Prefatory Note

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Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

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[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

Content last modified 6/05/2009.

CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

September 17, 1971

By the Staff
Board of Governors
of the Federal Reserve System

The Domestic Economy

Housing starts. Seasonally adjusted private housing starts, which had already eclipsed the 2.2 million annual rate in July, edged higher in August as a 4 per cent further expansion for single family units offset a moderate dip in multifamily starts from the sharply accelerated pace registered in July. A factor in the stronger than expected August performance may have been the additional support available for subsidized starts under prevailing programs at this early stage of the new fiscal year. In the South, where reliance on such programs has tended to be most marked, starts showed a particularly strong further surge and accounted for an exceptional 45 per cent share of the total, compared with not much more than 40 per cent in most other recent years.

Given the advanced level of commitments outstanding in recent months and the extremely high rate of building permits in August, indications are that starts in September may hold near the record summer pace, for a third quarter average at least moderately higher than the 2.1 million annual rate projected initially. With mobile home shipments in July running well above a 500,000 annual rate, this raises the possibility of a third-quarter "shelter" count in excess of the 2.7 million unit mark, or more than two-thirds above the low in the first quarter of 1970.

PRIVATE HOUSING STARTS AND PERMITS
(Seasonally adjusted annual rates, in thousands of units)

	Starts			
	Total[1/]	Per Cent Single-family	Per Cent FHA-insured[2/] (FHA Series)	Permits
1970 - Annual	1,434	57	29	1,324
1970				
IIQ	1,286	58	28	1,257
IIIQ	1,512	56	28	1,358
IVQ	1,777	58	35	1,593
1971				
IQ	1,813	55	24	1,608
IIQ (r)	1,962	58	22	1,805
1971				
June (r)	2,000	59	24	1,847
July (r)	2,215	53	22	2,052
August (p)	2,228	55	n.a.	2,008

1/ Apart from starts, mobile home shipments for domestic use in July--the latest month for which data are available--advanced to a record seasonally adjusted annual rate of 531,000. This was more than a tenth above the expanded second quarter average.

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

Personal income. Personal income advanced $8.8 billion in August to $868 billion (annual rate), with wage and salary disbursements accounting for $6.6 billion of the increase following little change in the previous month. In the government sector, most of the gain reflected the $300 per employee one-time bonus payment to postal workers amounting to about $2.0 billion and another $0.5 billion to a pay raise. In the private sector, manufacturing payrolls increased $0.6 billion after declining in July, and in distributive industries rose $1.6 billion after showing no increase the previous month. Nonfarm payroll employment was about unchanged in August and payroll increases were due to higher hourly earnings and longer average weekly hours. Farm income rose again, by $0.9 billion, to $17.0 billion.

PERSONAL INCOME
Seasonally adjusted, annual rate, billions of dollars

	1971			
	June	July	August	Net Change July-August
Total	870.1	859.2	868.0	8.8
Wage and salary disb.	574.8	574.7	581.3	6.6
Government	123.0	123.6	126.7	3.1
Private	451.8	451.1	454.6	3.5
Manufacturing	162.4	161.4	162.0	.6
Distributive	138.6	138.6	140.2	1.6
Services	105.7	106.3	107.3	1.0
Other	45.1	44.8	45.1	.3
Transfer payments	109.0	96.2	96.5	.3
Other income	217.7	219.8	221.7	1.9

The Domestic Financial Situation

Demand Deposit Ownership. Preliminary estimates of changes in demand deposit ownership in August suggest that reductions in balances held by businesses were primarily responsible for the marked slowing in the growth rate of the money supply during August. As may be seen in the table, nonfinancial business balances dropped much more sharply during August of this year than last year to account for most of the larger decline in total IPC demand deposits this year. Changes in other ownership categories were essestially similar to those which occurred last year. These developments would appear generally consistent with those explanations for the slower growth in money in August which contended that dollar outflows, stimulated by the foreign exchange adjustment process, were responsible for a significant part of the slowdown in money growth, since it had been assumed that nonfinancial businesses would be responsible for most of the dollar outflow.

CHANGES IN OWNERSHIP OF GROSS IPC DEMAND DEPOSITS
AT WEEKLY REPORTING BANKS
(In $ billion, not seasonally adjusted)

	August 1970	August 1971
Financial business	- .9	-1.0
Nonfinancial business	--	-1.7
Consumer	--	- .1
Foreign	- .2	--
All other	- .5	- .5
TOTAL	-1.5	-3.2

INTEREST RATES

	1971 Highs	1971 Lows	1971 Aug. 23	1971 Sept. 16
Short-Term Rates				
Federal funds (weekly averages)	5.59 (9/15)	3.29 (3/10)	5.59 (8/18)	5.59 (9/15)
3-month				
Treasury bills (bid)	5.53 (7/19)	3.22 (3/11)	4.75	4.82
Bankers' acceptances	5.62 (8/23)	3.88 (3/10)	5.62	5.50
Euro-dollars	10.00 (8/17)	4.94 (3/17)	8.70	8.11
Federal agencies	5.70 (7/30)	3.27 (2/24)	4.84	5.23
Finance paper	5.62 (8/16)	3.62 (3/15)	5.38	5.38
CD's (prime NYC)				
Most often quoted new issue	5.75 (8/11)	3.62 (3/24)	5.50 (8/18)	5.62
Secondary market	6.05 (8/18)	3.80 (3/17)	5.87 (8/18)	5.68
6-month				
Treasury bills (bid)	5.84 (7/27)	3.35 (3/11)	4.85	5.00
Bankers' acceptances	5.75 (8/23)	4.00 (3/10)	5.75 (e)	5.62 (e)
Commercial paper (4-6 months)	5.88 (8/18)	4.00 (3/29)	5.62	5.75
Federal agencies	6.02 (7/30)	3.53 (3/10)	5.15	5.24
CD's (prime NYC)				
Most often quoted new issue	6.00 (8/11)	4.00 (3/24)	5.62 (8/18)	5.75
Secondary market	6.40 (8/18)	3.70 (3/3)	6.15 (8/18)	6.22
1-year				
Treasury bills (bid)	6.01 (7/28)	3.45 (3/11)	5.27	5.19
CD's (prime NYC)				
Most often quoted new issue	6.25 (8/11)	4.38 (3/3)	5.88 (8/18)	5.75
Prime municipals	3.60 (8/12)	2.15 (3/24)	3.00	3.10
Intermediate and Long-Term				
Treasury coupon issues				
5-years	7.03 (8/10)	4.74 (3/22)	6.33	6.13
20-years	6.56 (6/15)	5.69 (3/23)	6.22	6.08
Corporate				
Seasoned Aaa	7.71 (8/13)	7.05 (2/16)	7.50	7.46
Baa	8.93 (1/5)	8.33 (2/25)	8.68	8.62
New Issue Aaa	8.23 (5/20)	6.76 (1/29)	7.33 (8/18)	7.56
Municipal				
Bond Buyer Index	6.23 (6/24)	5.00 (3/18)	5.49 (8/18)	5.38
Moody's Aaa	5.90 (6/30)	4.75 (2/11)	5.15 (8/18)	5.10
Mortgage--implicit yield in FNMA auction 1/	8.07 (7/26)	7.32 (4/12)	--	7.88 (9/7)

1/ Yield on 3-month forward commitment after allowance for commitment fee and required purchase and holding of FNMA stock. Assumes discount on 30-year loan amortized over 15 years. e--estimated.

International Developments

Foreign exchange. Foreign exchange markets have been very quiet with little change in rates since September 15. The market's attention had been turned toward the G-10 meetings in London for some indication of the likely course of events in the international monetary arena in the near future.

SPOT EXCHANGE RATES IN THE NEW YORK MARKET
(Expressed as a Per cent over Par Values as of May, 1970)

	Aug. 13	Aug. 20	Aug. 27	Sept 3	Sept 10	Sept 17
Sterling	.8	2.7	2.9	2.5	2.5	3.0
Canadian dollar	6.9	7.0	7.0	6.6	6.4	6.7
DM	8.2	6.8	7.6	8.1	8.2	8.7
Swiss franc	7.8	9.8	10.2	9.4	9.6	9.8
Dutch guilder	4.7	4.3	5.2	4.5	5.2	5.7
French franc						
commercial	.8	.8	.8	.8	.6	.7
financial		.8	3.3	4.9	3.8	4.0
Belgian franc						
commercial	.9	2.0	3.6	3.8	3.7	4.4
financial	2.5	n.a.	3.5	3.7	3.7	4.4
Italian lira	.8	3.1	2.2	1.8	1.8	1.9
Japanese yen*	.7	.7	.7	6.4	6.5	6.7

* Quotes are from Tokyo market.

There was little observable market reaction to press reports that the meetings of September 15-16 had ended without movement toward a resolution of the present impasse.

CORRECTIONS:

Attached are Greenbook pages II-C-1 and II-C-2 inadvertently left out of the Greenbook.

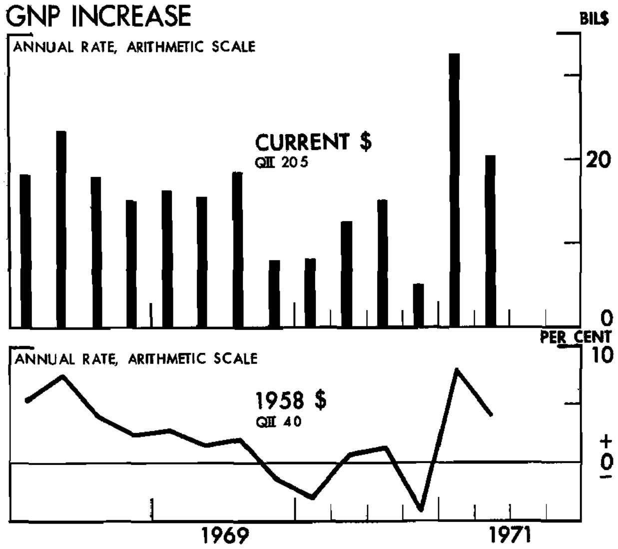
Page II-22 footnote 2 should be SA (seasonally adjusted), not SAAR as indicated.

GNP tables pages II-6 and II-7 should be re-numbered II-7 and II-8.

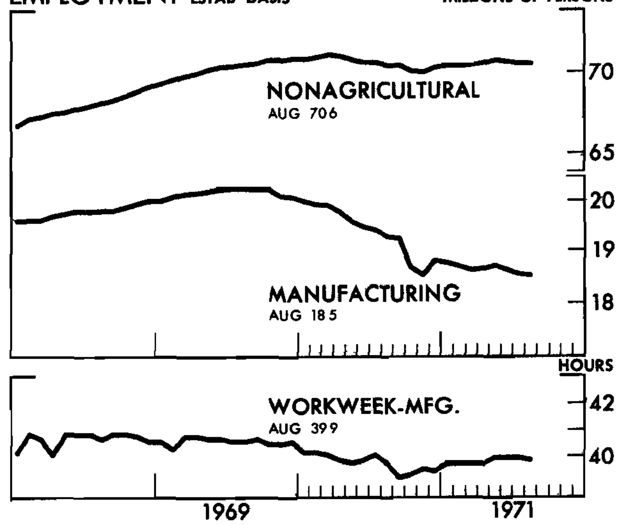
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED, RATIO SCALE

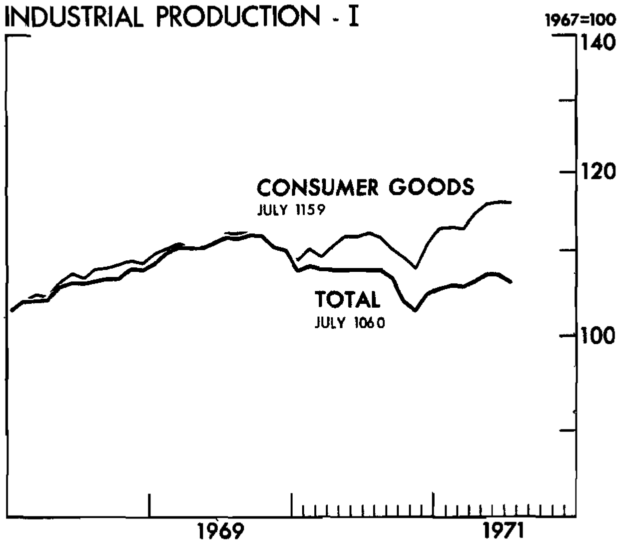
GNP INCREASE



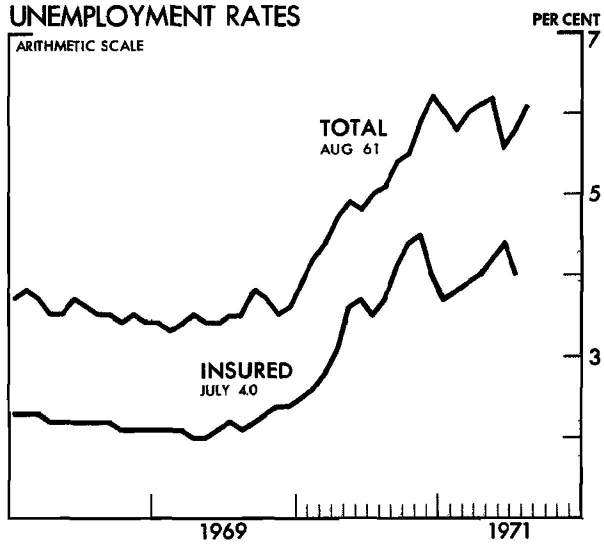
EMPLOYMENT ESTAB BASIS



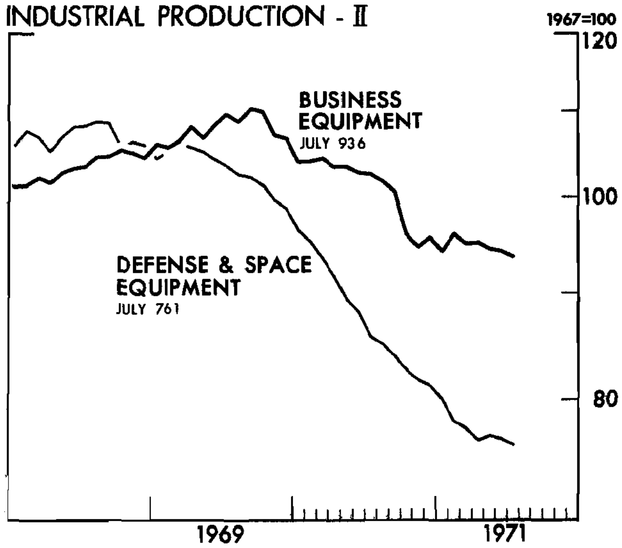
INDUSTRIAL PRODUCTION - I



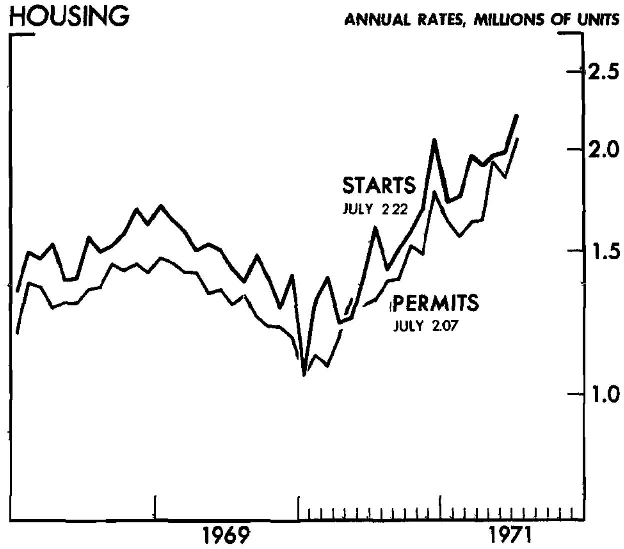
UNEMPLOYMENT RATES



INDUSTRIAL PRODUCTION - II



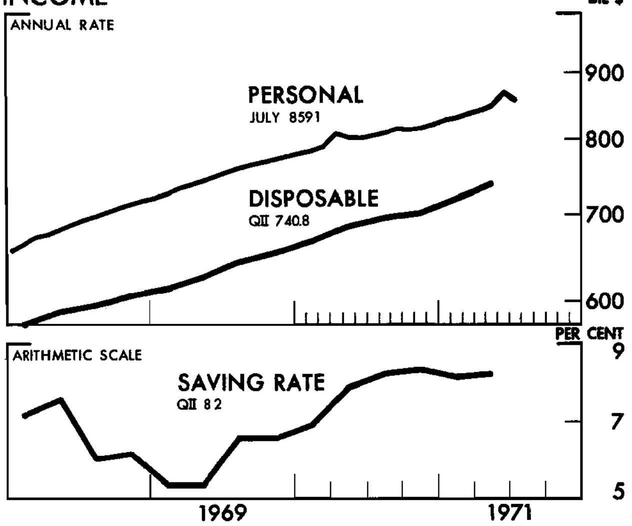
HOUSING



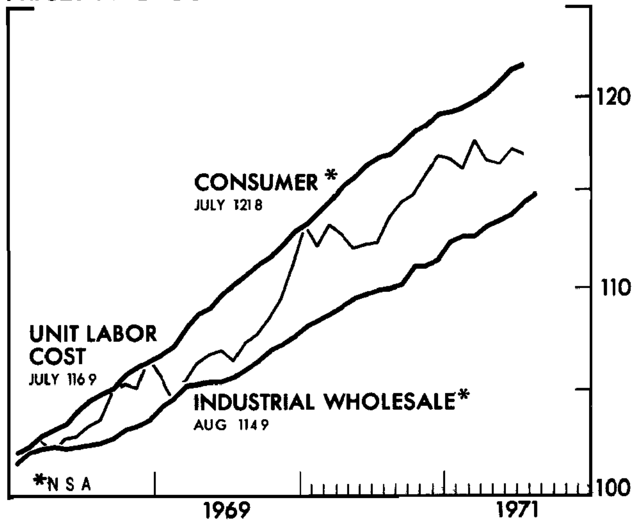
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED, RATIO SCALE

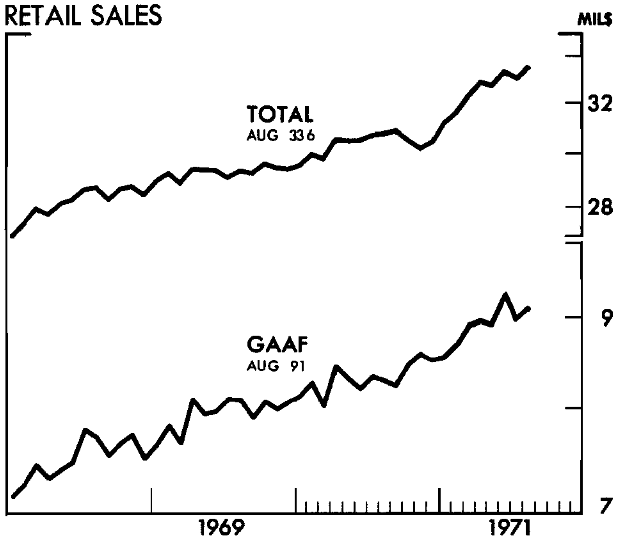
INCOME



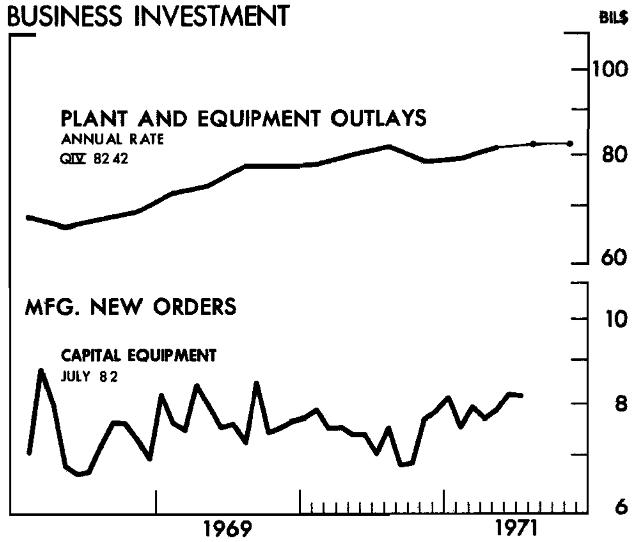
PRICES AND COSTS



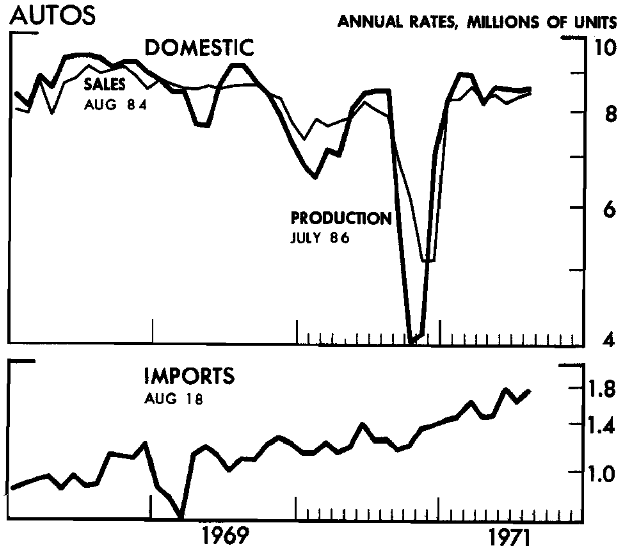
RETAIL SALES



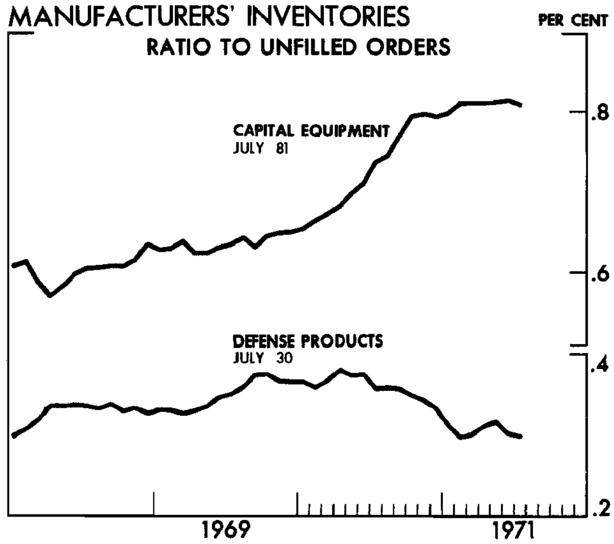
BUSINESS INVESTMENT



AUTOS



MANUFACTURERS' INVENTORIES



SUPPLEMENTAL APPENDIX A
QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES*

Few responses to the August Survey of Bank Lending Practices, taken just before the President's announcement of sweeping new economic measures, indicated any dramatic changes in nonprice terms of lending. However, there were reports of firmer policies regarding compensating balances. Reflecting adjustments in the prime rate, firmer conditions concerning interest rates were widespread. Indications also were given of a moderate pick-up in loan demand over the summer months.

Loans to Nonfinancial Business

Overall, about a third of the respondents experienced some strengthening of demand for commercial and industrial loans since May. (See Table 1.) In addition, more than half of the respondents expected further moderate strengthening in the upcoming quarter, while there were virtually no expectations of any fall-off in demand. 1/

Corresponding to the changes in the prime rate during the preceding three months, interest rates at most banks were raised on loans to businesses. Citing the increased cost of funds as a partial cause for the move, about a fifth of the participants raised their compensating balance requirements. Some banks indicated a retrenchment in their accomodation of new and nonlocal customers, while accomodations of local established borrowers did not change significantly over the period.

Bankers' reviews of credit applications reflected a more quality-conscious attitude. For a number of respondents, the value of the loan applicant as a depositor or source of collateral business became a more important determining factor. A few of the comments that were offered indicated a greater selectivity in those designated as "prime" customers.

Loans to Finance Companies

Lending terms for finance companies, shown in Table 1, also tightened over the summer months--though to a lesser extent than the tightening for nonfinancial businesses. Only about a third of the banks raised their interest rates for finance companies, and enforcement of balance requirements increased to some extent. In the May Survey, most

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1/ Preliminary statistical tests of previous Lending Practices Surveys, however, indicate that respondents have not been successful in forecasting growth in loan volume.

* - Prepared by Marilyn Barron, Research Assistant, Banking Section, Division of Research and Statistics.

banks had moved to somewhat easier lending policies, but in the current Survey the net responses indicated some firming.

Other Types of Loans

Bankers were more willing to make other types of loans than previously. They seemed to be particularly interested in making consumer installment loans, as well as mortgages on single-family dwellings.

Other Factors

Variations in responses by size of banks were mixed. (See Table 2.) More of the banks with deposits of less than $1 billion had adopted a firmer policy in reviewing the value of the customer as a depositor and as a source of collateral business. Larger banks also showed a somewhat greater willingness to extend single- and multi-family mortgage credits.

Some regional variations, displayed in Table 3, were evident in the participants' responses. Banks in the New York and Boston Districts were not as firm with respect to interest rates as other banks throughout the country. Firmer policies on interest rates were displayed at West Coast banks than were typical for the nation as a whole, although some respondents at these banks told of holding the line on rates on consumer credit and mortgages.

NOT FOR QUOTATION OR PUBLICATION

TABLE 1

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S. 1/
(STATUS OF POLICY ON AUGUST 13, 1971 COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS & PERCENT OF TOTAL BANKS REPORTING)

	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	125	100.0	1	0.8	38	30.4	69	55.2	16	12.8	1	0.8
ANTICIPATED DEMAND IN NEXT 3 MONTHS	125	100.0	1	0.8	65	52.0	58	46.4	1	0.8	0	0.0

	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	125	100.0	3	2.4	79	63.2	42	33.6	1	0.8	0	0.0
COMPENSATING OR SUPPORTING BALANCES	125	100.0	0	0.0	28	22.4	95	76.0	2	1.6	0	0.0
STANDARDS OF CREDIT WORTHINESS	125	100.0	2	1.6	12	9.6	111	88.8	0	0.0	0	0.0
MATURITY OF TERM LOANS	125	100.0	0	0.0	8	6.4	110	88.0	7	5.6	0	0.0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	125	100.0	0	0.0	6	4.8	113	90.4	6	4.8	0	0.0
NEW CUSTOMERS	125	100.0	2	1.6	12	9.6	99	79.2	12	9.6	0	0.0
LOCAL SERVICE AREA CUSTOMERS	124	100.0	0	0.0	6	4.8	112	90.4	6	4.8	0	0.0
NONLOCAL SERVICE AREA CUSTOMERS	123	100.0	2	1.6	14	11.4	100	81.3	7	5.7	0	0.0

1/ SURVEY OF LENDING PRACTICES AT 125 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF AUGUST 13, 1971.

NOT FOR QUOTATION OR PUBLICATION

TABLE 1 (CONTINUED)

	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	124	100.0	1	0.8	20	16.1	99	79.9	4	3.2	0	0.0
INTENDED USE OF THE LOAN	125	100.0	0	0.0	10	8.0	111	88.8	4	3.2	0	0.0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	125	100.0	2	1.6	39	31.2	83	66.4	1	0.8	0	0.0
COMPENSATING OR SUPPORTING BALANCES	125	100.0	1	0.8	11	8.8	112	89.6	1	0.8	0	0.0
ENFORCEMENT OF BALANCE REQUIREMENTS	125	100.0	1	0.8	15	12.0	107	85.6	2	1.6	0	0.0
ESTABLISHING NEW OR LARGER CREDIT LINES	125	100.0	3	2.4	18	14.4	89	71.2	15	12.0	0	0.0

	ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	124	100.0	0	0.0	8	6.5	99	79.8	17	13.7	0	0.0
CONSUMER INSTALMENT LOANS	123	100.0	0	0.0	2	1.6	91	74.0	26	21.1	4	3.3
SINGLE FAMILY MORTGAGE LOANS	122	100.0	0	0.0	8	6.6	91	74.6	22	18.0	1	0.8
MULTI-FAMILY MORTGAGE LOANS	121	100.0	1	0.8	6	5.0	106	87.6	7	5.8	1	0.8
ALL OTHER MORTGAGE LOANS	122	100.0	0	0.0	9	7.4	103	84.4	9	7.4	1	0.8
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	122	100.0	0	0.0	5	4.1	107	87.7	10	8.2	0	0.0
LOANS TO BROKERS	121	100.0	0	0.0	6	5.0	106	87.6	9	7.4	0	0.0

2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

NOT FOR QUOTATION OR PUBLICATION

TABLE 2

COMPARISON OF QUARTERLY CHANGES IN BANK LENDING PRACTICES AT BANKS GROUPED BY SIZE OF TOTAL DEPOSITS 1/
(STATUS OF POLICY ON AUGUST 13, 1971, COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS IN EACH COLUMN AS PER CENT OF TOTAL BANKS ANSWERING QUESTION)

SIZE OF BANK -- TOTAL DEPOSITS IN BILLIONS

	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	100	100	2	0	28	32	57	54	11	14	2	0
ANTICIPATED DEMAND IN NEXT 3 MONTHS	100	100	0	1	48	55	52	43	0	1	0	0

	TOTAL		MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	2	3	63	63	33	34	2	0	0	0
COMPENSATING OR SUPPORTING BALANCES	100	100	0	0	19	25	79	74	2	1	0	0
STANDARDS OF CREDIT WORTHINESS	100	100	2	1	13	7	85	92	0	0	0	0
MATURITY OF TERM LOANS	100	100	0	0	4	8	94	84	2	8	0	0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	100	100	0	0	2	7	96	86	2	7	0	0
NEW CUSTOMERS	100	100	0	3	11	8	82	78	7	11	0	0
LOCAL SERVICE AREA CUSTOMERS	100	100	0	0	0	9	98	84	2	7	0	0
NONLOCAL SERVICE AREA CUSTOMERS	100	100	0	3	11	11	85	79	4	7	0	0

1/ SURVEY OF LENDING PRACTICES AT 54 LARGE BANKS (DEPOSITS OF $1 BILLION OR MORE) AND 71 SMALL BANKS (DEPOSITS OF LESS THAN $1 BILLION) REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF AUGUST 13, 1971.

SIZE OF BANK -- TOTAL DEPOSITS IN BILLIONS

	NUMBER ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	100	100	0	1	9	21	89	74	2	4	0	0
INTENDED USE OF THE LOAN	100	100	0	0	9	7	89	89	2	4	0	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	2	1	35	28	61	71	2	0	0	0
COMPENSATING OR SUPPORTING BALANCES	100	100	0	1	9	8	89	91	2	0	0	0
ENFORCEMENT OF BALANCE REQUIREMENTS	100	100	0	1	13	11	85	87	2	1	0	0
ESTABLISHING NEW OR LARGER CREDIT LINES	100	100	0	4	15	14	68	74	17	8	0	0

	NUMBER ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	100	100	0	0	6	7	85	76	9	17	0	0
CONSUMER INSTALMENT LOANS	100	100	0	0	0	3	77	71	19	23	4	3
SINGLE FAMILY MORTGAGE LOANS	100	100	0	0	2	10	75	75	23	14	0	1
MULTI-FAMILY MORTGAGE LOANS	100	100	2	0	0	9	86	89	12	1	0	1
ALL OTHER MORTGAGE LOANS	100	100	0	0	8	7	86	83	6	9	0	1
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	100	100	0	0	2	6	90	85	8	9	0	0
LOANS TO BROKERS	100	100	0	0	6	4	88	87	6	9	0	0

2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

TABLE 3

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES AT SELECTED LARGE BANKS IN THE U.S. 1/
STATUS OF POLICY ON AUGUST 13, 1971 COMPARED TO THREE MONTHS EARLIER
(NUMBER OF BANKS)

	ALL DSTS	BOS-TON	NEW YORK TOTAL	NEW YORK CITY	NEW YORK OUTSIDE	PHIL-ADEL.	CLEVE-LAND	RICH-MOND	ATLAN-TA	CHIC-AGO	ST. LOUIS	MINNE-APOLIS	KANS. CITY	DAL-LAS	SAN FRAN
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)															
COMPARED TO 3 MONTHS AGO	125														
MUCH STRONGER	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0
MODERATELY STRONGER	38	0	5	2	3	3	1	4	5	7	2	1	3	3	4
ESSENTIALLY UNCHANGED	69	7	14	7	7	2	6	5	5	6	5	2	6	4	7
MODERATELY WEAKER	16	1	1	0	1	0	4	3	0	1	2	0	0	2	2
MUCH WEAKER	1	0	0	0	0	1	0	0	0	0	0	0	0	0	0
ANTICIPATED DEMAND NEXT THREE MONTHS	125														
MUCH STRONGER	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY STRONGER	65	3	11	6	5	5	4	9	7	7	6	1	5	3	4
ESSENTIALLY UNCHANGED	58	5	8	3	5	1	7	3	2	8	3	2	4	6	9
MODERATELY WEAKER	1	0	1	0	1	0	0	0	0	0	0	0	0	0	0
MUCH WEAKER	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LENDING TO NONFINANCIAL BUSINESSES															
TERMS AND CONDITIONS															
INTEREST RATES CHARGED	125														
MUCH FIRMER POLICY	3	0	0	0	0	1	0	0	1	1	0	0	0	0	0
MODERATELY FIRMER POLICY	79	4	8	3	5	3	10	9	7	8	6	3	6	5	10
ESSENTIALLY UNCHANGED POLICY	42	4	12	6	6	1	1	3	2	6	3	0	3	4	3
MODERATLEY EASIER POLICY	1	0	0	0	0	1	0	0	0	0	0	0	0	0	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
COMPENSATING BALANCES	125														
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	28	0	4	2	2	2	2	3	4	3	1	0	2	4	3
ESSENTIALLY UNCHANGED POLICY	95	8	16	7	9	3	9	8	6	12	8	3	7	5	10
MODERATLEY EASIER POLICY	2	0	0	0	0	1	0	1	0	0	0	0	0	0	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

1/ SURVEY OF LENDING PRACTICES AT 125 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF AUGUST 13, 1971.

	ALL DSTS	BOS-TON	NEW YORK TOTAL	NEW YORK CITY	NEW YORK OUTSIDE	PHIL-ADEL.	CLEVE-LAND	RICH-MOND	ATLAN-TA	CHIC-AGO	ST. LOUIS	MINNE-APOLIS	KANS. CITY	DAL-LAS	SAN FRAN
LENDING TO NONFINANCIAL BUSINESSES															
TERMS AND CONDITIONS															
STANDARDS OF CREDIT WORTHINESS	125														
MUCH FIRMER POLICY	2	0	0	0	0	0	0	0	0	0	1	0	0	0	1
MODERATELY FIRMER POLICY	12	0	1	1	0	0	0	2	3	2	0	0	2	1	1
ESSENTIALLY UNCHANGED POLICY	111	8	19	8	11	6	11	10	7	13	8	3	7	8	11
MODERATLEY EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MATURITY OF TERM LOANS	125														
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	8	0	0	0	0	0	0	2	3	1	0	0	0	1	1
ESSENTIALLY UNCHANGED POLICY	110	8	19	9	10	6	11	10	7	14	6	3	7	7	12
MODERATLEY EASIER POLICY	7	0	1	0	1	0	0	0	0	0	3	0	2	1	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
REVIEWING CREDIT LINES OR LOANS															
ESTABLISHED CUSTOMERS	125														
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	6	1	0	0	0	0	1	0	2	0	0	0	0	0	2
ESSENTIALLY UNCHANGED POLICY	113	7	19	9	10	5	10	10	8	15	9	3	7	9	11
MODERATLEY EASIER POLICY	6	0	1	0	1	1	0	2	0	0	0	0	2	0	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NEW CUSTOMERS	125														
MUCH FIRMER POLICY	2	0	0	0	0	0	0	0	1	0	0	0	0	0	1
MODERATELY FIRMER POLICY	12	1	0	0	0	0	1	1	2	1	0	0	1	1	4
ESSENTIALLY UNCHANGED POLICY	99	7	17	9	8	5	8	10	7	13	8	3	7	7	7
MODERATLEY EASIER POLICY	12	0	3	0	3	1	2	1	0	1	1	0	1	1	1
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LOCAL SERVICE AREA CUSTOMERS	124														
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	6	1	0	0	0	0	1	0	2	0	0	0	1	0	1
ESSENTIALLY UNCHANGED POLICY	112	7	18	9	9	5	10	11	8	15	8	3	6	9	12
MODERATLEY EASIER POLICY	6	0	1	0	1	1	0	1	0	0	1	0	2	0	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 3 (CONTINUED)

	ALL DSTS	BOS- TON	NEW YORK TOTAL	CITY	OUTSIDE	PHIL- ADEL.	CLEVE- LAND	RICH- MOND	ATLAN- TA	CHIC- AGO	ST. LOUIS	MINNE- APOLIS	KANS. CITY	DAL- LAS	SAN FRAN
LENDING TO NONFINANCIAL BUSINESSES															
REVIEWING CREDIT LINES OR LOANS															
NONLOCAL SERVICE AREA CUST	123														
MUCH FIRMER POLICY	2	0	0	0	0	0	0	0	1	0	0	0	0	0	1
MODERATELY FIRMER POLICY	14	2	0	0	0	0	1	1	3	2	1	0	0	1	3
ESSENTIALLY UNCHANGED POLICY	100	6	15	8	7	5	9	10	6	13	8	3	9	7	9
MODERATLEY EASIER POLICY	7	0	3	0	3	1	1	1	0	0	0	0	0	1	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FACTORS RELATING TO APPLICANT 2/															
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	124														
MUCH FIRMER POLICY	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY FIRMER POLICY	20	1	3	1	2	0	1	2	1	2	2	0	2	4	2
ESSENTIALLY UNCHANGED POLICY	99	7	16	7	9	5	10	9	8	13	7	2	6	5	11
MODERATLEY EASIER POLICY	4	0	0	0	0	1	0	1	0	0	0	1	1	0	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
INTENDED USE OF LOAN	125														
MUCH FIRMER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATELY FIRMER POLICY	10	0	0	0	0	0	0	2	1	1	1	0	1	2	2
ESSENTIALLY UNCHANGED POLICY	111	8	19	9	10	5	11	9	9	14	8	3	8	6	11
MODERATLEY EASIER POLICY	4	0	1	0	1	1	0	1	0	0	0	0	0	1	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES															
TERMS AND CONDITIONS															
INTEREST RATES CHARGED	125														
MUCH FIRMER POLICY	2	0	0	0	0	1	0	0	1	0	0	0	0	0	0
MODERATELY FIRMER POLICY	39	1	3	2	1	1	4	5	1	6	3	2	2	4	7
ESSENTIALLY UNCHANGED POLICY	83	7	17	7	10	3	7	7	8	9	6	1	7	5	6
MODERATLEY EASIER POLICY	1	0	0	0	0	1	0	0	0	0	0	0	0	0	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

TABLE 3 (CONTINUED)

	ALL DSTS	BOS-TON	NEW YORK TOTAL	NEW YORK CITY	NEW YORK OUTSIDE	PHIL-ADEL.	CLEVE-LAND	RICH-MOND	ATLAN-TA	CHIC-AGO	ST. LOUIS	MINNE-APOLIS	KANS. CITY	DAL-LAS	SAN FRAN
WILLINGNESS TO MAKE OTHER TYPES OF LOANS															
SINGLE FAMILY MORTGAGE LOANS	122														
CONSIDERABLY LESS WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATLEY LESS WILLING	8	0	1	0	1	1	0	0	1	0	2	1	0	1	1
ESSENTIALLY UNCHANGED	91	7	13	6	7	3	8	9	8	10	7	2	8	8	8
MODERATELY MORE WILLING	22	0	4	1	3	2	3	3	0	5	0	0	1	0	4
CONSIDERABLY MORE WILLING	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0
MULTIFAMILY MORTGAGE LOANS	121														
CONSIDERABLY LESS WILLING	1	0	0	0	0	0	0	0	0	0	0	0	0	0	1
MODERATLEY LESS WILLING	6	0	1	0	1	0	0	0	2	1	1	0	0	1	0
ESSENTIALLY UNCHANGED	106	7	15	6	9	6	9	12	7	13	8	3	9	7	10
MODERATELY MORE WILLING	7	0	1	1	0	0	2	0	0	1	0	0	0	1	2
CONSIDERABLY MORE WILLING	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0
ALL OTHER MORTGAGE LOANS	122														
CONSIDERABLY LESS WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATLEY LESS WILLING	9	0	1	0	1	0	0	1	1	0	1	0	0	2	3
ESSENTIALLY UNCHANGED	103	7	16	7	9	4	10	10	8	15	7	3	8	7	8
MODERATELY MORE WILLING	9	0	1	0	1	2	1	1	0	0	1	0	1	0	2
CONSIDERABLY MORE WILLING	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	122														
CONSIDERABLY LESS WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATLEY LESS WILLING	5	0	0	0	0	0	0	0	0	0	1	0	1	2	1
ESSENTIALLY UNCHANGED	107	8	17	8	9	6	11	11	9	12	8	3	7	4	11
MODERATELY MORE WILLING	10	0	2	0	2	0	0	1	1	3	0	0	1	1	1
CONSIDERABLY MORE WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LOANS TO BROKERS	121														
CONSIDERABLY LESS WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATLEY LESS WILLING	6	0	0	0	0	0	0	0	0	0	0	0	1	3	2
ESSENTIALLY UNCHANGED	106	7	17	8	9	6	10	11	8	14	8	3	7	4	11
MODERATELY MORE WILLING	9	1	2	0	2	0	1	1	2	1	1	0	0	0	0
CONSIDERABLY MORE WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NUMBER OF BANKS	125														

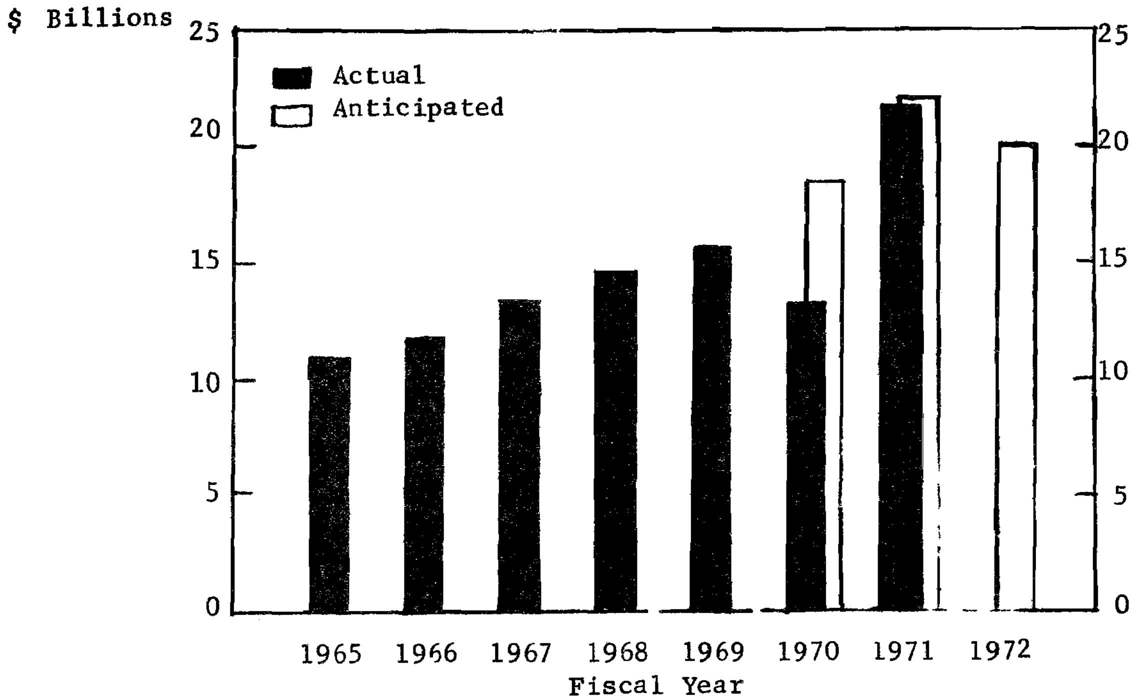
	ALL DSTS	BOS-TON	NEW YORK TOTAL	NEW YORK CITY	NEW YORK OUTSIDE	PHIL-ADEL.	CLEVE-LAND	RICH-MOND	ATLAN-TA	CHIC-AGO	ST. LOUIS	MINNE-APOLIS	KANS. CITY	DAL-LAS	SAN FRAN
LENDING TO "NONCAPTIVE" FINANCE COMPANIES															
TERMS AND CONDITIONS:															
SIZE OF COMPENSATING BALANCES	125														
MUCH FIRMER POLICY	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY FIRMER POLICY	11	0	0	0	0	1	0	2	1	3	0	0	1	1	2
ESSENTIALLY UNCHANGED POLICY	112	8	20	9	11	4	11	10	8	12	9	3	8	8	11
MODERATLEY EASIER POLICY	1	0	0	0	0	1	0	0	0	0	0	0	0	0	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ENFORCEMENT OF BALANCE REQUIREMENT	125														
MUCH FIRMER POLICY	1	0	0	0	0	0	0	0	1	0	0	0	0	0	0
MODERATELY FIRMER POLICY	15	0	2	0	2	0	1	2	1	4	0	0	1	2	2
ESSENTIALLY UNCHANGED POLICY	107	8	18	9	9	5	9	10	8	11	9	3	8	7	11
MODERATLEY EASIER POLICY	2	0	0	0	0	1	1	0	0	0	0	0	0	0	0
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ESTABLISHING NEW OR LARGER CREDIT LINES	125														
MUCH FIRMER POLICY	3	0	0	0	0	0	0	1	1	0	0	0	0	0	1
MODERATELY FIRMER POLICY	18	0	2	0	2	0	0	2	1	4	1	0	1	2	5
ESSENTIALLY UNCHANGED POLICY	89	7	17	9	8	3	10	9	8	7	6	3	7	6	6
MODERATLEY EASIER POLICY	15	1	1	0	1	3	1	0	0	4	2	0	1	1	1
MUCH EASIER POLICY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
WILLINGNESS TO MAKE OTHER TYPES OF LOANS															
TERM LOANS TO BUSINESSES	124														
CONSIDERABLY LESS WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATLEY LESS WILLING	8	0	0	0	0	0	0	0	2	2	0	0	0	1	3
ESSENTIALLY UNCHANGED	99	6	15	8	7	5	9	10	7	13	9	3	7	6	9
MODERATELY MORE WILLING	17	2	4	0	4	1	2	2	1	0	0	0	2	2	1
CONSIDERABLY MORE WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CONSUMER INSTALMENT LOANS	123														
CONSIDERABLY LESS WILLING	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MODERATLEY LESS WILLING	2	0	0	0	0	0	0	0	2	0	0	0	0	0	0
ESSENTIALLY UNCHANGED	91	7	11	5	6	4	9	10	7	10	7	3	7	7	9
MODERATELY MORE WILLING	26	1	6	2	4	1	2	2	1	5	1	0	2	2	3
CONSIDERABLY MORE WILLING	4	0	1	0	1	1	0	0	0	0	1	0	0	0	1

Supplemental Appendix B

STATE AND LOCAL GOVERNMENT LONG-TERM BORROWING ANTICIPATIONS AND REALIZATIONS: Summary-Fiscal Year 1971*

The four FRB-Census quarterly surveys of State and local government long-term borrowing anticipations and realizations for fiscal year 1971 indicate that this sector was able substantially to fulfill its borrowing plans; financial markets thus did not act as a barrier to their capital spending.1/ A record volume of $23 billion in long-term tax-exempt issues was floated during this period which had generally been characterized by sharply declining interest rates and by strong demands for municipal securities by commercial banks. Actual borrowing fell only about $700 million below reported anticipations, in distinct contrast to the nearly $10 billion of net borrowing shortfalls in fiscal 1970.2/

Actual and Anticipated Long-Term Borrowing
State and Local Governments#/
Fiscal 1965-1972



#/ Actual borrowing for fiscal years 1970 and 1971 is the sum of that part of borrowing plans successfully accomplished plus borrowing above reported plans.

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* Prepared by Paul Schneiderman, Economist, Capital Markets Section, Division of Research and Statistics.

(Footnotes 1 and 2 are on the following page)

Table 1

ANTICIPATED AND ACTUAL LONG-TERM BORROWING BY STATE AND LOCAL GOVERNMENTS BY TYPE OF UNIT
Fiscal Year 1971
(Billions of Dollars)

	All Types	State Govt.	Local Govt.				
			Total	County	City or Town	Special District	School District
Anticipated borrowing 1/	23.80	8.34	15.46	1.79	6.77	2.56	4.34
Net shortfall in borrowing 2/	.74	(1.31) 3/	2.05	.08	.96	.04	.97
Actual borrowing	23.06	9.65	13.41	1.71	5.81	2.52	3.37
Ratio of actual to planned	.97	1.16	.87	.96	.86	.98	.78

1/ Based upon anticipations surveys.
2/ Based upon realizations surveys, the net borrowing short-fall accounts for borrowing below planned levels offset by borrowing above originally planned levels.
3/ Parentheses indicates borrowing above plans.

Deviations from Borrowing Plans

As indicated in Table 1, borrowing by the State and local sector was equal to 97 per cent of their reported borrowing plans

(Footnotes 1 and 2 from page B1)

1/ The quarterly patterns of anticipations and realizations are analyzed individually in the appendix to the December 9, 1970 Green Book and in the appendices to the April 2, June 4, and August 20, 1971 Supplements. The results presented here correct for double counting. For example, the same borrowing may have been postponed in more than one quarter, or anticipations, if unrealized may have been pushed forward to a subsequent quarter. Here they are only counted once. The reported anticipations are based upon plans formulated at the beginning of fiscal year 1971 with allowance made for successive revaluations of such plans as the year progressed.

2/ Net borrowing shortfalls are actual shortfalls from updated plans (gross) less borrowing above reported plans. Gross shortfalls from reported plans in fiscal 1971 were $5.8 billion; borrowing above reported plans was $5.1 billion.

during fiscal 1971. State units borrowed well above plans in response to what they viewed as favorable market conditions. Local governments shared this favorable borrowing experience, with the noticeable exception of school districts. Lacking the financial flexibility to take advantage of improved market conditions, and facing voter rejection of financings in light of a growing burden of taxes, school districts were able to realize only three fourths of their plans. Interest rate behavior induced one third of their net borrowing setbacks as did bond election defeats. Taxpayer reaction against adding to already high levels of debt service affected cities as well.

Table 2 indicates the quarterly pattern of interest rate induced long-term borrowing postponements and cancellations. Gross borrowing setbacks3/ during fiscal 1971 of $1.14 billion amounted to less than one quarter of the cutbacks induced by the unfavorable market conditions prevailing throughout the previous fiscal year. Interest rate ceilings no longer were the borrowing constraint they represented during much of fiscal 1970. With many ceilings raised or suspended and with generally lower interest costs, rate ceilings accounted for no more than $150 million in gross borrowing setbacks. At the same time, almost ninety per cent of the interest rate induced gross, long-term borrowing postponements and cancellations were accounted for by units that felt interest rates were either too high or would fall significantly in the near future. On the other hand, other units viewed interest rate movements already sufficiently attractive to bring about $780 million to market above planned levels. The falling level of yields and expectations of higher yields respectively accounted for 70 per cent and 30 per cent of the amount such accelerations represented above anticipations. The resultant affect of interest rate induced behavior was a net shortfall of $360 million for the year.

Effects of Borrowing Setbacks

As an alternative to long-term financing of capital projects, units which could not or would not meet borrowing plans as originally scheduled turned to a number of alternatives to maintain levels of spending. Table 3 presents the distribution of such alternatives after allowing for borrowing postponed because of delays in the projects and not associated with problems of financing. The use of short-term borrowing as a temporary expedient in the financing of capital projects reflects the general trend of State and local use of short-term debt in anticipation of pending permanent financing or tax revenues.

3/ These borrowing setbacks are calculated by netting from quarterly shortfalls subsequently reinstated long-term borrowing as shown in Table 2.

Table 2

LONG-TERM BORROWING BEHAVIOR INDUCED BY THE BEHAVIOR OF INTEREST RATES
Fiscal Year 1971
(Billions of Dollars)

Borrowing Experience	Fiscal 1970	Fiscal 1971	Calendar 1970 Q3	Calendar 1970 Q4	Calendar 1971 Q1	Calendar 1971 Q2
1) Gross shortfalls in borrowing initiated for interest rate reasons as reported quarterly	7.37	1.84	.60	.45	.45	.34
2) Sale of offerings postponed in earlier quarters for interest rate reasons	2.21	.70	--	.11	.34	.25
3) Actual gross shortfall in borrowing induced by interest rate effects	5.16	1.14	.60	.34	.11	.09
4) Borrowing above plans induced by interest rates	n.a.	.78	.08	.34	.15	.21
5) Net interest rate induced shortfalls from (accelerations above) borrowing plans	n.a.	.36	.52	.00	(.04)	(.12)

As might be expected, capital spending reductions initiated as a result of borrowing setbacks induced by interest rate factors were minimal during fiscal 1971. Altogether they totaled less than $150 million, 10 per cent as much as for the previous year.

Fiscal 1972

The borrowing outlook for fiscal 1972 is quite strong. In fact, survey units have already reported long-term borrowing anticipations above $20 billion. Judging from past experience, this amount will likely increase as the year progresses, unless market conditions become adverse.

Table 3
ALTERNATIVE MEANS OF FINANCING LONG-TERM BORROWING SHORTFALLS
Fiscal Year 1971

	All Shortfalls		Interest Rate Induced Shortfalls	
	Millions of Dollars	Per Cent	Millions of Dollars	Per Cent
Short-term Borrowing	2,032	56.3	193	60.9
Use of Liquid Assets	784	21.7	122	38.5
Postpone Other Cash Outlays	342	9.5	2	0.6
Other	449	12.5	--	--
Total	3,607	100.0	317	100.0

Note: Delays in projects to be financed equaled $3.06 billion

APPENDIX C FISCAL MEASURES CONTAINED IN THE "NEW ECONOMIC POLICY"*

The fiscal incentives included in the New Economic Policy announced by the President on August 15 are intended to provide added stimulus to the private sector economy while temporarily slowing the growth of the public sector. To evaluate the overall impact of the President's new program, the effects of the wage-price measures and the impact of the whole policy package on consumer and business confidence would need to be added to the specific effects of the more active fiscal policy proposals. Such an overall evaluation--with possible effects on the consumer saving rate--is not attempted here. By itself the proposed fiscal package (excluding the import surcharge) appears to be moderately stimulative through the second quarter of 1972, and thereafter the impact appears to grow to more significant proportions. The import surcharge is excluded from the above analysis. Although it will raise Federal revenue, its restraining effects are more likely to fall on foreigners than on domestic production.

Since the dollar magnitudes are about in balance, some analysts outside of government have suggested that the impact on private income and spending of the proposed tax cuts would be about offset by the proposed reduction in outlays. There is, however, no easy way to compare the dollar effects of programs that change incentives--such as the repeal of the excise tax on autos that would reduce the price of cars, and the investment tax credit--with cuts in government spending and with personal income tax cuts. As far as the expenditure cuts are concerned staff estimates suggest that the President's program includes some reductions in expenditures that would have been unlikely in any event. Furthermore, present indications are that the offset to the tax incentives arising from the recommended expenditure cuts will diminish somewhat in the second half of calendar 1972 because the spending cuts would be attained primarily through temporary postponement of planned expenditures, and because of the lagged effects of the tax cuts, particularly the investment tax credit.

I. The Fiscal Program

The Treasury's latest estimates indicate that the proposed tax cuts--all of which require Congressional approval--would reduce Federal revenues in the current fiscal year by $5.8 billion. The 10 per cent surcharge could offset as much as $2.0 billion of this

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* Prepared by W. Beeman, economist, Government Finance Section.

Table I

ADMINISTRATION ESTIMATE OF THE INITIAL IMPACT ON THE UNIFIED BUDGET OF FISCAL AND OTHER MEASURES PROPOSED BY THE PRESIDENT ON AUGUST 15th,
(Billions of dollars)

		Fiscal Year 1972
A. Receipts		
Total Receipts, January Budget Document		217.6
Reductions due to lower income assumptions and actions taken prior to NEP 1/		-9.3
Total Receipts Without NEP		208.3
Reductions due to NEP		-5.8
Investment tax credit	2.7	
Accelerated personal tax cuts	.9	
Auto excise repeal	2.2	
Revenue increase from Import surcharge		+2.0
New Estimate of Total Receipts		204.5
B. Outlays		
Total Outlay January Budget Document		229.2
Additions to spending plans, due to overruns and Congressional action		7.7
Estimate of Outlays prior to NEP		236.9
Reductions due to NEP		-4.9
Postponement of federal pay increase	1.3	
Deferral of general revenue sharing 2/	1.1	
Cut in federal employment	.8	
Deferral of welfare reform	.6	
Cut in foreign aid	.2	
Deferral of some special revenue sharing 3/	.5	
Cut in HUD 4/	.3	
Other	.1	
New Estimate of Total Outlays		232.0

1/ Of this reduction, $2.5 billion is accounted for by postponement of the wage base increase until 1972 and $.3 billion by inclusion of public utility firms in accelerated depreciation.

2/ This expenditure cut does not affect staff estimates because Staff projections did not include any general revenue sharing before the end of this fiscal year.

3/ Rural Transportation and urban community development.

4/ Sale of HUD mortgages and private financing of urban renewal projects.

revenue loss, depending on the duration of the surcharge and the extent to which it curtails imports. On the expenditure side, the President has proposed a $4.9 billion reduction in expenditures, $3.8 billion in terms of prior Board staff projections.

A. Revenue Measures.

(1) The Administration proposes an investment tax credit, called the "Job Development Credit", equal to 10 per cent (or less depending on useful life) of the cost of new machineryand equipment acquired after August 15, 1971 and before August 16, 1972. The credit would drop to 5 per cent after August 15, 1972 except for property ordered before August 16, 1972 and put in service by February 15, 1973. No credit would be allowed for used property, for foreign-produced property or for property produced in the U.S. if more than 50 per cent of the value is attributable to imported materials. The Treasury now estimates that this measure would reduce Federal revenues by $2.7 billion in the current fiscal year and by $4.1 billion in fiscal year 1973.

The impact on investment spending of the proposed tax credit is difficult to estimate as we have not previously had experience with a changing rate--10 per cent falling to 5 per cent--or with the foreign exclusion. Certainly the higher initial 10 per cent rate is expected to shorten the lagged effect on investment spending relative to the flat 7 per cent credit in effect earlier. One Staff simulation (FRB model) of the proposed investment tax credit indicates that the effect on investment spending would be a net increment of about $4.0 billion (annual rates) in the second quarter of 1972 and $10 billion in the 4th quarter of 1972. This estimate suggests a quicker response than previously experienced. While anticipating a significant boost in investment spending, the judgemental forecast suggests that such a quick response is not likely to be attained even with the added incentive of a higher initial rate, given the substantial amounts of available capacity now idle. Furthermore there are news reports that Congressman Mills favors a flat 7 per cent credit which undoubtedly would both delay and reduce the initial impact on investment. Other adjustments in the proposal that have been mentioned in the press, such as making the credit retroactive to April 1, 1972 and extending it to used as well as new equipment, probably would not greatly affect the economic outlook.

There are also reports that the recently adopted liberalized depreciation may be dropped or reduced in favor of the more powerful investment tax credit. While such a development would partially offset the stimulus provided in the President's fiscal program, the two measures, as proposed, are not fully additive because an accelerated depreciation schedule can reduce the allowable investment credit as the full credit can be claimed only if the equipment has a useful life of at least 8 years.

(2) The 7 per cent excise tax on domestic and foreign autos would be repealed, effective August 15, 1971. The initial effect of this measure is to reduce the GNP deflator and nominal GNP, since indirect business taxes are a component of GNP. This measure is also expected to reduce Federal receipts by about $2.2 billion in fiscal year 1972.

By itself the repeal of the auto excise tax would reduce prices and increase sales of domestic and foreign autos. However, this tax cut in combination with the 10 per cent import surcharge (6.5 per cent on autos) is expected to produce a significant increase in the demand for domestically produced autos.

(3) The President's proposal would also accelerate, to January 1972, previously legislated personal income tax relief that was scheduled to go into effect in 1973. The personal income tax exemption would increase $100 to $750 instead of the planned $50 increase and the standard deduction from 13 to 15 per cent ($2,000 maximum) instead of to 14 per cent. The initial impact on receipts of accelerating these personal tax relief measures is expected to be at least $.9 billion in Fiscal 1972 and $2.2 billion in calendar 1972. Recent news reports indicate that Congressman Mills favors a July 1, 1971 starting date for this speedup and also an increase in the minimum standard deduction. Assuming that the President's recommendation is enacted, as proposed, this acceleration of tax relief together with previously enacted reductions in personal taxes will have an initial impact on personal disposable income of $4.8 billion in the first quarter of 1972. Some of this stimulative effect will be offset by scheduled increase in social security taxes.

B. Expenditure Measures.

In his message the President also requested that the general revenue sharing and welfare reform programs be postponed for three months and one year, respectively, and that two of the special revenue sharing programs (rural transportation and urban community development) also be postponed, one, for six months, the other for one year. The President proposed other expenditure cuts including: a six months postponement of the Federal pay raise scheduled for January 1972, a 5 per cent reduction in Federal employment and a 10 per cent reduction in Foreign Aid. The effect of these measures on Federal outlays is shown in Table I.

Staff expenditure estimates for Fiscal 1972 are not affected by the postponement of general revenue sharing as Congress was not expected to appropriate funds for the projected period for this item. Thus the Administration's $4.9 billion reduction in Fiscal 1972 outlays amounts to a $3.8 billion change in the staff projection. Those measures which reduce Federal purchases--more than half of the $3.8 billion--are likely to have powerful near-term effects. The Staff has not completed detailed budget projections for the second half of calendar 1972 but because several expenditure hikes are scheduled to begin in July a relatively sharp increase in expenditures is expected. However, the full year postponement of welfare reform and the 5 per cent reduction in force, would still provide significant offsetting reductions in expenditures at that time.

II. Measures of Net Fiscal Stimulus

The latest Staff estimate of the high employment budget (see Table II) shows a modest surplus for the entire calendar year 1971 and no significant change in discretionary fiscal policy from the first to the second half of the year. A $3.8 billion shift toward deficit is expected in the first half of calendar 1972 but less than half of this shift is attributable to the President's new program. Preliminary staff estimates of high employment receipts and expenditures for the second half of calendar 1972 indicate a further shift toward fiscal stimulus.

Administration estimates of the high employment budget on a basis comparable to the Staff estimate (NIA accounts) are not presently available. However, estimates made by Nancy Teeters for Brookings and by the Staff, prior to and after the New Economic Policy, are compared in Table II. While the Staff and Brookings projections employ different fiscal assumptions and estimating techniques, they both find that the net effect of fiscal policy is to shift the balance toward deficit in the first half of calendar 1972. In the second half of calendar 1972 Brookings estimates that discretionary budget policy will move sharply further toward stimulus, but that the stimulus would be greater in the half year without the New Economic Program. However, the Staff views expenditure estimates for the second half of 1972 as highly conjectural at this time.

In the present circumstance these changes in the full employment surplus are especially difficult to interpret. For example, in both the Staff and Brookings estimates the surtax on imports adds about $2.0 billion, annually, to high employment receipts. The resulting appearance of fiscal restraint is misleading in so far as the effect is to reduce the demand for foreign products.

In the Board's estimation of high employment receipts there is also the problem that price changes are based on past trends, a situation that is not analytically applicable during the present freeze and the transition period thereafter. This tends to bias the staff estimate of high employment receipts and surplus upward. The Administration's official estimate of a $8 billion high employment deficit in fiscal 1972 (unified budget basis) is not directly comparable to the NIA data shown in Table II on a number of statistical grounds.

When several important and offsetting adjustments are made in budget programs at the same time, changes in the high employment budget balance are less useful as an indicator of fiscal impact because all dollar changes are given the same weight. In the present situation, however, other estimating techniques suggest that the staff's high employment budget projections correctly indicate the direction of the impact of fiscal measures embodied in the New Economic Policy. A simulation using the FRB model, for example, isolates the following net effects of the fiscal measures, alone, included in the New Economic Policy on real and nominal GNP. The negative effect on nominal GNP through the second half of 1971 is partially due to the fact that auto

NET EFFECT OF FISCAL MEASURES 1/
(billions of dollars, annula rates)

	1971	1972	
	H-II	H-I	H-II
Impact on:			
Real GNP	.6	2.6	12.2
Nominal GNP	-2.6	-3.2	9.9

1/ Does not include effect of surtax on imports and wage-price freeze.

excise taxes are included in indirect business taxes, a component of GNP. The postponement of the Federal pay raise also reduces the GNP deflator in the first half of 1972. Thus the effect on real GNP is a better indicator of the direction of impact of the Fiscal program, though the magnitudes shown do not include any stimulus as a result of improved consumer and business sentiment.

Table II

FRB STAFF AND BROOKINGS
ESTIMATE OF THE HIGH EMPLOYMENT BUDGET SURPLUS OR DEFICIT
(Billions of dollars, annual rates NIA accounts)

	Half Years			
	1971		1972	
	I	II	I	II
Staff Estimate 1/				
July 22 Greenbook	2.1	3.7	1.6	n.e.
Sept. 15 Greenbook	1.7	1.8	-2.0	-5.0p
Brookings Estimate 2/				
Before NEP	3.2	8.0	-3.0	-13.0
After NEP	3.2	5.0	-4.0	-11.0

n.e.--not estimated p--preliminary
NEP--New Economic Program
1/ Most of the change in the staff estimate from July 22 to Sept. 15 is attributable to the NEP.
2/ The Staff and Brookings projections incorporate different assumptions on a number of undecided budget matters such as revenue sharing, the military pay raise and social security benefits and taxes. On a technical level the projections differ in the treatment of price changes and unemployment compensation adjustments.