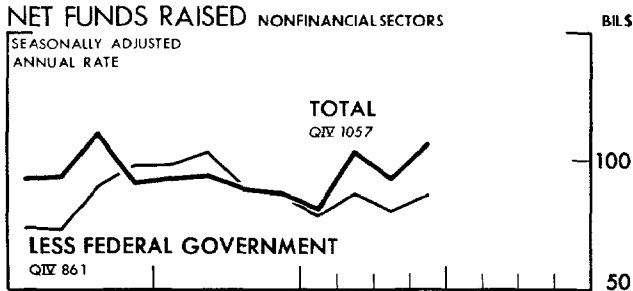
### MONEY AND TIME DEPOSITS



### SAVINGS ACCOUNTS



# FINANCIAL DEVELOPMENTS - UNITED STATES



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THE ECONOMIC PICTURE IN DETAIL

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International Developments

U.S. balance of payments. The worsening of the balance of payments that was evident in January and February was not reversed in March, and the deficit may even have deepened. On the liquidity basis the January-February deficit was \$1-1/2 billion, and for March, through the 24th, a deficit of at least \$1 billion was registered. Even if the last week in March turns out to be relatively favorable, the first quarter deficit, seasonally adjusted, may be of the magnitude of \$2-1/2 billion -- exceeding by far the heavy deficits of the first half of 1970.

Since liabilities to private foreigners were reduced sharply in February and again in March (largely repayments of Euro-dollar borrowings via foreign branches), the deficit as measured by the balance on official settlements has been substantially larger. For January-February this deficit totaled \$2.7 billion, and for March it probably exceeded \$2 billion. For the quarter, therefore, this balance on a seasonally adjusted basis may exceed \$5 billion -- again far larger than in any previous quarter.

Deficits of this size reflect serious weaknesses in both the current and capital accounts. In the current account, the data for merchandise trade show a further dwindling of the surplus in January-

February to about a \$1/2 billion annual rate. Demand conditions projected for the U.S. and other countries suggest that the trade balance could decline further as the year progresses. It may be that other elements in the current account are also yielding lower receipts; in particular, net income on investments may be suffering if foreign profits are under pressure.

As to the capital accounts, it is clear that net outflows have risen sharply -- even apart from the repayments of Euro-dollar borrowings. Such enlarged outflows are not evident in the January-February data for bank-reported claims or transactions in foreign securities. The reports by banks show a very sizable return flow of funds in January -- largely from Japan and Canada -- and only a modest outflow in February. Purchases of foreign bonds -- apart from an issue of the International Bank, the proceeds of which were invested in non-liquid U.S. assets -- were small in January and, according to partial reports, were negligible in February. However, there was a turn, though still relatively small, toward purchases of foreign (especially Japanese) equity securities in February.

According to early reports, the inflow of foreign funds into U.S. corporate stocks, which had provided strong support to the accounts since last June, nearly disappeared in February. It is difficult to judge the significance or permanence of this shift. The market here was generally strong, except for a brief dip during the

month, but equity markets in Germany, Japan and Switzerland were also making strong showings, after being relatively weak in the last half of 1970. If these inflows were to shrink significantly the effect on the over-all balance would be very substantial.

Information on corporate capital flows for the early months of the year is not yet available, but seems likely that they have rebounded to the very high levels of early 1970. For the year 1970, the net outflow of corporate funds was \$1.9 billion, about \$500 million more than in 1969. Over half of the net outflow occurred in the first quarter of the year. The recently issued projections of foreign plant and equipment expenditures show a 16 per cent rise for this year, after a 22 per cent increase in 1970. In both years the greatest increase is directed toward investments in Europe. Moreover, these figures do not include acquisitions of existing foreign enterprises. Under conditions of relatively easing costs of funds in the U.S., it can be expected that companies will maximize their use of U.S.-source financing within the limits allowed by the restrictions.

The size of the liquidity deficit suggests that outflows of short-term interest-sensitive funds not covered by the restrictions may also be increasing. Such outflows may show up as a renewed rise in negative errors and omissions.

U.S. foreign trade. In February, the U.S. trade balance (on a balance of payments basis) was a small surplus compared with a small deficit in January, as imports fell by 4 per cent and exports

remained close to the high January level. For January - February combined, however, the export surplus was \$1/2 billion at an annual rate, dropping further from the already low rate of about \$3/4 billion in the fourth quarter of 1970. Surpluses of \$3.0 billion had been recorded in both the second and third quarters of 1970. The main factor reducing the surplus was rising imports, as shown below:

PER CENT CHANGES IN VALUES FROM PRECEDING PERIODS

	1 9 7 0				1 9 7 1
	1Q	2Q	3Q	4Q	Jan.-Feb.
U.S. Exports	+3.5	+3.2	+1.2	-1.9	+4.3
U.S. Imports	+3.4	+1.3	+1.5	+3.2	+5.0

Higher prices, judging by January unit-values, may have accounted for about one-fifth of the import rise in January-February from the fourth quarter. By commodities, the import rise in January-February was much more broadly distributed than the increase in the fourth quarter of 1970.

Some of the import increase so far this year can be considered temporary. Higher coffee arrivals result from an inventory adjustment and the greater inflow of Canadian cars reflects a recovery from the GM strike. Imports have also been boosted by hedge-buying of foreign steel, which is likely to continue strong in the coming months. In addition, purchases of lumber and aluminum from abroad are also high and will be strong as a result of the upturn in domestic construction activity.



A very heavy inflow of virtually all types of consumer goods in January-February persists in spite of sluggishness in domestic consumer expenditures and rising prices of imports. Also contributing to the current higher level of imports is the slowdown in foreign economic activity making available greater quantities of foreign commodities for shipment to the United States than previously. While steel is a prime example of this, it may also be applicable to some types of consumer goods.

The drop in fuels following a sharp rise in the fourth quarter was unexpected but the future price of petroleum imports will rise as a result of the new tax agreements with the governments of foreign oil-producing countries.

Exports in January-February were at an annual rate of \$43.8 billion, (balance of payments basis), 4 per cent higher than in the fourth quarter and virtually equal to the peak rates of mid-1970. Export prices (January unit-values) appear to be up even more sharply than for imports and may have accounted for as much as one-third of the rise in the value of exports over the fourth quarter rate. The rise in exports in January-February consisted almost entirely of increased shipments of automobile parts following the resumption of GM production, greater deliveries of commercial aircraft and continued strength in shipments of agricultural products. Company schedules call for further expansion in sales of aircraft in the next

few months, but the boost to total exports given by the upturn in shipments of automobile parts to Canada as a result of the GM strike will not continue much longer.

Euro-dollar market. Euro-dollar interest rates firmed in the shorter maturities in the last week of March, in large part probably reflecting normal quarter-end positioning -- reportedly including repatriations by American companies for end-March reporting under OFDI guidelines. For the month as a whole call Euro-dollar deposits averaged about 1/8 per cent below their February level and the average excess of the call Euro-dollar rate over the Federal funds rate narrowed by about the same amount. Although one- and three-month Euro-dollar rates averaged roughly 3/8 per cent below the previous month, the average excess of these rates over domestic CD's of comparable maturity widened to nearly 1.4 per cent (See table).

SELECTED EURO-DOLLAR AND U.S. MONEY MARKET RATES

Average for month or week ending Wednesday	(1) Call Euro-\$ Deposit <sup>1/</sup>	(2) Federal Funds <sup>2/</sup>	(3)= (1)-(2) Differ- ential	(4) 3-month Euro-\$ Deposit <sup>1/</sup>	(5) 60-89 day CD rate <sup>3/</sup> (Adj.) <sup>3/</sup>	(6)= (4)-(5) Differ- ential
1970						
December	6.70	4.90	1.80	7.25	5.82	1.43
1971						
January	5.16	4.14	1.02	5.92	5.10	0.82
February	4.79	3.72	1.07	5.54	4.34	1.20
March	4.62	3.75 <sup>p</sup>	0.87 <sup>p</sup>	5.11	3.75 <sup>p</sup>	1.36 <sup>p</sup>
March 3	4.60	3.41	1.19	5.21	3.95	1.26
10	4.30	3.50	0.80	5.04	3.75	1.29
17	4.63	3.95	0.73	5.06	3.68	1.38
24	4.33	3.70	0.63	5.04	3.68	1.36
31	5.15	3.95 <sup>p</sup>	1.20 <sup>p</sup>	5.27	3.68 <sup>p</sup>	1.59 <sup>p</sup>

<sup>1/</sup> All Euro-dollar rates are noon bid rates in the London market.

<sup>2/</sup> Effective rate.

<sup>3/</sup> Offer rate (median, as of Wednesday) on large denomination CD's by prime banks in New York City; CD rates are adjusted for the cost of required reserves.

<sup>p/</sup> Preliminary.

Gross liabilities of U.S. banks to their foreign branches (including domestic loan participations) declined about \$650 million in the week from February 24 to March 3 -- when foreign branches made payment for the second Ex-Im security issue which totaled \$500 million. These borrowings declined further, by about \$700 million, in the next three weeks. On March 24 these liabilities were \$4.5 billion, and foreign branch holdings of Ex-Im securities were \$1.5 billion; this \$6 billion total compares with liabilities to branches of about \$8 billion in mid-January.

In the Euro-dollar reserve requirement computation period ended March 17, U.S. banks' average Euro-dollar borrowings plus average foreign branch holdings of Ex-Im notes declined by a little over \$900 million -- the largest decline in any computation period so far in 1971 and in all of 1970. (In the computation period ended February 17 the average declined by less than \$300 million.) Through March 29 in the computation period that will end April 14 the banks' daily average liabilities to branches are estimated to have declined further, by about \$0.7 billion.

Foreign exchange markets. Exchange market activity in March was again characterized by large flows of interest-sensitive funds into major European currencies. Central banks of the EEC countries and the U.K. absorbed some \$2.6 billion from the market in net spot market intervention bringing their reserve gains for the

first quarter to around \$5-1/2 billion. (About \$400 million purchased in March was for value in April.) In addition, these banks purchased dollars for future delivery in the amount of \$600 million.

Germany and the U.K. were the largest reserve gainers during the month with net spot dollar purchases of \$1.5 billion and \$600 million, respectively, as interest rates in both countries remained well above Euro-dollar rates. Nearly \$1 billion of the inflow into Germany occurred in the first half of the month as domestic financial markets tightened ahead of the mid-month tax date. Contributing to the strength of the spot DM during this period was the discontinuance, on March 9, of the Bundesbank's sales of forward marks which had served to some extent to reduce the demand for spot marks. Following some abatement after mid-month, demand for marks again surged at month-end when the Bundesbank purchased \$300 million despite a one per cent reduction in its discount and Lombard rates to 5 and 6-1/2 per cent, respectively.

Interest rate considerations as well as good commercial demand also led to a strengthening of the French franc, and the Bank of France purchased about \$300 million. On the other hand, an easing of domestic money markets in the Netherlands and Belgium led to an easing of the guilder and the Belgian franc on the exchange markets and to a reduced rate of reserve gain by those two countries. The Italian lira firmed during the month, possibly reflecting an improvement in Italy's trade balance. The Bank of Italy purchased around \$150 million.

The Swiss franc advanced steadily throughout the month. The Swiss National Bank purchased a small amount of dollars spot and \$500 million on a swap basis. In contrast to the usual pattern, the spot rate did not ease after this infusion of domestic liquidity, and at month-end was holding firmly at the ceiling. The three-month forward rate moved well above the spot ceiling rate, indicating some uncertainty in the market over the stability of the franc's upper limit.

In addition to the massive reserve gains by European countries, press reports indicate that the Bank of Japan may have purchased on the order of \$700 million for the month.

In official transactions in March, the System repaid its remaining swap debt (\$75 million) to the Netherlands Bank, using System DM balances. It also repaid \$450 million to the Swiss National Bank, through a combination of the sale by the Treasury of \$75 million in gold, the issuance of a \$250 million equivalent Swiss-franc denominated certificate of indebtedness, and a \$125 million increase in the Swiss National Bank's uncovered dollar position. System drawings on the National Bank of Belgium were increased by \$35 million to a total of \$420 million. In connection with the advance repayment by the British of \$685 million equivalent in various currencies to the IMF on March 31, the System initiated a swap drawing of \$130 million on the Netherlands Bank, and the Treasury sold \$25 million equivalent of SDRs to the National Bank of Belgium. Those two banks had sold their domestic currencies to the Bank of England for dollars to enable it to make its Fund repayment.

Trade developments in major industrial countries. During the second half of 1970, imports of the major industrial countries continued to increase -- although at a slower rate than earlier last year. The trend of imports was, however, obscured by the British dock strike at mid-year, the General Motors strike in the United States and in Canada later in the year, and -- most recently -- by the British postal strike. Data for the first two months of 1971 suggest that the deceleration continues.

TOTAL TRADE OF MAJOR INDUSTRIAL COUNTRIES  
(Percentage changes at seasonally adjusted annual rates)

	<u>1969 2nd Half</u>	<u>1970 1st Half</u>	<u>1970 2nd Half</u>
	<u>1969 1st Half</u>	<u>1969 2nd Half</u>	<u>1970 1st Half</u>
<u>Imports - c.i.f.</u>			
OECD Europe	14.9	20.6	10.8
Germany	18.3	29.2	4.5
United Kingdom	3.3	12.1	7.7 <u>2/</u>
France	5.3	10.0	17.3
Japan	38.5	20.9	23.8
Canada <u>1/</u>	1.6	2.4	-1.9 <u>2/</u>
United States <u>1/</u>	17.0 <u>2/</u>	10.1	7.2 <u>2/</u>
<u>Exports - f.o.b.</u>			
OECD Europe	15.0	19.0	10.4
Germany	24.9	17.3	12.5
United Kingdom	23.0	7.4	7.5 <u>2/</u>
France	3.3	34.7	9.4
Japan	17.6	26.5	13.2
Canada	3.9	30.0	6.2 <u>2/</u>
United States	28.8 <u>2/</u>	13.7	2.1 <u>2/</u>

1/ Imports f.o.b. values for Canada and the United States.

2/ Affected by strikes.

Through at least November both intra-European imports and European imports from Canada, Japan and the United States were rising, because investment demand and consumer demand for finished goods remained quite buoyant, despite a general reduction in excess demand and flattening production in some industrial countries, notably Germany. Imports have, however, levelled since the end of 1970 in France, Italy, Germany, and Japan, although year-end and January data indicate a renewed rise in industrial production in France, Germany, and Japan and an increase in domestic industrial orders in Germany.

Reduced domestic demand pressures in Canada, and to a slight extent in Japan, were responsible for a slower growth in import demand in both countries in 1970. The slight recession in Canada resulted in virtually no import growth, and an actual decline in the second half of 1970, even excluding automotive imports from the United States, which are largely geared to Canadian automotive exports. By contrast, Japan's imports rose rather steadily throughout most of 1970, before declining slightly in the fourth quarter, and levelling out in January.

Imports of OECD countries from the rest of the world rose slightly faster in the second half than in the first half of 1970. However, for 1970 as a whole, their imports rose at a much slower rate than in 1969. Several major industrial countries reduced their imports from the rest of the world after mid-1970. These reductions may in part be attributed to downward inventory adjustments of raw materials and semi-finished products in those countries. In addition, reduced

primary commodity prices, especially for copper, contributed to the deceleration in imports in value terms from the rest of the world.

Imports

Germany's import growth in the second half of 1970 -- after slowing in the third quarter and picking up in the fourth quarter -- was particularly strong in finished goods. The share of raw materials and semi-finished products in total imports has declined since early 1970, in part owing to lower primary product prices, especially for copper and natural rubber, and -- perhaps more importantly -- because of inventory adjustments, especially in the steel and chemical industries, where production stagnated. Domestic industrial orders have been rising since November, and industrial production increased in January. German imports rose again in February after a decline in January.

Excess demand and capacity constraints in a booming economy drove up Dutch imports in 1970. The sharp rise of crude oil, petroleum, and machinery imports -- particularly in the fourth quarter -- reflects in part the high import content of the major Dutch export industries. Both Germany and Belgium increased their share of Dutch imports. Purchases of jumbo jets from the United States are expected to push up Dutch imports substantially this year.

The brisk rise in British imports in the second half of 1970 -- despite domestic economic slack -- was concentrated on finished manufactures mostly from Europe, while imports of most industrial materials, excepting fuels, grew very slowly. Imports levelled out



in the last quarter, declined in January, but rose again in February, although the postal strike distorted the reported figures for the first two months of 1971.

During the second and third quarters of last year, French imports of capital goods, especially from the United States, increased sharply, reflecting capacity limitations in that sector of the French economy. Imports from OECD Europe, and particularly from third countries, fell sharply during the same period. Imports were flat in the fourth quarter, dipped in January, but in February returned to their year-end level.

The increase in Italian imports after mid-year 1970 was concentrated on investment and finished consumer goods, coming mostly from Europe. After a sharp rise in the third quarter, the rate of increase flattened in the fourth quarter, and imports declined in January and February, as demand in Italy weakened slightly.

#### Exports

Canada's surge in exports continued in the second half of 1970, even with the rise in the exchange rate, partly because most prices of Canada's major exports are contracted for in U.S. dollars. But Canadian exports were also greatly helped -- especially during the first half of 1970 -- by booming economic conditions in Europe and Japan, as well as by large grain shipments to the Soviet Union around mid-year. Valued in U.S. dollars, Canada's exports to the United States -- excluding U.S.-Canadian automotive trade -- rose about 10 per cent in 1970.

German exports expanded less rapidly in the second half of 1970. The inflow of foreign industrial orders remained level during this period, as economic activity and demand for capital goods slackened in several industrial countries. Order levels may also have been affected by large price increases, especially for investment goods, reflecting the revaluation, as well as inflation in Germany. The sharp rise in exports at year's end and the favorable rate of export growth in January and February probably reflect more a running down of large export backlogs than a rise in foreign orders.

In the second half of 1970, both the United Kingdom and Japan enlarged their export markets in Europe, and shipped predominantly machinery and finished goods. But most of the increase in total British exports was in value rather than in volume, and real exports rose only slightly in the second half of 1970, and declined in January and February. Japan's exports rose briskly once again after a relatively flat third quarter. Shipments of motor vehicles, steel products, and other finished manufactures to the EEC, EFTA, and the United States recorded the sharpest gains.

#### Trade balances

Although from 1969 to 1970 imports of a number of industrial countries expanded faster than their exports, particularly in the second half of 1970, improvements in the trade balances of Canada, the United States, Japan, France, Germany, and Belgium more than outweighed the aggregate decreases for the other industrial countries in 1970.

The balance of trade for the EEC moved from a small surplus in 1969 to a small deficit in 1970. The large trade deficits of the Netherlands and Italy with non-OECD countries and with Canada and the United States exceeded the improved overall surplus positions of Germany and Belgium. The trade deficit of the EFTA countries, excluding the United Kingdom, increased substantially in 1970 over 1969. The United Kingdom, however, improved its trade position for the second consecutive year, and ran a small surplus in 1970, despite a year-end surge in imports.

The German trade surplus widened in the second half of 1970. It was even higher than in the comparable period of 1969 and almost as

TRADE BALANCES<sup>1/</sup> OF MAJOR INDUSTRIAL COUNTRIES  
(Billions of U.S. dollars, seasonally adjusted annual rates)

	1969	1969	1970	1970	
				1st Half	2nd Half
Germany	4.69	4.12	4.36	3.68	5.05
France	-1.27	-2.37	-1.27	-0.91	-1.64
Italy	-0.07	-0.72	-1.75	-1.56	-1.94
Belgium	-0.14	0.02	0.13	0.26	0
Netherlands	-0.95	-1.02	-1.60	-1.42	-1.77
Total EEC	2.26	0.09	-0.13	0.05	-0.30
EFTA countries,					
excl. United Kingdom	-2.84	-3.23	-5.54	-5.15	-5.92
United Kingdom	-1.54	-0.34	0.01	0.10	-0.09
Japan	-0.01	0.94	0.40	0.21	-0.01
Canada	1.12	0.65	2.33	2.51	3.14
United States	3.36	0.64	2.19	2.56	1.81
Total	2.35	-1.25	-0.25	0.22	-1.37

<sup>1/</sup> Imports for the United Kingdom, Canada, and the United States are f.o.b., U.S. data are on a balance-of-payments basis, excluding military. Source: OECD Economic Indicators; U.K. Monthly Digest of Statistics; Department of Commerce.

high as in the second half of 1968, despite substantially higher German export prices in U.S. dollar terms, reflecting the 1969 revaluation as well as domestic price increases. The Italian and Dutch trade deficits increased significantly in the second half of 1970. Similarly, the deficits of the major EFTA countries deteriorated more sharply during the latter part of 1970. In Austria and Switzerland, where excess demand generated steeply rising imports, especially from Germany, trade deficits increased, particularly in the fourth quarter. The trade positions of the Scandinavian countries were also affected adversely by domestic demand and price pressures, and their deficits worsened substantially in the fourth quarter, with the exception of Sweden where stabilization policies and a softening of demand improved the trade balance during the second half of 1970.

Prospects for continued growth in trade of the industrial countries in 1971 will be largely conditioned by the extent of the expected deceleration in economic growth and the relative price performance, notably in continental Europe and Japan, as well as by a resumption of economic growth in the United States and more buoyant economic activity in Canada and the United Kingdom. The OECD Secretariat expects an annual rate of advance in OECD exports and imports in value terms of about 10 per cent from 1970 to 1971, compared with about 15 per cent from 1969 to 1970. Should economic activity level off more rapidly than current indicators suggest -- especially in Germany -- reduced domestic demand pressures may release resources for renewed

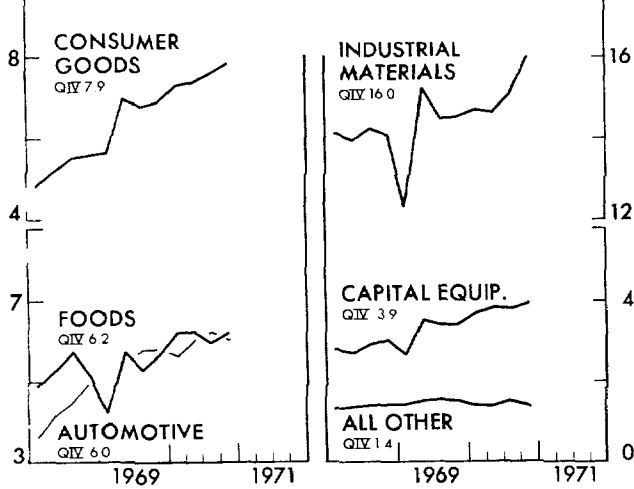
export promotion, thereby possibly sharpening export competition among the industrial countries. To the extent that primary producing countries are dependent on inventory changes in industrial countries, reduced imports of primary products and continued depressed primary product prices (excepting oil prices) are likely to affect adversely the export earnings of the developing countries and this in turn may reduce their import demand during the remainder of 1971.

# U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

BILLIONS OF DOLLARS

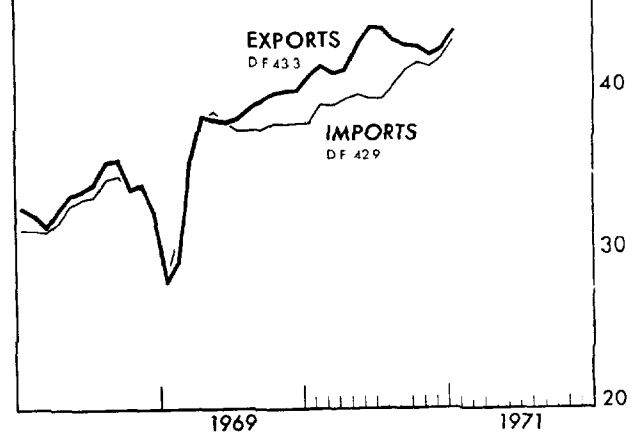
### U.S. IMPORTS BY END USE

ANNUAL RATES SEASONALLY ADJUSTED



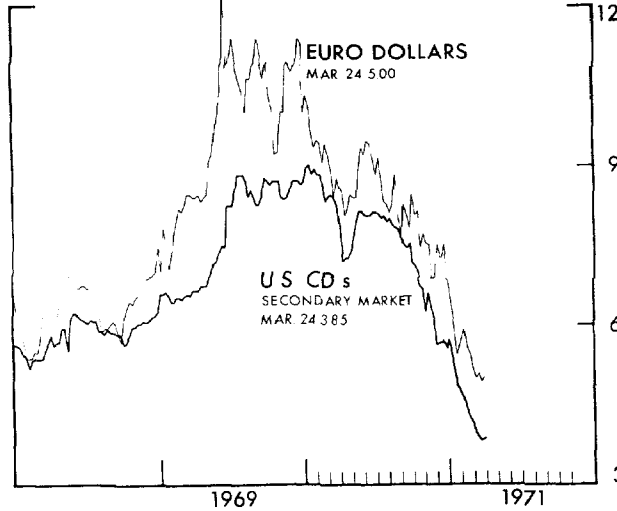
### U.S. MERCHANDISE TRADE

BALANCE OF PAYMENTS BASIS  
ANNUAL RATES SEASONALLY ADJUSTED  
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1969 DATA AFFECTED BY PORT STRIKES



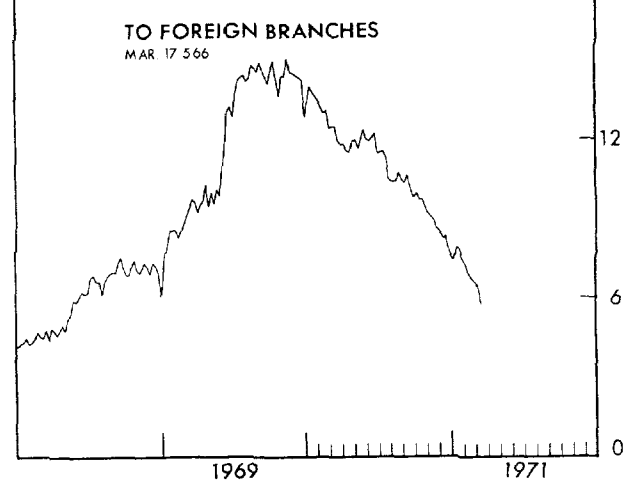
### 90 DAY RATES

PERCENT



### U.S. BANK LIABILITIES

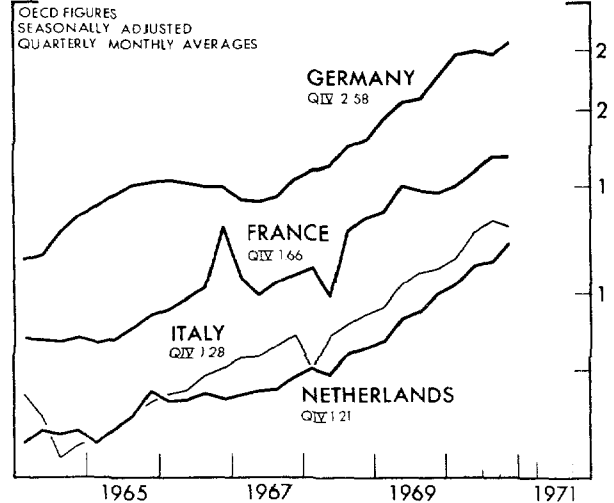
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### IMPORTS - CIF EEC COUNTRIES

OECD FIGURES  
SEASONALLY ADJUSTED  
QUARTERLY MONTHLY AVERAGES

RATIO SCALE



### IMPORTS CIF OTHER COUNTRIES

OECD FIGURES  
SEASONALLY ADJUSTED  
QUARTERLY MONTHLY AVERAGES

RATIO SCALE

