Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

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.

---

[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)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

April 1, 1970

TABLE OF CONTENTS

SUMMARY AND OUTLOOK

Outlook for economic activity

Recent economic information continues to indicate a slowing of gains in current dollar GNP in the first quarter, and a decline in real GNP at about a 1.5 per cent annual rate seems likely for that period. However, consumer expenditures appear to have been somewhat larger and inventory accumulation much less than previously projected. Such a change in composition of the GNP increase would imply that the inventory adjustment has been taking place more rapidly than had been anticipated. While it is unclear how much further the inventory adjustment may go, a further sharp slowing in the rate of stock building now seems less likely than before. This assumes, of course, that final sales will be sustained at fairly high levels.

With less down-drag from declining inventory investment, prospects are for a larger increase in current dollar GNP in the second quarter than earlier anticipated; and we now expect real GNP to show a small rise. With production better sustained than earlier expected, more disposable income should be generated, supporting a somewhat greater rise in consumer spending. Further, in addition to the large supplements to disposable income earlier incorporated in the projection, there is now a strong likelihood of a retroactive pay increase in April for postal workers.

Most other aspects of the economic outlook for the very near-term are not much changed. Business fixed investment is expected to continue rising. On the other hand, reductions in housing activity are still expected to dampen gains in overall activity this quarter. Increases in State and local government expenditures also seem likely to remain relatively moderate, while Federal government purchases are expected to continue to decline in line with projected Budget reductions in defense expenditures.

Looking to the latter half of the year, we are now projecting a somewhat faster pick-up in GNP growth than previously expected. The most important consideration in this revised second half projection is the assumption we are now making that there will be a pay raise for Federal civilian and military employees effective July 1. This may add nearly $3 billion (at an annual rate) to Federal purchases (and to GNP) in the third quarter, and would also tend to strengthen consumer spending. In addition, as a result of the recent Commerce-SEC survey, we are projecting a small further rise in capital spending after mid-year. Total spending for fixed investment for the year as a whole is still estimated at 8 per cent above last year, but substantially under the Commerce-SEC survey findings because of anticipated shortfalls in current business plans.

As a result of these revisions, GNP in current dollars is expected to rise at about $17 billion per quarter in the second half of the year. Real GNP may grow at a 2-1/2 to 3 per cent, annual rate, on average. This would still be below the economy's long-run potential, and is consistent with some further updrift in unemployment in the latter part of the year.

Outlook for resource use and prices

Despite some strengthening in the economic outlook, a further easing is in prospect in the rate of utilization of manpower and industrial resources. Industrial production is estimated to have been down further in the first quarter, and the utilization rate in manufacturing was appreciably lower. Industrial production is now projected to change relatively little in the course of the second quarter and to advance moderately in the second half of the year, but the utilization rate in manufacturing is expected to level out after mid-year a little below 80 per cent of capacity.

State insured unemployment and new unemployment claims have risen much more slowly in recent weeks than earlier but with the labor force continuing to grow, we continue to expect a further increase in the unemployment rate in the months ahead. The rise is now expected to be a little less than in our previous projection since we are now envisaging more of an increase in total nonfarm employment. Wage settlements are still expected to be sizable, with, as we have noted in recent greenbooks, many more workers covered by expiring major contracts this year than last.

We continue to project some moderation of price pressures over the remainder of the year. (However, the anticipated Federal pay increase would have its impact on the GNP deflator in the third quarter of 1970 rather than in the first quarter of next year.) The increase in wholesale prices of industrial commodities from January to March was smaller and advances were less widespread than earlier. In the strategic metals sector, demand and supply of nonferrous metals now appear in better balance. But prices of producers' equipment have continued to increase fairly rapidly. We expect a slowing of the rise in consumer prices from the 6 per cent of the past year. Critical to this expectation is the fact that prospective food supplies suggest food prices may level off over the months ahead, in contrast to the 8 per cent increase of the past year.

Prospective financial developments

Recent evidence suggests that a recovery of time deposit flows to banks is now underway, at a time when business demands for bank funds are showing some signs of weakeneing. The pick-up of deposit flows began in consumer-type accounts shortly after rate ceilings were raised in late January, but the subsequent sharp decline of short-term market rates has provided further impetus to this change and has generated some renewed growth of large CD's as well. Given the present course of policy and the expected net repayment of nearly $9 billion of Federal debt in the April-June period, short-term rates are likely to decline further on balance over the second quarter. To the extent that short-term rates do show further declines, large CD's at banks can be expected to expand further, and other time and savings deposits should continue to rise, although a sizable part of this expected deposit expansion may be used to reduce bank reliance on high cost funds borrowed from commercial paper and Euro-dollar markets.

Bankers generally report that business interest in bank loans is being fairly well maintained, but estimates for all banks for March show a decline in such lending, even after allowance for loans sold. While to some extent this change may reflect loan repayments from recent heavy business borrowing in capital markets, the weaker demands probably also reflect the further general slowing of economic activity, in particular the considerably slower growth of inventories.

During the second quarter, these influences are likely to continue to have a moderating effect on business demands for bank credit. With growth of deposit funds at the same time tending to expand, the outlook is thus for some further lifting of pressures on bank positions. This should lead to some rebuilding of bank liquidity positions and to a gradual relaxation of lending policies, as may have been presaged by the recent reduction in the prime rate.

Capital markets. Banks have already shown renewed interest in acquiring municipal securities. But to date this interest has centered chiefly in relatively short maturities, with acquisitions of longer term issues reportedly confined mainly to speculative positions of dealer banks. While dealer inventory building and the beginning of bank acquisitions have already contributed to large municipal yield declines, this has not led to any significant step-up in the volume of new offerings. Nevertheless, in view of the heavy backlog of municipal financing needs that went unsatisfied last year, any pronounced further increase in bank acquisitions could encourage expanded offerings and tend to limit the extent of future yield declines.

In the corporate bond market a heavy volume of new issues is already scheduled for offering in April. Although the May calendar is also large, this is due mainly to the $1.6 billion AT&T offering. In late April, the Treasury will announce a refunding of issues maturing in mid-May, about $5 billion of which are held by the public. If market conditions warrant, this operation could also include a pre-refunding of other near-dated Treasury maturities. Thus, during the second quarter, as in March, large security offerings will be working towards inhibiting interest rate declines in intermediate- and long-term sectors of the market.

Mortgage markets. While there has been some improvement in savings inflows to nonbank thrift institutions, the strenghtening has thus far been modest at best and could continue to be limited by the attraction of new corporate security issues--particularly the AT&T offering which is expressly designed to appeal to small investors. Despite the recent FHLB attempts to discourage repayments of S&L advances, a significant share of new inflows could be directed to repayment of borrowing. As yet there has been no evidence of a pick-up in new mortgage commitments. However, a relatively favorable experience in the current reinvestment period could provide thrift institutions with some reassurance as to future deposit inflows and thus lead to a revival of mortgage commitment activity.

Balance of payments outlook

Developments abroad in recent months strongly support the view that 1970 will be a relatively good year for the current account of the U.S. balance of payments and a relatively poor year for the capital account, including Euro-dollar flows. U.S. exports in January-February were better than we anticipated a month ago and fully up to earlier expectations. Repayments of Euro-dollar borrowings by U.S. banks have continued.

One of the most striking features of recent developments abroad has been the widespread acceleration of wage increases, accompanied in some countries--though not all--by steeper advances in wholesale and consumer price averages than had occurred for several years. The overall strength of aggregate demand in Europe and Japan, still being fed by unsatisfied demands for capital equipment to enlarge capacity and cut labor costs, is being supported increasingly by the rapid growth in money income.

Another notable feature of the recent scene is the general absence of downward movements in interest rates in European national markets during the past two months of declines in U.S. and Euro-dollar rates. On the continent, rates have risen in Germany, Italy, and some other countries. After the half-point cut in the Bank of England's rate about four weeks ago, sterling money market rates in London are now below their 1969 peaks on an uncovered basis but are at all-time highs after deducting the cost (now greatly reduced) of cover back into dollars. Canadian rates have declined a little--but considerably less than ours.

The shift toward deficit this year in the U.S. balance of payments measured by official settlements, which is of course associated with the changes occurring in interest rate relationships, has not generated unwanted foreign official reserve holdings of dollars up to now, nor has it given rise to concern in foreign exchange markets. Major reasons for these results are the concentration of recent foreign gains of net reserves in Britain and the attrition during 1968 and 1969 of official reserve holdings of dollars in other major countries.

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	1969 Nov.	1969 Dec.	1970 Jan.	1970 Feb.	Per Cent Change* From 1 mo. ago	3 mos. ago	Year ago
Civilian labor force (mil.)	81.4	81.6	82.2	82.2	0.0	1.1	2.6
Unemployment rate (%)	3.5	3.5	3.9	4.2	--	--	[3.3] 4/
Insured unempl. rate (%)	2.3	2.3	2.5	2.6	--	--	[2.1] 4/
Nonfarm employment, payroll (mil.)	70.6	70.7	70.8	70.8	0.0	0.2	1.8
Manufacturing	20.0	20.0	20.0	19.8	-0.8	-1.0	-1.3
Nonmanufacturing	50.6	50.7	50.8	51.0	0.3	0.6	3.1
Industrial production (57-59=100)	171.4	171.1	170.2	169.4	-0.5	-1.2	-0.4
Final products, total	168.4	168.4	168.2	168.2	0.0	-0.1	-0.7
Consumer goods	160.5	160.7	161.0	160.2	-0.5	-0.2	-0.9
Business equipment	194.4	193.6	192.2	195.0	1.5	0.3	1.6
Materials	174.6	173.9	172.5	170.4	-1.2	-2.4	-0.2
Capacity util. rate, mfg.	81.5	80.9	80.0	79.1	--	--	[84.6] 4/
Wholesale prices (57-59=100) 1/	114.7	115.1	116.0	116.4 5/	0.3	1.5	4.8
Industrial commodities (FR)	113.1	113.5	114.0	114.4	0.4	1.1	3.6
Sensitive materials (FR)	114.2	114.9	116.0	115.9	-0.1	1.5	1.3
Farm products, foods & feeds	115.7	116.4	118.2	118.7 6/	0.4	2.6	7.9
Consumer prices (57-59=100) 1/	130.5	131.3	131.8	132.5	0.5	1.5	6.3
Food	128.1	129.9	130.7	131.5	0.6	2.7	7.9
Commodities except food	120.2	120.3	120.1	120.4	0.2	0.2	4.1
Services	147.2	148.3	149.6	150.7	0.7	2.4	7.9
Hourly earnings, pvt. nonfarm ($)	3.12	3.13	3.13	3.15	0.6	1.0	6.4
Hourly earnings, mfg. ($)	3.26	3.28	3.28	3.27	-0.3	0.3	5.1
Weekly earnings, mfg. ($)	131.70	133.16	132.59	131.06	-1.2	-0.5	4.6
Net spend. weekly earnings, mfg. (3 dependents 57-59 $) 1/	87.07	88.05	86.86	85.57	-1.5	-1.7	-1.1
Personal income ($ bil.) 2/	767.6	770.6	774.3	777.6	0.4	1.3	7.4
Retail sales, total ($ bil.)	29.5	29.4	29.3	29.4	0.4	-0.2	0.6
Autos (million units) 2/	8.3	7.7	6.8	7.9	15.7	-4.7	-9.6
GAAF ($ bil.) 3/	8.0	8.1	8.1	8.2	1.1	2.7	4.8
12 leaders, composite (1963=100)	152.1	152.3	149.7	149.8	0.1	-1.5	-0.5
Selected leading indicators:							
Housing starts, pvt. (thous.) 2/	1,295	1,299	1,197	1,321	10.4	2.0	-21.6
Factory workweek (hours)	40.5	40.7	40.3	39.9	-1.0	-1.5	-0.5
Unempl. claims, initial (thous.)	210	212	235	258	-10.1 7/	-23.0 7/	-32.9 7/
New orders, dur. goods, ($ bil.)	31.2	30.3	28.9	29.4	1.8	-5.6	-3.4
Machinery & equipment	6.7	6.5	6.4	6.6	2.3	-2.0	0.8
Common stock prices (41-43=10)	96.21	91.11	90.31	87.16 8/	-3.5	-9.4	-14.1

* Based on unrounded data. 1/ Not seasonally adjusted. 2/ Annual rates. 3/ Gen'l. merchandise, apparel, and furniture and appliance. 4/ Actual figures. 5/ March prel., 116.5. 6/ March prel., 118.5. 7/ Sign reversed. 8/ March prel., 88.60.

SELECTED DOMESTIC FINANCIAL DATA

	Averages 1969 QII	QIII	QIV	1970 QI	Mar.	1970 Week ended March 25
Interest rates, per cent						
Federal funds	8.33	8.98	8.94	8.56	7.76	7.45
3-mo. Treasury bills	6.20	7.02	7.36	7.21	6.63	6.31
3-mo. Federal agencies	6.80	7.63	7.92	7.72	7.13	6.90
3-mo. Euro-dollars	9.69	10.89	10.48	9.26	8.88	8.68
3-mo. finance co. paper	6.72	7.74	7.89	7.94	7.68	7.50
4-6 mo. commercial paper	7.54	8.49	8.63	8.55	8.33	8.13
Bond buyer municipals	5.43	6.00	6.40	6.35	6.02	5.98
Aaa corporate-new issues	7.32	7.75	8.32	8.45	8.60	8.74
20-year Treasury bonds	6.14	6.34	6.71	6.78	6.72	6.70
FHA mortgages, 30-year	8.17	8.38	8.53	--	9.29 1/	--

	Change During Period 1969 QII	QIII	QIV	1970 Jan.	Feb.
Change in monetary aggregates (SAAR, per cent)					
Total reserves	1.2	- 9.3	1.4	3.1	-12.7
Nonborrowed reserves	- 4.7	- 4.8	- .1	7.2	-16.4
Credit proxy	- 2.2	- 9.4	.1	- 4.2	- 7.6
Credit proxy + nondep. funds	n.a.	- 4.0	2.1	- 3.5	- 4.7
Money supply	4.5	--	1.2	9.0	- 9.5
Time and savings deposits	- 3.0	-13.3	--	-12.4	- .6
Deposits at S&L's and MSB's	3.9	2.1	1.2	- 5.2	3.2
Bank credit, end-of-month	6.1	- .8	2.1	- 7.5	3.3
Treasury securities	- 8.4	-11.4	-21.2	-44.0	-12.0
Other securities	.6	- 7.2	--	6.8	- 1.7
Total loans	10.9	3.1	7.2	- 3.9	7.8
Business	10.8	5.1	5.0	- 9.2	4.6

	1969 QII	QIII	QIV	1970 Jan.	Feb.
Commercial paper (SA change, $ mil.)	3,522	3,233	3,250	1,307	1,402
Bank related (NSA)	n.a.	1,254	1,713	1,221	537

	1968 Year	1969 Year	1969 QI	Mar.	1970 QI	Mar.
New security issues (NSA, $ mil.)						
Total corp. issues	21,965	26,744r	6,218	2,098	7,610e	3,400e
Public offerings	15,314	21,128r	4,680	1,590	6,610e	3,000e
State and local government bond offerings	16,574	11,881	2,787	538	3,876e	1,350e
Fed. sponsored agency debt (change)	3,354	9,292	1,194	603	3,293	1,644
Fed. gov't. debt (change)	15,300	-2,258	157	418	2,067e	2,400e

n.a. - Not available. e - Estimated. p - Preliminary.
SAAR - Seasonally adjusted annual rate. NSA - Not seasonally adjusted.
r - Revised 1/ Data are for February.

U.S. BALANCE OF PAYMENTS
In millions of dollars; seasonally adjusted

	1968	1969			1970	
	Year	Year	III	IV	Jan.*	Feb.*
Goods and services, net 1/	2,516	2,073	706	729		
Trade balance 2/	626	690	338	453	10	383
Exports 2/	33,598	36,487	9,581	9,829	3,300	3,583
Imports 2/	-32,972	-35,797	-9,243	-9,376	-3,290	-3,200
Service balance	1,890	1,383	368	276		
Remittances and pensions	-1,159	-1,163	-307	-299		
Govt. grants & capital, net	-3,955	-3,865	-1,037	-880		
U.S. private capital	-5,157	-5,009	-1,279	-324		
Direct investment	-3,025	-3,060	-1,134	58		
Foreign securities	-1,266	-1,380	-562	-69	-17	-28
Banking claims	269	-528	210	-319	444	144
Other	-1,135	-41	207	6		
Foreign capital	9,277	12,114	3,635	581		
Official foreign, nonliquid	2,282	-713	-573	181		
Official foreign, liquid	-3,099	-527	2,131	-985	668	e1,280
Foreign commercial banks, liquid	3,382	9,272	1,298	218	253	e1,100
New direct investment issues 3/	2,129	1,026	225	250		
U.S. corporate stocks	2,084	1,515	169	468	-38	25
Other	2,499	1,541	385	449		
U.S. monetary reserves (increase -)	-880	-1,187	-686	-154	435	-274
Gold stock	1,173	-967	-11	-695	-23	-24
Special drawing rights	--	--	--	--	4/-32	-20
IMF gold tranche	-870	-1,034	-233	-542	3	-186
Convertible currencies	-1,183	814	-442	1,083	487	-44
Errors and omissions	-642	-2,963	-1,034	348		
BALANCES, (deficit -)						
Official settlements balance, S.A.			-927	1,281		
" " " , N.S.A. 5/	1,638	2,712	-1,043	839	-436	-1,005
Liquidity balance, S.A.			-2,608	1,113		
" " , N.S.A.	168	-7,058	-2,972	998	-1,397	19
Adjusted over-all balance, S.A.			-2,225	1,063		
" " " , N.S.A. 6/	-1,744	-6,560	-2,597	971	-689	95
Financed by:						
Liab. to comm. banks (decrease -)	3,382	9,272	1,554	-132	253	e-1,100
Official settlements 7/	-1,638	-2,712	1,043	-839	436	1,005

* Only exports and imports are seasonally adjusted.

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

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

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

4/ Excludes initial allocation of SDR ($867 million).

5/ Differs from liquidity balance by counting as receipts (+) increase in liquid liabilities to commercial banks, private nonbanks, and international institutions (except IMF) and by not counting as receipts (+) increases in certain nonliquid liabilities to foreign official institutions.

6/ Represents the net result of all international transactions of the U.S. other than changes in reserve assets, in all liabilities to foreign monetary authorities and in liabilities to commercial banks abroad (including U.S. bank branches) reported by banks in the U.S.

7/ Minus sign indicates decrease in net liabilities.

THE ECONOMIC PICTURE IN DETAIL

Domestic Nonfinancial Scene

Gross national product. Economic activity continued to slacken in the first quarter. We currently estimate that GNP rose only about $6-1/2 billion in current dollars, and in real terms declined 1.5 per cent, about as we have recently been projecting. However, the composition of the GNP change appears to have been significantly different--growth of final sales was somewhat less than had been anticipated, while inventory investment declined much more sharply.

Federal purchases and residential construction are likely to continue to weaken in the second quarter. But consumer demand is expected to show greater strength--reflecting the large growth anticipated in personal income--and total final sales are expected to rise slightly more than in the first quarter. Moreover, with recent indications that substantial inventory adjustments already had occurred in the past several months, we are now projecting only a slight further decline in the rate of accumulation. As a result, GNP is now expected to increase by about $11-1/2 billion in the second quarter. In real terms GNP would show a slight increase instead of continuing to decline slightly, as had earlier seemed likely.

PROJECTED CHANGES IN GNP AND RELATED ITEMS, 1970
February Chart Show and Current Projection

	First Quarter		Second Quarter	
	Chart Show Proj.	Current Proj.	Chart Show Proj.	Current Proj.
GNP ($ billion)	6.9	6.5	9.0	11.6
Final sales ($ billion)	9.2	11.0	11.5	12.3
Personal consumption ($ billion)	7.9	9.4	11.5	11.7
Inventory change ($ billion)	-2.3	-4.5	-2.5	- .7
Real GNP (per cent)	-1.3	-1.5	- .2	.8
GNP deflator (per cent)	4.2	4.2	4.0	4.0

The larger than anticipated growth in consumer expenditures in the first quarter reflected less weakness in durable goods outlays than had appeared likely earlier, particularly for cars. However, the estimated rise in total consumer purchases was no larger than in the fourth quarter. Outlays for residential construction continued to decline last quarter, but here also the weakness was a little less than we had been projecting, in part because of a surprising jump in starts in February. Private housing starts are now estimated to average about 1.2 million units for the quarter, about 100,000 more than we had projected a month ago. The fourth quarter average was 1.33 million. Moreover, average construction costs per unit built apparently have been rising somewhat faster than expected.

Among other elements of final demand, Federal defense purchases in the first quarter are estimated to have declined about as expected, and growth of State and local spending apparently continued to be limited by high interest rates and generally tight credit conditions. Business capital spending, however, apparently continued to increase. The recent (February) Commerce-SEC plant and equipment survey projected an upward revision in spending plans to an increase of 10-1/2 per cent for 1970 as a whole. But the new survey also indicated a more modest rate of growth in the first half of this year than indicated by the preceding survey, and an acceleration of spending in the second half. Based on these survey results, and available production and shipments data, we have cut back the estimated first quarter increase in business fixed investment by about $1 billion.

While final sales apparently rose only a little less in the first quarter than in the fourth, the rate of inventory investment is estimated to have been cut sharply. The book value of business inventories dropped by almost $7 billion in January. Most of the decline occurred in trade, mainly in durables at retail, and particularly in autos, but manufacturing inventories also rose considerably less than in other recent months. But it seems unlikely that total business inventories continued to decline for the first quarter as a whole. Indeed, the book value of manufacturing inventories rose sharply in February.

Our projections assume that there will be no further sharp reductions in the rate of inventory accumulation and that growth in real GNP will probably resume in the second quarter. Although some further easing is likely in employment and, possibly, hours of work, personal income is expected to show a rise of $17 billion in the second quarter with more than two-fifths of this increase reflecting increased Social Security benefits. Also, there is now the likelihood of a retroactive pay raise for postal workers in April, which we have assumed would be about 6 per cent and total about $400 million, annual rate.

With disposable income growth larger, consumption also is expected to rise somewhat more rapidly than in the first quarter. For the remaining categories of GNP spending, our second quarter projections have not been changed materially.

A major change in our expectations for the third quarter is the addition of a midyear pay raise for all Federal classified employees plus the military. Our changed assumption recognizes pressures arising from the postal strike and the probability that Congress will now pass a pay bill for all employees. A pay raise of about 6 per cent would add directly nearly $3 billion annual rate to Federal purchases and to GNP in the third quarter, and--along with the elimination of the surcharge--would lend considerable support to consumer goods sales. Also, we still expect residential construction activity and State and local government spending to begin responding to easier monetary and credit policies in the second half of 1970. On the other hand, we continue to anticipate that Federal outlays for defense, exclusive of the assumed pay increase, will decline for the remainder of the year in line with Budget estimates.

As a result of the recent Commerce-SEC survey, we now are projecting increases in capital spending through the remainder of the year. The acceleration in spending implied by the survey seems to us

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

	1968	1969	1970 Proj.	1969 II	1969 III	1969 IV	1970 Projected I	1970 Projected II*	1970 Projected III*	1970 Projected IV
Gross National Product	865.7	932.1	980.2	924.8	942.8	952.2	958.7	970.3	987.1	1004.6
Final sales	858.4	924.1	977.1	917.9	932.0	944.5	955.5	967.8	984.1	1001.1
Private	658.1	709.5	755.4	705.0	715.0	726.2	737.2	748.7	760.5	775.1
Excluding net exports	655.6	707.4	751.7	703.4	712.3	723.5	733.2	744.4	757.6	771.5
Personal consumption expenditures	536.6	576.0	616.0	572.8	579.8	589.5	598.9	610.6	622.3	632.3
Durable goods	83.3	89.8	91.5	90.6	89.8	90.4	90.0	91.0	92.0	93.0
Nondurable goods	230.6	243.6	260.7	242.1	245.1	248.7	253.3	258.5	263.7	267.3
Services	222.8	242.6	263.8	240.1	244.9	250.3	255.6	261.1	266.6	272.0
Gross private domestic investment	126.3	139.4	138.7	137.4	143.3	141.8	137.5	136.3	138.3	142.6
Residential construction	30.2	32.2	28.7	32.7	31.4	31.6	30.2	27.3	27.3	30.1
Business fixed investment	88.8	99.2	106.9	97.8	101.1	102.5	104.1	106.5	108.0	109.0
Change in business inventories	7.3	8.0	3.1	6.9	10.7	7.7	3.2	2.5	3.0	3.5
Nonfarm	7.4	7.8	3.0	6.7	10.3	7.4	3.0	2.5	3.0	3.5
Net exports of goods and services	2.5	2.1	3.7	1.6	2.7	2.7	4.0	4.3	2.9	3.6
Gov't. purchases of goods & services	200.3	214.6	221.8	212.9	217.0	218.3	218.3	219.1	223.6	226.0
Federal	99.5	101.9	98.8	100.6	103.2	102.3	100.1	98.1	99.1	98.0
Defense	78.0	79.2	75.2	78.5	80.3	79.2	77.2	75.0	75.0	73.5
Other	21.5	22.7	23.7	22.1	22.9	23.1	22.9	23.1	24.1	24.5
State & local	100.7	112.7	122.9	112.3	113.8	116.0	118.2	121.0	124.5	128.0
Gross national product in constant (1958) dollars	707.6	727.5	731.6	726.7	730.6	729.8	727.1	728.6	732.2	738.5
GNP implicit deflator (1958 = 100)	122.3	128.1	134.0	127.3	129.0	130.5	131.9	133.2	134.8	136.0
Personal income	687.9	747.2	798.8	740.5	756.5	767.4	777.5	794.4	805.9	817.4
Wages and salaries	465.0	509.9	544.6	504.3	516.9	525.0	531.5	538.1	549.7	559.0
Disposable income	590.0	629.7	679.7	622.0	639.0	647.5	659.5	674.0	688.1	697.0
Personal saving	38.4	37.6	46.9	33.3	43.1	41.7	44.1	46.7	49.0	47.6
Saving rate (per cent)	6.5	6.0	6.9	5.3	6.7	6.4	6.7	6.9	7.1	6.8
Corporate profits before tax	91.1	93.8	85.6	95.4	92.5	91.6	86.0	85.0	85.0	86.5
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	176.3	201.5	197.6	202.8	201.3	203.3	196.7	198.7	195.8	199.0
Expenditures	181.5	192.0	203.6	189.3	193.6	196.7	198.4	205.8	205.0	205.1
Surplus or deficit (-)	-5.2	9.5	-6.0	13.5	7.7	6.7	-1.7	-7.1	-9.2	-6.1
Total labor force (millions)	82.3	84.2	85.9	83.9	84.6	85.0	85.6	85.7	85.9	86.2
Armed forces "	3.5	3.4	3.2	3.5	3.5	3.5	3.3	3.2	3.1	3.1
Civilian labor force "	78.7	80.7	82.7	80.4	81.0	81.5	82.3	82.5	82.8	83.1
Unemployment rate (per cent)	3.6	3.5	4.5	3.5	3.6	3.6	4.2	4.4	4.7	4.9
Nonfarm payroll employment (millions)	67.9	70.1	71.0	70.0	70.4	70.6	70.9	70.8	71.0	71.4
Manufacturing	19.8	20.1	19.8	20.1	20.2	20.1	19.9	19.7	19.7	19.8
Industrial production (1957-59=100)	165.5	172.8	170.3	172.6	174.3	171.9	169.5	169.0	170.2	172.5
Capacity utilization, manufacturing (per cent)	84.6	83.7	78.3	84.5	84.2	81.7	79.2	78.2	77.8	77.8
Housing starts, private (millions A.R.)	1.51	1.46	1.18	1.51	1.43	1.33	1.22	1.03	1.15	1.30
Sales new domestic autos (millions, A.R.)	8.62	8.46	7.73	8.54	8.45	8.13	7.41	7.75	7.75	8.00

* Assumes pay increase for postal workers in 70-II ($.4 billion with half retroactive for 70-I) and in 70-III ($.2 billion) and for Federal civil service employees and military personnel in 70-III (totaling $2.8 billion).

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1968	1969	1970 Proj.	1969 II	1969 III	1969 IV	1970 Projected I	1970 Projected II	1970 Projected III	1970 Projected IV
	--------	--------	--------	--------	In Billions of Dollars	--------	--------	--------	--------	--------
Gross National Product	72.2	66.4	48.1	16.1	18.0	9.4	6.5	11.6	16.8	17.5
Inventory change	-0.1	0.7	-4.9	0.3	3.8	-3.0	-4.5	-0.7	0.5	0.5
Final sales	72.2	65.7	53.0	15.8	14.1	12.5	11.0	12.3	16.3	17.0
Private	52.0	51.4	45.9	12.9	10.0	11.2	11.0	11.5	11.8	14.6
Excluding net exports	54.7	51.8	44.3	12.8	8.9	11.2	9.7	11.2	13.2	13.9
Net exports	-2.7	-0.4	1.6	0.1	1.1	0.0	1.3	0.3	-1.4	0.7
Government	20.2	14.3	7.2	2.9	4.1	1.3	0.0	0.8	4.5	2.4
GNP in constant (1958) dollars	33.0	19.9	4.1	3.6	3.9	-0.8	-2.7	1.5	3.6	6.3
Final sales	33.3	19.6	8.4	3.5	0.6	1.8	1.2	2.2	3.1	6.0
Private	24.9	18.3	12.1	3.9	1.4	2.8	2.8	3.2	3.3	5.9
	--------	--------	--------	--------	In Per Cent Per Year	--------	--------	--------	--------	--------
Gross National Product	9.1	7.7	5.2	7.1	7.8	4.0	2.7	4.8	6.9	7.1
Final sales	9.2	7.7	5.7	7.0	6.1	5.4	4.7	5.1	6.7	6.9
Private	8.5	7.8	6.5	7.5	5.7	6.3	6.1	6.2	6.3	7.7
Personal consumption expenditures	9.0	7.3	6.9	7.7	4.9	6.7	6.4	7.8	7.7	6.4
Durable goods	14.1	7.8	1.9	10.0	-3.5	2.7	-1.8	4.4	4.4	4.3
Nondurable goods	7.2	5.6	7.0	5.9	5.0	5.9	7.4	8.2	8.0	5.5
Services	9.1	8.9	8.7	8.7	8.0	8.8	8.5	8.6	8.4	8.1
Gross private domestic investment	8.9	10.4	-0.5	6.5	17.2	-4.2	-12.1	-3.5	5.9	12.4
Residential construction	20.8	6.6	-10.9	-7.2	-15.9	2.5	-17.7	-38.4	0.0	41.0
Business fixed investment	6.1	11.7	7.8	10.5	13.5	5.5	6.2	9.2	5.6	3.7
Gov't purchases of goods & services	11.2	7.1	3.4	5.5	7.7	2.4	0.0	1.5	8.2	4.3
Federal	9.7	2.4	-3.0	-3.9	10.3	-3.5	-8.6	-8.0	4.1	-4.4
Defense	7.7	1.5	-5.1	-2.5	9.2	-5.5	-10.1	-11.4	0.0	-8.0
Other	16.8	5.6	4.4	-8.9	14.5	3.5	-3.5	3.5	17.3	6.6
State & local	12.8	11.9	9.1	14.0	5.3	7.7	7.6	9.5	11.6	11.2
GNP in constant (1958) dollars	4.9	2.8	0.7	2.0	2.1	-0.4	-1.5	0.8	2.0	3.5
Final sales	5.0	2.8	1.2	2.0	0.3	1.0	0.7	1.2	1.7	3.3
Private	4.7	3.3	2.1	2.8	1.0	2.0	2.0	2.2	2.3	4.0
GNP implicit deflator*	4.0	4.7	4.6	5.1	5.6 1/	4.5	4.2	4.0	4.9 2/	3.6
Personal income	9.3	8.6	6.9	8.9	8.6	5.8	5.3	8.7	5.8	5.7
Wages and salaries	9.8	9.7	6.8	8.9	10.0	6.3	5.0	5.0	8.6	6.8
Disposable income	8.0	6.7	7.9	7.7	10.9	5.3	7.4	8.8	8.4	5.2
Corporate profits before tax	13.4	3.0	-8.7	0.4	-12.2	-3.9	-24.5	-4.6	0.0	7.1
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	16.7	14.3	-1.9	8.5	-3.0	4.0	-13.0	4.1	-5.8	6.5
Expenditures	10.8	5.8	6.0	1.7	9.1	6.4	3.5	14.9	-1.6	0.2
Nonfarm payroll employment	3.0	3.4	1.3	3.3	2.0	1.5	1.7	-0.6	1.1	2.3
Manufacturing	2.1	1.8	-1.5	1.6	1.8	-3.4	-4.0	-4.0	0.0	2.0
Industrial production	4.7	4.4	-1.4	5.6	3.9	-5.5	-5.6	-1.2	2.8	5.4
Housing starts, private	16.7	-2.7	-19.3	-48.3	-21.5	-28.8	-31.9	-64.8	48.8	52.2
Sales new domestic autos	14.0	-1.9	-8.7	8.4	-4.2	-15.1	-35.4	18.4	0.0	12.9

* Based on deflators calculated to three decimals.
1/ Excluding Federal pay increase 4.3 per cent per year.
2/ Excluding Federal pay increase 3.8 per cent per year.

Industrial production. Industrial production is tentatively estimated to have declined a little further in March. Total output of consumer goods, on the basis of sketchy data, apparently changed little. Production of defense equipment and industrial materials most likely declined further. The trend in output of business equipment, however, has been obscured since October by the G.E. strike. If output of business equipment is maintained and if the readjustments in production of consumer durable goods are largely over, as seems likely, further declines in output of industrial materials and in the total index from the March level would be moderate in the second quarter.

Auto assemblies in March were at an annual rate of 7 million units, up moderately from February. April schedules initially had been set at a 7.6 million unit rate, but have been cut back to about a 7 million unit rate, the same as in March. Output of television sets rose further in the first 3 weeks of March, but trade reports indicate some cutbacks in production in April as inventories remain high relative to sales. Other March production data indicate about a 5 per cent increase in truck output from the reduced February level, a 3 per cent rise in production of raw steel, and some decline in output of paper and paperboard.

The decline in industrial production from the July 1969 high to February 1970 was larger than in the 1966-67 readjustment, but was considerably smaller than during comparable periods in the recessions of 1958-59 and 1960-61, as shown in the table. The 1969-70 downturn were erased by increases in subsequent months, a pattern which could be repeated this year. For the quarter as a whole, therefore, it is likely that book value growth will be positive--but a fairly large valuation adjustment can also be expected.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
Seasonally adjusted annual rates, billions of dollars

	1969	1970	
	QIV average	January	February
Manufacturing and trade, total	13.5	-6.9	n.a.
Manufacturing, total	6.8	1.9	7.7
Durable	6.1	3.4	3.2
Nondurable	.7	-1.5	4.5
Trade, total	6.7	-8.8	n.a.
Wholesale	2.6	- .6	n.a.
Retail	4.1	-8.2	n.a.
Durable	2.1	-6.3	n.a.
Automotive	.6	-3.9	n.a.
Nonautomotive	1.5	-2.4	n.a.
Nondurable	2.0	-1.9	n.a.

Manufacturing inventory-sales ratios were unchanged in February, and the ratio of durable goods inventories to unfilled orders rose further. The trade inventory-sales ratio dropped back in January but remained above the level reached in the same month of 1967.

INVENTORY RATIOS

	1967		1969	1970	
	Jan.	Feb.	Dec.	Jan.	Feb.
Inventories to sales:					
Manufacturing & trade, total	1.57	1.59	1.59	1.58	n.a.
Manufacturing, total	1.76	1.77	1.73	1.74	1.74
Durable	2.06	2.08	2.10	2.12	2.12
Nondurable	1.40	1.40	1.29	1.29	1.29
Trade, total	1.37	1.39	1.42	1.40	n.a.
Wholesale	1.20	1.22	1.21	1.20	n.a.
Retail	1.49	1.50	1.56	1.54	n.a.
Durable	2.09	2.15	2.22	2.27	n.a.
Nondurable	1.20	1.21	1.25	1.23	n.a.
Inventories to unfilled orders, durable manufacturing	.653	.663	.733	.746	.757

Cyclical indicators. In February, the preliminary composite leading indicator was almost unchanged, the coincident composite declined slightly, and the lagging composite also declined--for the second month, as it now appears, after a downward revision in January.

The leading composite remains 2.4 per cent below its September peak; it is the most irregular of the three composites, and not too much can be made of its leveling off in February. The decline of 1.0 per cent in the lagging indicator between December and February is the first decline of more than one month's duration since 1962-63 and the largest percentage decline since 1960-61.

COMPOSITE CYCLICAL INDICATORS
1963 = 100

		12 Leading Indicators*	5 Coincident Indicators	6 Lagging Indicators
1969:	September	153.4	172.2	196.0
	October	153.0	173.1	198.8
	November	152.1	173.4	198.2
	December	152.3	173.4	201.4
1970:	January	149.7	172.6	200.7
	February (prel.)	149.8	172.1	199.5

* Trend adjusted.

Among the leading indicators, the workweek, unemployment claims, contracts and orders for plant and equipment, and common stock prices had a downward effect on the index, while building permits, new orders for durable goods, industrial materials prices, and the ratio of price to unit labor cost rose. Of the coincident indicators, employment, unemployment, and industrial production moved adversely in February while personal income rose.

Three of the four monthly lagging indicator components are available for February; of these, long-term unemployment and labor cost per unit of output in manufacturing caused the decline, while commercial and industrial loans outstanding at weekly reporting banks increased. The January decline was attributable to loans and inventories. The other two components of the lagging composite are quarterly. Business loan interest rates are not available currently and are assumed to move with the index components that are available, and plant and equipment spending in January and February is assumed to increase, in accordance with the anticipations data.

Construction and real estate. Seasonally adjusted private housing starts, which had declined sharply further in January, reversed direction in February and reached an annual rate of 1.32 million units. The February rise--which occurred despite a one-fifth drop in permits during January--was mainly in single-family units, but multifamily starts also turned up. Regionally, only the North Central states showed a decline in February, and, while this was substantial, it was more than offset by increases in other regions, particularly in the Northeast where activity had been notably low.

A factor in the February advance apparently was the already appreciably reduced starts rate reached in January at a time when unadjusted starts normally approach a seasonal low for the year. By contrast, the normal pace for March calls for a very sharp seasonal expansion in unadjusted starts, and it seems unlikely that more than part of this was realized given the reduced overall level of mortgage commitments available to builders and the low average level of permits so far this year. Even so, housing starts in the first quarter as a whole may have averaged around 1.2 million, which would be only 8 per cent under the rate now reported for the fourth quarter of last year, though nearly 30 per cent below the recent peak in the first quarter of 1969.

PRIVATE HOUSING STARTS AND PERMITS

	February 1970 (Thousands of Units)1/	Per cent change from January 1970	Per cent change from February 1969
Starts 2/	1,321	+ 10	- 22
1-family	801	+ 16	- 18
2-or-more family	520	+ 3	- 27
Northeast	256	+ 50	+ 19
North Central	255	- 25	- 56
South	524	11	- 21
West	286	+ 32	+ 24
Permits	1,147	+ 13	- 22
1-family	549	+ 17	- 20
2-or-more family	598	+ 10	- 24

1/ Seasonally adjusted annual rates; preliminary.
2/ Apart from starts, mobile home shipments for domestic use in January--the latest month available--were at a seasonally adjusted annual rate of 378,000, a tenth below the near-peak a year earlier.

Sales of one-family homes by merchant builders early this year were holding at the moderately improved rate reached last October. Meanwhile stocks of such homes available for sale dropped to the lowest level in nearly a year. In the market for existing homes, average prices of homes involved in transactions remained above year-earlier levels. However, in January the year-to-year increase amounted to only 5 per cent, compared with a year-to-year rise of as much as 10 per cent as recently as last autumn, according to the National Association of Real Estate Boards.

In the public construction sector, the Administration on March 17 announced immediate withdrawal of its request of last September that both Federally assisted and other construction projects of State and local governments be curtailed where possible. Termination of this request, according to Budget Bureau estimates, will eventually reactivate assisted outlays of $1.5 billion, utilizing $1.2 billion in Federal funds and $300 million in matching State and local funds. But mainly because of lag factors, only a small part of this flow is expected to affect activity--largely highways--during this calendar year. A related cutback in direct Federal construction also announced last September and expected to involve about $1.8 billion before scheduled termination this July was not affected by the recent order. Meanwhile, activation of other State and local projects deferred in response to the President's request will continue to depend on the availability of funds, which in recent months has limited further expansion in this area in any case.

Labor market. Evidence of easing still dominates the labor market. However, increases in both insured unemployment and initial claims for unemployment benefits have moderated in recent weeks, reflecting the end of heavy layoffs in the auto industry. Insured unemployment has averaged about one-third higher in recent weeks than during May 1969--the most recent low for insured joblessness. This increase was of about the same magnitude as that which occurred during the comparable period of the 1966-67 adjustment.

It now appears that the February nonfarm payroll employment estimate will be revised up by 150,000 to 200,000. (The official revision is not available as of this writing.) The revision was largely in services and the auto segment of manufacturing. Despite the revisions, manufacturing employment still shows a decline in February and the newly released labor turnover data for February (which relate to the entire month) suggest that manufacturing employment outside the auto industry may have declined further after the survey week. The separation rate in manufacturing exceeded the accession rate by the widest margin since April 1967, as layoffs rose to 16 per 1,000 workers--the highest rate in nearly three years--while new hirings declined further. Preliminary industry-by-industry data show much of the February easing to have occurred in the nondurable goods industries.

Total unemployment probably rose slightly further in March,[1/] reflecting continued labor force growth and somewhat easier demands for labor. Thus far, reduced hiring and cyclical layoffs have had their greatest impact on adult men; their jobless rate had jumped from 1.5 per cent in February 1969 to 2.2 per cent in February 1970. However, at the end of the school year several million high school and college students will enter the labor market, and it appears likely that they

1/ Employment and unemployment data from the establishment and household surveys have been delayed by the postal strike.

will find the supply of jobs more limited than last year. Thus, the number of unemployed youngsters seems likely to rise this summer, sustaining the uptrend of total unemployment.

Earnings. Between January and February, the rise of total wage and salary income was retarded further by employment and hours reductions in manufacturing. (Revision of the February employment figures will likely result in some upward revision of the total wage and salary figure, but the trend shown in the table should remain about the same.) Growth continues strong, however, in nonmanufacturing industries.

AVERAGE MONTHLY CHANGES IN WAGES AND SALARIES
(Seasonally adjusted, annual rates in per cent)

	Jan. 1969 to July 1969	July 1969 to Oct. 1969	Oct. 1969 to Jan. 1970	Jan. 1970 to Feb. 1970
Total	9.6	7.3	6.0	3.8
Government	11.6	7.2	6.7	5.5
Private	9.1	7.4	5.9	3.4
Manufacturing	8.0	5.3	-1.2	-9.0
Nonmanufacturing	9.8	8.7	10.4	11.1

Increases in average hourly earnings were also smaller over the three-month period ending in February than during the preceding three-month period and a year earlier. In part, the slowing of hourly earnings growth for rank-and-file workers in private industry reflects developments in manufacturing, where hourly earnings growth has been reduced by cutbacks of overtime and layoffs in the high-wage auto and aircraft industries. However, the recent easing also appears to have extended to such industries as trade and finance.

AVERAGE HOURLY EARNINGS
(Seasonally adjusted, annual rates)

	Per cent increase over 3 months ending:		
	Feb. 1969	Nov. 1969	Feb. 1970
Total private	5.6	6.8	3.8
Manufacturing	4.3	3.5	1.6
Durable goods	4.2	2.2	1.5
Nondurable goods	4.4	5.2	4.2
Construction	2.1	10.5	5.7
Trade	6.0	7.3	5.6
Finance, Ins. & Real Est.	9.5	6.1	3.9

Industrial relations. The strike of Post Office employees was halted on March 25, when the Administration agreed to open discussions on a wage increase as soon as the strikers returned to their jobs. A House and Senate conference committee on pay bills is now waiting to consider any agreement reached by the unions and the Administration. The House bill provides for two pay increases; 5.4 per cent retroactive to October 1, 1969, for postal workers and 5.7 per cent effective July 1 for all Federal employees. The Senate bill would provide pay increases up to 7 per cent for all Federal employees on July 1. The postal unions have been pressing for a 12 per cent wage increase, full payment of health benefits, pay-scale differentials based on local living costs, and amnesty for strikers.

Meanwhile, the F.A.A. aircontroller's slowdown continues to limit civilian air traffic. Wage levels are an important factor in this dispute, but there is also a wide disagreement on work loans and general working conditions.

Congress may be forced to move soon to bring about a settlement between the railroads and shopcraft unions. (Strikes and lockouts were barred by Congress until April 11.) Three of the shopcraft unions approved an earlier (December) settlement which was rejected by the sheet metal workers who feared loss of job-security under a proposed change in work rules.

The trucking industry and 450,000 members of the Teamsters' Union whose contract expired March 31 have not yet reached agreement. Noneconomic issues have reportedly been agreed upon; negotiations on economic issues are now underway.

Wholesale prices. The preliminary wholesale price index for March (February 10th to March 10th) rose at an annual rate of one per cent as the average price of industrial commodities increased at a rate of two per cent while agricultural commodities declined two per cent.

The rate of increase in wholesale prices has dropped rather sharply over the last three months but only moderately between the fourth and first quarters. In part, the monthly deceleration reflects developments in the volatile agricultural products index; a sharp increase last fall and early this winter in prices of farm products and processed foods and feeds reflected tight supply situations aggravated by exceptionally severe weather. But the rate of increase in industrial commodity prices has also slowed, even though the March rise may be revised up when the final figures are compiled. Moreover, the incidence of price increases also appears to have diminished since January.

WHOLESALE PRICES
(Percentage changes at annual rates)

	Dec. 1969 to Jan. 1970	Jan. 1970 to Feb. 1970	Feb. 1970 to Mar. 1970p	Sept. 1969 to Dec. 1969	Dec. 1969 to Mar. 1970p
All commodities	9.4	4.1	1.0	5.3	4.9
Farm products, and processed foods & feeds	18.6	5.1	-2.0	7.3	7.2
Industrial commodities	5.2	4.2	2.1	4.9	3.8
Producers' equipment	5.9	1.9	1.9	8.0	3.3
Consumer finished goods	8.2	--	--	6.3	2.7
Consumer nonfoods	2.1	2.1e	n.a.	4.3	n.a.

The fastest increase in wholesale prices continues to be in raw materials, especially durable materials. However, the situation among metals, which have accounted for a high proportion of the increase in industrial prices over the past year, has improved. The major non-ferrous metals now appear in better supply relative to demand and one--zinc--is now being discounted according to trade reports. But a major producer has announced an increase of 4 cents a pound in the price of domestic copper, effective April 1, from 56 to 60 cents.

Although non-ferrous prices rose on average in March, a large part of the rise was due to the sky-rocketing price of antimony, supplies of which have been cut off by Red China. Steel mill products and fabricated metal products continued to rise in March, reflecting in part cost pressures arising from higher prices of coal, coke, and scrap iron. Most recently the price of steel scrap has declined.

Producers' equipment price increases have tapered off since the fourth quarter, the period of seasonal rise. However, since last September, these have increased at a 5.7 per cent annual rate compared to 4.0 per cent in 1968-69. Strong domestic and export demands are helping to sustain the rise in machinery prices.

Consumer durable goods prices are increasing much less rapidly than producer durables. Over the year, passenger cars and such consumer durables as appliances have increased about 2 per cent, furniture about 4 per cent, while home electronic equipment (radios, TV, etc.) has declined. This experience compares with an increase of about 4-1/2 per cent for producers' equipment.

Consumer prices. The consumer price index rose in February at a seasonally adjusted annual rate of 6 per cent, somewhat less than in each of the preceding three months, but about the same as the average monthly increase over the past year. If the 2.4 per cent rise in mortgage interest rates over the month is excluded, the total rise would have been at only a 5 per cent annual rate.

So far, there are few definite signs of a slowing in the increase in nonfood commodity prices. A leveling off in apparel prices in January was followed by a rise in February of about 5.5 per cent, about the same rate as over the last year. Substantial increases for other nondurables, including household supplies, furnishings and liquor also took place. The small rise in prices of durable commodities in February reflected a drop in used car prices which may or may not indicate a significant trend.

The February increase in prices of consumer durables would have been at a rate of 3.6 per cent if purchases of used cars and houses were excluded, as in the GNP deflator for consumer durables. On either basis, durable consumer goods prices have been rising less rapidly than most other categories of goods for some time, but prices of household durables rose fairly strongly in February after several months of slow change. The decline in used car prices last month is of interest, since last year a strong rise from February through April accounted for much of the apparent acceleration in consumer durables. (Used car prices are not adjusted for seasonality.)

A 9 per cent rate of increase in the cost of services in February was in part due to the sharp rise in mortgage interest rates associated with the increase in the permissible interest ceilings on Government-underwritten mortgages. (No allowance is made for the simultaneous decrease in points.) Services less home finance rose 5.6 per cent--about the same rate of increase as in the last half of last year. A further large increase in home finance costs is expected this month.

Food prices continued to outstrip those of other commodities, as prices of all major food categories increased in February. Over the past year, food prices rose 8 per cent, as much as during the two years of inflation in food prices between mid-1964 and mid-1966. Meat prices increased 12 per cent last year, reflecting in large part an increase in spread between the farm value and the retail value.

CONSUMER PRICES
(Percentage changes, seasonally adjusted, annual rates)

	Dec. 1968 to June 1969	June 1969 to Dec. 1969	Dec. 1969 to Jan. 1970	Jan. 1970 to Feb. 1970	Feb. 1969 to Feb. 1970
All items	6.3	5.8	7.3	6.3	6.4
Durable commodities 1/	5.5	3.4	3.2	1.0	3.6
New cars	2.2	2.1	5.8	2.3	2.3
Nondurable commodities	5.6	5.8	3.8	5.6	6.1
Food	6.3	7.8	4.6	9.2	7.9
Apparel	5.4	5.1	--	5.6	5.1
Services	7.5	7.0	10.5	8.8	7.9
Medical care	9.5	4.4	6.9	9.7	6.6
Rent	3.1	4.2	3.0	4.9	3.9
Transportation	8.0	8.6	36.4	9.4	10.2
Mortgage interest rates	15.3	7.0	2.6	30.9	13.8
Addendum:					
Durable products 2/	4.1	1.7	3.3	3.3	3.0
Services less home finance 3/	5.7	5.6	10.1	5.6	6.1

1/ Includes home purchase as well as new and used cars and household durables.
2/ Excludes home purchase and used cars.
3/ Excludes mortgage interest, property taxes and insurance.

Farm production outlook. Recent surveys of farmers' production plans and other data indicate that farm output in 1970 is likely to be somewhat larger than the record output of 1969. Farmers polled in early March reported plans to expand acreages of major spring seeded crops by 3 per cent. Increases reported for feed grains, soybeans, and cotton were offset in part by cutbacks in spring wheat, rice, tobacco, and sugar beets. Seeded acreage of winter wheat, the major food grain, was cut back 11 per cent last fall.

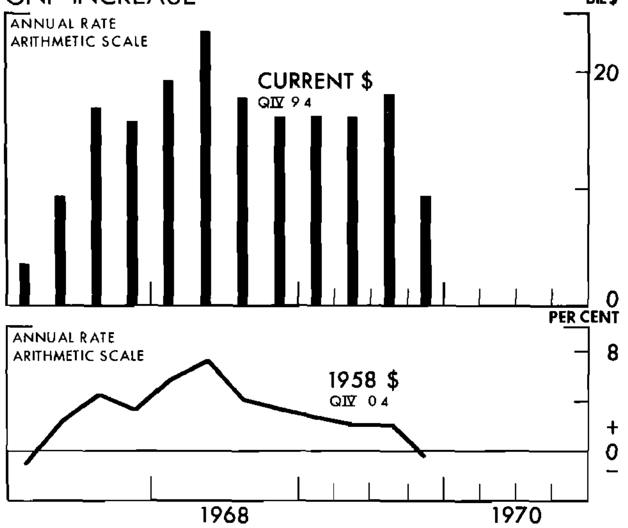
Production prospects for farm foods that are marketed throughout the year, such as livestock products and fresh vegetables, suggest that there should be some easing in pressure on retail prices of these products from the supply side as the year progresses. Production of two items in shortest supply this spring, fresh vegetables and pork, are expected to increase. Expected expansion in vegetables assumes average weather.

Hog marketings, down sharply since mid-1969, are expected to pick up this summer and to exceed year-earlier levels by 7 to 8 per cent toward the end of the year. Fed cattle marketings should exceed year-earlier levels throughout the year. Numbers of cattle on feed were up 6 per cent at the first of the year and moderately more cattle are available for feeding this year than last. Marketings of nonfed cattle will continue to lag under a year earlier. Expansion in production of eggs, broilers, and turkeys is in prospect but milk output is expected to hold stable at year-earlier levels.

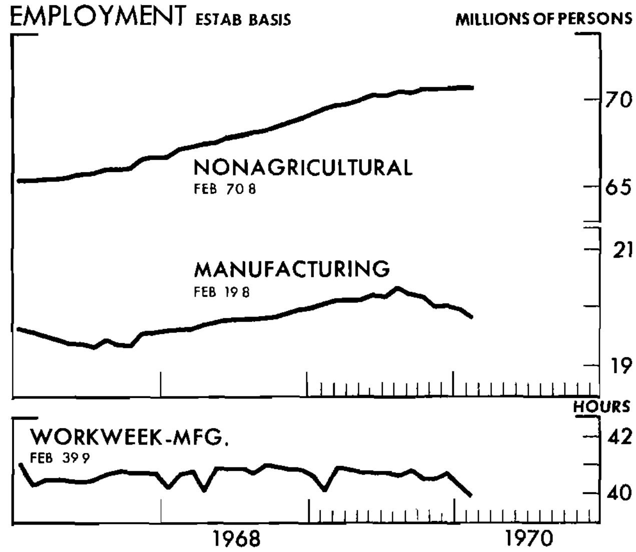
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED, RATIO SCALE

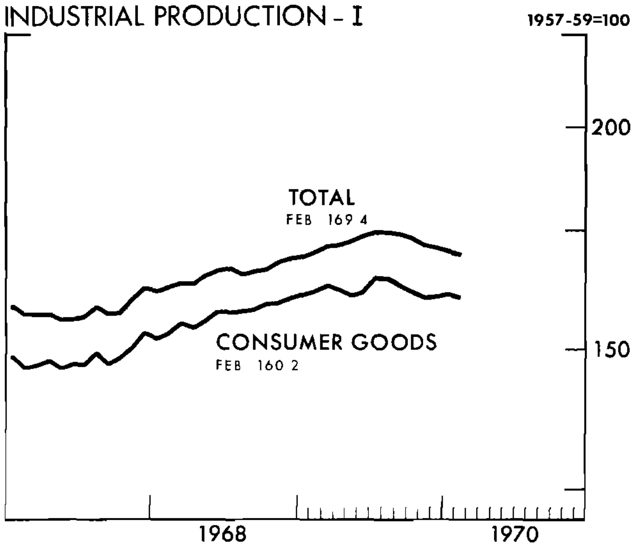
GNP INCREASE



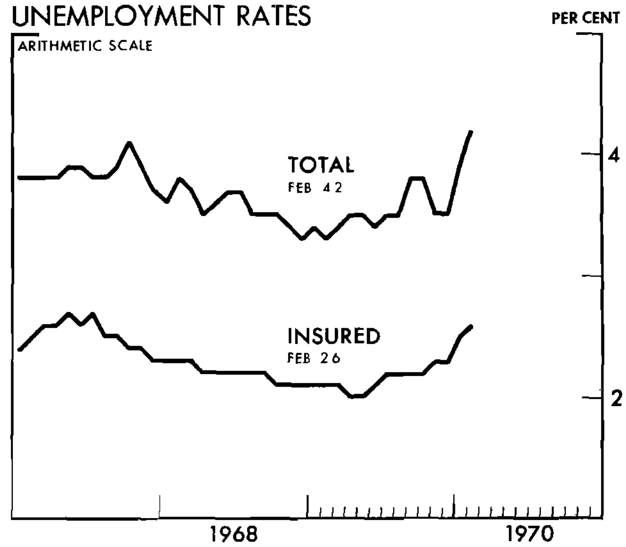
EMPLOYMENT ESTAB BASIS



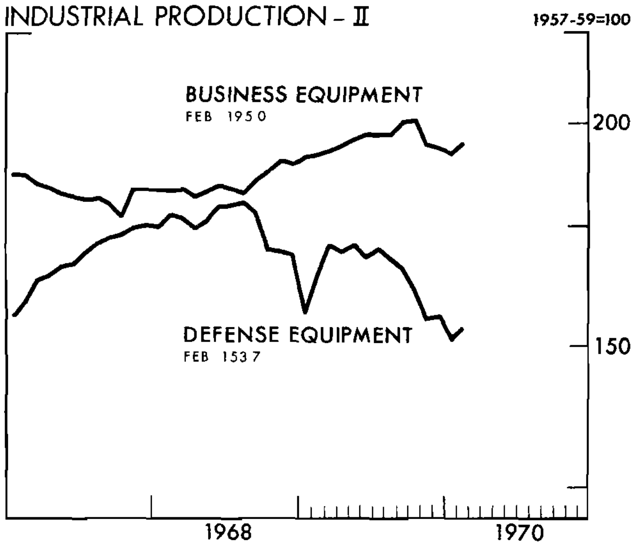
INDUSTRIAL PRODUCTION - I



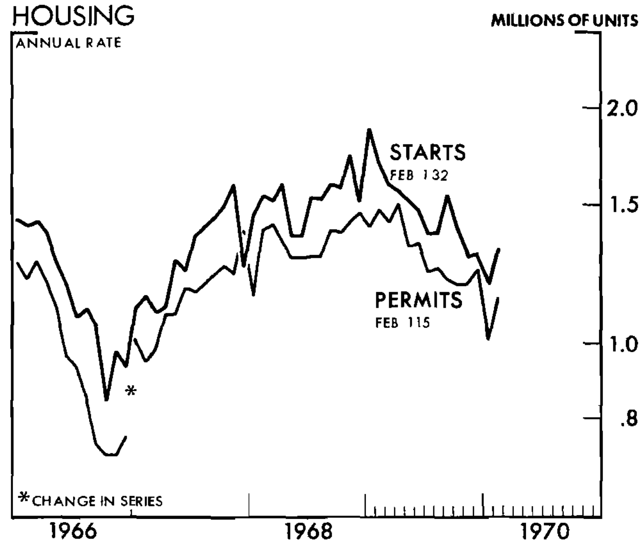
UNEMPLOYMENT RATES



INDUSTRIAL PRODUCTION - II



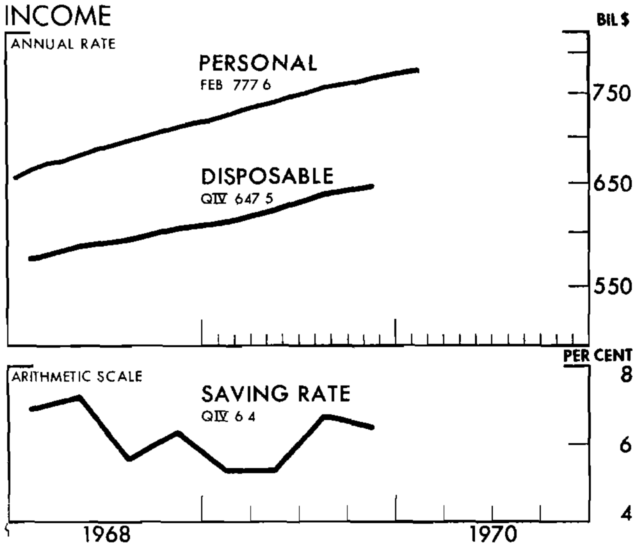
HOUSING



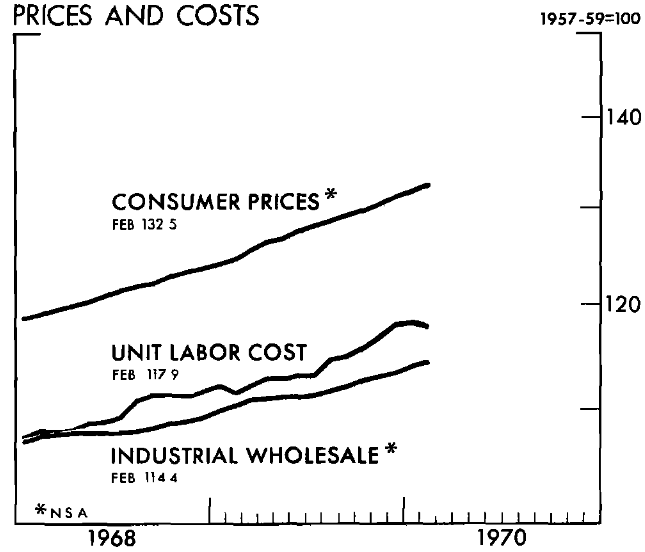
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED, RATIO SCALE

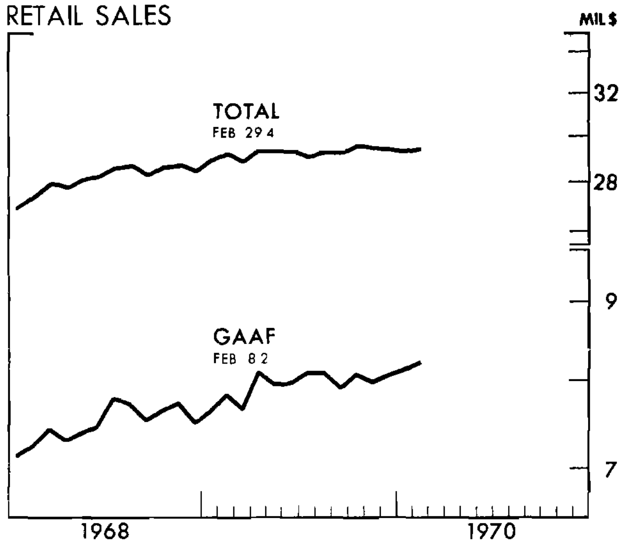
INCOME



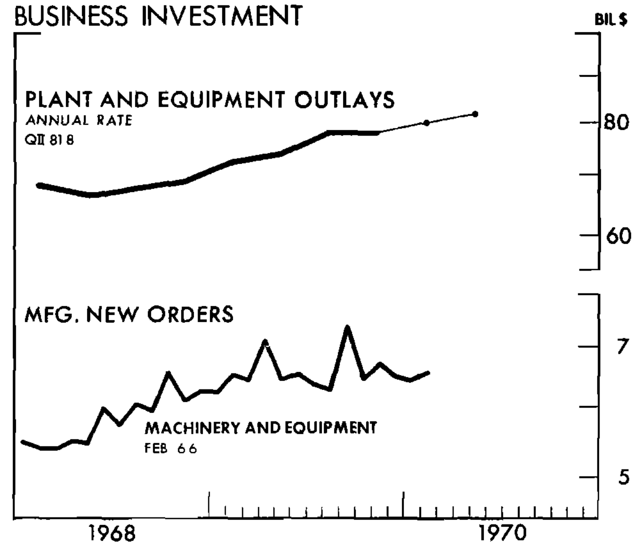
PRICES AND COSTS



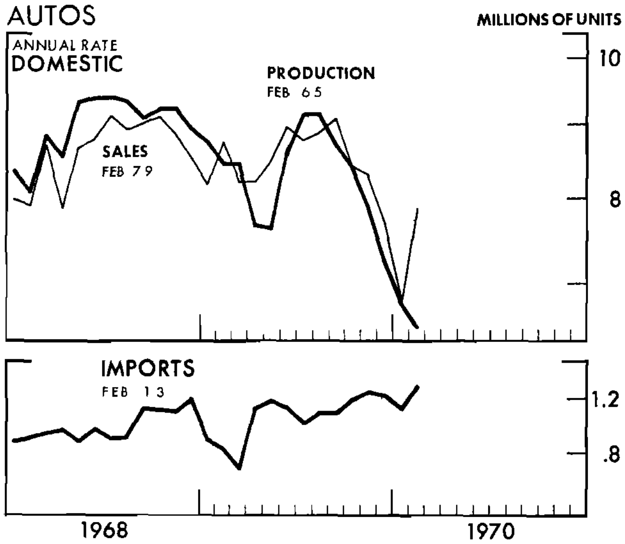
RETAIL SALES



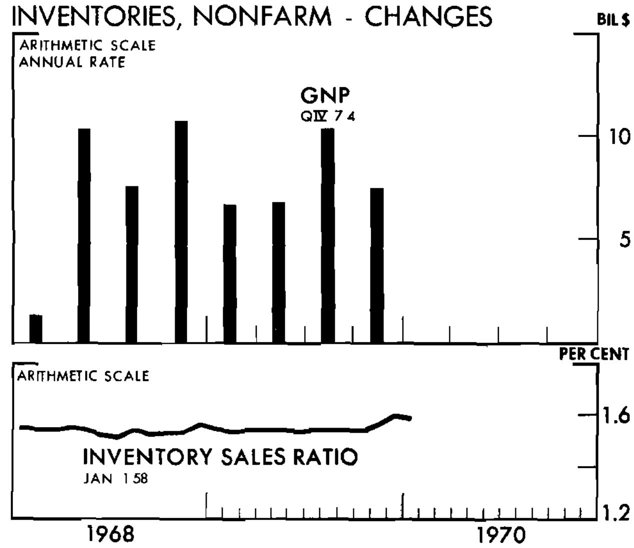
BUSINESS INVESTMENT



AUTOS



INVENTORIES, NONFARM - CHANGES



THE ECONOMIC PICTURE IN DETAIL

Domestic Financial Situation

Flow of funds. On the basis of early and partial information, total private and foreign borrowing in the first quarter is roughly estimated to have been about $80 billion at a seasonally adjusted annual rate. This was below the fourth-quarter rate of $85 billion and continued the downtrend from the broad plateau of $95 billion that was maintained from mid-1968 to mid-1969. The present first-quarter estimate is somewhat below the staff projection made in February, with the shortfall principally in short-term credit outside banks. This is consistent with the reduced estimates for first-quarter inventory growth, but the figures are all too tentative at this point to make a direct association.

CREDIT FLOWS TO NONFINANCIAL SECTORS
(Billions of dollars, seasonally adjusted annual rates)

	1968	1969		1970
	H2	H1	H2	Q1
Total funds raised by nonfinancial sectors	98	89	81	80
U.S. Government[1/]	4	-6	-5	--
Other[2/]	95	96	87	80
Capital-market borrowing	55	54	52	51
Securities	26	26	26	28
Mortgages	29	28	26	23
Short-term borrowing[3/]	40	42	35	29

1/ After deducting movements in Treasury cash balances.
2/ Borrowing by households, nonfinancial business, state and local governments, and foreign.
3/ Bank loans, consumer credit, open-market paper, and other loans.

The decrease in borrowing by private sectors since the middle of last year has been much more moderate in amount and pace than during the corresponding cyclical periods of 1966, when a first-half rate of $ 78 billion of borrowing was followed by a second-half trough of $ 52 billion while fixed investment and inventory accumulation were still rising. In contrast, the drop in borrowing this time has been closely in line with deceleration of net investment outlays, both for businesses and for households. The decrease has been sharper in short-term than in capital-market credit, as is characteristic of tight credit conditions, but the commercial paper market has provided a substantial cushioning to the usual effect by supplying funds that flowed through bank affiliates, finance companies, and directly to nonfinancial corporations at perhaps an $8 to $10 billion annual rate above the experience of earlier recent years. Mortgage credit flows have also fallen less steeply than in 1966, when the rate decreased from a $26 billion rate in the first half to an $18 billion rate in the second. During the current period, FNMA and FHLB support to housing is at a rate about $5 billion above the first half of 1969, whereas in the second half of 1966, their lending was $3-1/2 billion below first-half rates.

Intermediation by FNMA and FHLB's in the mortgage market is reflected in a $14 billion annual rate of net new agency issues during the quarter. These issues, together with continued heavy use of commercial paper by bank affiliates, have transformed much of the mortgage and loan demand of the period into security and commercial paper offerings as seen from the viewpoint of other investors. While it is still too early to describe the full structure of credit supply in any detaill it is clear from these offerings and from the high rate of corporate security flotations that the supply of funds during the quarter has been mainly in the form of direct purchases of market instruments by nonfinancial investors. Bond purchases by individuals, in particular, have undoubtedly been exceeding the record $27 billion rate of the second half of 1969, with much of the buying in 1- to 5-year maturities. This form of credit supply is well beyond the range of earlier post-war experience in both volume and duration, and it puts continuing pressure on bond prices and interest costs, since borrowers are reaching for funds that have not been in these markets before in these volumes.

Bank credit. Commercial bank credit, adjusted to include loan sales to affiliates, increased moderately further in March, following a relatively strong expansion in February. Present estimates for the first quarter as a whole indicate a growth in bank credit at a seasonally adjusted annual rate of 1.8 per cent. This is a slightly greater rate of increase than in the second half of last year, but it falls considerably below the pace of advance prevailing through the first half of 1969.

COMMERCIAL BANK CREDIT, ADJUSTED TO INCLUDE LOAN SALES[1/]
(Seasonally adjusted percentage change, at annual rates)

	1969		1970			
	1st Half	2nd Half	Jan.	Feb.	Mar.2/	Q 1
Total loans & investments[3/]	5.1	1.5	-1.5	6.0	1.8	1.8
U.S. Govt. securities	-17.2	-16.0	-44.0	-7.2	2.4	-17.8
Other securities	1.4	-3.6	6.8	0.0	23.7	9.6
Total loans[3/]	11.5	6.4	4.7	9.8	-4.2	3.6
Business loans[4/]	16.1	7.1	12.3	8.9	-5.5	5.6

1/ Last Wednesday of month series.
2/ Preliminary estimates. Loan sales are through March 18.
3/ Includes outright sales of loans by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
4/ Includes outright sales of business loans by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

The March increase in adjusted bank credit reflected acqussitions of securities other than U.S. Treasury securities--mainly State and local issues and Federal Agency issues. Total loans, including loans sold, declined slightly while holdings of U.S. Treasury securities remained unchanged. This is the first time since August of last year that holdings of U.S. Treasury securities did not decline. A significant part of the rise in "other" security holdings represented acquisitions of intermediate term municipals at dealer banks. Many banks also purchased municipal (largely short-term) and Federal Agency issues for their own portfolios in response to increased inflows of time deposits and to seemingly weaker loan demand.

The decline in adjusted loans was largely the result of comparatively sharp reductions in business loans and loans to finance companies. Moderate increases were recorded in other major loan categories with real estate and consumer loan expansion continuing at the reduced pace prevailing since mid-1969.

The decline in business loans, adjusted to include loan sales to affiliates, was the first since December 1966. Borrowing was substantial in a number of industries, particularly in durables manufacturing. However, there was a contra-seasonal decline in loans to retail trade, and unusually large loan repayments were made by public utilities.

Loans to nonbank financial institutions declined for the third consecutive month in March, probably partly in response to the diminution in demand for consumer credit. But it seems likely also that finance companies have opted to utilize alternative sources of funds. Throughout the month, commercial paper rates were lower than the cost of financing at commercial banks.

The reduction in the prime rate from 8-1/2 to 8 per cent on March 25 and 26 was regarded as premature by several large banks. Nonetheless, the recent pattern of loan developments supports the change, as does the quick acceptance of the lower rates by major banks around the country. Recent declines in market yields favor open market financing over bank borrowing, and further declines in short-term rates are now widely anticipated.

Monetary aggregates. The two-month downtrend in daily average deposits of member banks was reversed in March, as both private demand deposits and time and savings deposits increased during the month. This turnaround in deposit flows brought average member bank deposits in March back to the level of last December. Apparently reflecting reduced pressures on reserve positions, nondeposit sources of funds declined in March after advancing in the first two months of the year. These sources of funds also showed no net change over the first quarter of the year.

MONETARY AGGREGATES
(Seasonally adjusted percentage changes, at annual rates) 1/

	1969	1970			
	2nd Half	January	February	March 2/	QI 2/
Member bank deposits	-4.6	- 4.2	-7.6	12.0	0.0
Member bank deposits plus nondeposit sources 3/	-1.2	- 3.5	-4.7	8.5	0.0
Commercial bank time and savings deposits	-6.7	-12.4	- .6	13.5	0.0
Money stock	.6	9.0	-9.5	7.0	2.0

1/ Based on monthly average of daily figures for deposits and monthly average of weekly figures for nondeposit funds.
2/ Preliminary estimates.
3/ Includes all ddposits subject to reserve requirements plus the following nondeposit sources: commercial paper issues by a holding company or bank affiliate; loans or participation in pools of loans sold under repurchase agreement to other than banks and other than banks' own affiliates or subsidiaries; Euro-dollars borrowed directly through brokers or dealers; liabilities to banks' own branches in U.S. territories and possessions; and liabilities to banks' own foreign branches.

The money stock is estimated to have risen at a seasonally adjusted annual rate of 7 per cent in March, and for the first quarter as a whole, the annual rate of growth appears now to have been about 2 per cent. Part of the growth estimated for March reflects the influence of technical factors in the second half of the month, including the mail strike and an Easter-week movement in cash items in process of collection associated with the Good Friday holiday observed abroad. However, data for the three weeks prior to mid-month did indicate that the money stock averaged slightly higher during this period than in February.

The combination of higher rates offered on time and savings deposits and lower rates on competing market instruments produced sizable gains in time and savings deposits in March. Inflows of consumer-type time and savings deposits appear to have been substantial on a seasonally unadjusted basis, judging by data available from weekly reporting banks and by the size of the time and savings deposit inflows at country banks. In addition, the large money market banks attracted a substantial volume of CD's--about 1-1/2 times the $400 million increase recorded in February. Inflows of State and local funds and foreign official funds at these banks continued at close to the February pace. In addition, CD's sold to individual partnerships and corporations showed the first significant rise since November 1968. A large part of this growth occurred in the week ending March 25, when dealers made large acquisitions of long-maturity CD's for speculative reasons.

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

	Dec. 31 - Feb. 25			Feb. 25 - Mar. 18 1/		
	1968	1969	1970	1968	1969	1970
Weekly Reporting Banks						
Total time and savings	2,040	-2,892	-1,166	- 73	-868	1,092
Consumer-type	1,052	307	-1,415	366	514	418
CD's	1,000	-2,852	- 54	-551	-1,159	485
IPC	341	-1,945	- 517	-384	-933	71
Other	659	- 907	463	-167	-226	414
All other time	- 12	- 347	303	112	-223	189
Country Banks						
Total time and savings	2,398	1,781	1,108	742	589	718

1/ Dates are for 1970; comparable dates used for other years.

Nonbank depositary intermediaries. Following large withdrawals in January, deposit growth at nonbank thrift institutions improved moderately during February. Bolstered by favorable developments in short-term market yields and the introduction of higher rate ceilings late in January, the modest improvement in deposit growth that developed in February apparently was sustained in early March. For example, large New York City mutual savings bank received over $70 million in net deposits during the first half of March, which contrasted with net losses or insignificant gains during the same period of the previous two months. Similarly, West Coast savings and loan association had a $60 million net deposit gain during the first ten days of March--their first real deposit gain in eight months.

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

	Mutual Savings Banks	Savings and Loan Associations	Both
1969 - Q I	6.1	6.0	6.0
Q II	4.3	3.7	3.9
Q III	2.0	2.1	2.1
Q IV	3.0	0.4	1.3
1970 - January *	-2.0	-6.7	-5.2
February p/ *	5.0	2.2	3.2
Memo: January + February	1.5	-2.2	-1.0

* Monthly pattern may be of limited significance because of seasonal adjustment difficulties.

p/ Preliminary.

As might have been expected in view of their depleted holdings of liquid assets and the huge volume of outstanding FHLB advances, savings and loan associations used a large share of their net inflows in February to acquire U.S. Treasury issues and to pay down some of their FHLB advances. Information covering the first three weeks of March indicates that the S&L's have continued these net repayments, at a pace faster than in the same period of the previous two years. In an effort to discourage net repayments of advances, the FHLBB has recently limited the maximum rate charged on advances to 7-3/4 per cent (one District bank had already been charging 8 per cent), even though its own average cost of borrowed funds is currently 8.07 per cent.[1/] The FHLBB also took action to reduce pressure on associations to repay outstanding advances by increasing from 17.5 per cent to 25 per cent the maximum allowable percentage of share capital to which expansion advances may accumulate. This change facilitates conversion of withdrawal advances (which must be repaid as net deposit inflows occur) into expansion advances (which may remain outstanding generally for one year).

Savings and loan associations increased their mortgage holdings, on net, by only a little in February, on a seasonally adjusted basis. Also, both new and outstanding commitments to acquire new mortgages were quite modest in February (after seasonal adjustment). Unless the FHLB is successful in discouraging repayment of advances--by its recent

1/ The difference apparently will be made up by reductions in dividends paid to S&L's for their deposits with the FHL Banks.

actions as well as by obtaining approval to subsidize the cost to S&L's of such loans, developments in February suggest that as inflows do materialize to the savings and loan associations, a large share of these new funds will go into rebuilding liquid assets and reducing outstanding borrowed funds.

Life insurance companies. Policy loans continued to be a major drain on investment funds of life insurance companies during February. While there was some decrease from January in the net amout of policy loans advanced, both the usual seasonal increase in the need for funds to finance income tax payments and the prospective financing of policyholders' exercise of rights in the forthcoming AT&T issue suggest that the recent large volume of policy loans will continue at least through April.

NET INCREASE IN POLICY LOANS
AT 15 LIFE INSURANCE COMPANIES*
(millions of dollars)

	January	February
1965	20	25
1966	36	33
1967	70	56
1968	57	57
1969	81	82
1970	167	146

* These companies hold 65 per cent of policy loans outstanding in the life insurance industry.

While new commitment activity of life insurance companies remained quite modest in response to the uncertain outlook for available funds, the emphasis on issues with equity-type features increased. In February, although new direct placement commitment volume remained unusually low in total, there was still a good deal of strength in corporate securities commitments on which warrants or convertible features were attached.

NEW COMMITMENTS MADE BY LIFE
INSURANCE COMPANIES FOR CORPORATE DIRECT PLACEMENTS 1/
(Millions of dollars)

	January		February	
	Total	Per Cent With Equity Features 2/	Total	Per Cent With Equity Features 2/
1966	380	2	441	3
1967	235	11	148	7
1968	214	26	285	12
1969	224	25	238	34
1970	83	35	159	42

1/ These companies represent about two-thirds of industry assets.
2/ Percentage of total new commitments with warrants or convertible features.

Average contract interest rates on new direct placement commitments continued their strong upward rise during February, and on certain classes of quality-rated straight debt they averaged over 10 per cent for the first time.

AVERAGE YIELDS ON NET COMMITMENTS
FOR CORPORATE DIRECT PLACEMENTS
MADE BY LIFE INSURANCE COMPANIES*
(Straight debt, issuer corresponds to Baa quality)

	High	Low (Per Cent)	Average
1966	6.70	5.71	6.16
1967	7.07	6.38	6.67
1968	7.81	7.18	7.47
1969	9.57	7.78	8.66
1970 - January			9.64
February p/			10.35

* These companies account for about two-thirds of industry assets.
p/ Preliminary.

STRICTLY CONFIDENTIAL

Mortgage market. Even prior to the reduction in the prime rate in late March, interest of private investors in home mortgages had been increasing somewhat from depressed levels, judging from fragmentary FNMA field reports and trade opinion. While these sources suggest that mortgage flows had not yet picked up very much, more investors seem to have been feeling out the market or entering into mortgage commitments for delayed takedown. Highlighted by the minor reductions in mortgage discounts made by several large commercial banks earlier last month, the belief was apparently growing that mortgage rates in general had finally topped out. Illustrating the changed attitude were a few reports that mortgage companies were beginning to take speculative positions in the market by warehousing some uncommitted loans anticipating sale later at higher prices.

Statistics are not yet available on rates on conventional home mortgages in March. During February, returns on both conventional and Government underwritten home mortgages had changed little from their record levels. Nevertheless, such yileds undoubtedly remained well below yields available on multi-family and commercial mortgages, which, among other things, are generally exempt from usury ceilings.

AVERAGE RATES AND YIELDS ON SELECTED NEW-HOME MORTGAGES

	Primary market: Conventional loans		Secondary market: FHA-insured loans		
	Level (per cent)	Yield spread (basis points)	Level (per cent)	Yield spread (basis points)	Discount (points)
1969					
Low	7.55 (Jan.)	-40 (Dec.)	7.85e (Jan.)	-13 (Dec.)	2.8e(Jan)
High	8.35 (Nov., Dec.)	69 (Feb.)	8.62 (Dec.)	108 (Feb.)	8.7 (Dec)
October	8.30	41	8.48	59	7.7
November	8.35	3	8.48	16	7.7
December	8.35	-40	8.62	-13	8.7
1970					
January	8.55	9	9.25e	79e	5.7e
February	8.55	25	9.29e	99e	6.0e

Note: FHA series: Interest rates on conventional first mortgages (excluding additional fees and charges) are rounded to the nearest 5 basis points. On 8-1/2 per cent, FHA loans, a change of 1.0 points in discount is associated with a change of 13 to 15 basis points in yield. Gross yield spread is average mortgage return, before deducting service fees, minus average yield on new issues of high grade corporate bonds with 5-year call protection.

e - Estimated.

Yields in FNMA's biweekly auction of forward commitments to purchase FHA and VA loans continued to decline. By the March 23 auction, yields on 6-month commitments were 22 basis points below the peak indicated 1-1/2 months earlier. Apparently reflecting the improved supply of mortgage commitments from other sources, demand for FNMA's commitments dropped below levels prevailing early this year and FNMA further reduced the volume of commitments it accepted.

FNMA AUCTION

			Amount of total offers		Implicit private market yield on 6-month commitments
			Received	Accepted	
			(Millions of dollars)		(Per Cent)
Weekly Auction					
1968	High		$232 (6/3)	$ 89 (7/1)	7.71 (6/10)
1969	High		410 (6/16)	152 (9/8)	8.87 (12/29)
Bi-weekly Auction					
1970	High		581 (1/26)	298 (1/26)	9.29 (1/26)
	January	26	581	298	9.29
	February	9	497	295	9.28
		24	438	280	9.25
	March	9	355	276	9.19
		23	395	239	9.14

Note: Average secondary market yield after allowance for commitment fee and required purchase and holding of FNMA stock, assuming prepayment period of 15 years for 30-year Government-underwritten mortgages. Yields shown are gross, before deduction of 50 basis point fee paid by investors to servicers. The first auction date was May 6, 1968.

Corporate and municipal securities markets. In response to indications of monetary easing and to the reduction in the prime rate, corporate bond yields dropped by about 20 basis points and new issues sold out quickly in the closing days of March. However, much of the buying appears to have represented dealer willingness to stock their shelves in the expectation of further price rises. Dealers report that while institutional purchases had increased after mid-month, their acquisitions did not accelerate following the prime rate reduction. Stock market reaction was quite pronounced immediately after the prime rate cut, with prices moving up toward early March levels, but the increased demand for stocks was not sustained.

STOCK PRICES AND BOND YIELDS

	Stock Prices 1/		Bond Yields	
	NYSE	AMEX	New Corporate Aaa 2/	Long-term State and Local bonds 3/
1969				
Low	49.31 (7/29)	25.02 (7/29)	6.90(1/10)	4.82(2/23)
High	59.32 (5/14)	32.91 (1/3)	8.85(12/5)	6.90(12/18)
1970				
Week of:				
March 6	50.04	25.58	8.25	6.00
13	49.02	25.10	8.52	5.95
20	48.47	24.60	8.76	6.18
27 4/	50.03	25.02	8.74	5.98

1/ Prices as of the day shown. NYSE is New York Stock Exchange. AMEX is American Stock Exchange.
2/ With call protection (includes same issues with 10-year call protection).
3/ Bond Buyer (mixed qualities).
4/ Stock prices are as of March 26. The Exchanges were closed on March 27.

Even with the reaction to the change in the prime rate, yields on high-grade corporate bonds at the end of March were still substantially above beginning-of-the-month levels. Corporate rates had climbed sharply in the first three weeks of the month, under the pressure of a record $1.9 billion volume of public bond offerings and the prospects of an unusually large forward calendar for at least the next two months. Demand for bonds by individuals continued to be an important factor in the market's ability to absorb this volume without even further upward yield adjustments.

Stock offerings amounted to almost $1.1 billion in March, including a $400 million Esso issue for which rights expired that month. Although it is estimated that monthly private placements are running well below 1969 levels, total security offerings for March reached a record total of $3.4 billion about one-half above the 1969 monthly average.

CORPORATE SECURITY OFFERING [1/]
(Monthly or monthly averages in millions of dollars)

	Bonds: Public Offerings		Bonds: Private Placements		Stocks		Total	
	1969	1970	1969	1970	1969	1970	1969	1970
Q I	866	1,537e	513	333e	674	700e	2,073	2,537e
March	835	1,900e	509	400e	755	1,100e	2,098	3,400
April	1,268	1,500e	649	300e	830	600e	2,748	2,400e
May	871	2,700e	510	300e	694	700e	2,076	3,700e
April-May Avg.[2/]	1,070	2,100e	580	300e	762	650e	2,412	3,050e

1/ Data are gross proceeds.
2/ An AT&T bond subscription offer will be made on April 13 and the rights will expire on May 18. The two-month average distributes the impact of this offering, which is large enough to distort month-to-month changes substantially.
e/ Estimated.

While the staff now expects a decline in public bond issues to about $1.5 billion in April, the volume will remain quite large by 1969 standards and will continue to include a large share of industrial issues.[1/] Moreover, a $1.6 billion AT&T offering to stockholders will begin in April, although it will appear in the Board's May statistics because the rights expire in that month. The staff estimates that May volume of public bond offerings, including the AT&T issue, will rise to $2.7 billion as utilities and manufacturing corporations continue to seek to improve their liquidity position. Perhaps more

1/ For an analysis of the changing composition of public bond offerings, see Appendix A.

meaningful in view of the impact of the AT&T offering on the pattern of monthly volume, the average volume for April and May of public bond offerings is now expected to exceed the record $1.9 billion for March. Thus, even with stock issues and private placements expected to return to about the first quarter averages, total corporate security financing in both April and May will be approximately $3.0 billion, some 20 per cent above the large first quarter average.

Yields on municipal securities at the end of March had dropped back to the level prevailing in the first week of the month, after a mid-month increase of about 20 basis points, associated with rapidly growing dealer inventories. New issues of State and local long-term debt have not increased sharply even though new issue yields declined about 80 basis points over the first three months of 1970. March volume was about $1.4 billion, and the staff estimates that the April level will rise to $1.5 billion as New York City will probably be returning to the market at that time on its regular three-month borrowing cycle. It is reported that banks continue to buy heavily in the shorter range maturities, with longer maturities being acquired by dealers. Yields on longer-term debt are still high enough to deter many municipal borrowers who are restrained by interest rate ceilings.

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

	1969	1970
Year	990	--
Q 1	927	1,308e
March	538	1,400e
April	1,801	1,500e
May	1,110	1,300e

Government securities market. Yields on Treasury obligations increased somewhat just after the last meeting of the Committee, particularly in the intermediate- and longer-term coupon sector where the extraordinarily large calendar of corporate bond offerings encouraged switching from Governments. At mid-month, however, signs of an easier stance for monetary policy rallied the market once again, and yields on Treasury notes and bonds moved back below the most recent lows reached earlier in March.

WEEKLY AVERAGE INVESTMENT YIELDS ON TREASURY BILLS
AND C.D. CEILINGS
(Per cent)

	Bills		C.D. Ceilings
	March 10	March 31	
1-month	6.60	6.66	6.25
3-month	7.07	6.47	6.75
6-month	7.06	6.70	7.00
1-year	7.03	6.73	7.50

In the bill market, the downward adjustment in rates following mid-month was especially sharp. The 3-month rate fell nearly 75 basis points in the week ending March 24 to a low of 6.08 per cent. Since then, bill rates have increased somewhat but remain about 30 to 50 basis points below their levels at the time of the last meeting. Converted to an investment yield basis these rates, with the exception of very short maturities, are 35 to as much as 70 basis points below current Regulation Q ceilings on comparable CD maturities.

WEEKLY AVERAGE MARKET YIELDS ON U.S. GOVERNMENT
AND AGENCY SECURITIES 1/
(Per cent)

	Nov.-Dec. 1969 Highs	Week ending March 10	Week ending March 24	Week ending March 31
Bills				
1-month	7.54	6.47	6.56	6.43
3-month	8.08	6.85	6.43	6.28
6-month	8.09	6.73	6.39	6.39
1-year	7.86	6.58	6.42	6.32
Coupons				
3-year	8.51	7.13	7.09	7.02
5-year	8.33	7.11	7.22	7.16
7-year	7.77	7.05	7.13	7.08
10-year	8.05	6.99	7.10	7.02
20-year	7.14	6.64	6.76	6.64
Agencies				
6-month	8.70	7.59	7.44	7.28
1-year	8.76	7.87	7.72	7.53
3-year	8.55	8.03	7.89	7.79
5-year	8.47	7.99	7.90	7.80

1/ Latest dates of high or low rates in parentheses and refer single dates.

On March 19 the Treasury auctioned $1.75 billion of September Tax Anticipation bills which, given projections of the Treasury's cash position and the assumption of continued additions to the 6-month and 1-year bill auctions, may be the last Treasury operation to raise new cash in the current fiscal year. While these bills have been taken into dealer positions in volume very recently, neither bill or coupon positions are extraordinarily large by past experience, especially considering that dealers may have become more willing to position securities in expectation of further rate declines. In addition to expectations, several other factors may have added to dealers' willingness to position securities. First, dealers have generally had little difficulty in moving their weekly auction awards before the payment date; second, financing costs in New York have declined by around 60 basis points; and third, a good part of the dealer financing requirements has been taken up by the System as part of its reserve supplying operations.

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

	January Daily Average	March 9	March 30
Treasury securities			
Total	2,905	3,411	4,387
Treasury bills (totals)	2,546	2,492	3,578
Due in 92 days or less	412	435	989
93 days or over	2,134	2,057	2,589
Treasury notes and bonds (total)	359	920	809
Due within 1 year	319	306	327
1-5 years	-1	285	232
over 5 years	41	328	251
Agency securities			
Total	530	653	881
Due within 1 year	348	331	538
over 1 year	180	322	343

Five Federal Agency offerings in March raised a total of $1.4 billion of new cash, about the same as in February. Yields on these new issues, however, were from 60 to 75 basis points lower than on the comparable February issues, reflecting the general decline in rates that has taken place. Yields on outstanding Agency issues continued generally to parallel movements in yields on direct Treasury obligations with the yield spreads remaining in a relatively wide 75-100 basis point band.

Other short-term credit markets. Along with other rates, interest rates on private short-term credit market instruments have decreased significantly during the past month. Bankers' acceptance rates showed the largest decline--a full percentage point--to 7.13 per cent on all maturities. Commercial paper rates are generally quoted at 8 per cent on 3-month maturities and 7-1/2 per cent on 6-month maturities while 1-month finance company paper is carrying a 7-1/2 per cent rate. Each of these rates, of course, is well above comparable bill yields and also still somewhat above Regulation Q ceilings.

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

	1969	1970		
	Nov.-Dec. Highs 1/	February 27	March 13	March 26
1-Month				
Finance paper	9.00 (12/31)	8.38	7.50	7.50
Bankers' acceptances	9.00 (12/31)	8.13	7.75	7.13
Treasury bill	7.50 (12/31)	6.60	6.40	6.50
3-Month				
Commercial paper	9.25 (12/31)	8.38	8.25	8.00
Finance paper	8.13 (12/31)	8.00	7.75	7.63
Bankers' acceptances	9.00 (12/31)	8.13	7.75	7.13
Treasury bill	8.12 (12/30)	6.90	6.76	6.30
6-Month				
Commercial paper	9.25 (12/31)	8.25	8.25	7.50
Finance paper	8.13 (12/31)	7.75	7.75	7.38
Bankers' acceptances	9.00 (12/31)	8.13	7.75	7.13
Treasury bill	8.10 (12/30)	7.00	6.68	6.40
12-month				
Prime municipals 2/	6.25 (12/12)	4.50	4.00	3.80
Treasury bill	7.75 (11/21)	6.66	6.58	6.32

1/ Dates of highs in parentheses; latest date used if high occurred on more than one date.
2/ Bond yield basis.
Source: Salomon Brothers & Hutzler's Bond Market Roundup.

Commercial paper outstanding continued to rise rapidly during February, posting a $1.4 billion gain. Both dealer-placed and directly-placed paper increased. The growth in bank-related paper slowed somewhat in February; such paper grew by 10 per cent, or $537 million. Through March 18 bank-related paper had increased another $200 million to stand at $6.2 billion.

COMMERCIAL AND FINANCE COMPANY PAPER AND BANKERS'ACCEPTANCES OUTSTANDING
(End-of-month data--in millions of dollars)

	1969	1970		
	December	January	February	March 1/
Total commercial and finance paper 2/	33,221	34,528	35,930	n.a.
Placed through dealers	12,677	12,464	13,088	n.a.
Placed directly	20,544	22,064	22,842	n.a.
Note: Bank-related paper 3/ (seas. unadj.)	4,209	5,430	5,967	6,164
Bankers' acceptances	5,451	5,288	5,249	n.a.

1/ Bank-related paper as of March 18, 1970.
2/ Data for commercial and finance paper are seasonally adjusted, in contrast to similar data published in the Bulletin that are seasonally unadjusted.
3/ Bank-related paper is included in directly-placed, dealer-placed and total commercial paper.

Federal finance. The Board staff projection of unified budget totals, which indicates a $.9 billion deficit is fiscal 1970, remains unchanged, but some new uncertainties have developed. Corporate tax receipts in March were below earlier estimates; this could have been due either to an overstatement of 1969 corporate profits in the Commerce accounts or to delays in tax collections resulting from the postal workers' strike. On the expenditures side, the staff continues to use the Budget Bureau's estimate of current fiscal year outlays, of $197.9 billion, though pressures for increased outlays have arisen in several areas including: (1) the recent enactment of a bill providing about $.1 billion more for veterans benefits than included in the budget; (2) the fact that sales of certain off-shore oil leases (a negative expenditure) are running about $.1 billion behind the budget estimates; and (3) the possibility of a pay raise for postal workers that is larger than that provided the budget.

The January budget included a 5.4 per cent pay raise for postal workers, effective retroactively to January 1, 1970, costing about $175 million in the current fiscal year. Since the budget contains $.3 billion for "contingencies" in the current fiscal year, and since HUD is about $.4 billion behind in projected outlays, some offsets to the items that are increasing expenditures may be possible. Thus the estimated outlay total for the current fiscal year still appears attainable.

Turning to the outlook for fiscal 1971, chances seem to have risen for a July pay increase for all Federal workers. Other expenditure items, involving a net addition of $0.8 billion to total budget outlays, have already been acted upon by the Administration or by Congress, and are listed in the accompanying table.

PROJECTED CHANGES IN FISCAL YEAR 1971 BUDGET 1/
(In billions of dollars)

Budget outlays, January Document	200.8
Projected changes based on recent Congressional or Administrative action:	
Increase in Veterans' educational benefits	.2
Additional education grants in Labor-HEW bill	.3
Termination of hold-back for construction grants	.6
Committee action to postpone family-assistance program until July 1971	-.5
Increases in planned spending on pollution	.2
Allowance for 5.7 per cent Federal pay raise effective July 1970 rather than January 1971	1.4
Adjusted Budget total 1/	203.0

1/ Board staff estimates.

On a NIA basis the staff now projects a $1.4 billion surplus in the Federal sector in fiscal 1970, followed by a $7.5 billion deficit (at annual rates) during the last half of calendar 1970. The estimated calendar 1970 deficit is $6.0 billion. The shift toward deficit during this period appears to be largely the result of low levels of projected economic growth rather than of discretionary changes in fiscal policy. The bottom line of the last table in this section shows the Board's staff estimate of the high employment budget. From the first to the third quarter of calendar 1970 the high employment budget is now projected to decline from a surplus of $5.0 to a surplus of $1.4 billion (thereafter the surplus again increases to $5.0 billion). The $3.6 billion decline in the high employment surplus compares to a $7.5 billion shift toward deeper deficit in the projected NIA accounts.[1/]

The Board staff estimates an end-of-March cash balance of $6.9 billion, and a balance of $7.5 billion at the end of April. While it now appears that no new financing will be necessary for the remaining months of the current fiscal year, a continued inflow of corporate tax receipts at levels below current estimates may alter this outlook.

1/ Conceptually, the high-employment budget measures the NIA surplus (or deficit) that would be obtained if the economy maintained a hypothetical level of "high employment." This specified level of employment may involve an undesirable rate of inflation, and this consideration makes difficult both the measurement and interpretation of the high employment budget in an inflationary period since the calculated high-employment surplus varies substantially with the price assumptions used. The Board staff estimates discussed above incorporate as the price assumption for the high-employment budget the rate of price increase in the Greenbook GNP projection (presented an Section II) even though that projection has a rising unemployment rate. An assumption of greater inflation in the hypothetical high employment economy would enlarge receipts, and hence the calculated surplus, and thus exaggerate the implied restraining influence of fiscal policy.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	March	April	May	June
Borrowing operations				
New cash raised				
Unspecified new borrowing	--	--	--	--
Weekly and monthly bills	.8	.7	.3	.2
Tax bills	3.5	--	--	--
Coupon issues	--	--	--	--
Other (agency, debt repayment, etc.)	-1.9	-4.9	- .6	-4.5
Total net borrowing from public	2.4	-4.2	- .3	-4.3
Plus: Other net financial sources[a/]	1.0	-1.1		- .9
Plus: Budget surplus or deficit (-)	-3.1	5.9	-4.2	8.7
Equals: Change in cash balance	.3[b/]	.6	-3.5	3.5
Memoranda: Level of cash balance end of period	6.9[b/]	7.5	4.0	7.5
Derivation of budget surplus or deficit				
Budget receipts	13.7	23.7	13.2	24.4
Budget outlays	16.8	17.8	17.4	15.7

a/ Checks issued less checks paid and other accrual items.
b/ Actual

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

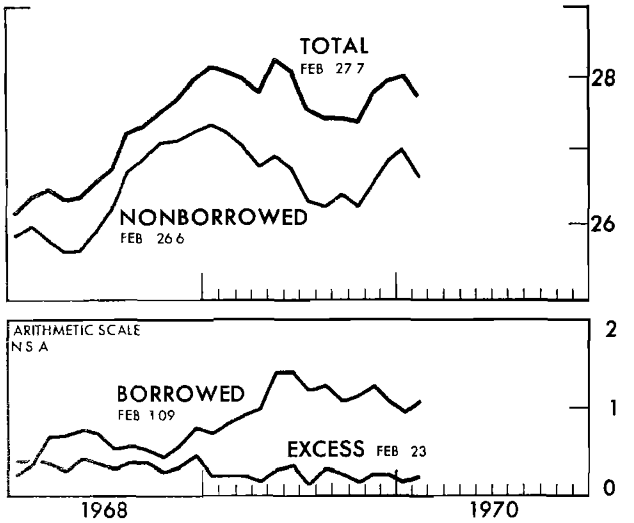
	Fiscal 1970 e/		Fiscal 1971 e/	Calendar Years		Calendar Quarters				
						1969	1970 1/			
	Jan. Budget	F.R. Board	January Budget	1969	1970 1/	IV	I	II	III	IV
Federal Budget										
(Quarterly data, unadjusted)										
Surplus/deficit	1.5	-.9	1.3	5.3	-4.4	-5.7	-3.2	10.4	-5.2	-6.4
Receipts	199.4	197.0	202.1	195.6	196.6	42.9	44.9	61.3	47.7	42.7
Outlays	197.9	197.9	200.8	190.3	201.0	48.5	48.1	50.9	52.9	49.1
Means of financing:										
Net borrowing from the public	-2.6	1.6 2/	-1.2	-4.1	3.5	5.1	2.1	-8.8	4.2	6.0
Decrease in cash operating balance		-1.6		- .6	--	1.3	-1.6	-.6	1.0	1.2
Other 3/	n.a.	.9	n.a.	- .7	.9	-.8	2.7	-1.0	--	-.8
Cash operating balance, end of period		7.5		5.3	5.3	5.3	6.9	7.5	6.5	5.3
National Income Sector										
(Seasonally adjusted annual rate)										
Surplus/deficit	3.6	1.4	1.6	9.6	-6.0	6.7	-1.7	-7.1	-9.2	-6.1
Receipts	201.7	200.0	205.4	201.6	197.6	203.3	196.7	198.7	195.8	199.0
Expenditures	198.1	198.6	203.8	192.0	203.6	196.7	198.4	205.8	205.0	205.1
High employment budget surplus/deficit 1/	n.a.	6.1	n.a.	9.5	3.4	9.7	5.0	2.0	1.4	5.0

e--Projected.
n.a.--Not available
1/ Estimated by Federal Reserve Board Staff.
2/ Excludes effect of reclassification of $1.6 billion of CCC certificates of interest from Budget transactions to borrowing from the public.
3/ Includes such items as deposit fund accounts and clearing accounts.

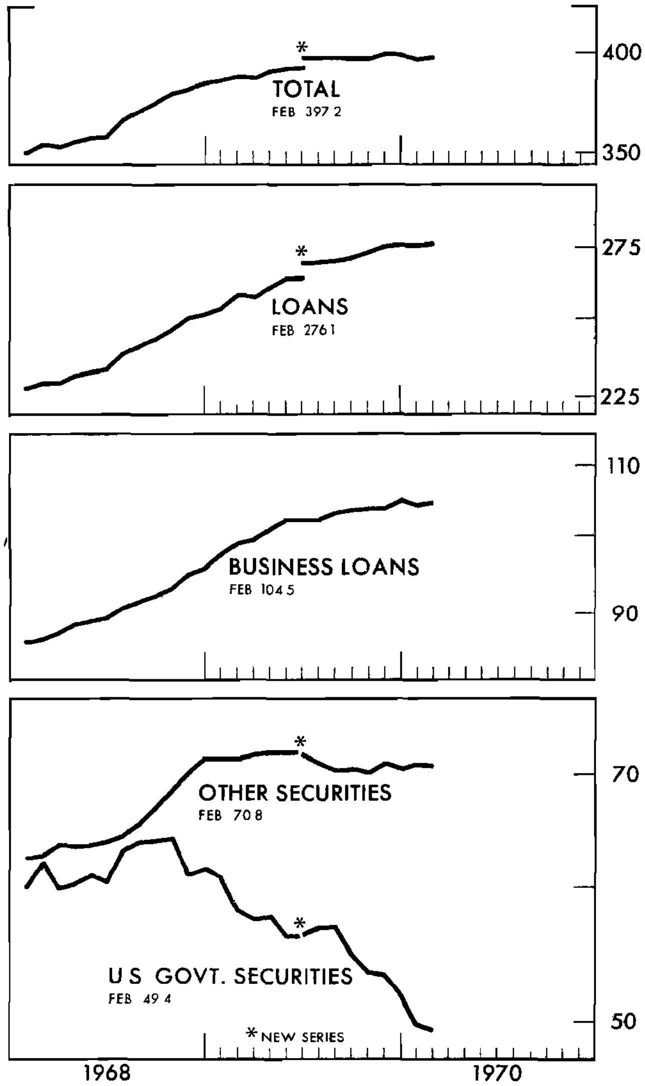
FINANCIAL DEVELOPMENTS - UNITED STATES

BILLIONS OF DOLLARS, SEASONALLY ADJUSTED, RATIO SCALE

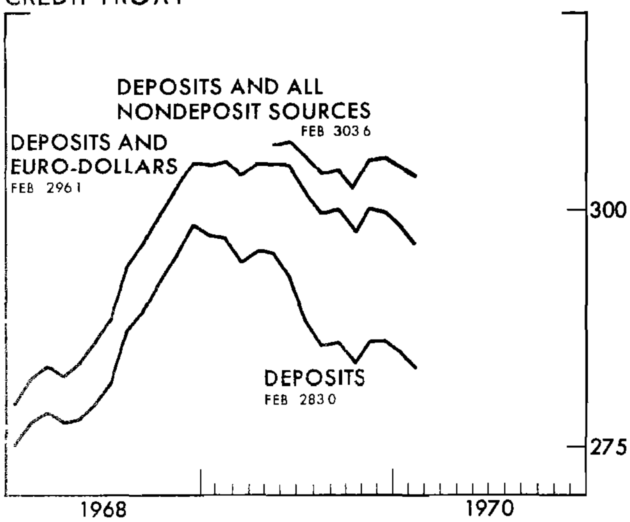
BANK RESERVES



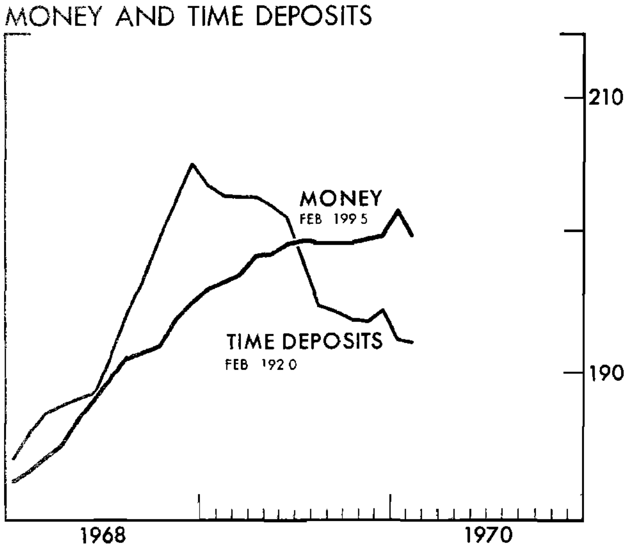
BANK CREDIT



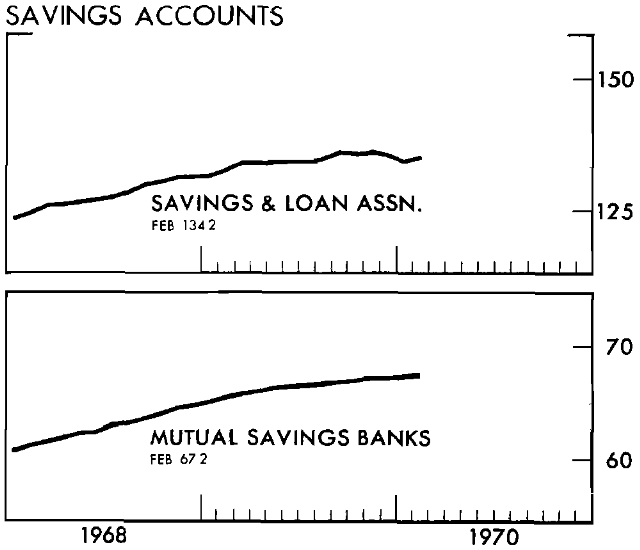
CREDIT PROXY



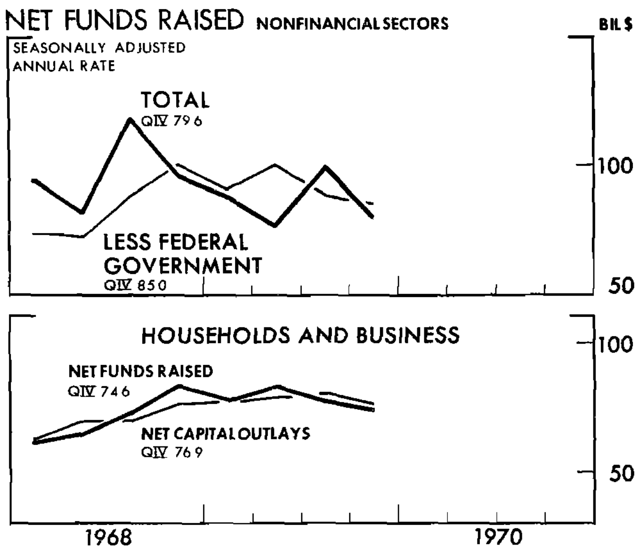
MONEY AND TIME DEPOSITS

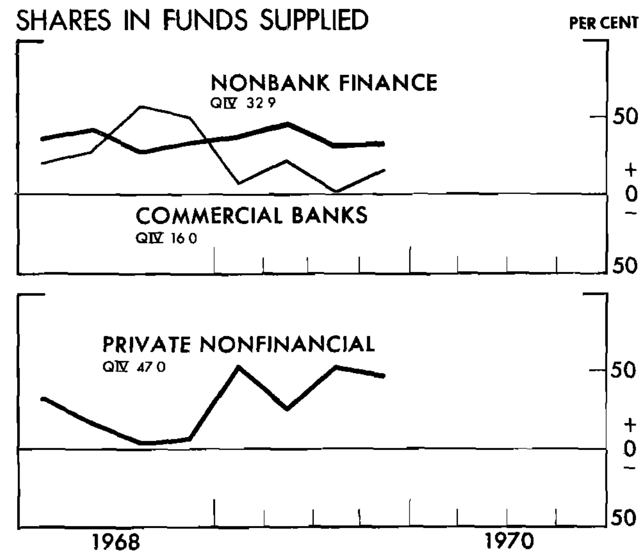


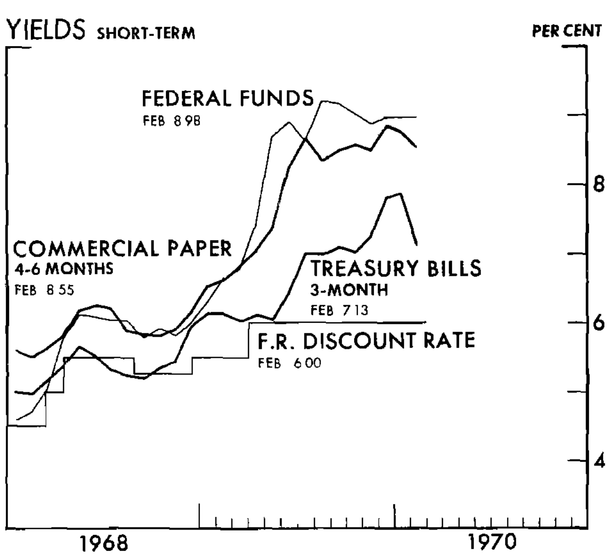
SAVINGS ACCOUNTS

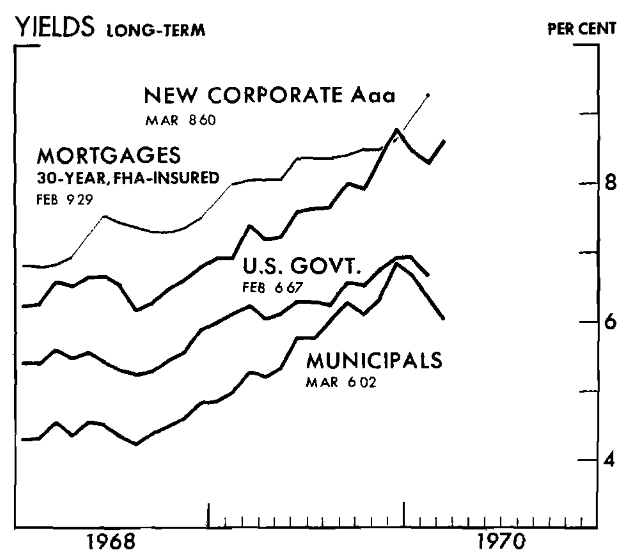


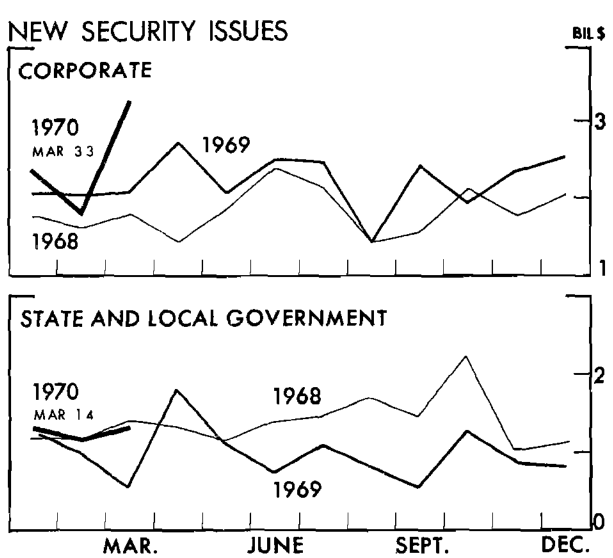
FINANCIAL DEVELOPMENTS - UNITED STATES

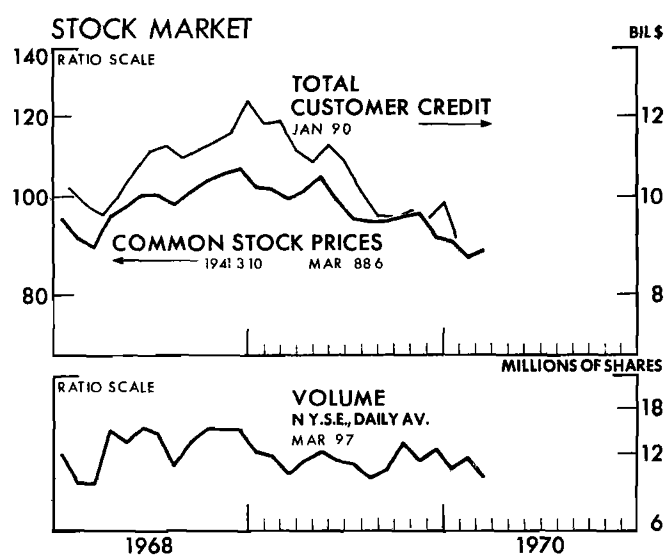












THE ECONOMIC PICTURE IN DETAIL

International Developments

U.S. balance of payments. More complete data for international transactions in February indicate that the experience of that month was more favorable than had been suggested by preliminary estimates. For March the early indicators of overall balance once again show heavy deficits on both conventional measures. If borne out by the data for the full month of March, these indicators point to a rate of liquidity deficit comparable to the average of last year, while on the official settlements basis a very large deficit has replaced last year's quarterly surpluses.

In February the liquidity deficit, seasonally adjusted, was roughly $100 million, bringing the January-February total to about $1.7 billion (excluding the initial allocation of SDR's). That total included perhaps $1 billion of outflows of liquid funds in the first several days of the year, partially reversing year-end inflows, and negative "special" transactions of about $600 million; without these factors the accounts would have been nearly balanced.

The unusually low February deficit reflected several developments for which data are now available. As noted below, the trade balance for the month was exceptionally large, as exports rose enough to confirm an upward trend while imports were high but not rising. Banks reduced reported claims on foreigners by $144 million, following a $444 million reduction in January; for the same two months last year the inflow was $330 million. Foreign transactions in U.S. securities in February resulted in small net purchases of corporate stocks, reversing the small net liquidation in January, and there were further sizable purchases of U.S. corporate bonds and issues of U.S. Govt. agency issues. The inflow to purchase corporate stocks was still much below last year's, and below the average projected for 1970. Outflows of U.S. capital to purchase foreign bonds were again comparatively small in February, and there was also a further net inflow out of foreign corporate stocks.

In March, the early indicators suggest a reversion to a large deficit on the liquidity basis, though as usual little explanatory information is available. One factor may be somewhat larger U.S. purchases of foreign securities, especially Canadian bonds, and bank-reported claims on foreigners may have stabilized. It will not be known for some time whether the errors and omissions item, which was a major factor in last year's deficit, registered receipts in the early months of the year -- as in the final quarter of 1969 -- tending to reduce the liquidity deficit.

On the official settlements basis the deficit for the year through March 25 has totalled about $3 billion, not seasonally adjusted, and with seasonal adjustment the deficit would be considerably larger. A heavy deficit on this basis was registered in February ($1 billion, not seasonally adjusted) and there appears to have been an even larger amount in March. These deficits reflect, in addition to the factors responsible for the liquidity deficit, large reductions in liabilities of U.S. banks to their foreign branches. Early in January these liabilities rose, reflecting year-end adjustments, but from mid-January through the 25th of March these liabilities were reduced by over $1.5 billion. Some of this reduction may have been the result of shifts of foreign official accounts out of Euro-dollars into CD's. This represents a reversal of the buildup of foreign official Euro-dollar deposits that is believed to have occurred in 1968 and most of 1969. The total increase in foreign official CD holdings since mid-January has been about $1 billion. Data presently available do not provide a basis for estimating how much of this increase came from existing Euro-dollar accounts rather than representing fresh accruals to foreign monetary reserves invested in CD's rather than in U.S. Treasury bills or other instruments.

U.S. foreign trade. The export surplus, virtually nil in January, expanded very sharply in February as exports climbed steeply and imports fell back from the high level of January. For January-February together the export surplus was nearly $2-1/2 billion at an annual rate (balance of payments basis), compared with $1.4 and $1.8 billion, respectively, in the third and fourth quarters of 1969.

The strong upturn in February exports should be viewed with guarded optimism since large monthly variations are not unusual in U.S. trade movements. It does appear, however, that -- on average -- exports are tilting up again following a pause toward the end of last year. At the same time the pace of imports appears to be flatter than for exports, although the absolute level of imports is still very high. Price advances for imports are a factor in sustaining the value of imports.

One of the more significant elements in the rise in exports from January to February was the strong increase in machinery shipments -- the first major advance since August 1969. Part of this better showing may result from the ending of the G.E. strike, and part from under-reporting in January and over-reporting in February in the Census Bureau tabulations of these shipments. In addition, the response in U.S. machinery exports to the heavy demand abroad is probably being helped by the leveling off in new domestic orders for business equipment and the stabilization in the ratio of unfilled orders to shipments.

Exports in January-February were $41.3 billion at an annual rate (balance of payments basis), about 5 per cent greater than in the fourth quarter of 1969. The entire increase was in nonagricultural commodities. Although the sharp pickup in exports of agricultural products in February arrested the downward drift of the preceding three months, exports of these commodities in January-February combined were marginally below the high rate of shipments in the fourth quarter. Soybean exports continued to expand while shipments of cotton, both commercially and under the P.L. 480 program, also rose strongly. These were offset by a slump in tobacco exports.

About one-fourth of the increase in exports of nonagricultural products in January-February was in greater deliveries of commercial aircraft. Initial deliveries of the Boeing 747 were made in mid-March and additional deliveries of these planes should serve to support the value of aircraft exports at a high level in the coming months. Sales of coal to Japan and of steel to Europe continued to expand. As noted earlier, shipments of machinery rose very sharply in February, with much of the increased deliveries going to Europe and Japan. Deliveries of automotive equipment to Canada in January-February were lower as automotive production there was reduced further in line with developments in the U.S. auto market.

By areas, the largest increases in exports from the fourth quarter to January-February were in shipments to Japan and to continental Europe, particularly the Common Market countries. Smaller gains were recorded in exports to Canada, other than in automotive equipment, and Latin America. There was a moderate decrease in shipments to the United Kingdom.

Imports in January-February were $38.9 billion at an annual rate, balance of payments basis, 3-1/2 per cent higher than in the fourth quarter of 1969. Arrivals of foodstuffs were up further, buoyed by high coffee prices and greater quantities of meat. Imports of non-food consumer goods in total were higher, with a further decline in durable types -- TV, radio, etc. -- more than offset by substantially increased receipts of apparel and other nondurable items. The advances in food and nondurable consumer goods imports more than offset fairly sharp declines in imports of industrial materials (steel, copper, and paper) and automobiles and parts, the latter reflecting lower shipments from Canada. Sales of European and Japanese cars have been impressively strong so far this year, particularly in view of the weakening in total domestic car sales. The strength in sales of the foreign cars probably reflects the increased popularity of "compact" and smaller cars. Sales of such cars were about 15 per cent of total U.S. car sales in the first two months of the year, compared with less than half that percentage in the year-earlier period.

Foreign exchange markets. The major developments in foreign exchange markets during March, as in February, centered on sterling, the Italian lira and the Canadian dollar. Most foreign exchange rates responded to the decrease in the U.S. prime rate late in the month by moving higher against the dollar.

Demand for sterling was strong throughout March and particularly strong early in the month, reflecting very tight financial markets in Britain at a time of seasonally heavy tax payments. The sterling exchange rate also rose in reaction to the prospect of lower interest rates in the United States. The Bank of England purchased about $750 million in exchange markets during March, compared with almost $900 million in February, and again repaid a considerable amount of debt. It retired all remaining debt under the November 1967 credit package except $225 million of swap debt to the U.S. Treasury. Total outstanding Bank of England short-term debt to the U.S. Treasury at the end of March is $485 million, $260 million of which is guaranteed sterling. In addition, the Bank of England has repaid all but $75 million of the $250 million borrowed from the BIS in early February to finance the repayment of outstanding swap drawings on the System.

Demand for the Canadian dollar was strong throughout most of March, and with the exchange rate at its upper limit, the Bank of Canada purchased almost $150 million, compared with $175 million the previous month. Demand for Canadian currency reflects apparent improvement in the current account in the first quarter as well as substantial conversion of proceeds of bond issues sold in foreign markets. On March 30 the Bank of Canada removed the quantitative ceiling it had imposed last summer on swapped deposits, and the Canadian exchange rate moved below its upper limit for the first time in three weeks.

Selling pressure on the Italian lira moderated substantially during March. The Bank of Italy sold only $200 million in the exchange market, compared with monthly losses averaging over $500 million in January and February. Several factors probably account for the recent favorable development in the Italian exchange situation. Interest rates have moved up sharply in Italy and are at levels more competitive with those outside the country. There have been substantial Italian issues of long-term bonds on the international market, especially for state-owned Italian enterprises. Italy is moving into a period when its balance of payments is seasonally less unfavorable than in January and February; and finally, in the past few days prospects for formation of a new government have improved although the political situation remains very unstable.

Demand for the German mark strengthened and the mark exchange rate climbed steadily during March to a level just below par. This strength in the mark market is generally attributed to tightening money market conditions in Germany which may be inducing some repatriation of funds from abroad.

The price of gold in London rose to a recent high of $35.31 an ounce late in March. It has been above $35 an ounce since mid-March and South African sales of gold to the IMF during the month totaled about $80 million, compared with monthly sales of about $100 million during January and February.

Euro-dollar market. Euro-dollar rates for one-and three-month deposits fell by about 80 basis points during March, while rates on other maturities declined by lesser amounts. Rates generally declined during the first two and one-half weeks of March, rose somewhat toward the end of the third week, then declined slightly following the cut in the prime rate by New York banks.

SELECTED EURO-DOLLAR AND U.S. MONEY MARKET RATES
(weekly average of daily figures)

Average for week ending Wednesday	(1) Call Euro-$ Deposit	(2) Federal Funds	(3) =(1)-(2) Differential	(4) 3-month Euro-$ Deposit	(5) 3-month Treasury Bill	(6) =(4)-(5) Differential
Feb. 25	9.22	8.41	0.81	9.27	6.84	2.43
Mar. 4	9.30	8.32	0.98	9.36	6.89	2.47
11	8.78	7.71	1.07	9.09	6.80	2.29
18	8.10	7.82	0.28	8.75	6.78	1.97
25	8.77	7.45	1.32	8.68	6.31	2.37
Apr. 1	8.67	7.93p	0.74p	8.54	6.32p	2.18p

Liabilities of head offices of U.S. banks to their own foreign branches declined by $1.1 billion from February 25 to March 25, reaching a level of $12.5 billion. Foreign official time deposits at head offices of U.S. banks increased by only $365 million during this period. Even if all of this represents a shift out of Euro-dollars by foreign official institutions -- which is doubtful -- it is clear that most of the large decline in liabilities to foreign branches represented a net decline in demand on the Euro-dollar market by U.S. banks.

During March demands on the Euro-dollar market from other sources were undoubtedly intensified by the tax-payment squeeze on the sterling money market and by the tightening of financial markets in Germany and Italy.

Swiss commercial banks sold $368 million to the BNS during March in short-term franc-dollar swaps, undertaken for quarter-end window dressing. The dollar proceeds of these swaps were placed in the Euro-dollar market by the BNS with little net effect on conditions in that market.

Price developments in major industrial nations. Since mid-1969, upward pressures on prices have intensified in all major industrial nations.

Germany, France, Italy, Belgium and Japan have been experiencing rapidly rising levels of demand and are all undergoing wage and price increases much above accepted norms. In the United Kingdom, where there has been only a moderate growth in demand in recent months, wholesale and consumer prices have risen mainly because of substantial increases in labor costs. The change in the parity of the French franc in 1969 contributed to a rapid increase in wholesale prices in France, and the

WHOLESALE PRICES, MANUFACTURED GOODS a/
(1963 = 100)

	Average annual increase 1965-68	Index Dec. 1968	Per cent change (annual rate) Within quarter 1969 Q-1	Q-2	Q-3	Q-4	Dec. '68 to Dec. '69	Index latest month
France b/	0.2	108.9	5.5	8.3	10.3	14.2	9.9	120.3 (Jan.)
Belgium	1.3	110.7	4.3	1.8	6.4	11.2	6.1	118.3 (Jan.)
Italy c/	0.6	106.3	3.2	8.0	7.6	8.8 d/	6.1 e/	112.6 (Oct.)
Germany f/	1.0	99.1	2.4	2.4	5.2	8.6	4.7	105.8 (Feb.)
U.K.	2.2	113.3	3.9	3.5	5.5	4.8	4.5	118.8 (Jan.)
U.S.	2.0	109.8	6.2	3.6	2.5	5.0	4.3	115.7 (Mar.) g/
Japan	0.8	103.5	1.2	3.9	5.0	5.7	4.0	108.2 (Jan.)
Canada	2.3	113.2	8.3	3.4	-0.3	2.3	3.3	117.5 (Feb.)
Netherlands	2.7	118	-13.6 h/	0.0	3.5	7.0	2.6 i/	117 (Dec.)

a/ Countries are listed in descending order of price increases between December 1968 and December 1969.
b/ Intermediate goods. c/ Non-agricultural products.
d/ Change in October at annual rate. e/ October 1969 over October 1968.
f/ Producers' prices of industrial products. g/ Provisional.
h/ Distortion due to shift from turnover tax to value-added tax. Before 1969, prices included turnover tax; since, indirect tax has been excluded.
i/ January to December 1969 at annual rate.

revaluation of the German mark added to the upward pressure on wholesale prices in Switzerland, the Netherlands, Belgium and Austria.

Recent price increases abroad may have prevented a further weakening in the relative price competitiveness of the United States during 1969, despite the acceleration in U.S. price increases in the last quarter of the year.

Wages and prices are likely to continue advancing at a rapid rate throughout most of 1970 in all the major European countries and Canada. Large wage settlements in Italy, Germany and the United Kingdom could result in unit labor costs rising by as much as 7 per cent or more in those countries.

CONSUMER PRICES, GOODS (EXCEPT FOOD) AND SERVICES[a/]
(1963 = 100)

	Average annual increase 1965-68	Index Dec. 1968	Per cent change (annual rate) Within quarter 1969 Q-1	Q-2	Q-3	Q-4	Dec. '68 to Dec. '69	Index latest month
Netherlands	5.3	128.1	23.7[b/]	3.8	0.3	1.7	7.5	137.3 (Jan.)
U.S.	2.9	114.5	6.9	4.9	5.0	5.8	5.8	123.8 (Feb.)
Japan	4.7	128.5	-1.2	9.0	4.9	8.1	5.3	135.6 (Jan.)
France	3.6	122.9	7.5	3.8	4.7	4.7	5.3	130.6 (Feb.)
Canada	3.4	119.0	4.6	7.5	2.2	4.1	4.7	125.0 (Feb.)
Italy	3.2	121.8	4.3	1.9	4.5	8.6[c/]	4.2[d/]	126.9 (Nov.)
U.K.	4.1	123.9	3.6	3.2	2.5	6.3	4.0	130.0 (Jan.)
Belgium	3.8	122.7	4.7	2.0	3.5	5.1	3.9	128.2 (Feb.)
Germany	3.2	117.8	3.7	0.3	1.7	6.0	3.0	122.9 (Feb.)

a/ Countries are listed in descending order of price increases between December 1968 and December 1969.
b/ Introduction of value-added tax. c/ Through month of November only.
d/ Price increase between November 1968 and November 1969.

There are as yet no signs of an easing of demand in France and Belgium, although consumer prices and wages in France are likely to increase less than they did last year. The Dutch have postponed planned increases in indirect taxes to January 1971, but strong demand and union wage pressures are likely to cause continued high rates of price inflation. Although the trend of very rapid wage increases is expected to continue in Japan, the Government hopes for a slowing in the pace of price advances. Cost push pressures are expected to remain strong in Canada.

In Germany, price inflation is now the major economic issue. The non-food cost-of-living index, which has increased on average by about 3 per cent since 1965, rose at an annual rate of over 6 per cent in the six months to February. During this period, producers' prices for industrial products increased at the exceptionally rapid rate of over 9 per cent, reaching a level more than 6 per cent higher than in February 1969.

Sustained high demand pressing against supply limitations continues to be a major source of pressure on prices, but cost-push elements are becoming increasingly important. Actual hourly earnings in the fourth quarter of 1969 were about 13 per cent higher than a year earlier and are expected to rise by about 11 per cent this year. Although labor productivity in industry continues to show remarkable growth despite the scarcity of skilled labor and a high degree of capacity utilization, unit labor costs could nevertheless rise by as much as 8 per cent this year. (Unit labor costs had remained virtually stable from mid-1967 until the last quarter of 1969.) Favorable demand conditions have encouraged German producers to pass on higher costs through price increases, while German labor has been seeking large wage increases to compensate for its relative quiescence during the 1966-67 recession and for current and expected increases in the cost of living. After the Brandt Government failed to take further fiscal action, the Bundesbank increased its discount rate on March 6 by an unusually large 1-1/2 percentage points to a post-war high of 7-1/2 per cent in an effort to align the discount rate more closely with market rates and to underline its determination to counter inflationary expectations.

After the revaluation of the mark last October, German exporters could have lowered the mark prices of their products to mitigate the impact of the parity change on their price competitiveness in foreign markets. German export prices, however, rose 1.7 per cent in terms of marks between October and January, reflecting in part strong cost pressures in such important export sectors as capital goods and the continuing high foreign demand for German products. On the import side, the mark prices of foreign goods increased by about 2 per cent between October and February, after a decline of slightly over 3 per cent in October as a result of revaluation.

Although recent movements in new orders--particularly foreign--could point to a leveling off of Germany's economic boom, continued large industrial order backlogs and the underlying strength of consumer demand indicate that German productive capacity should be reasonably fully utilized for some time to come. The German cost of living is likely to increase this year by considerably more than in any year since 1966, despite decreases in the costs of foods and raw materials resulting from revaluation.

Further dampening measures are nevertheless not very probable, and the German authorities appear determined to avoid a repetition of the recession of 1966-67.

Upward pressures on prices intensified somewhat in the United Kingdom during the second half of 1969. Prices of wholesale manufactures and consumer goods rose at an annual rate of 4 to 5 per cent. The major cause has been substantial increases in labor costs, which will continue this year. Higher indirect taxes also contributed to the 1969 increase in consumer prices.

Average earnings in manufacturing rose about 9 per cent in 1969. This rise was apparently not connected with any marked increase in the demand for labor. The seasonally adjusted unemployment rate actually increased slightly during this period. A possible explanation is a combination of aggressive union bargaining and the Government's reluctance to enforce its incomes policy--some of the largest settlements concluded in the latter months of 1969 were in the public sector. The Government has indicated that it will offer little resistance to large wage settlements this year, as national parliamentary elections approach. In the second half of 1969, wage settlements (together with wage drift) produced increases in average earnings at an 11 per cent annual rate. This trend is likely to continue this year. A sharp increase in unit labor costs will result, as productivity is expected to increase by only about 3 per cent.

Whether or not there is a considerable lag before the effects of this wage explosion are felt on prices, British efforts to maintain recent balance of payments gains will be adversely affected. If domestic prices lag behind wages, real income will rise rapidly, diverting resources from the export sector to consumption. If export prices keep up with wages, British exports will become less competitive. Between December 1968 and the end of last year, export prices in sterling rose about 5 per cent, a somewhat lower rate than prevailed in the 12 months immediately following the devaluation of the pound in November 1967.

In 1969, price increases accelerated in France, particularly at the wholesale level. There are as yet no indications that inflationary pressures will moderate significantly this year.

The pull of rapidly growing demand has been the major influence on French prices. The investment sector has been consistently strong and exports have risen markedly since the devaluation of the franc last August. Consumer demand moderated slightly towards the end of the year, partly because of installment credit restrictions in effect since last autumn. Higher prices for imported goods resulting from devaluation contributed substantially to the large increase in wholesale prices, but their impact on retail prices has so far been slight. Franc prices of imports have risen by roughly 14 per cent since devaluation, more than the parity change, which suggests that foreign suppliers have increased the foreign currency prices of their products in France. Wage rates increased 9 per cent in 1969, and, since automatic escalator clauses are becoming increasingly common in new wage settlements, are likely to continue to rise rapidly. However, productivity has been rising rapidly, perhaps as a result of the very high rate of fixed investment in industry, and the rise in unit labor costs has been held to moderate proportions.

The French authorities made strenuous efforts to keep the increase in retail prices below 6 per cent in 1969, resorting to such measures as a temporary price freeze after devaluation and postponement until January of price increases by nationalized industries. Prices in the private sector have also been regulated by a system of voluntary controls. Although prices of goods and services in both the public and private sectors rose in January, the authorities sought to mitigate the impact on the retail price index by reducing substantially the rate of the value-added tax on processed foods, which have a sizable weight in the index. Price increases were nevertheless unexpectedly sharp in January and February, with consumer prices rising nearly 1-1/2 per cent in two months.

The French Government estimates that consumer prices will rise by 5.4 per cent (annual rate) in the first half of this year. This rate is expected to slacken to 3.4 per cent in the July-December period. This slackening is based upon an expected slowdown in the rate of economic growth, which has yet to be signaled by available indicators. Furthermore, unemployment is very high in France by historical standards, despite the large number of unfilled job vacancies, and further price increases could provoke a recurrence of social unrest. Thus, the authorities will clearly not be able to hold the 1970 rise in retail prices to the Government's target of 4 per cent.

In Italy, demand pressures have caused the rate of price inflation to accelerate in recent months, most markedly at the wholesale level. The overall increase in prices in 1970 is likely to be considerably higher than in 1969, as the large wage increases granted in the November and December labor settlements will be heavily concentrated in the current year. The GNP deflator may rise 5 or 6 per cent this year, nearly double the 1969 rate of increase.

Wholesale prices, which began to rise rapidly early last year, have increased at a sharply accelerated rate since last October. The increase in the general index from October to January was at an annual rate of 13 per cent and in January the index was nearly 8 per cent higher than a year earlier. Price increases in 1969 were largest in the metals sector--for example, 25 per cent for steel products. Consumer prices have risen at a less pronounced rate. The overall consumer price index was 4.3 per cent higher in December than a year earlier, compared with a 1 per cent increase in the year to December 1968.

The widespread labor unrest that plagued Italy last autumn resulted in wage settlements that are expected to raise average hourly wage rates in industry by 16 per cent in 1970. Although overall productivity is projected to increase very substantially--by 7 per cent--industrial unit labor costs are likely to rise by much more than the estimated 2-1/2 to 3 per cent rise in 1969.

Strong price pressures persist in the Netherlands. The cost-of-living index rose 7.5 per cent in 1969, the largest annual increase since 1951. During the first two months of this year, it increased an additional 1.2 per cent. Important factors have been the move from a turnover to a value-added system of indirect taxation at the beginning of 1969, a high level of domestic and foreign demand, and continuing large increases in wages. An increase in consumer prices of more than 6 per cent in the first 4 months of 1969 led to the imposition of a price freeze from April to September.

Demand and cost pressures are likely to remain intense the rest of this year. An increase in the value-added tax rates has been postponed until January 1971, and the authorities hope to keep the rise in consumer prices to no more than the 4 per cent projected by the Central Planning Bureau. Tight credit and budgetary policies, as well as selective price controls, are being used to contain the price increases, but the major problem is to keep the increasingly militant labor unions from gaining wage increases larger than the Government deems suitable.

A strong, broadly based expansion in Belgium has caused an acceleration in the rates of increase of both wholesale and retail prices since the middle of last year. The rise in wholesale prices of manufactures was particularly sharp for machinery, other finished metal manufactures and finished chemical products. Demand pressures are expected to remain strong in 1970 and the GNP deflator is projected to rise at the 1969 rate of about 4 per cent.

During the fourth quarter of 1969, wholesale prices of imported goods in Switzerland increased by about 3-1/2 per cent, while the overall index rose by 2 per cent. The rise in consumer prices, on the other hand, continues to be quite moderate, as seen in the 2.3 per cent year-to-year increase in January. Domestic demand is strong, and consumer prices are likely to rise faster this year.

Since early 1969, Japan has been experiencing some of the strongest upward price pressures in years, with no signs of abatement. The primary factors behind this price rise have been strong domestic and foreign demand pressing against capacity, increased labor costs in low productivity sectors of the economy, and increased costs of imports. The largest wholesale price increases have been for nonferrous metals, steel, and foodstuffs. Both export and import prices rose at sharply accelerated rates during 1969, with the terms of trade moving slightly in Japan's favor. The Bank of Japan raised its basic discount rate last September, and since then has been acting to restrain what it considers to be an excessive pace of increase in domestic demand. However, bank credit has thus far been allowed to continue rising quite rapidly.

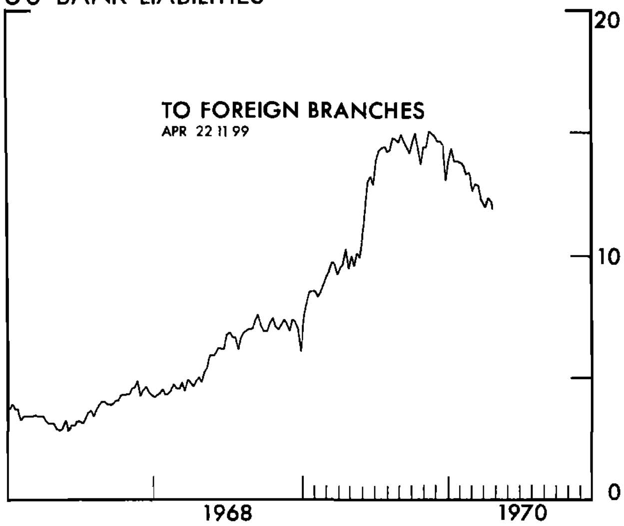
In Canada it is not yet clear whether there has been any slowing in the rate of price increase. The GNP deflator rose by only a 2 per cent annual rate in the fourth quarter compared with 4.8 per cent in the third quarter. The consumer price index (excluding food) rose at a substantially slower pace than in the preceding three months. The wholesale price index for manufactured goods, however, increased at an accelerated rate in the three months ending in February. Unit labor costs rose by an average 6.4 per cent in 1969, with average wages per person employed in the private non-farm sector of the economy up by 6.9 per cent while labor productivity increased by a mere 0.5 per cent.

The authorities have recently supplemented their restrictive aggregate demand policies with "voluntary" guidelines on prices, and consumer credit controls proposed in the Budget should become effective soon. The Government is forecasting a rise in the GNP deflator for 1970 of just under 4 per cent, not much improvement from 1969's 4.3 per cent increase. Continued strong upward pressures on prices are likely to result from wage increases far in excess of the growth of labor productivity.

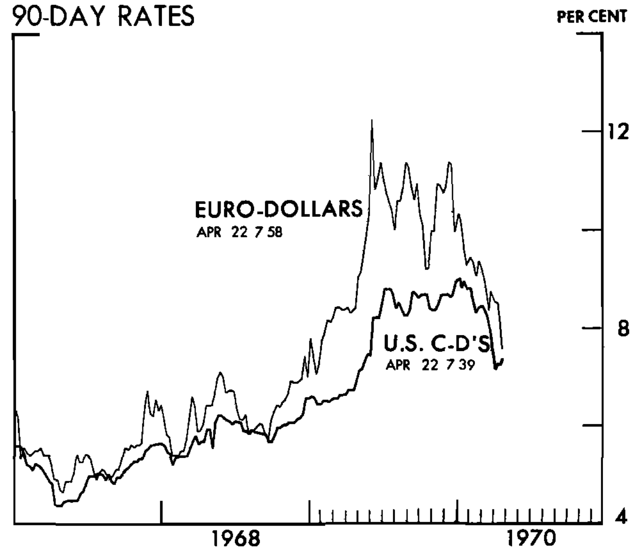
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

BILLIONS OF DOLLARS

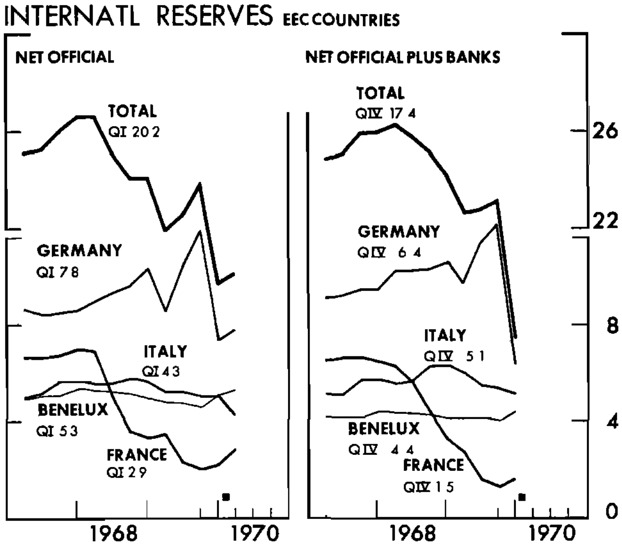
U.S. BANK LIABILITIES



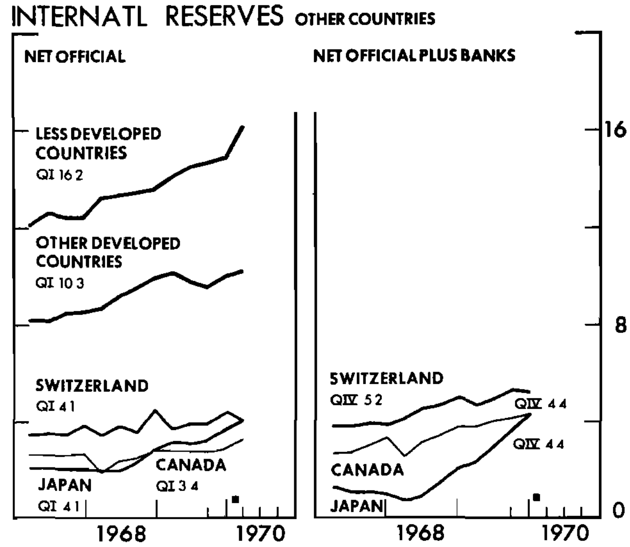
90-DAY RATES



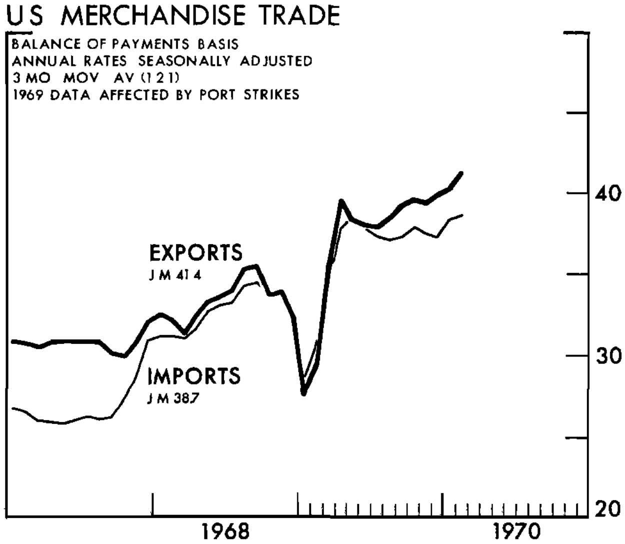
INTERNATL RESERVES EEC COUNTRIES



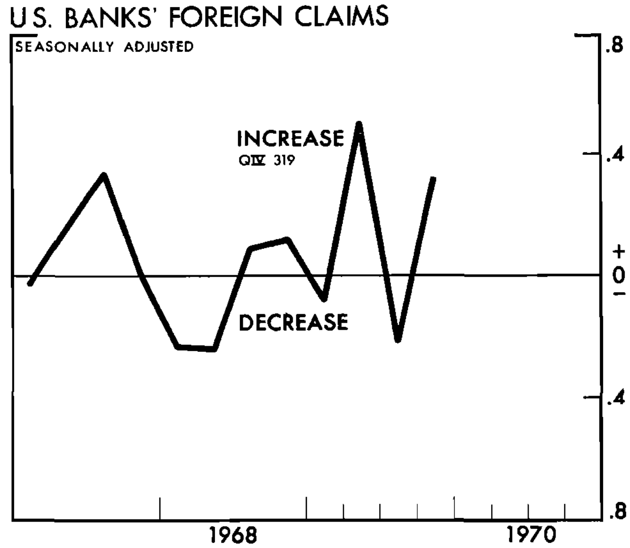
INTERNATL RESERVES OTHER COUNTRIES



U.S. MERCHANDISE TRADE



U.S. BANKS' FOREIGN CLAIMS



■ 1970 DATA INCLUDES SDR'S

APPENDIX A: THE CHANGING COMPOSITION OF PUBLIC BOND OFFERINGS*

A dramatic change in the composition of public bond offerings has accompanied the record volume during the first quarter. These changes are reflections of the pressing financial needs of industrial corporations, the general weakness of the stock market, and the high level of interest rates during the past year.

As indicated in Chart 1, essentially all major sectors have shared in the upsurge of total borrowing volume. 1/ However, the most notable increase has occurred in the industrial sector. In 1968-69, manufacturing firms generally accounted for a less than normal share of total offerings in the public bond market, relying instead on bank credit and other short-term sources of funds. 2/ The recent surge in industrial offerings reflects, according to investment bankers, the inability of many large borrowers--in an environment of reduced liquidity, balance sheet distortions from past short-term borrowing, and greatly reduced cash flows--to continue to postpone capital market borrowing. Reappearing during the first quarter were large industrial issues, noticeably absent from the capital markets in 1968-69. For example, seven manufacturing firms issued $1.0 billion of debt in the first quarter of 1970, accounting for almost 70% of industrial public bond borrowing.

A second major shift in the composition of public bond offerings has been a sizable decline in the share of convertible debt, from a peak of about $4.1 billion in 1967 to an annual rate of $3.1 billion during the first quarter of 1970. As shown in Chart 2,

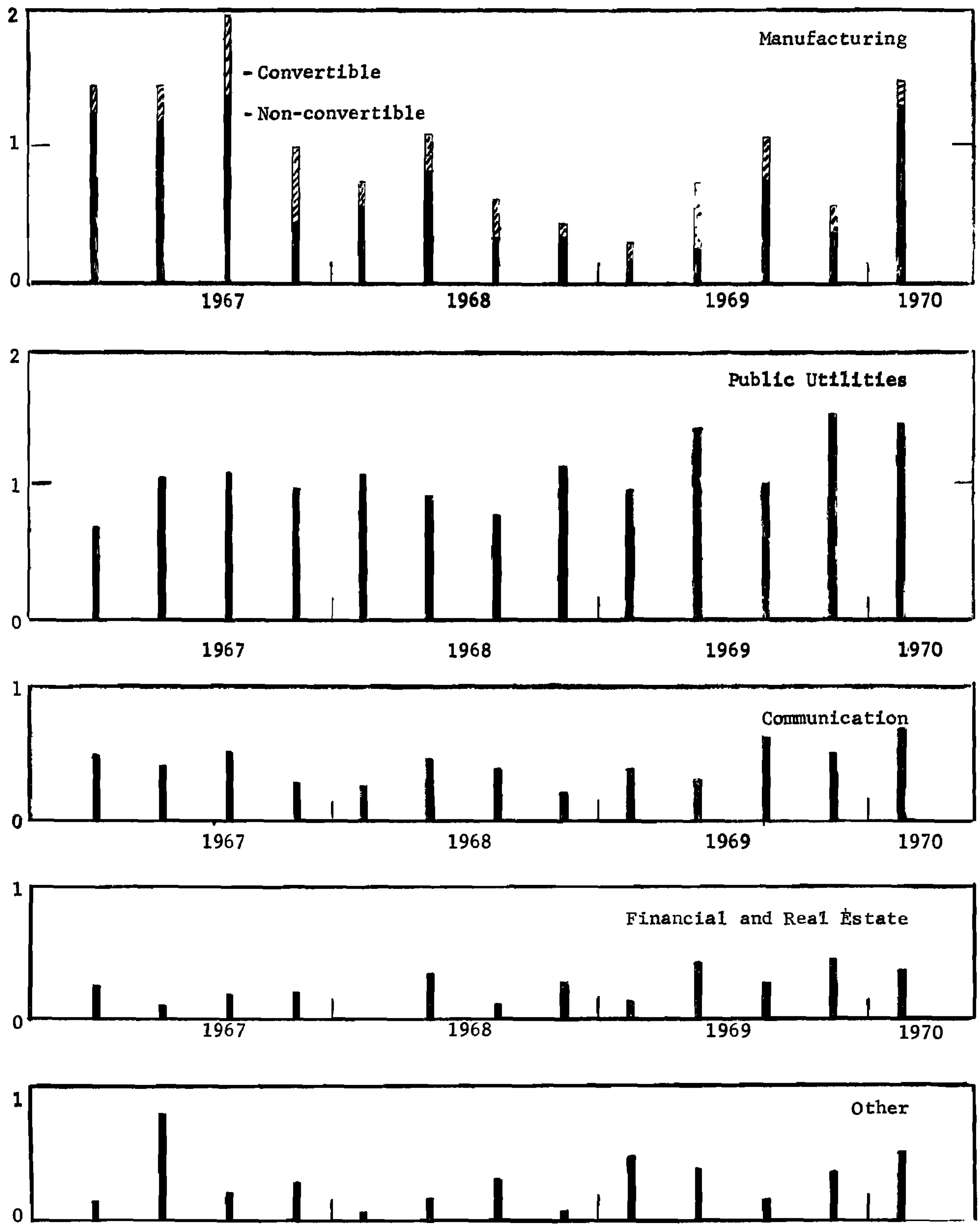
---

* Prepared by Rodney A. Gross, Research Assistant, Capital Markets Section, Division of Research and Statistics.

1/ Public utilities, with stepped up capital demands and high capacity utilization, continue to be major borrowers in 1970, as are telephone companies. These two borrowing groups are expected to continue to issue bonds in volume. AT&T alone will borrow $1.6 billion in April-May, and its subsidiaries are now scheduled to borrow about $1.5 billion during the next nine months, averaging almost $170 million per month.

2/ In 1967 manufacturing issues accounted for about 40% of total offerings, in 1968 about 30%, and in 1969 only a little above 20%. During the first quarter of 1970 this trend reversed, and industrial bonds accounted for a 35% share.

CHART 1
PUBLIC OFFERINGS OF CORPORATE BONDS*
(Quarterly totals, Billions of Dollars)

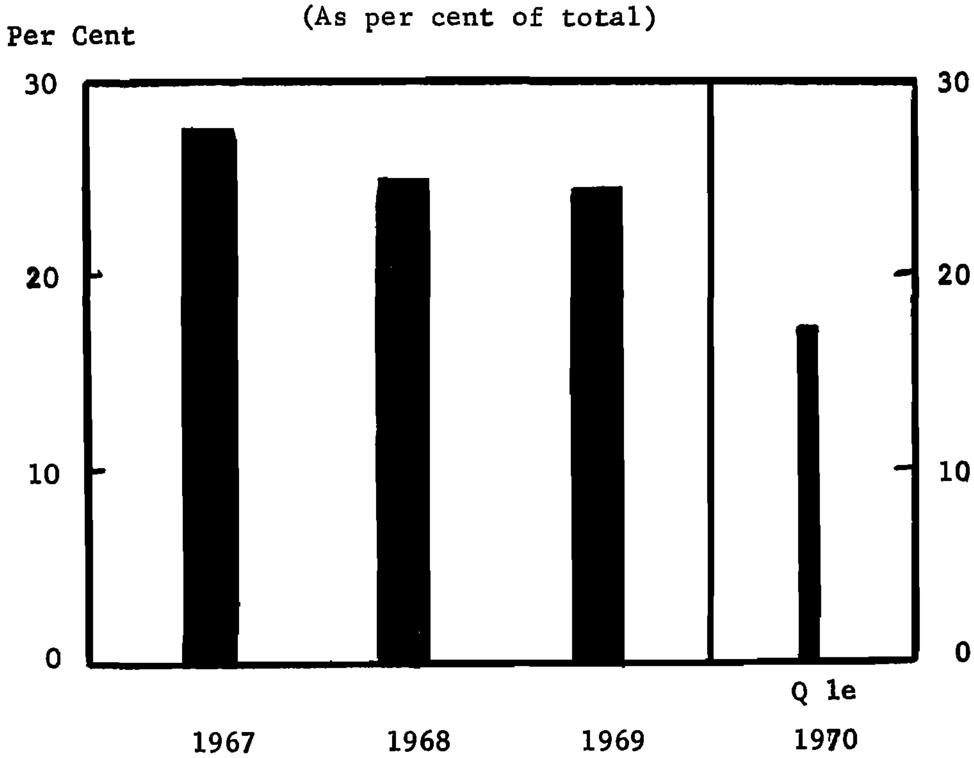


* These amounts represent approximately 90% of the dollar volume reported by the SEC during this period. The balance is primarily composed of small issues in sectors other than public utilities and communications.

Chart 2

Convertible Public Bond Offerings

(As per cent of total)



convertible debt as a per cent of total publicly offered corporate debt has declined markedly. 1/ The decline coincides fairly well with average stock price levels, and is probably attributable largely to developments in that market. In addition to stock market developments, however, the sharp percentage decline results from the large scale of corporate straight debt financing in recent months.

Finally, a significant share of total offerings in the first quarter--issued in about equal proportions by manufacturing, public utility and financial firms--have maturities of 3-7 years.

Table 1

INTERMEDIATE-TERM PUBLIC BOND OFFERINGS
(Millions of dollars and per cent of total)

	Intermediate-term Debt	As % of total publicly offered debt
1969		
Q I	25	.9
Q II	490	14.4
Q III	375	11.8
Q IV	248	7.1
1970		
Q I	668	14.8

First offered in volume in 1969, such intermediate-term debt was issued at an annual rate of about $2.5 billion in the first quarter of 1970. These shorter term offerings have proven to be attractive instruments

1/ The decline is even more notable in the industrial sector, where the share declined to about 10% in 1970 from around 45% in 1969 and 30% in 1967-68.

for individual, as well as institutional, investors during the stock market decline, as they have normally been offered at a slight yield premium over longer-term investments. And choosing this financing option effectively reduces potential interest cost to the borrower as well. While most carry no-call-prior-to-maturity provisions, some include an option--exercisable by the investor--to have the bond mature before the certificate maturity, or accept a lower-than-coupon yield from that date to maturity. This effectively reduces the borrower risk of being locked into high costs over the long-term and/or calling longer-term bonds at high prices in 5 years (assuming lower future interest rates, of course).

Although corporate bond yields declined early this year, the substantial volume of current and prospective new issues led to a reversal of bond yields in March. However, the recent yield increase was probably restrained somewhat by the compositional change in bond offerings, as the characteristics of industrial and intermediate-term issues generated some increase in investor interest. Industrial bonds, relative to comparably-rated utility bonds, tend to carry lower yields because of their longer call protection--10 years as compared with 5-years on utilities. In addition, individual industrial firms tend to be infrequent issuers of straight debt, in contrast to the heavy issuance by individual utilities. Bond portfolio managers, therefore, have relatively limited opportunities to acquire new debt of selected industrial firms and, as a result, the debt issues of such firms are priced somewhat higher. Finally, the substitution of intermediate-term offerings for longer-term issues has served to reduce pressure on long-term markets.