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CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

April 29, 1970

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SUMMARY AND OUTLOOK

Nonfinancial

Recent economic data present a mixed picture of strengths and weaknesses, but on the whole it appears that the decline in real output of goods and services may be bottoming out.

Recent developments. Real GNP declined at an annual rate of 1.6 per cent in the first quarter, about as projected in the previous Greenbook, but the implicit GNP deflator rose at a rate of 5.0 per cent--more than had been expected. Industrial production appears to be off only a little in April, following a small rise in March. Although employment has been declining persistently in manufacturing, it has continued to rise fairly strongly in nonmanufacturing. Consumer spending turned out stronger than anticipated in the first quarter, and retail sales of nondurable goods stores appear to be up in April; however, sales of autos continued sluggish in the first 20 days of the month.

The leading indicators as a group were little changed in March. Among the individual indicators, housing starts increased sharply, while new orders for durable goods declined. Stock prices have fallen sharply in April, following a small March recovery. Despite a continued decline in new orders for capital equipment and the weak profits performance in the first quarter, the McGraw-Hill

Survey, taken earlier this month and not yet released, shows a planned increase of 9 per cent in business spending for plant and equipment this year, as compared with 8 per cent shown last November.

While the increase with GNP deflator accelerated in the first quarter, the rise in the consumer and wholesale industrial price indexes slowed as the quarter progressed. In April, average wholesale prices of all commodities edged down under the impetus of lower prices of farm products and foods, although prices of industrial commodities continued to rise at about a 3.5 per cent annual rate

Outlook. Given recent economic tendencies, and in view of the current bulge in Federal expenditures, real GNP is expected to change little in the second quarter, following two quarters of decline. The retroactive Federal pay increase is adding about $5-1/2 billion to personal income this quarter, and the retroactive increase in social security benefits another $7 billion. Bolstered also by income increases generated elsewhere in the economy, personal disposable income is projected to show an exceptionally large increase this quarter. We are expecting this upsurge to generate a somewhat larger rise in consumer spending than in the first quarter, but we are also expecting that a significant portion will be reflected in a sharply higher saving rate.

State and local purchases are likely to increase moderately further this quarter, and business fixed investment is projected to continue to rise about in line with our preceding projection. We have revised upward our second quarter projection of residential construction outlays, however, in response to the unexpected strength of starts in February and March.

Looking further ahead, we have not changed materially our projections for the second half of the year, apart from a modification in the expected pattern of change in net exports. Expansion in real GNP is now projected to average around 3-1/2 per cent. Inventory accumulation is expected to increase moderately in the second half, in contrast to the decline of the first half of the year. But, final sales are projected to rise only a little more than in the first half of the year. Housing starts and residential construction activity are expected to turn up after mid-year, but we are projecting a deceleration of the rise in business fixed investment. The total for the year is up 8 per cent--close to the recent McGraw-Hill Survey. Since projected real GNP growth continues below the potential of the economy in the second half, available industrial and manpower resources are in general expected to be ample. The manufacturing capacity utilization rate, which averaged below 80 per cent in the first quarter, is expected to decline somewhat further before leveling off after midyear.

Employment and unemployment changes over the next few months may reflect to some extent the impact of strike activity in trucking and other important sectors. Aside from these effects, nonfarm employment would likely continue to expand moderately, and the unemployment rate would rise somewhat further.

We still expect a moderation of the rate of increase in the GNP price deflator, perhaps to a 3.7 per cent annual rate in the fourth quarter. The intervening price rise, however, may be somewhat larger than estimated earlier, since the first quarter appeared to reflect stronger price pressures than we had anticipated. The main elements leading to our expectation of moderation from this point on are about the same as we have noted in preceding Greenbooks. In the important foods group--in contrast to the large increases of 1969--retail prices may well ease somewhat in the second half of this year in view of prospective increases in supplies of meats. More generally, pressures on available resources should ease, and resumption of moderate expansion in economic activity in the second half of the year should result in an improved productivity performance. This should serve to moderate upward cost and price pressure, even though wage increases are likely to continue large.

Financial

Conditions in securities markets have weakened considerably over recent weeks. Stock prices dropped sharply through their lows of recent years, and interest rates in debt markets generally rose from 3/8 to 5/8 of a percentage point. Yields on Treasury bills--while still well below their 1969 highs--are again at levels that make Regulation Q ceilings on bank CD's uncompetitive, and yields on corporate and municipal bonds are now back to within 10-15 basis points of their late 1969 highs.

The sharpness of these price and yield adjustments has reflected changed market expectations arising from the anticipated weakening of fiscal restraints, the developing view that the economy may be somewhat stronger than anticipated, and the recent tightening of money market conditions. In addition, a very heavy past and prospective volume of new issues in long-term debt markets has also contributed to upward pressures on bond yields. In short-term markets, however, funds raised through business loans at banks and through commercial and finance company paper appear to have tapered off, partly as a result of corporate efforts to restructure debt positions.

Outlook for market borrowing. New offerings in the corporate bond market are expected to continue unusually large through the second quarter, with much of this anticipated supply already scheduled. Utilities and industrial corporations will require a large volume of funds to finance capital and current expenditures in a period of declining profits and reduced liquidity. And some further restructuring from short- to long-term debt can also be expected. A continuing relatively large demand for funds is also anticipated in the municipal bond market, but the volume of such issues actually floated will depend importantly on whether banks are able to participate in the market to anything like the extent they did in March and April.

While the volume of corporate long-term financing is expected to be very heavy, growth in outstanding private short-term credit may remain moderate, though rising somewhat from the unusually slow pace of March and April. Reports from banks are mixed, with some banks indicating continued strong business loan demands and others noting a moderation of such demands. It should be noted, in this respect, that the 8 per cent prime rate is becoming relatively more attractive to borrowers in an environment of rising market rates.

In the market for Federal agency securities, the volume of new cash offerings in April dropped off a bit from the very active pace of earlier months and seems likely to remain on the more moderate side so long as savings inflows to thrift institutions hold up. As for Treasury offerings, terms on the May refunding will be announced the afternoon of April 29. Assuming attrition of about $1 billion in the refinancing, it is expected that the Treasury will have to raise about $2 billion of new cash in late May or early June, while continuing the cash additions to weekly and monthly bill auctions.

Outlook for mortgage markets. Deposit growth at the nonbank thrift institutions apparently improved considerably in March and early April. The savings and loan associations have used part of their recent gains to repay outstanding borrowing and to rebuild depleted liquidity. But with their liquidity improved and the recent liberilization in FHLBB policies regarding advances, the S and L's are likely to be encouraged to use a larger share of any future deposit growth to support mortgage commitments and acquisitions. Prospects for a continued relatively favorable net inflow of deposits to thrift institutions are somewhat uncertain in view of the recent advances in market interest rates, but, on balance, it seems to us likely that net inflows in the second quarter will remain significantly above the depressed pace of the past year.

Other mortgage lenders--commercial banks and life insurance companies--may have neither the funds nor the inclination to step up their commitments greatly in the house mortgage market. These institutions, as well as pension funds and bank trust departments, are being solicited by the Administration for informal agreements to increase such commitments this year, but attractive yields on other investments pose a countervailing incentive. Finally, it should be noted that the combination of rising house and land prices and sharply higher interest rates may be discouraging some prospective home buyers, thereby reducing effective mortgage demands.

Interest rate prospects. Assuming moderate growth in money and bank credit, it is likely that the pressure of credit demand in long-term markets will keep bond yields fairly close to current levels. Some downward rate movement cannot be discounted, however, once the current Treasury and AT&T financings are out of the way and particularly if emerging business and stock market developments should cast doubt on current expectations of a stronger economy.

Some decline in short-term interest rates may be expected for seasonal reasons in late spring. In addition, continued moderate short-term credit demands, together with preferences for short-term instruments on the part of investors--particularly those uncertain about the stock market--would tend to take some of the recent pressure off short-term rates. Nevertheless, it is by no means clear that short-term rates will draw back to their late March lows if the rise in dollar GNP is as large as projected, if demands for money for transactions or precautionary purposes are strong, and if, at the same time, growth in money stock is limited to quite moderate proportions.

Balance of payments

The underlying deficit in U.S. external transactions appears to have been running in the $4 billion to $5 billion a year range. This is the indication given by the February and March data on official settlements together with U.S. banks' borrowing abroad, after crude adjustment for seasonality.

Exports dipped in March, after a high February; they appear to be still on a trend of moderately strong increase. Imports held near the February level. Much of the rise in imports since the fourth quarter has been in purchases of consumer goods. There were further increases in the prices paid for some imported materials and foodstuffs.

Last year's changes in the French and German currency parities have faciliated marked gains in net reserves by Britain and France, bringing large repayments of reserve debts by those countries. Italian reserve drains have greatly diminished in the past two months. German reserves fell very sharply for several months after the mark revaluation, but recently they have increased a little, as the German trade surplus has remained large and net capital outflows have diminished. Both Canada and Japan had large reserve gains in the first quarter; Canada's probably rested on temporary factors, but Japan's appears persistent.

Inflationary pressures are continuing strong in most industrial countries. Central bank policies are accordingly maintaining tight credit market conditions--even, in Britain's case, after two half-point cuts in the Bank of England's discount rate. While this environment is favorable for growth of U.S. exports, it is contributing in some degree to upward pressures on prices in this country as elsewhere, and it makes very unlikely a resumption of net capital inflows to the United States on the 1968 or 1969 scale.

No marked change in net exports of goods and services is looked for in coming months, and it seems reasonable to expect net capital flows and the overall balance to continue near recent levels. Interest rate relationships will probably continue to encourage repayment of Euro-dollar borrowings by U.S. banks. Continuing large additions to foreign official reserves are probable, and are likely to be less concentrated in Britain and France than in the recent past.

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	1969	1970			Per Cent Change* From		
	Dec.	Jan.	Feb.	Mar.	1 mo. ago	3 mos. ago	Year ago
Civilian labor force (mil.)	81.6	82.2	82.2	82.8	0.6	1.5	3.0
Unemployment rate (%)	3.5	3.9	4.2	4.4	--	--	[3.4] 4/
Insured unempl. rate (%)	2.3	2.5	2.6	2.7	--	--	[2.1] 4/
Nonfarm employment, payroll (mil.)	70.7	70.8	71.0	71.0	0.1	0.5	1.9
Manufacturing	20.0	20.0	19.9	19.8	-0.3	-0.9	-1.5
Nonmanufacturing	50.7	50.9	51.1	51.2	0.2	1.1	3.3
Industrial production (57-59=100)	171.1	170.2	169.8	170.2	0.2	-0.5	-0.7
Final products, total	168.5	168.2	169.0	170.2	0.7	1.0	-0.4
Consumer goods	160.7	161.0	161.7	162.8	0.7	1.3	0.0
Business equipment	193.8	192.8	196.9	196.9	0.0	1.6	2.1
Materials	173.9	172.5	170.6	170.8	0.1	-1.8	-0.8
Capacity util. rate, mfg.	80.9	79.9	79.3	79.1	--	--	[84.9] 4/
Wholesale prices (57-59=100) 1/	115.1	116.0	116.4	116.6 5/	0.2	1.3	4.4
Industrial commodities (FR)	113.5	114.0	114.4	114.7	0.3	1.1	3.3
Sensitive materials (FR)	114.9	116.0	115.9	115.7	-0.2	0.7	0.0
Farm products, foods & feeds	116.4	118.2	118.7	118.8 6/	0.1	2.1	7.3
Consumer prices (57-59=100) 1/	131.3	131.8	132.5	133.2	0.5	1.4	6.1
Food	129.9	130.7	131.5	131.6	0.1	1.3	7.5
Commodities except food	120.3	120.1	120.4	120.8	0.3	0.4	3.4
Services	148.3	149.6	150.7	152.3	1.1	2.7	8.1
Hourly earnings, pvt. nonfarm ($)	3.13	3.13	3.15	3.17	0.6	1.3	6.4
Hourly earnings, mfg. ($)	3.28	3.28	3.27	3.31	1.2	0.9	5.8
Weekly earnings, mfg. ($)	133.16	132.59	131.06	132.80	1.3	-0.3	4.0
Net spend. weekly earnings, mfg. (3 dependents 57-59 $) 1/	88.05	86.86	85.57	86.22	0.8	-2.1	-1.4
Personal income ($ bil.) 2/	770.6	774.5	778.5	782.6	0.5	1.6	7.1
Retail sales, total ($ bil.)	29.4	29.6	29.9	29.9	-0.2	1.6	3.4
Autos (million units) 2/	7.7	6.8	7.9	7.3	-7.1	-4.7	-10.5
GAAF ($ bil.) 3/	8.1	8.1	8.3	8.1	-3.0	0.0	5.5
12 leaders, composite (1963=100)	152.3	149.8	151.0	150.8	-0.1	-1.0	0.5
Selected leading indicators:							
Housing starts, pvt. (thous.) 2/	1,402	1,059	1,301	1,383	6.3	-1.4	-12.9
Factory workweek (hours)	40.7	40.3	39.9	40.2	0.8	-1.2	-1.7
Unempl. claims, initial (thous.)	212	235	258	268	-3.9 7/	-26.7 7/	-45.2 7/
New orders, dur. goods, ($ bil.)	30.3	28.9	29.7	29.1	-1.8	-3.9	-2.0
Machinery & equipment	6.5	6.4	6.6	6.1	-7.7	-6.1	-5.0
Common stock prices (41-43=10)	91.11	90.31	87.16	88.65 8/	1.7	-2.7	-10.7

* Based on unrounded data. 1/ Not seasonally adjusted. 2/ Annual rates.
3/ Gen'l. merchandise, apparel, and furniture and appliances. 4/ Actual figures.
5/ April prel., 116.5. 6/ April prel., 117.4. 7/ Sign reversed. 8/ April prel., 85.16.

SELECTED DOMESTIC FINANCIAL DATA

	1969 QII	1969 QIII	1969 QIV	1970 Q I	1970 March	1970 Week ended Apr. 22
	Averages					
Interest rates, per cent						
Federal funds	8.33	8.98	8.94	8.56	7.76	8.21
3-mo. Treasury bills	6.20	7.02	7.36	7.21	6.63	6.51
3-mo. Federal agencies	6.80	7.63	7.92	7.72	7.13	7.04
3-mo. Euro-dollars	9.69	10.89	10.48	9.26	8.88	8.08
3-mo. finance co. paper	6.72	7.74	7.89	7.94	7.68	7.51
4-6 mo. commercial paper	7.54	8.49	8.63	8.55	8.33	8.00
Bond buyer municipals	5.43	6.00	6.40	6.35	6.03	6.50
Aaa corporate-new issues	7.32	7.75	8.32	8.45	8.60	8.65
20-year Treasury bonds	6.14	6.34	6.71	6.78	6.72	6.93
FHA mortgages, 30-year	8.17	8.38	8.53	9.25	9.20	n.a.

	1969 QII	1969 QIII	1969 QIV	1970 QI	1970 March
	Change During Period				
Change in monetary aggregates (SAAR, per cent)					
Total reserves	1.2	-9.3	1.4	-2.9	--
Nonborrowed reserves	-4.7	-4.8	-0.1	-0.4	7.5
Credit proxy	-2.2	-9.4	0.1	0.6	14.0
Credit proxy + nondep. funds	n.a.	-4.0	2.1	0.7	10.7
Money supply	4.5	--	1.2	3.8	13.2
Time and savings deposits	-3.0	-13.3	--	0.4	14.4
Deposits at S&L's and MSB's	3.9	2.1	1.4	1.9	7.5
Bank credit, end-of-month	6.1	-0.8	2.1	-0.3	3.3
Treasury securities	-8.4	-11.4	-21.2	-15.4	9.7
Other securities	0.6	-7.2	--	10.8	27.1
Total loans	10.9	3.1	7.2	-0.1	-4.3
Business	10.8	5.1	5.0	-3.8	-6.9

Change, millions of dollars	1969 QII	1969 QIII	1969 QIV	1970 QI	1970 March
Commercial paper (SA)	3,522	3,233	3,250	2,765	56
Bank related (NSA)	n.a.	1,254	1,713	1,804	46

	1968 Year	1969 Year	1969 QI	1969 March	1970 QI	1970 March
New security issues (NSA, $ mil.)						
Total corp. issues	21,965	26,744	6,218	2,098	7,811e	3,400e
Public offerings	15,314	21,130	4,680	1,590	6,627e	3,000e
State and local government bond offerings	16,574	11,881	2,787	538	3,951e	1,425e
Fed. sponsored agency debt (change)	3,354	9,292	1,194	603	3,921e	1,644e
Fed. gov't. debt (change)	15,300	-2,558	157	418	1,981	2,314

n.a. - Not available. e - Estimated. p - Preliminary.
SAAR - Seasonally adjusted annual rate. NSA - Not seasonally adjusted.

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

	1968	1969		1970			
	Year	Year[r]	IV[r]	I	Jan.*	Feb.*	Mar.*
Goods and services, net 1/	2,516	2,073	729				
Trade balance 2/	626	690	453	547	10	397	140
Exports 2/	33,598	36,487	9,829	10,227	3,300	3,583	3,344
Imports 2/	-32,972	-35,797	-9,376	-9,680	-3,290	-3,186	-3,204
Service balance	1,890	1,383	276				
Remittances and pensions	-1,159	-1,163	-299				
Govt. grants & capital, net	-3,955	-3,865	-880				
U.S. private capital	-5,157	-5,015	-330				
Direct investment	-3,025	-3,060	58				
Foreign securities	-1,266	-1,380	-69	-182	-17	-130	-75[e]
Banking claims	269	-534	-325	249	436	137	-196
Other	-1,135	-41	6				
Foreign capital	9,277	12,265	732				
Official foreign, nonliquid	2,282	-713	181				
Official foreign, liquid	-3,099	-528	-986	3,270[e]	669	1,285	730
Foreign commercial banks, liquid	3,382	9,424	370	-1,710[e]	101	-832	-800[e]
New direct investment issues 3/	2,129	1,026	250				
U.S. corporate stocks	2,084	1,515	468	-103[e]	-38	-15	-50[e]
Other	2,499	1,541	449				
U.S. monetary reserves (inc. -)	-880	-1,187	-154	481	435	-274	320
Gold stock	1,173	-967	-695	-44	-23	-24	3
Special drawing rights	--	--	--	4/ -53	4/ -32	-20	-1
IMF gold tranche	-870	-1,034	-542	-253	3	-186	-70
Convertible currencies	-1,183	814	1,083	831	487	-44	388
Errors and omissions	-642	-3,108	202				
BALANCES, (deficit -)							
Official settlements, S.A.			1,282	-3,337[e]			
" " , N.S.A. 5/	1,638	2,713	840	-2,757	-437	-1,009	-1,311
Liquidity, S.A.			963	-1,858[e]			
" , N.S.A.	168	-7,208	848	-1,458	-1,247	-44	-167
Adjusted over-all, S.A.			912	-1,626[e]			
" " , N.S.A. 6/	-1,744	-6,711	820	-1,226	-538	-177	-511
Financed by: 7/							
Liab. to comm. banks	3,382	9,424	20	1,531	101	-832	-800
Official settlements	-1,638	-2,713	-840	2,757	437	1,009	1,311

* 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. Data not seasonally adjusted.

THE ECONOMIC PICTURE IN DETAIL

Domestic Nonfinancial Scene

Gross national product. The preliminary Commerce Department estimates for the first quarter show a somewhat larger rise in current dollar GNP than we had estimated in our preceding projection, a larger price increase, and about the same rate of decline in real GNP. These first official figures show GNP up $8.2 billion last quarter, but in real terms, output declined at an annual rate of 1.6 per cent. The implicit GNP deflator rose at a 5 per cent annual rate, following a 4.5 per cent rate of increase in the fourth quarter. The greater increase in current dollar GNP was mainly the result of an unanticipated surge in nondurable goods sales. Expenditures in other sectors were about as expected.

As indicated in our revised GNP projections in the supplement to the last Greenbook, the outlook for GNP growth in the second quarter was significantly strengthened by the enactment of the Federal pay raise in April. Commerce has not yet reached a final decision on how the retroactive portion of the pay raise will be handled in the national income accounts, but we have assumed for the time being that the entire pay increase, including the retroactive portion, will be incorporated in the second quarter, figures adding some $4.6 billion to Federal purchases and to GNP.[1/] (In addition, the postal pay increase amounting to $800 million, including the retroactive portion, is incorporated in total Federal expenditures, NIA basis, and in personal income, but is not included in Federal purchases or in GNP.) Information which has become available in the past several weeks has suggested only a modest change in the overall outlook, and we are now projecting an increase of $15 billion in GNP for the second quarter instead of the $16 billion rise presented in the last Greenbook supplement. Real GNP, however, is about unchanged from the first quarter level..

Although similar in total, the projection differs in several respects from that which we presented last time.

CHANGES IN GNP AND RELATED ITEMS, 1970

	First Quarter		Second Quarter	
	Last Proj. (4/6)	Commerce Estimate	Last Proj. (4/6)	Current Proj.
		(Billions of dollars)		
GNP	6.5	8.2	16.0	15.0
Final sales	11.0	13.0	17.7	16.9
Personal consumption	9.4	11.1	12.6	12.0
Residential construction	-1.4	-1.5	-2.9	-1.1
Net exports	1.3	1.0	.3	-.7
Federal purchases	-2.2	-2.1	2.5	1.7
Inventory change	-4.5	-4.8	-1.7	-1.9
		(Per Cent)		
Real GNP	-1.5	-1.6	.8	-.1
GNP deflator	4.2	5.0	4.0 1/	4.5 1/

1/ Excluding effect of Federal pay raise.

1/ One of several alternatives that is being considered is to include the retroactive portion of the pay increase in Federal purchases for the first quarter. If this procedure is adopted, current dollar GNP would be raised by $2.3 billion in the first quarter and our second quarter estimate would be reduced by that amount. Since all of the Federal pay increase is considered to be a price increase, the pattern of change in real GNP would not be affected but the implicit deflator would differ from what is now shown. It should be stressed, however, that no modification would be required in this account in the pattern now shown for personal income.

Most significantly, residential construction activity now appears unlikely to weaken as much as we had anticipated. Starts averaged 1.25 million in the first quarter, off by 100 thousand from the fourth quarter average. But they showed greater strength in February and March than anticipated. Although some further decline appears probable in the next few months, demands are generally strong and multi-family starts have been surprisingly well maintained. On the assumption that funds must be somewhat more plentiful for such projects than we had thought, we have adjusted up the projected level of total starts in the second quarter by 170,000 units, to 1.2 million, annual rate. As a result, residential construction outlays are now estimated to drop by about $1 billion over the quarter instead of by the $3 billion indicated earlier.

On the other hand, net exports are now expected to be weaker this quarter than in our former projection. Imports are running somewhat higher than we had thought likely in view of the weakening in domestic demands. In addition, deliveries of new large jets to foreign airlines are not expected to be quite as large as earlier assumed. As a result, we are now projecting a decline of $700 million in net exports of goods and services in the second quarter rather than a modest increase.

Several other small adjustments have been made which tend to reduce the projected size of the GNP increase in the second quarter. Our estimate of Federal purchases has been reduced slightly, particularly for nondefense. In addition, although it is too early to assess accurately the apparently growing impact on production and employment of the teamster's strike and lockout and a strike in the rubber industry, we have made some allowance for this by reducing slightly the rate of growth of income and consumption for the quarter.

Nevertheless, disposable personal income seems certain to rise sharply as a result of the increase in Social Security benefits and the Federal pay raise. Consumer spending, therefore, is expected to continue up at a relatively brisk rate. But the increase is not likely to keep pace with a disposable income figure buttressed by substantial retroactive payments and we are projecting a sharp rise in the saving rate, from 6.5 per cent to 7.3 per cent.

There still has been no persuasive indication of significant easing in capital spending. New orders for capital equipment were off slightly in the first quarter, and preliminary returns from the NICB survey indicate the possibility of a further downward adjustment last quarter in manufacturing appropriations. On the other hand, confidential returns from the April McGraw-Hill survey indicate that businessmen plan to increase capital outlays 9 per cent for 1970 as compared with an 8 per cent increase reported last November. As a result, we are basically holding with our former projection of a continued--but moderating--rise in these outlays for the remainder of the year.

The outlook for most other sectors of demand after mid-year also remains essentially the same as we had presented in our last projection. In the third quarter, a further moderately strong gain in consumption is expected, supported by the July 1 elimination of the tax surcharge and a lagged response of consumption to the large second quarter income flow. The beginnings of a rebound in residential construction outlays and a modest pick-up in inventory accumulation should add somewhat to growth in aggregate output. In addition, a rise in net exports is now projected to occur in the third quarter instead of the decline we had formerly projected. In total, GNP is expected to increase by $17 billion in the third quarter and a similar gain is projected for the fourth quarter as a consequence of a stepped-up recovery in construction outlays and some further rise in inventory accumulation. In real terms the rate of increase is expected to average about 3-1/2 per cent in the second half.

The sharp rise in the implicit GNP deflator in the first quarter has raised serious questions in regard to the price outlook, particularly in view of the projected strengthening of economic activity as the year progresses. But it appears that some of the first quarter acceleration reflected temporary factors, particularly in construction and government. We have raised our second quarter deflator estimate to a 4-1/2 per cent rate of increase, but with real GNP growth projected to stay below potential throughout 1970, we still feel that the rise in industrial prices should slow and some easing of food prices also seems likely. As a result, excluding the impact of the Federal pay raise, we still expect a steady diminution in the rise of the GNP deflator during 1970 to a 3.7 per cent rate by the fourth quarter. Including the pay raise, however, the deflator is now projected to rise 5.0 per cent this year, up from a 4.7 per cent increase in 1969.

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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.)

				1969			1970			
			1970					Projected		
	1968	1969	Proj.	II	III	IV	Ip	II*	III*	IV
Gross National Product	865.7	932.1	984.6	924.8	942.8	952.2	960.4	975.4	992.4	1010.0
Final purchases	858.4	924.1	981.7	917.9	932.0	944.5	957.5	974.4	989.4	1005.6
Private	658.1	709.5	758.9	705.0	715.0	726.2	738.7	751.1	766.1	779.7
Excluding net exports	655.6	707.4	755.2	703.4	712.3	723.5	735.0	748.1	762.1	775.7
Personal consumption expenditures	536.6	576.0	618.3	572.8	579.8	589.5	600.6	612.6	624.9	634.9
Durable goods	83.3	89.8	91.7	90.6	89.8	90.4	89.7	90.7	92.7	93.7
Nondurable goods	230.6	243.6	262.7	242.1	245.1	248.7	255.3	260.8	265.6	269.0
Services	222.8	242.6	263.9	240.1	244.9	250.3	255.6	261.1	266.6	272.2
Gross private domestic investment	126.3	139.4	139.8	137.4	143.3	141.8	137.3	136.5	140.2	145.2
Residential construction	30.2	32.2	30.1	32.7	31.4	31.6	30.1	29.0	29.2	32.1
Business fixed investment	88.8	99.2	106.9	97.8	101.1	102.5	104.3	106.5	108.0	108.7
Change in business inventories	7.3	8.0	2.8	6.9	10.7	7.7	2.9	1.0	3.0	4.4
Nonfarm	7.4	7.8	2.8	6.7	10.3	7.4	2.6	1.0	3.0	4.4
Net exports of goods and services	2.5	2.1	3.7	1.6	2.7	2.7	3.7	3.0	4.0	4.0
Gov't. purchases of goods & services	200.3	214.6	222.8	212.9	217.0	218.3	218.8	223.3	223.3	225.9
Federal	99.5	101.9	99.5	100.6	103.2	102.3	100.2	101.9	98.4	97.5
Defense	78.0	79.2	75.9	78.5	80.3	79.2	77.3	78.5	74.7	73.0
Other	21.5	22.7	23.6	22.1	22.9	23.1	22.9	23.4	23.7	24.5
State & local	100.7	112.7	123.3	112.3	113.8	116.0	118.6	121.4	124.9	128.4
Gross national product in constant (1958) dollars	707.6	727.5	731.8	726.7	730.6	729.8	726.9	726.6	733.8	740.0
GNP implicit deflator (1958 = 100)	122.3	128.1	134.5	127.3	129.0	130.5	132.1	134.2	135.2	136.5
Personal income	687.9	747.2	802.3	740.5	756.5	767.4	778.5	800.9	808.3	821.5
Wages and salaries	465.0	509.9	547.6	504.3	516.9	525.0	532.4	544.3	551.6	562.0
Disposable income	590.0	629.7	681.7	622.0	639.0	647.5	659.9	679.1	688.8	699.1
Personal saving	38.4	37.6	46.7	33.3	43.1	41.7	42.8	49.9	47.1	47.1
Saving rate (per cent)	6.5	6.0	6.8	5.3	6.7	6.4	6.5	7.3	6.8	6.7
Corporate profits before tax	91.1	93.8	86.6	95.4	92.5	91.4	86.5	84.5	87.0	88.5
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	176.3	201.5	199.3	202.8	201.3	203.3	197.5	199.7	198.3	201.6
Expenditures	181.5	192.0	204.5	189.3	193.6	196.7	197.7	210.6	204.5	205.3
Surplus or deficit (-)	-5.2	9.5	-5.2	13.5	7.7	6.7	-0.2	-10.9	-6.2	-3.7
High employment surplus or deficit (-)	-10.0	5.3	4.8	7.8	3.9	5.6	5.8	-1.0	4.9	9.6
Total labor force (millions)	82.3	84.2	86.2	83.9	84.6	85.0	85.8	86.1	86.3	86.6
Armed forces "	3.5	3.4	3.2	3.5	3.5	3.5	3.3	3.3	3.2	3.1
Civilian labor force "	78.7	80.7	83.0	80.4	81.0	81.5	82.4	82.8	83.1	83.5
Unemployment rate (per cent)	3.6	3.5	4.6	3.5	3.6	3.6	4.1	4.6	4.7	4.8
Nonfarm payroll employment (millions)	67.9	70.1	71.2	70.0	70.4	70.6	70.9	71.1	71.2	71.6
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	171.6	172.6	174.3	171.9	170.1	170.1	172.0	174.0
Capacity utilization, manufacturing (per cent)	84.6	83.7	78.7	84.5	84.2	81.7	79.4	78.5	78.5	78.5
Housing starts, private (millions A.R.)	1.51	1.47	1.32	1.52	1.43	1.36	1.25	1.20	1.35	1.50
Sales new domestic autos (millions, A.R.)	8.62	8.46	7.85	8.54	8.45	8.13	7.35	7.80	8.00	8.20

* Assumes 6 per cent pay raise for all Federal civil service, military, and postal employees in 70-II retroactive to December 27, 1969 and in 70-III for postal workers additional 8 per cent increase in pay rates and a 2 per cent increase in postal payrolls because of compaction of grade schedules; assumes $450 million absorption in fiscal 1971 by lower employment.

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1968	1969	1970 Proj.	1969 II	1969 III	1969 IV	1970 Ip	1970 Projected II	1970 Projected III	1970 Projected IV
				In Billions of Dollars						
Gross National Product	72.2	66.4	52.5	16.1	18.0	9.4	8.2	15.0	17.0	17.6
Inventory change	-0.1	0.7	-5.2	0.3	3.8	-3.0	-4.8	-1.9	2.0	1.4
Final purchases	72.2	65.7	57.6	15.8	14.1	12.5	13.0	16.9	15.0	16.2
Private	52.0	51.4	49.4	12.9	10.0	11.2	12.5	12.4	15.0	13.6
Excluding net exports	54.7	51.8	47.8	12.8	8.9	11.2	11.5	13.1	14.0	13.6
Net Exports	-2.7	-0.4	1.6	0.1	1.1	0.0	1.0	-0.7	1.0	0.0
Government	20.2	14.3	8.2	2.9	4.1	1.3	0.5	4.5	0.0	2.6
GNP in constant (1958) dollars	33.0	19.9	4.3	3.6	3.9	-0.8	-2.9	-0.3	7.2	6.2
Final purchases	33.0	19.6	8.8	3.5	0.6	1.8	1.3	1.4	5.3	5.0
Private	24.9	18.3	12.6	3.9	1.4	2.8	3.0	3.0	4.8	4.5
				In Per Cent Per Year						
Gross National Product	9.1	7.7	5.6	7.1	7.8	4.0	3.4	6.2	7.0	7.1
Final purchases	9.2	7.7	6.2	7.0	6.1	5.4	5.5	7.1	6.2	6.5
Private	8.5	7.8	7.0	7.5	5.7	6.3	6.9	6.7	8.0	7.1
Personal consumption expenditures	9.0	7.3	7.3	7.7	4.9	6.7	7.5	8.0	8.0	6.4
Durable goods	14.1	7.8	2.1	10.0	-3.5	2.7	-3.1	4.5	8.8	4.3
Nondurable goods	7.2	5.6	7.8	5.9	5.0	5.9	10.6	8.6	7.4	5.1
Services	9.1	8.9	8.8	8.7	8.0	8.8	8.5	8.6	8.4	8.4
Gross private domestic investment	8.9	10.4	0.3	6.5	17.2	-4.2	-12.7	-2.3	10.8	14.3
Residential construction	20.8	6.6	-6.5	-7.2	-15.9	2.5	-19.0	-14.6	2.8	39.7
Business fixed investment	6.1	11.7	7.8	10.5	13.5	5.5	7.0	8.4	5.6	2.6
Gov't. purchases of goods & services	11.2	7.1	3.8	5.5	7.7	2.4	0.9	8.2	0.0	4.7
Federal	9.7	2.4	-2.4	-3.9	10.3	-3.5	-8.2	6.8	-13.7	-3.7
Defense	7.7	1.5	-4.2	-2.5	9.2	-5.5	-9.6	6.2	-19.4	-9.1
Other	16.8	5.6	4.0	-8.9	14.5	3.5	-3.5	8.7	5.1	13.5
State & local	12.8	11.9	9.4	14.0	5.3	7.7	9.0	9.4	11.5	11.2
GNP in constant (1958) dollars	4.9	2.8	0.6	2.0	2.1	-0.4	-1.6	-0.2	3.9	3.4
Final purchases	5.0	2.8	1.2	2.0	0.3	1.0	0.7	0.8	2.9	2.7
Private	4.7	3.3	2.2	2.8	1.0	2.0	2.1	2.1	3.3	3.1
GNP implicit deflator *	4.0	4.7	5.0	5.1	5.6 1/	4.5	5.0	6.4 2/	3.0 2/	3.7
Personal income	9.3	8.6	7.4	8.9	8.6	5.8	5.8	11.5	3.7	6.5
Wages and salaries	9.8	9.7	7.4	8.9	10.0	6.3	5.6	8.9	5.4	7.5
Disposable income	8.0	6.7	8.3	7.7	10.9	5.3	7.7	11.6	5.7	6.0
Corporate profits before tax	13.4	3.0	-7.7	0.4	-12.2	-4.8	-21.4	-9.2	11.8	6.9
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	16.7	14.3	-1.1	8.5	-3.0	4.0	-11.4	4.5	-2.8	6.7
Expenditures	10.8	5.8	6.5	1.7	9.1	6.4	2.0	26.1	-11.6	1.6
Nonfarm payroll employment	3.0	3.4	1.6	3.3	2.0	1.5	1.7	1.1	0.6	2.2
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	-0.8	5.6	3.9	-5.5	-4.2	0.0	4.4	4.4
Housing starts, private	16.7	-2.7	-9.7	-31.4	-22.7	-20.2	-32.1	-16.0	5.0	44.4
Sales new domestic autos	14.0	-1.9	-7.3	8.4	-4.2	-15.1	-38.2	24.5	10.3	10.0

* Based on deflators calculated to three decimals.
1/ Excluding effects of Federal pay increase, 4.3 per cent per year.
2/ Excluding effects of Federal pay increase, 4.5 per cent per year in 70-II and 4.2 per cent per year in 70-III.

Industrial production. The available--and sketchy--output data for April suggest at this point only marginal changes in output for the month--probably a slight decline in the order of 0.2 to 0.4 per cent, following a rise of 0.2 per cent from February to March. Output of consumer goods may have changed little in April, with a decline in auto assemblies possibly offset by a rise in consumer staples. Production of defense and freight and passenger equipment (mainly trucks and aircraft) probably declined further. Output of industrial and commercial equipment is expected to remain at the record level reached in March; this sector has shown little movement since last June, excluding the G.E. strike. Production of durable materials may have stabilized at the reduced February-March level, but output readjustments in some nondurable materials probably continued in April.

Auto assemblies through April 24, hampered by parts shortages because of strikes in the trucking industry, were down 5 per cent from March--to an annual rate of 6.7 million units. But production schedules for May and June have been set at about an 8 million unit rate. In early April, output of television sets declined 3 per cent but production of household appliances increased 4 per cent. Output of trucks declined 12 per cent through April 24. Among materials, weekly production data indicate little change from March in output of raw steel and paper, but output of rubber products declined further as a strike at Goodyear began on April 21.

The decline in the total index since July 1969 has been relatively small and concentrated in the durable goods industries, both consumer goods and materials, and in defense equipment.

INDUSTRIAL PRODUCTION, MARCH 1970

	Per cent changes March 1970 from	
	February 1970	July 1969*
Total index	.2	-2.5
Final products	.4	-1.5
Consumer goods	.7	-1.0
Durable	3.1	-7.4
Nondurable	- .2	1.3
Equipment	- .1	-2.5
Business	n.c	n.c
Defense	- .5	-12.1
Materials	.1	-3.2
Durable	.7	-5.3
Nondurable	- .4	-1.3

* High for total index.

Defense equipment is expected to continue to fall off, but any significant decline in total industrial production in the months ahead would most likely require a downturn in output of business equipment and further downward readjustments in production of industrial materials.

Retail sales. Data for the first three weeks of April suggest that retail sales for the month may be about unchanged from March, with continued sluggishness in the automotive sector offset by an increase at nondurable stores. Unit sales of domestic autos were at an annual rate of 7.3 million units in the first 20 days of April, unchanged from March, but 12 per cent below April 1969.

Retail sales in the first quarter were stronger than had previously been reported, as the data for January and February were revised up by an average of 1.6 per cent. Although retail sales in March, according to the advance (now unpublished) report, were unchanged from February and only 3.4 per cent above a year earlier; the quarter as a whole is now estimated to have been 1.0 per cent above the fourth quarter. In real terms sales were unchanged from the fourth quarter and lower than in any quarter since the end of 1967.

Increased sales in the first quarter were largely concentrated among nondurable goods stores, where sales increased 2.7 per cent. Much of the advance at food, liquor, drug, and gasoline stores reflected higher prices. The general merchandise group was also up moderately, and the higher proportion of real consumption devoted to nondurables--as in other periods of slowed economic activity--probably represents some discretionary shifting from durables to nondurables.

Sales of durable goods in the first quarter dropped 2.7 per cent as a result of very large declines in the automotive group. In contrast, furniture and appliance sales were up a substantial 5.6 per cent--after dropping in both the third and fourth quarters.

RETAIL SALES
Change from preceding quarter in per cent

	III	IV	I
All stores	- .5	.9	1.0
Durable	-3.2	.6	-2.7
Automotive	-1.3	1.0	-5.4
Furniture & appliances	-5.4	-0.1	5.6
Nondurable	.7	1.1	2.7
Food	1.2	1.5	3.9
General merchandise	2.1	6.7	1.8
Gasoline	-1.1	.3	3.6
Real: All stores [(deflated by all commodities (CPI)]	-1.8	- .4	[illegible].0

Consumer credit. Preliminary reports from a limited sample of commercial banks point to a further slowing in March of the rise in consumer instalment credit. The recent pattern of weakness in auto credit and strength in nonautomotive consumer goods apparently continued but the expansion in personal loans, which was at a $2 billion annual rate in the first 2 months of this year, may have eased somewhat in March.

NET CHANGE IN CONSUMER INSTALMENT CREDIT OUTSTANDING
Billions of dollars, seasonally adjusted annual rates

	Total	Automobile	Other consumer goods	Personal loans	Home repair and modernization
1969 - QI	$8.3	$2.7	$2.5	$3.0	$ .2
QII	9.6	3.1	2.9	3.2	.4
QIII	7.7	1.9	2.6	3.1	.0
QIV	6.8	2.0	2.4	2.6	- .2
1970 - Jan.-Feb.	4.8	.0	2.8	2.1	.0

Manufacturers' orders and shipments. New orders for durable goods dropped back 3.5 per cent in March according to the preliminary report, a somewhat larger decline than had been indicated by the advance estimate. Except for a moderate rise in February, this series has declined each month since September 1969, and is now about 11 per cent below the September peak; this is the largest and longest decline since the 13 per cent decline from September 1966 to the March 1967 trough.

Declines in the capital and defense goods industries in March were partly offset by increases for iron and steel and household durables. Much of the decline in capital goods orders can be ascribed to the small but volatile railroad equipment and shipbuilding industries, but there was also a reduction in nonelectrical machinery.

The average value of durable goods orders for the first quarter as a whole was 6.5 per cent below the fourth-quarter average. The largest declines were in defense products, motor vehicles, and iron and steel,but capital equipment and "all other durables" (principally construction materials) also declined.

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

	1969		1970	Per cent change, 1970-I from 1969-IV*
	Q I	Q IV	Q I (prel.)	
Total durable goods	29.9	31.1	29.1	- 6.5
Primary metals	4.7	5.0	4.6	- 7.4
Iron and steel	2.1	2.3	2.0	-12.9
Other primary metals	2.6	2.7	2.6	- 2.8
Motor vehicles and parts	4.1	4.1	3.5	-13.5
Household durable goods	2.2	2.0	2.0	- 1.7
Defense products	2.1	2.1	1.8	-17.9
Capital equipment	8.3	8.8	8.5	- 3.2
All other durable goods	8.5	9.1	8.7	- 4.6

* Per cent changes calculated on unrounded averages.

Durable goods shipments also declined about 2 per cent from February to March, and the order backlog declined 1 per cent. Unfilled orders were down for most industry and market groups. The backlog is now about 3.5 per cent below its December peak--a greater decline than that from December 1966 to the April 1967 low point.

The backlog-shipments ratio rose slightly in March but remains well below year-earlier levels. This ratio rose fairly steadily from early 1964 through late 1966, little changed during the 1967 slow-down, and has been declining ever since then.

Inventories. The book value of manufacturers' inventories was practically unchanged in March, according to the preliminary report. Durable goods stocks rose at about the average rate of the preceding two months--a rate less than half the fourth quarter average--and nondurable stocks declined. Unit auto stocks continued to decline in March, although by less than in January and February.

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

	1969	1970		
	QIV Average	January	February	March
Manufacturing and trade, total	13.5	- 3.5	9.2	n.a.
Manufacturing, total	6.8	1.9	6.5	.9
Durable	6.1	3.4	1.6	2.7
Nondurable	.7	- 1.5	4.9	- 1.8
Trade, total	6.7	- 5.4	2.7	n.a.
Wholesale	2.6	1.5	1.9	n.a.
Retail	4.1	- 6.8	.8	n.a.
Durable	2.1	- 5.9	- 2.0	n.a.
Automotive	.6	- 4.1	- 3.4	n.a.
Nonautomotive	1.5	- 1.8	1.4	n.a.
Nondurable	2.0	- .9	2.8	n.a.

The Commerce Department has estimated that first-quarter inventory accumulation, as measured in the GNP accounts, slowed to a $2.9 billion annual rate--the lowest in two years. This estimate was made at a time when only January and preliminary February data were available. The March data for manufacturing, together with some downward revision in the February figures, suggest. that there may be some downward revision in the preliminary GNP inventory estimate, unless trade stocks rise very sharply in March.

In manufacturing, the durable inventory/sales and inventory/backlog ratios rose further in March and continued above their levels of the same month of 1967. Trade inventory-sales ratios were reduced in January and February. The auto dealers' ratio for new cars rose in March, however, and other trade ratios may also have risen if retail sales were as sluggish as the advance estimate indicated.

INVENTORY RATIOS

	1967			1970		
	January	February	March	January	February	March
Inventories to sales:						
Manufacturing and trade, total	1.57	1.59	1.60	1.58	1.57	n.a.
Manufacturing, total	1.76	1.77	1.78	1.74	1.74	1.76
Durable	2.06	2.08	2.09	2.12	2.10	2.16
Nondurable	1.40	1.40	1.40	1.29	1.30	1.29
Trade, total	1.37	1.39	1.38	1.40	1.38	n.a.
Wholesale	1.20	1.22	1.23	1.21	1.19	n.a.
Retail	1.49	1.50	1.48	1.53	1.51	n.a.
Durable	2.09	2.15	2.08	2.26	2.19	n.a.
Automotive	1.66	1.73	1.61	1.87	1.75	n.a.
Nonautomotive	2.68	2.70	2.74	2.80	2.79	n.a.
Nondurable	1.20	1.21	1.20	1.22	1.22	n.a.
Inventories to unfilled orders, durable manufacturing	.653	.663	.675	.746	.754	.767

Cyclical indicators. In March, the preliminary composite leading indicator was little changed from an upward-revised February level; it is now less than 2 per cent below its September high. The coincident composite also changed little and is less than 1/2 of 1 per cent below its high. Meanwhile, the lagging composite declined for the third successive month and is about 1 per cent below its high.

COMPOSITE CYCLICAL INDICATORS
1963 = 100

		12 Leading Indicators	5 Coincident Indicators	6 Lagging Indicators
1969:	September	153.3 (H)	172.2	196.0
	October	153.1	173.1	198.8
	November	152.1	173.4	198.2
	December	152.3	173.4 (H)	200.9 (H)
1970:	January	149.8	172.8	200.5
	February	151.0	173.0	200.2
	March (prel.)	150.8	172.7	199.0

(H) Current high value.

Individual leading indicators pointing downward in March were unemployment claims (inverted), durable goods new orders, contracts and orders for plant and equipment (reflecting declines in construction contracts as well as equipment orders), housing permits, and industrial materials prices.

Leading indicators rising in March were the manufacturing workweek, the common stock price index, and the ratio of price to unit labor cost. The February upward revision in the composite mainly reflects increases in the changes in inventory book values and consumer instalment debt, which were not included in the preliminary calculation last month. (Still to be incorporated in the leading composite for the first three months of 1970 is a figure for corporate profits after taxes.)

Preliminary data on April leading indicators show declines in both the industrial materials and the common stock price indexes.

The March decline in the lagging indicators resulted from an increase in long-duration unemployment and a decrease in commercial and industrial loans at large commercial banks.

Residential construction and real estate. Seasonally adjusted private housing starts, which on the basis of revised seasonal adjustment factors were at an annual rate of only 1.06 million units in January,[1/] rose for the second consecutive month in March to an annual rate of 1.38 million units. Unlike February, all of the increase was concentrated in the multifamily sector which advanced a fifth further to the highest rate in nearly a year and matched the reduced single family rate for the first time in the history of the Census series. Regionally, the month-to-month movements continued quite mixed, with a considerable advance in the North Central states and a sharply continued rise in the Northeast more than offsetting declines of 2 and 20 per cent in the South and West, respectively.

For the first quarter as a whole, however, starts were down appreciably further from the fourth quarter of last year to an annual rate of 1.25 million. Moreover, unlike developments in the last three quarters of 1969, single family starts accounted for virtually all of the quarter-to-quarter decline despite continued strong support directly from FNMA and indirectly from the Federal Home Loan Banks.

1/ Compared with a rate of 1.20 million, based on the former seasonals which were revised back to October 1967. Other months in the first quarter were not appreciably affected by this revision. For 1969, use of the new seasonals had the effect of lowering the first quarter average rate by 4 per cent and raising the fourth quarter average somewhat. Other quarterly levels were essentially unchanged.

Multifamily starts, on the other hand, held near the relatively high rate in the previous quarter, at a level a fourth below the record high averaged in the first quarter of 1969.

PRIVATE HOUSING STARTS AND PERMITS

	QI 1970 (Thousands of Units) 1/	Per cent change from QIV 1969	Per cent change from QI 1969
Starts 2/	1,248	- 8	- 24
1-family	663	-14	- 24
2-or-more family	585	- 1	- 24
Northeast	239	42	- 11
North Central	242	-16	- 46
South	495	-11	- 23
West	271	-22	- 4
Permits	1,089	-10	- 24
1-family	528	-12	- 22
2-or-more family	561	- 7	- 26

1/ Seasonally adjusted annual rates; preliminary.
2/ Apart from starts, mobile home shipments for domestic use in January and February--the latest months available--were at a seasonally adjusted annual rate of 367 thousand, a tenth below the record rate a year earlier.

A factor in the comparatively strong first quarter performance of multifamily starts apparently has been the ability of builders--particularly of large apartment complexes--to secure funds through joint-ventures, equity-participations, and related arrangements. In addition, vacancies in the Northeast as well as other regions remain exceptionally low and the incentive to move ahead of rising labor and other construction costs continues. Still, given the protracted tightness that has prevailed in financial markets, the recent seasonally adjusted rate of multifamily starts does not seem sustainable. Even if the rate of single family starts changes little over the period ahead, indications are that the total starts rate will most likely turn downward in April and contribute to some further downtrend for the second quarter as a whole.

Prices of existing homes sold in February remained 7 per cent higher than a year earlier. However, based on sales of new single family homes by merchant builders, who account for about three-fifths of the new home market, efforts by buyers to concentrate on lower-priced homes have apparently increased. Altogether, the median price of new single family homes purchased from merchant builders in February amounted to $23.6 thousand, a tenth below a year earlier, and--continuing a trend which began to develop last summer--appreciably below the median price level for new homes available for sale which has persisted upward.

Labor market. The labor market apparently has continued to ease. Insured unemployment has dropped less than seasonally thus far in April and, at 1.7 million (not seasonally adjusted) in the week ending April 11, was nearly 600,000 higher than a year earlier. Initial claims for unemployment benefits for the week ending April 18 were 40,000 higher than in the preceding week--although a seasonal decline usually occurs in mid-April--and 170,000 above a year earlier. Secondary layoffs arising from the teamster strikes and employer lockouts, which have cut the flow of parts and final goods, contributed to the higher levels, but continuing layoffs in the aerospace, defense, and consumer durables industries suggest that joblessness probably would have risen in the absence of these disputes.

INSURED UNEMPLOYMENT
Seasonally adjusted, weekly averages, in thousands

	Initial claims	Insured unemployment
1969:		
November	210	1,195
December	212	1,214
1970:		
January	235	1,308
February	258	1,367
March	268	1,433
April 1/	292	1,520

1/ FRB estimates based on data for the first two weeks ending in April.

The overall unemployment rate rose from 4.2 per cent in February to 4.4 per cent in March, extending the steady rise of recent months. The March increase occurred mainly among adults, and the jobless rate for men aged 25 and over rose to 2.4 per cent--its highest point since mid-1966. Part of the March rise in unemployment appeared to reflect increased joblessness among labor force entrants, whereas the January and February increases appear to have been mainly a result of layoffs.

Employment trends. As is typical of cyclical adjustments, the impact of the recent adjustment has centered in manufacturing. In March, manufacturing employment declined further by 56,000 to 19.8 million--a drop of half a million from its August 1969 peak. Employment cuts were widespread among the 21 manufacturing industries in March, but most were relatively small. Only four industries reported increases, and with the exception of transportation equipment (where the small pickup of auto production boosted employment) the gains were negligible. The average factory workweek recovered from the unusually low February level of 39.9 hours to 40.2 hours in March--but remained below the January level, and was more than half an hour lower than a year earlier.

Outside of manufacturing, employment growth has continued quite strong. March employment changes in the nonmanufacturing industries were mixed, with trade showing a decline and most other industries recording small increases. The decline in trade may reflect seasonal adjustment problems associated with an early Easter. Federal employment rose by 75,000 in March as temporary census workers were added to the government payroll. Preliminary estimates of total nonfarm employment reported for January and February have been revised up substantially, raising the reported first quarter employment rise in the private nonmanufacturing industries and in government.

CHANGES IN NONFARM PAYROLL EMPLOYMENT
Seasonally adjusted, in thousands

	(Change from preceding quarter)			
	1969			1970
	II	III	IV	I
Total	569	345	276	292
Government	91	23	126	149
Private	477	322	150	143
Manufacturing	81	90	-176	-166
Nonmanufacturing	396	232	326	309

Personal income. Personal income rose by $4.1 billion in March--about the same as the upward revised February increase--to an annual rate of $782.6 billion. Over the last six months personal income increases have averaged a little less than $4 billion monthly, compared with advances of $5 billion monthly in the preceding six months.

Total wages and salaries increased by $2.4 billion in March (an annual rate of 5-1/2 per cent)--about the same as the upward revised February change but still smaller than the average monthly rise over the last six months of 1969. Wage and salary disbursements rose slightly in manufacturing, reflecting an increase in hourly earnings. In other sectors, wage and salary payments rose about in line with employment and hourly earnings changes. Nonwage income flows also increased in March, with a relatively large rise in transfer payments reflecting more persons drawing unemployment benefits.

AVERAGE MONTHLY CHANGES IN PERSONAL INCOME
Seasonally adjusted, billions of dollars

	July '69 to January '70	1970 February	1970 March
Total	$3.9	$4.0	$4.1
Wages and salaries	2.9	2.2	2.4
Manufacturing	.3	- .8	.5
Nonmanufacturing	2.6	3.0	1.9
Other sources	1.0	1.9	1.7

The April personal income figures will be sharply higher because of the retroactive increases in social security payments and in Federal pay. However, the widening impact of the teamster strikes and lockouts may limit any advance in wage and salary flows in the private sector.

Industrial relations. Teamsters' union members will be asked shortly to ratify the tentative national agreement, but with an added provision that the contract may be reopened if a substantial number of Chicago-area drivers succeed in negotiating a larger package. In Chicago, where the locals negotiate separately, agreements providing larger increases than the national contract have been reached by some smaller trucking associations. Thus, the national agreement may be renegotiated, even if tentatively accepted by the 450,000 teamster members. In 1967 such a renegotiation following a strike of the Chicago locals led to a larger wage increase. Meanwhile, strikes and lockouts of 50,000 to 60,000 drivers continue to disrupt transport, resulting in production cuts and some layoffs at auto, electrical product, farm machinery, and steel plants.

Nearly 25,000 rubber workers at Goodyear plants went on strike April 21 while an estimated 50,000 rubber workers at Uniroyal, Firestone and Goodrich continue to work on a day-to-day basis. The areas of disagreement on the terms of a new contract were not revealed. Tire shortages are not expected to develop for some time because of anticipatory inventory buildups.

Wage increases affecting many workers have resulted from recent settlements. Federal government civilian and military personnel received a 6 per cent pay increase retroactive to December 27, 1969, and postal workers are expected to receive an additional 8 per cent upon passage of a postal reform bill. The 18-month railroad shopcraft dispute was settled when Congress imposed the December 1969 settlement on the sheet metal workers. The settlement provides wage increases (partly retroactive to January 1, 1969) totaling about 19 per cent by the end of the year, with most of this increase effective immediately. An early settlement between 7,500 meat cutters and Swift provided an average 6 per cent annual wage increase over a 41-month contract (but with an 8-1/2 per cent immediate increase).

Upward pressure on wages will also continue in construction as the spring bargaining round progresses. So far this year, construction settlements have resulted in wage and benefit increases in the 12-1/2 per cent range, or about as much as last year.

Wholesale prices. The preliminary wholesale price index for April (March 11 to April 14) showed a 0.1 per cent decline--the first since August 1968--as the average price of agriculturally-based commodities declined 1.2 per cent. Sharp declines in prices of livestock, especially hogs, and of eggs were mainly responsible for the large drop in agricultural commodities. The 0.3 per cent increase for industrial commodities was the same as the rise in March, which was the smallest since last July.

Since December, industrial prices have increased at an annual rate of 3.9 per cent, compared with 4.8 per cent in the previous four months. The rise in agricultural products has moderated more dramatically. Widespread increases among fuel and related products were the leading influences in April on the further advance in prices of industrial commodities. Other products contributing to the April increase include chemicals, paper products, and lumber and wood products--the latter group increasing for the first time since last November.

Increases in coal prices of about 10 per cent effective April 1, 1970, have been announced recently by several companies to offset added costs resulting from the new Federal Mine Health and Safety Law, which became effective April 1, 1970. These coal companies and others who have not yet raised their prices expect that customers will offer little resistance to the increases, which may reach 30 per cent by year-end as a result of regulations now applicable under the new law, additional regulations which will become effective later in the year, and rising wage costs.

WHOLESALE PRICES
(Percentage changes at annual rates)

	Dec 1969 to Jan 1970	Jan 1970 to Feb 1970	Feb 1970 to Mar 1970	Mar 1970 to Apr 1970p	Aug 1969 to Dec 1969	Dec 1969 to Apr 1970p
All commodities	9.4	4.1	2.1	- 1.0	4.5	3.6
Industrial commodities	5.2	4.2	3.1	3.1	4.8	3.9
Farm products and processed foods and feeds	18.6	5.1	1.0	-14.1	4.7	2.6
Farm products	8.6	12.8	6.3	-33.6	7.7	- 1.6
Processed foods and feeds	24.5	.9	- 2.9	- 1.9	2.7	5.1

From October 1969 to January of this year, both the Federal Reserve sensitive materials index and the BLS index of 13 raw industrial materials moved to substantially higher levels. The trend in both series was downward, however, from January through March--and through April for the BLS index for 13 raw industrial materials. Price increases in April for copper and aluminum ingot and fabricated products probably more than offset a decline in the price of steel scrap. This may reverse in April the preceding downward movement of the Federal Reserve sensitive materials index.

Other materials in the FRB materials index, usually less prompt and less volatile in their response to variation in demand than are prices for sensitive materials, have moved up continuously since mid-1968. Increases in steel mill products have been of particular importance in the recent upward movement of the other materials price index.

Since mid-April, announcements of price changes have included decreases for stainless steel and sulphur. The cuts on stainless steel were triggered by weakness in new orders, but the 2 to 3 per cent reductions have been restricted so far to some of the low-volume products which account for less than 5 per cent of total stainless steel shipments and have not been extended to sheet and strip.

Sulphur prices have declined further as stockpiles have grown rapidly with continued increased in Canadian production, but prices of sulphuric acid, which usually move with sulphur prices, apparently have not yet been cut. Major producers say that they are not going to reduce prices of sulphuric acid, but will use the cost savings from lower-priced sulphur to offset increasing costs of labor and pollution control. The costs of pollution control have begun to be mentioned prominently as reasons for price increases or for denying price decreases, and it appears that such costs may well be cited increasingly in defense of price increases.

Consumer prices. In March, the increase in the consumer price index after seasonal adjustment, an annual rate of 5 per cent, was slower than in the immediately preceding months. This slowing occurred despite a very sharp increase in service costs stemming in the main from the phasing in of the higher permissible rates of FHA mortgages. In March, mortgage rate increases contributed 28 per cent and service costs as a group 70 per cent of the rise in consumer prices.

Probably of more significance for prospective price developments was the smallness of the rise in food prices in March following a diminished rate of rise in February. Meat prices rose moderately, but this and other increases were largely offset by a sharp drop in egg prices. Since spot prices of meat at wholesale have leveled off in the last six weeks, retail meat prices may well show little change in April and May. Beef slaughter is likely to continue to rise moderately in this quarter, but no significant drop in meat prices is expected until the fall when hog marketings are expected to rise substantially.

Among other nondurables, apparel prices rose more than seasonally in both February and March, but because of a decline in January, the rise in the first quarter was only about half as rapid as in any quarter of 1969.

Among durable commodities, prices of new cars dropped slightly and used cars dropped further. The decline in used car prices in February and March is in contrast to the first quarter of last year, when prices rose sharply. Home purchase prices continued their uptrend and there was an especially sharp increase in prices of household durables, including appliances and furniture. The rise in consumer durables (except cars) was responsible for most of the March increase in the commodity portion of the index.

The large increase in interest rates on home mortgage rates in both February and March reflects the increase in interest rates on Government underwritten mortgages which was authorized early this year. The GI increase was phased into the CPI in February and the FHA increase in March, causing an 8 per cent annual rate of rise in costs of insurance and finance that month. Costs of insurance and finance have risen more than other major components of the CPI over the past year. In March this grouping was 14 per cent above a year ago. Medical care costs in March registered their largest increase since 1966, and were 7 per cent above a year earlier.

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

	Three months ending:					1970
			1969		1970	Feb. to
	March	June	Sept.	Dec.	March	March
All items	5.2	6.7	5.0	5.9	6.7	4.8
Durable commodities 1/	5.2	4.7	1.8	5.0	2.8	4.2
New Cars	1.6	.8	1.6	2.3	3.9	- 1.2
Household Durables	4.3	6.5	2.3	1.5	1.9	5.6
Nondurable commodities	4.0	5.9	5.2	6.1	5.4	.9
Food	3.6	6.9	6.4	7.3	8.7	1.8
Apparel	5.2	5.2	4.8	6.3	2.5	.9
Services 2/	7.3	8.0	6.4	6.3	9.8	12.7
Medical care	9.7	9.5	9.6	1.9	7.9	12.3
Rent	3.1	3.1	4.1	4.0	4.3	4.9
Transportation	13.3	5.1	3.9	8.9	20.2	3.1
Mortgage interest rates	5.4	22.7	8.3	6.4	14.1	45.2
Addendum:						
Durable products 3/	3.0	4.5	3.3	.7	2.9	2.2
Service less home finance	6.8	5.5	5.4	5.0	7.5	6.6

1/ Includes home purchase and used cars.
2/ These items have no significant seasonal.
3/ Excludes home purchase and used cars.

A note on the GNP deflator. The rise in the GNP deflator accelerated in the first quarter. But there is reason to believe that this acceleration does not portend that price increases generally are, or are likely to be, speeding up. Evidence from other sources suggests that there may have been some speed-up of price increase in the fixed investment sector, but the pattern of monthly changes indicates some slowing over the quarter in the price rise of sensitive materials and foods.

The GNP deflator is measured on the basis of average prices during the quarter, so that it may not reflect the trend of prices during a quarter. But the WPI and the CPI are available monthly. Over the course of the first quarter, there was some slowdown from month to month in the rise in both wholesale and seasonally adjusted consumer prices. If mortgage interest rates (which are not included in the GNP deflator) were excepted, the slowdown in consumer prices would have been even more pronounced. Some deceleration in the rate of price advance can be observed in agricultural materials, sensitive industrial materials, foods, and other consumer commodities.

So far as goods are concerned, the GNP deflator measures mainly prices of finished goods, with prices of materials reflected directly only in the inventory change component. A further characteristic of the deflator in contrast to the fixed weights of the WPI and CPI, is that the weights change from quarter to quarter. Shifts in the pattern of GNP expenditures can have an appreciable effect on the deflator. Thus, the first quarter acceleration in the government component of the deflator to a marked degree reflects shifts in weights.

The following table compares the deflators with selected other price series. It can be seen that even when price changes are computed on a quarterly average basis to correspond with the deflator, there is little correspondence between quarterly increases in the deflator and relevant components of the CPI and WPI. For the year 1969, however, the deflator for nondurable consumer expenditures rose by about the same percentage as the corresponding CPI component. When the CPI index for services is adjusted for comparability of coverage by excluding home finance, the rise last year is also fairly close to that in the consumer services deflator. The durable goods component of the deflator and of the CPI do not correspond well, even after adjustment for comparability of coverage.

COMPARISON OF DEFLATORS WITH SELECTED PRICE INDEXES[1/]

Changes from preceding quarter,
seasonally adjusted annual rates, in per cent

	1969 QI	1969 QII	1969 QIII	1969 QIV	1969 average for four quarters	1970 QI
GNP deflator - all items	4.7	5.1	5.6	4.6	5.0	5.0
Personal Consumption Expenditures						
PCE deflator	3.3	4.9	4.6	4.8	4.4	4.8
CPI	5.2	6.7	5.0	5.9	5.7	6.7
CPI						
Durable goods: deflator	1.5	2.3	1.9	2.3	2.0	2.6
CPI	5.2	4.7	1.8	5.0	4.2	2.8
CPI (adj)[2/]	3.0	4.5	3.3	.7	2.9	2.9
Nondurable goods: deflator	3.4	5.7	4.8	5.2	4.8	4.2
CPI	4.0	5.9	5.2	6.1	5.3	5.4
Services: deflator	4.6	5.2	4.4	5.1	4.8	5.3
CPI	7.3	8.0	6.4	6.3	7.0	9.8
CPI(adj)[3/]	6.8	5.5	5.4	5.0	4.0	7.5
Fixed investment						
Producers' durables: deflator	1.8	1.4	3.5	4.2	2.7	5.9
WPI (unadj)	3.4	2.0	3.7	6.7	4.0	5.6
Residential construction: ddflator	8.8	5.3	5.0	.9	5.0	3.4
E. H. Breckhs' index - (unadj)	11.9	6.9	6.5	1.1	6.6	5.3[4/]
Government purchases: deflator	5.5	6.6	9.9	5.0	6.8	5.7

1/ Prices are quarterly averages
2/ Excludes home purchase and used cars
3/ Excludes home finance
4/ March estimated

In the area of fixed investment, the deflator shows an acceleration in prices of producers' durables in the first quarter whereas the WPI of producers' equipment shows a slowing of the rise. The deflator for producers' equipment is seasonally adjusted, however, and the WPI series is unadjusted. Despite this recent divergence between the two series, it is clear from the table that equipment prices have been climbing at a stepped-up rate since the middle of last year.

Much of the apparent acceleration in prices in the first quarter arises from the sharp rise in the deflator for residential construction. This deflator is moved by Boeckhs' index of residential construction costs, with some adjustments. But this index has shown some puzzling changes--for example, declining--from an annual rate of rise of 12 per cent to a rate of only 1 per cent from the first to the fourth quarter of last year.

Food supply developments. Recent surveys of farmers' production plans tend to confirm earlier projections of the Department of Agriculture indicating that not much rise in per capita consumption of food from the record consumption of 1969 is likely in 1970. The Department expects retail food prices to average about 4 per cent above 1969 with pressure on prices easing in the second half of the year when supplies of fresh vegetables and pork, the items now in shortest supply, begin to expand. To hold the average to 4 per cent, retail prices will actually have to decline a little from current levels later in the year. Prices received by farmers in 1970 are expected to average about 2 per cent above 1969 with livestock products about 5 per cent above and crops about 2 per cent below 1969. Average farm prices are expected to ease throughout the year from the high of this February.

The Department foresees little expansion in per capita supplies of red meats until the fourth quarter when pork production will expand as pigs from the relatively large 1970 spring pig crop are marketed. Poultry meat supplies will be increasing throughout the year. The record annual per capita beef supply of 113 pounds is expected to be spread more evenly over the year than in 1969. About 3 pounds each of veal and lamb will be available per person for the year. Stepped up imports of meat subject to quota added nearly half a pound to beef supplies in the first quarter. Should the President suspend the quota for the rest of 1970, as suggested in some quarters, net additions to the per capita supplies of beef shown in the table ranging from 0.2 to 0.8 pounds per quarter would be possible depending on the terms of the waiver. In 1969, net imports of all meats amounted to 8.5 pounds per person (carcass weight), and quota meats, mostly beef, amounted to 5.5 pounds per person. Quota beef competes principally with lower grades of domestic beef.

POUNDS OF MEAT AND POULTRY CONSUMED PER PERSON 1/
(Quarterly 1969 and 1970)

	TOTAL**		BEEF		PORK		POULTRY	
	1969 Actual	1970 2/ Prospects	1969 Actual	1970 Prospects	1969 Actual	1970 Prospects	1969 Actual	1970 Prospects
1st Q	55.9	- .5	27.2	+ .7	16.9	-1.7	10.0	+ .8
2nd Q	55.4	+1.2	26.5	+1.6	16.0	-1.1	11.4	+ .5
3rd Q	57.8	+ .8	28.7	- .2	15.4	- .1	12.0	+1.3
4th Q	60.2	+1.8	28.3	+ .3	16.5	+ .8	13.7	+ .8
Year	229.4	+3.2	110.7	+2.4	64.8	-2.1	47.1	+3.4

1/ Reported data through 1st Q 1970 and projections through rest of period.
** Total includes veal and lamb.
2/ Net increases or decreases in pounds consumed from a year earlier.

Farmland prices. Prices of U.S. farmland advanced 4 per cent in the year ending March 1, the same as the annual advance reported in November but slower than the March 1968-69 increase of 5 per cent. Annual increases have been slowing since the 7 per cent rise of 1965-66 when strong demands for grains associated with world food shortages boosted land prices. Annual rates of increase in the past decade have averaged 5.3 per cent. Values this March averaged 2 per cent higher than in November. Some quickening in the pace of increase was evident in the Richmond District and in some of the midwestern Districts this spring.

Divergence in regional trends in land values is more marked this year than at any time since 1965-66 when values in the Federal Reserve Districts located in the great specialized agricultural areas of the midwest rose at annual rates of 10 to 12 per cent while values in the Districts of the Northeast rose at annual rates of 4 to 6 per cent. This spring, the divergencs is just as great, but values in the northeast are booming with annual increases ranging from 7 to 13 per cent while values in the central agricultural areas are lagging with advances of only 2 to 4 per cent and, in the San Francisco District, only 1 per cent.

An important influence reflected in the widespread slackening expansion in land values is the prospect for little or no improvement in farmers' net earnings this year, particularly the net earnings of crop producers. Slow turnover in land suggests that scarce supplies and high costs of credit are also dampening the demand for land. Another factor is uncertainty hanging over the heads of wheat, feed grain, and cotton farmers about government programs that will replace those ones expiring at the end of this crop year. These factors undoubtedly weigh heavily in the decisions of crop producers in the central United States.

Relative ebullience in values throughout the Northeast and in Pennsylvania and Maryland where increases of 14 and 11 per cent were reported undoubtedly reflects non-farm demands to a large extent. Expanding resort areas and spreading urbanization are enhancing the value of nearby agricultural lands by creating the potential demand for non-farm use. However, rising milk prices throughout 1969 and early 1970 may have strengthened values in dairy areas even though reported net earnings of dairy producers in 1969 were not greatly improved as compared with 1968.

In the Atlanta District, a mix of strong farm and nonfarm demands for land, especially in Georgia and Florida, continues to support gains in land values double the national average. In the Richmond District, the annual increase qas held to 3 per cent by declines in values in West Virginia and North Carolina and no change in South Carolina. Uncertainties facing tobacco loom large in the structure of values in these states. However, values picked up between the November and March surveys, notably in North Carolina.

VALUE PER ACRE OF FARM REAL ESTATE, INCLUDING IMPROVEMENTS
(Index, 1957-59 = 100)

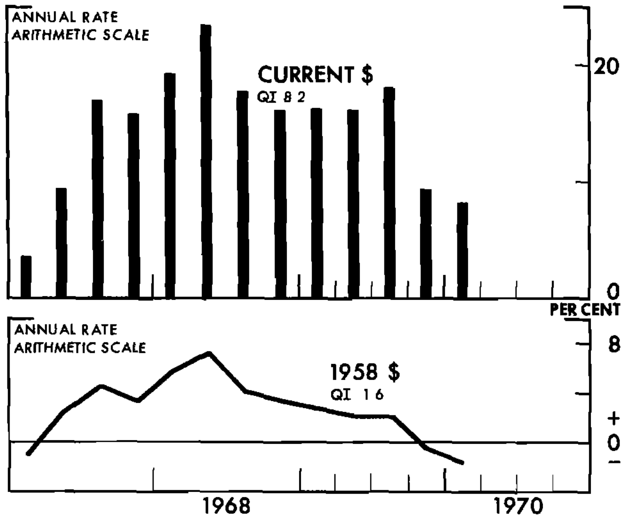
By location and F. R. District	Index 1/ March 1970	Per cent changes Mar 70/Mar 69	Mar 70/Nov 69
United States	186	3.9	1.6
Northeast			
Boston	199	7.6	2.6
New York	185	8.8	3.9
Philadelphia	214	13.2	6.5
Cleveland	176	6.7	2.9
Mideast			
Richmond	191	3.2	3.8
Southeast			
Atlanta	229	8.0	3.6
Central			
Chicago	167	1.8	1.2
St. Louis	202	3.6	3.1
Minneapolis	174	3.6	2.4
Kansas City	181	1.7	0
Dallas	204	4.6	1.0
West Coast			
San Francisco	174	1.2	0

Source: Economic Research Service, U.S. Department of Agriculture.
1/ Release date for March 1, 1970 index will be around May 1, 1970.

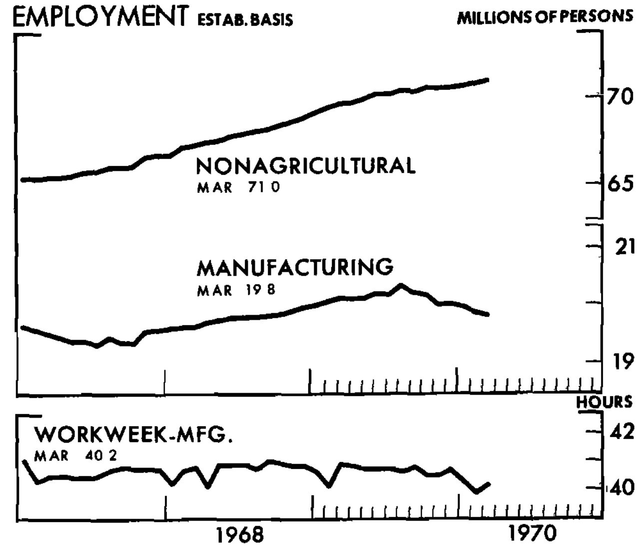
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED, RATIO SCALE

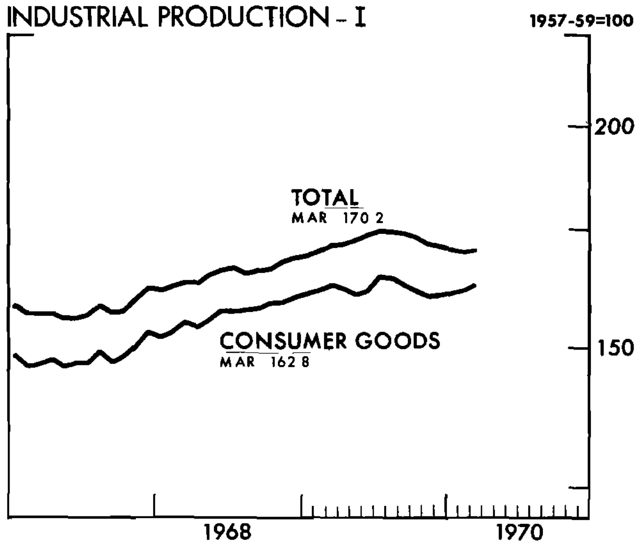
GNP INCREASE



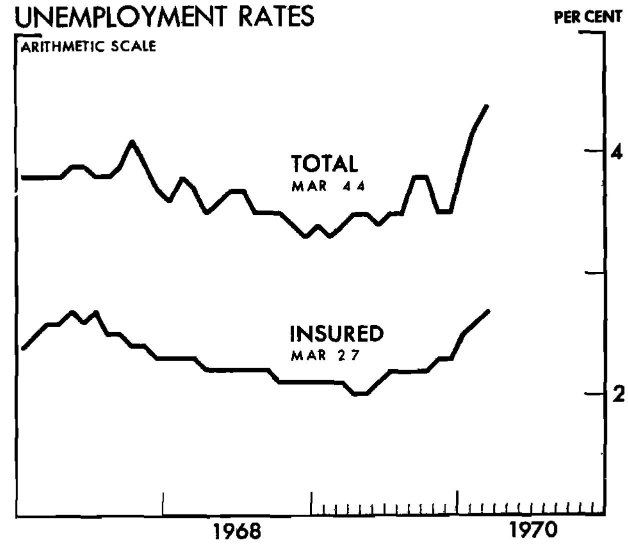
EMPLOYMENT ESTAB. BASIS



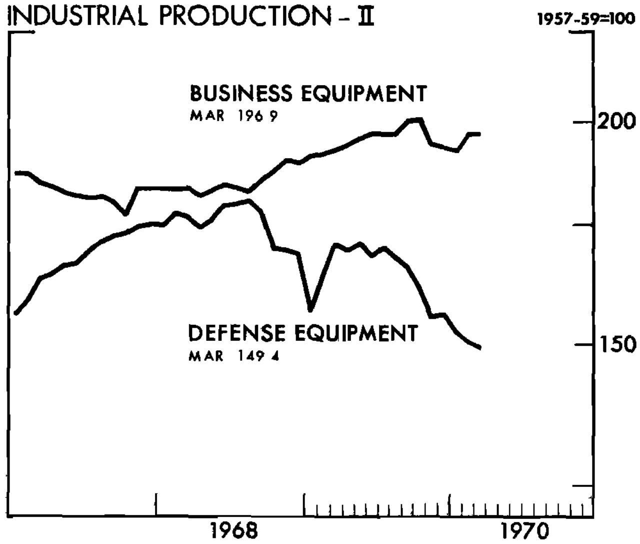
INDUSTRIAL PRODUCTION - I



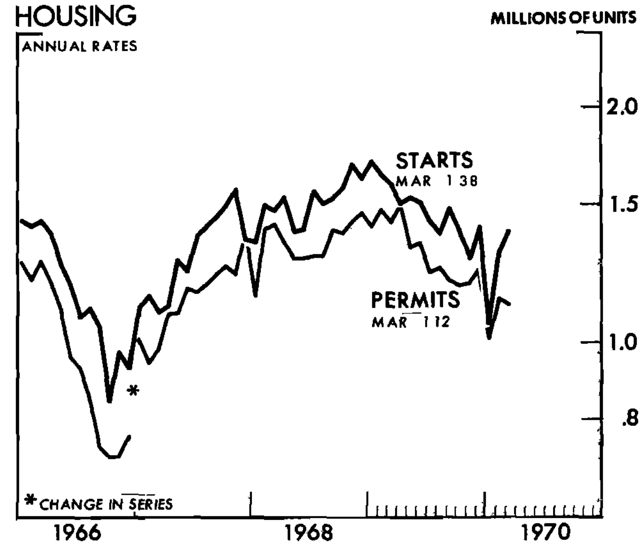
UNEMPLOYMENT RATES



INDUSTRIAL PRODUCTION - II

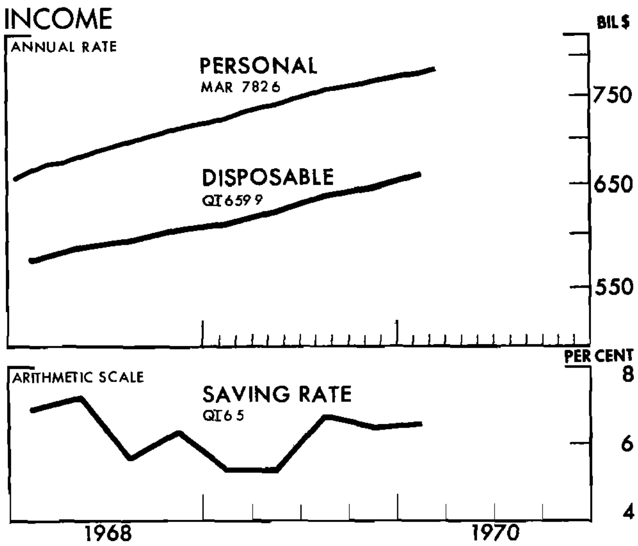


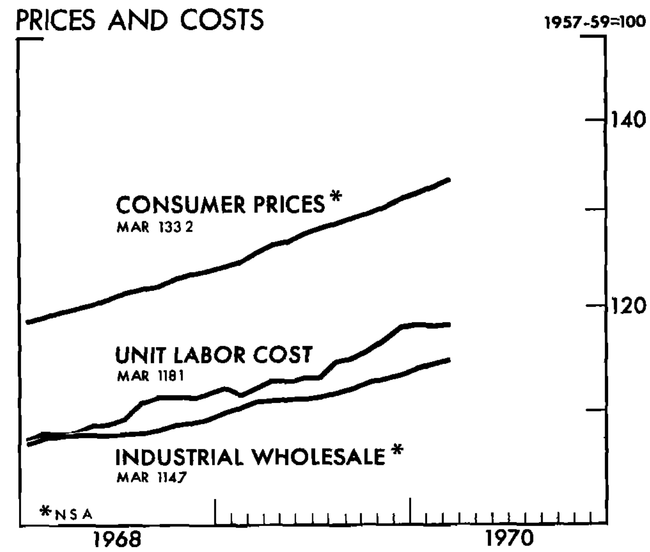
HOUSING

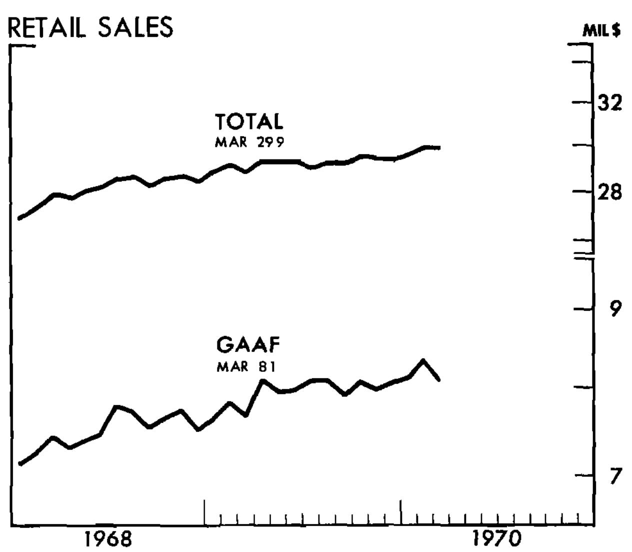


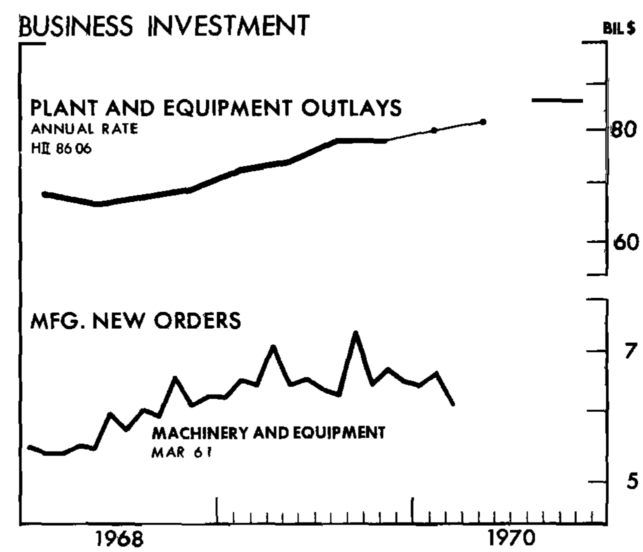
ECONOMIC DEVELOPMENTS - UNITED STATES

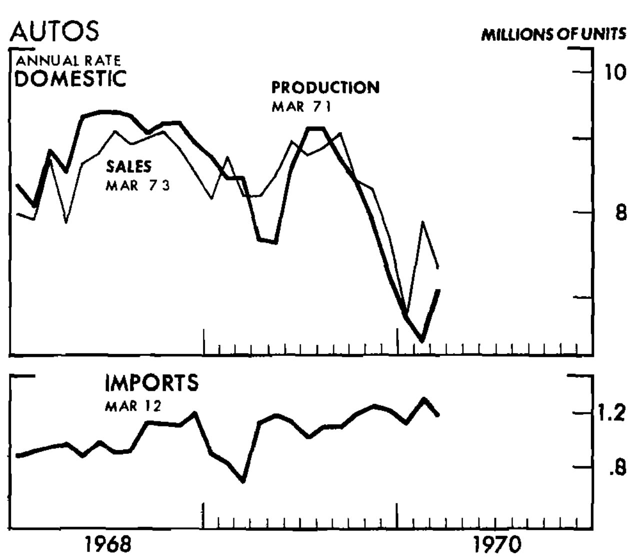
SEASONALLY ADJUSTED, RATIO SCALE

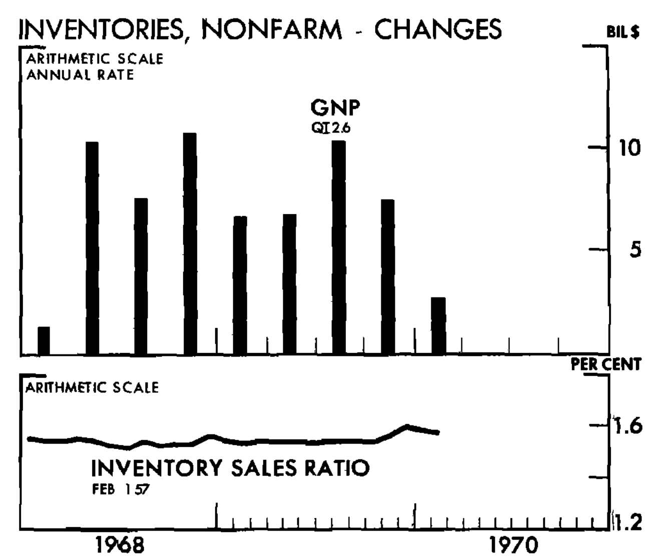












THE ECONOMIC PICTURE IN DETAIL

Domestic Financial Situation

Bank credit. On the basis of partial data, bank credit developments in April appear to be conforming generally to those recorded in March, with banks adding substantially to their holdings of U.S. Treasury and other securities and loan developments continuing weak. On balance, however, total bank credit (on an end-of-month basis) is expected to show a larger rise in April than in March, reflecting mainly greater acquisitions of Governments and somewhat less weakness in business loans. Holdings of municipal securities have been expanding somewhat less rapidly in April than in March; at weekly reporting banks, these acquisitions include a larger proportion of longer maturities than was the case in March.

Business loans appear to be expanding quite slowly in April after declining somewhat in March. For the two months together the trend of business borrowing at banks has been substantially weaker than earlier this year, even after allowing for possible difficulties with seasonal factors and for loan sales. This slowdown may reflect in part the drop in the rate of business inventory accumulation; an additional factor appears to have been the repayment of bank debts out of the proceeds of capital market financing, particularly by public utilities.

The slow pace of increase in consumer and real estate loans prevalent since the middle of last year appears to have continued over the recent period. Finance company demand for bank loans also appears to have been weak, as was the case earlier this year.

CHANGES IN MAJOR BANK CREDIT ITEMS

	All Commercial Banks 1/ Seasonally adjusted percentage change, at annual rates, adjusted for loan sales 2/ (For selected period)			Weekly Reporting Banks Seasonally unadjusted change, in billions of dollars 3/ (March 25-April 15)		
	1969	1970				
	2nd Half	Q1	March	1968	1969	1970
Total loans and investments	1.5	2.6	4.2	2.4	6.0	5.0
U.S. Govt. securities	-16.0	-15.4	9.7	-.5	.8	1.6
Other securities	-3.6	10.8	27.1	.2	.3	1.3
Total loans	6.4	4.0	-3.0	2.7	5.0	2.2
Business loans	7.1	6.3	-3.3	1.3	1.5	.6

1/ Last Wednesday of month series.
2/ Includes outright sales of total and business loans by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
3/ These data have not been adjusted for loan sales; loan sale data for the 1969 period were not available. The amount outstanding of loans sold declined about $30 million in the 1970 period; the earliest figures collected for 1969 (in May) indicate that outstanding loans sold may have increased by about $200 to $400 million in the three-week period in 1969.
4/ Dates are for 1970; comparable dates used for other years.

Monetary aggregates. The strong March uptrend in monetary aggregates has slowed in April, but, as a result of the March trend, the average level of deposits outstanding in April will be well above that for March. Total member bank deposits are expected to rise at an annual rate of 18 per cent. Total funds obtained from nondeposit sources of funds are expected to decline slightly in April and the total of member bank deposits plus these sources (the adjusted credit proxy) is expected to rise at a 14.5 per cent rate.

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

	1969	1970		
	2nd Half	Q1	March	April 2/
Member bank deposits	-4.6	0.6	14.0	18.0
Member bank deposits plus nondeposit sources 3/	-1.2	0.8	10.7	14.5
Commercial bank time and savings deposits	-6.7	0.2	14.4	21.5
Money stock	0.6	3.8	13.2	12.5

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 deposits 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.

Demand deposits dropped steadily after the sharp bulge at the end of March, but the rate of deposit decline has been somewhat slower than earlier expected, and average deposits for the month of April appear to be up substantially over March. Public currency holdings also increased sharply from March to April and the average money supply for April is expected to exceed the March figure by an annual rate of 12.5 per cent.

The growth in average time and savings deposits in April also fell off sharply as the month progressed, but the increase in the average for the month is expected to be at an annual rate of increase of about 22 per cent.

At weekly reporting banks, seasonally unadjusted data for the three weeks ended April 15 indicate that, as in March, large certificates of deposits continued to provide a major share of the incoming time and savings deposit funds. CD acquisitions by individuals, partnerships, and corporations accounted for nearly half of the total CD expansion in these three weeks. Growth in CD holdings of other investors was accounted for primarily by States and municipalities, who also were mainly responsible for the sharp gain in the "all other" time deposit category. In contrast, foreign official institution holdings of CD's and other time deposits, which had sustained these deposits earlier in the year, continued to run off moderately,as banks replaced some of their maturities with lower cost funds from domestic sources. The sharp runup in U.S. Treasury bill yields that began in late March carried these yields above the ceiling rates on most CD maturities in the week beginning April 20 and the inflow of funds into CD's was reduced significantly.

The flow of consumer-type time deposits, which had been sizable at weekly reporting banks in March, rose sharply further in the week ending April 1 but then dropped off substantially. During the two weeks ending April 15, net outflows of consumer-type deposits at these banks were nearly as large as the heavy outflows in the comparable period of last year. Withdrawals for tax payments as well as for transfers to higher yielding market instruments undoubtedly accounted for this movement. At country member banks, time and savings deposits also increased rapidly over the early part of April, but inflows slackened considerably around mid-month.

As in March, growth in deposits through mid-April was offset in part by the decline in nondeposit sources of funds. Both commercial paper indebtedness and funds obtained outside the U.S. were reduced, apparently in response to the reduced pressures on reserve positions.

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

	February and March			March 25-April 15 1/		
	1968	1969	1970	1968	1969	1970
Weekly Reporting Banks						
Total time and savings	1.0	-1.6	2.3	-1.4	-1.1	1.3
Consumer-type	1.2	1.0	.4	- .5	- .6	-.3
CD's	-.4	-2.2	1.3	-1.1	- .8	1.0
IPC	-.6	-1.6	.4	-1.0	- .7	.5
Other	.2	- .6	1.0	- .0	- .1	.5
All other time	.1	- .4	.6	.2	.3	.5
Country Banks						
Total time and savings	1.8	1.5	1.6	.3	.3	.7

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

Nonbank depositary institutions. During the recently-concluded reinvestment period, net withdrawals from savings and loan associations in total were minimal; in fact, associations outside of the San Francisco FHLB district actually received net new funds. Large mutual savings banks in New York City, on the other hand, posted sizable deposit outflows during the reinvestment period; these particular institutions have large, sophisticated depositors who no doubt have access to a whole spectrum of alternative investments. Although no formal surveys have been taken, there are reports that other mutual savings banks have had a very mixed experience recently; institutions in Philadelphia, for example, received record inflows, while some small-town New England savings banks suffered large outflows.

DEPOSIT FLOWS DURING THE MARCH-APRIL REINVESTMENT PERIOD 1/
(Millions of dollars)

	Savings and Loan Associations 2/			New York City Mutual Savings Banks 3/	
	All U.S.	San Francisco District	U.S. except San Francisco District	$millions	As % of deposits
1966	n.a.	n.a.	n.a.	-243	-1.57
1967	+ 71	- 10	+ 61	- 44	- .27
1968	-544	-291	-253	-126	- .70
1969	-707	-351	-356	-180	- .96
1970	- 83	-227	+144	-263	-1.40

1/ All data exclude dividends and interest credited.
2/ Data cover the last 3 business days of March plus, generally, the first 10 calendar days of April. Data are universe estimates made by the FHLBB from a sample of 480 associations.
3/ Data cover the last 3 business days of March plus the first 5 business days of April and represent the experience of the 15 largest savings banks in New York, which account for about 29 per cent of industry deposits.

For the month of March, deposit growth at the thrift institutions--again, particularly at savings and loan associations--was very strong, reflecting the convergence of higher rate ceilings with declining yields on short-term market securities and a lackluster stock market. In February and March taken together, growth at both institutions averaged considerably stronger than in the previous three quarters. Indications for the first three weeks of April suggest that deposit growth at savings and loans continued in this relatively large volume.

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

	Mutual Savings Banks	Savings and Loan Associations	Both
1969 - QI	6.1	6.0	6.0
QII	4.3	3.7	3.9
QIII	2.0	2.1	2.1
QIV	3.3	.4	1.4
1970 - QI p/	2.5	1.5	1.9
February*	5.4	2.2	3.3
March p/*	4.2	9.2	7.5
February & March p/	4.8	5.7	5.4

* Monthly patterns may not be significant because of seasonal adjustment difficulties.
p/ Preliminary.

Despite the higher deposit growth, savings and loan associations in March acquired only a very modest net amount of mortgages and, on a seasonally adjusted basis, made new mortgage commitments at a lower rate than in February. A very large portion of funds received

Mortgage market. New commitment activity in the home mortgage market appears to have increased through late April. However, this is a time when demands for mortgage credit ordinarily continue to expand strongly, and data are not yet available to show whether the increase from depressed levels was more than seasonal. In the case of savings and loan associations, new mortgage commitments approved in March rose somewhat less than usual for the month.

These developments followed a more than seasonal decline during the first quarter in net mortgage acquisitions by all types of private lenders, except possibly life insurance companies which were already at a very reduced rate. The drop in the pace of expansion of total mortgage debt outstanding--the fourth successive quarterly decline--brought the seasonally adjusted annual rate for the quarter down to about $21 billion, a third below the high in early 1969 and the lowest level in nearly three years. All types of properties apparently shared in the decline, including home mortgages despite additional heavy support from FNMA.

However, fragmentary FNMA field reports and trade opinion indicate that in April more investors were reentering the home mortgage market or were stepping up their limited volume of new commitments. Evidencing a somewhat larger supply of funds available from regular market sources, the volume of bids submitted in FNMA's forward commitment auction was lower in April than in March. As an indication of increased investor interest in mortgages, a number of mortgage companies were said to be unable to accommodate all new over-the-counter requests for loans to be delivered immediately.

The improved tone of the home mortgage market in recent weeks also has been evidenced by scattered trade rumors that the contract interest rate on FHA and VA loans might be reduced in the near future by administrative action. These expectations have apparently been bolstered in part by the yield decline that has already taken place in FNMA's bi-weekly auction of forward commitments to purchase Government underwritten mortgages. The average yield on 6-month commitments in the April 20 auction, which reached a new low for the year, was 32 basis points below the peak in early January.

FNMA AUCTION

	Amount of total offers		Implicit private market yield on 6-month commitments
	Received	Accepted	
	(Millions of dollars)		(Per cent)
Weekly Auction			
1969 High	$410 (6/16)	$152 (9/8)	8.87 (12/29)
1970 High	705 (1/5)	151 (1/12)	9.36 (1/12)
Bi-weekly Auction			
1970 High	581 (1/26)	298 (1/26)	9.92 (1/26)
February 9	497	295	9.28
24	438	280	9.25
March 9	355	276	9.19
23	395	239	9.14
April 6	268	190	9.07
20	316	185	9.04

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.

During March, average contract interest rates on conventional new-home mortgages in the primary market held at the record level reached in January, according to FHA reports. Meanwhile, yields on FHA mortgages traded in the more sensitive secondary market were reported lower for the first time in a year and a half, and discounts on these loans declined to the least restrictive level since last spring. Relative to the sharp rise in yields on new issues of high-grade corporate bonds, however, average returns on home mortgages became less attractive--a trend that probably continued in April as well.

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	9.29	99	6.0
March	8.55	-5	9.20	60	5.3

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 serving fees, minus average yield on new issues of high grade corporate bonds with 5-year call protection.
e - Estimated.

Corporate and municipal securities markets. Yields in long-term debt markets, other than for mortgages, rebounded in April--to levels just short of the December high--under the pressure of a rising volume of new security issues and the prospect of sustained high levels of corporate and municipal borrowing throughout at least the second quarter. Stock prices--which through the end of March had gradually recovered from their January lows--have retreated significantly during April in moderate trading volume. Over the three weeks ended April 24, for example, the Composite Index of all NYSE stocks lost 8.4 per cent, and declining prices continued into the last week of the month.

STOCK PRICES AND TRADING VOLUME

	Stock Prices			Average Daily Trading Volume (Thousands of Shares)	
	NYSE Index	AMEX Index	Dow Jones Industrial Average	NYSE	AMEX
1968					
Low	48.70(3/5)	21.58(3/5)	825.13(3/21)	6,700(3/25)	2,110(3/25)
High	61.27(11/29)	33.25(12/20)	985.21(12/3)	21,350(6/13)	10,800(6/13)
1969					
Low	49.31(7/29)	25.02(7/29)	769.93(12/17)	6,683(8/11)	2,540(8/12)
High	59.32(5/14)	32.91(1/3)	968.85(5/14)	19,950(10/14)	9,270(1/29)
1970					
Low	45.53(4/24)	22.40(4/24)	744.06(1/30)	8,057(1/2)	2,182(4/8)
High	52.36(1/5)	27.02(1/8)	811.31(1/5)	17,508(3/25)	5,059(3/25)
Week ended:					
March 20	48.47	24.60	763.66	8,930	2,724
26	50.03	25.02	791.05	11,259	3,290
April 3	49.70	24.92	791.84	9,647	2,913
10	48.86	24.33	790.46	9,010	2,509
17	47.29	23.35	775.94	10,064	2,874
24	45.53	22.40	747.29	10,002	3,097
Per Cent Change to April 24, 1970 from:					
1968 High	-25.7	-32.6	-24.1	--	--
1969 Low	- 7.6	-10.5	- 2.9	--	--
Jan. 30, 1970	-4.2	-12.0	+ 0.4	--	--
Apr. 3, 1970	-8.4	-10.1	- 5.6	--	--

Part of the stock price weakness--which has affected long-term securities generally--can be attributed to a growing expectation that anti-inflationary policies may not be as effective in lessening demand pressures as had been assumed. In addition, selected stocks have been depressed even further in response to unfavorable first quarter earnings reports. This earnings reaction appears to have been particularly strong in issues listed on the AMEX. The AMEX Index has declined more than 10 per cent since April 3 and by April 24 stood nearly one-third below its cyclical high in late 1968. Investment quality stock, represented by the Dow Jones Industrial Average, have generally shown greater price strength in recent months and, although the Dow Jones Index slid to its lowest point in six and one-half years in the last week of April, the percentage decline over the month was less than for the other indexes.

BOND YIELDS

	Bond Yields	
	New Corporate Aaa 1/	Long-term State and Local bonds 2/
1969		
Low	6.90 (1/10)	4.82 (2/23)
High	8.85 (12/5)	6.90 (12/18)
1970		
Low	8.20 (2/27)	5.95 (3/12)
High	8.76 (3/20)	6.78 (1/29)
Week of:		
April 3	8.55	6.11
10	8.30	6.33
17	8.65	6.50
24	8.75	6.73

1/ With call protection. 2/ Bond Buyer (mixed qualities).

In the bond market, supply problems have been a major factor in the renewed weakness. Corporations, struggling with the problems of reduced internal funds flows, low liquidity levels, balance sheet distortions from previous short-term borrowing, and capital expansion programs, have inundated the bond market with new issues. Staff estimates are that total public bond issues in the first half of 1970 will total about $11.7 billion, double the volume of the same period in 1969 and about 90 per cent of the entire 1969 bond volume. A postwar monthly record of $2.0 billion for public bond offerings in April and the opening of the $1.6 billion rights offering of AT&T debentures that month, following a $1.9 billion level of new public bond issues in March, exerted strong upward pressure on corporate bond yields. There was a brief price rally in early April when underwriters, operating in the buoyant atmosphere generated by indications of easing credit conditions, priced new issues so aggressively that the Board's index of high-grade new issue yields dropped near the mid-February low. At such leilds, however, demand by institutional and individual investors was insufficient to absorb the high volume coming to market. By mid-April, with dealer inventories uncomfortably high and the announcement of generous terms on the AT&T financing, bond rates began to climb. Within a week, seven syndicates had broken, releasing about $135 million of unsold bonds at sharply reduced prices. But institutional investors still tended to stay on the sidelines, concentrating their purchases on attractively priced industrial issues, which could offer 10-year call procection and portfolio diversification; individuals, as they have since late 1969, continued to be a major support of the bond market. On April 24, corporate bond rates had returned to the levels prevailing in the congested markets of late March, only 10 basis points below the record highs of December.

CORPORATE SECURITY OFFERINGS 1/
(Monthly or monthly averages in millions of dollars)

	Bonds				Stocks		Total	
	Public Offerings		Private Placements					
	1969	1970	1969	1970	1969	1970	1969	1970
QI	886	1,518e	513	395e	674	690e	2,073	2,604e
II	1,137	2,366e	558	433e	756	667e	2,451	3,466e
April	1,268	2,000e	649	400e	830	600e	2,748	3,000e
May 2/	871	3,300e	510	400e	694	700e	2,076	4,400e
June	1,272	1,800e	514	500e	744	700e	2,530	3,000e
April-May average 2/	1,070	2,650e	580	400e	762	650e	2,412	3,700e

1/ Data are gross proceeds.
2/ The two-month average distributes the impact of the $1.569 billion AT&T bond subscription offering, which is large enough to distort month-to-month changes substantially. The terms of the offering were set in mid-April, and the rights will expire on May 18.
e/ Estimated.

The staff estimates that the total of public bond issues in May will be about $3.3 billion including, or $1.7 billion excluding, AT&T. June volume, tentatively projected at $1.8 billion, represents only a moderate decline from the high levels of March and April. Announcements of prospective new filings by industrial and financial firms have been frequent, and the total of scheduled utility offerings in June is equal to the April high.

New commitments for privately placed bonds by life insurance companies are sharply below year-ago levels, but figures for January takedowns of private placements just released by the SEC indicate that take-downs by all institutional investors were maintained at levels higher than previously estimated by Board staff. Although the extended decline in the stock market during the four months of the year has probably dampened the growth of new issue volume to some extent, new issue volume has remained large. Offerings of common and preferred stock in April amounted to $600 million, and the staff estimates that volume will rise slightly in May and June, to a monthly average of about $700 million. The staff now estimates the monthly average gross proceeds from all new corporate security issues will be about $3.5 billion in the second quarter, two-thirds above the previous record of $2.1 billion.

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

	1969	1970
Year	990	--
QI	927	1,317e
QII	1,216	1,500e
April	1,801	1,650e
May	1,110	1,300e
June	737	1,500e

e/ Estimated.

The prolonged decline in municipal yields through most of the first quarter of 1970 was reversed in April. New issues of long-term debt by State and local governments accelerated in late March, and April volume rose to about $1.7 billion, only slightly below the 1969 high. It is reported that bank purchases of municipals, which had been an important supporting factor in March, tapered off after mid-April.[1/] Dealer inventories, especially of longer maturities, built up and the market was also depressed by an IRS challenge to the interest deductability of bank funds (other than time deposits) used to acquire municipals. The May and June calendars are building slowly at present, and new issue totals in these months may not be very different from the average for the first quarter. However, the backlog of authorized issues for which no date has been set is very large. Moreover, additional State and local units have raised interest rate ceilings, and, if the California electorate approves the increase that will be put on the June ballot, new issue volume could spurt suddenly.

1/ Because of the 30-day average delivery lag for municipals this decline would not appear in bank statistics on securities holdings until May. Even then the bank figures may be distorted by bank dealer operations.

Government securities market. Yields on Treasury coupon issues have moved steadily higher since late March and are now back to the levels of mid-February, or for 5-10 year maturities around 40-60 basis points below their late 1969 highs. In part, the increases reflected dealer preparations for the Treasury's May financing; but, probably more importantly, they also mirrored the persistent upward rate pressures in corporate and municipal markets and changed expectations regarding the economy and fiscal and monetary policies. The Treasury bill market in April has been frequently characterized by very large swings in rates. On balance, however, rates in the bill market have increased by 30 to around 80 basis points during the month, as April bill demands did not come up to the market's expectations and as a rise in the cost of day-to-day money led to aggressive attempts by dealers to ligten their positions.

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

	Late 1969 Highs	1970 Lows	Week ending April 7	April 21	April 28
Bills					
1-month	7.54 (12/31)	6.22 (3/24)	6.47	6.53	6.58
3-month	8.08 (12/29)	6.08 (3/24)	6.38	6.44	6.71
6-month	8.09 (12/29)	6.18 (3/23)	6.43	6.44	6.99
1-year	7.86 (11/24)	6.20 (4/13)	6.32	6.37	6.96
Coupons					
3-year	8.51 (12/29)	6.87 (3/25)	7.13	7.43	7.67
5-year	8.33 (12/29)	7.05 (3/25)	7.29	7.49	7.75
7-year	7.77 (12/29)	6.98 (3/25)	7.19	7.43	7.74
10-year	8.05 (12/29)	6.90 (2/27)	7.12	7.39	7.70
20-year	7.14 (12/29)	6.55 (2/27)	6.66	6.87	7.07
Agencies					
6-month	8.70 (12/30)	7.17 (4/15)	7.31	7.19	7.42
1-year	8.87 (12/11)	7.46 (4/14)	7.52	7.50	7.78
3-year	8.55 (12/31)	7.75 (3/25)	7.80	7.85	8.06
5-year	8.47 (12/31)	7.78 (3/25)	7.83	7.87	8.00

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

In the Treasury note and bond market, prices have generally moved down in reaction to higher yields on new offerings of corporate issues, the consequent diversion of investor interest away from the Government market, and an additional agency demands for funds through a $400 million FNMA offering at the end of April and an offering of the same size of GNMA backed mortgage bonds in early May. This weakness has been reinforced recently as dealers have attempted to adjust to the forthcoming Treasury financing. The terms of the financing will be announced on April 29 and will be outlined in the Supplement.

Dealers' Treasury bill positions increased very sharply in the first three weeks of April. This increase, which occurred primarily in longer bill holdings, would in part be expected on seasonal grounds as the market prepared for demands from public funds and for reinvestment of April tax bills not used for tax purposes. To a large extent, however, the very large rise in positions appears to have been attributable to dealer speculative positioning of the end-March supply of longer bills in anticipation of a continuing easier monetary policy and further declines in bill rates over the second quarter. In the event, reinvestment demand, as well as demand from public funds, turned out to be somewhat less than anticipated, and contrary to earlier market expectations the money market firmed, with Federal funds averaging above 8 per cent over the last two weeks. Consequently dealers turned less optimistic on the likelihood of easier monetary conditions, backed away from the regular bill auctions, and moved aggressively to lighten their bill positions, with the result that rates have risen sharply on balance.

The market for Federal Agency securities has been relatively quiet in April, with new issues offered or announced thus far in the minth raising about $800 million in new money, compared to a total of $1.4 billion in March. A rate of 8.40 per cent was announced on the $400 million 28-month FNMA issue. Rates for most other new issues offered thus far in April, all of which were for relatively short maturities, were marginally lower than in March. Until very recently the market for short-term outstanding Agency securities has been firmer on balance, while the longer-term Agency market weakened slightly less than other long-term markets. However, rates for both long and short Agency issues have moved sharply higher in the latest week, paralleling the weakness in other coupon markets.

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

	March Daily Average	April 6	April 27
Treasury securities			
Total	3,671	4,527	3,440
Treasury bills (totals)	2,826	3,790	2,861
Due in 92 days or less	683	896	41
93 days or over	2,142	2,895	2,820
Treasury notes and bonds (total)	845	737	579
Due within 1 year	293	356	401
1-5 years	250	165	51
over 5 years	302	217	127
Agency securities			
Total	730	677	766
Due within 1 year	385	444	567
over 1 year	345	232	199

Other short-term credit markets. Interest rates on most short-term private market instruments rose by around 1/8 to 5/8 of a percentage point during April. All maturities of bankers' acceptances advanced 5/8 of a percentage point over the four-week period shown in the table, and in the last few days rose another 25 basis points to an offering rate of 8 per cent. Commercial paper rates gained 50 basis points in the 6-month area and were quoted at 8 per cent most recently, although shorter maturities showed smaller increases. Three-month commercial paper was offered to yeild 8-1/8 per cent, up from 8 per cent in early April. One-month finance company paper rose 50 basis points over the period to 8 per cent.

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

	1969 Nov.-Dec. Highs 1/	March 26	April 10	April 24
1-Month				
Finance paper	9.00 (12/31)	7.50	7.88	8.00
Bankers' acceptances	9.00 (12/31)	7.13	7.25	7.75
Treasury bill	7.50 (12/31)	6.50	6.40	6.60
3-Month				
Commercial paper	9.25 (12/31)	8.00	8.00	8.13
Finance paper	8.13 (12/31)	7.63	7.63	7.25
Bankers' acceptances	9.00 (12/31)	7.13	7.25	7.75
Treasury bill	8.12 (12/30)	6.30	6.35	6.55
6-Month				
Commercial paper	9.25 (12/31)	7.50	7.75	8.00
Finance paper	8.13 (12/31)	7.38	7.25	7.25
Bankers' acceptances	9.00 (12/31)	7.13	7.25	7.75
Treasury bill	8.10 (12/30)	6.40	6.34	6.84
12-Month				
Prime municipals 2/	6.25 (12/12)	3.80	4.20	4.45
Treasury bill	7.75 (11/21)	6.32	6.18	6.88

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.

Following the rapid increases, averaging $1.4 billion per month, during the first two months of the year, total commercial and finance paper outstanding rose only slightly during March. Paper placed through dealers rose around $200 million, while directly placed paper declined $150 million. Bank-related paper grew about $100 million on balance in March, and as of April 15 had increased an additional $100 million.

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

	1970			
	January	February	March	April 1/
Total commercial and finance paper 2/	34,528	35,930	35,986	n.a.
Placed through dealers	12,464	13,088	13,279	n.a.
Placed directly	22,064	22,842	22,707	n.a.
Note: Bank-related paper 3/ (seas. unadj.)	5,430	5,967	6,082	6,186
Bankers' acceptances	5,288	5,249	5,352	n.a.

1/ Bank-related paper as of April 15, 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 now projects a fiscal 1970 surplus of about $.8 billion on a NIA basis and a deficit of $2.5 billion on a unified budget basis. The Staff's current estimate of budget outlays in fiscal 1970 has been raised to about $199.0 billion--

more than $1 billion above the level indicated in the January budget document. As shown in the table below, the Administration is expected to make expenditure cuts--or to permit lags in program performance--in a number of categories. These cuts should partially offset the increase in fiscal 1970 outlays resulting from the Federal pay raise ($1.2 billion), the Congressional approval of increased outlays for education ($.4 billion), and anticipated increases for certain hard to control items ($.5 billion).

Outlays for fiscal 1971 are now expected to be about $3.0 billion above the level forecast by the Budget Bureau in January. This increase seems in prospect now, though the recently proposed postal rate increase (a negative expenditure) and the expected postponement (to fiscal 1972) of the family assistance and revenue sharing programs would cut $1.2 billion from fiscal 1971 outlays. No changes are scheduled in planned defense outlays--other than the pay raise--in either fiscal year 1970 or 1971.

Total receipts in April now appear to be about as estimated by the Staff in the last Greenbook, with a shortfall in estimated corporate receipts offset by receipts higher than estimated in the individual income tax category. The Staff estimate of total receipts for fiscal 1970 ($196.5 billion) continues to be substantially below the figure ($199.4 billion) in the January budget document.

The end-of-April cash balance at the Treasury is projected to be $7.4 billion. Assuming attrition of about $1.0 billion on the refunding of $4.8 billion of notes (held by public) maturing in mid-May, the Treasury is expected to seek about $2.0 billion of new financing for payment in the last week of May or early in June to tide it over the early weeks of June prior to the inflow of that month's corporate tax receipts. If payment occurs in late May, the Treasury debt outstanding could come within $.3 billion of the legal debt ceiling at that time.

For the Federal Sector in the national income accounts, the Staff now projects an $.8 billion surplus in fiscal 1970, a $5.3 billion deficit in calendar 1970, and--very tentatively--a $2 to $3 billion deficit in fiscal year 1971. As indicated in the last Greenbook, however, the shift toward deficit appears to be largely the result of low levels of projected economic growth rather than of discretionary changes in fiscal policy. The table that follows shows the Staff's latest forecast of the high employment budget.* Despite the projected sharp shift toward deficit in the federal sector from calendar 1969 to calendar 1970, the high employment surplus is expected to fall only $.5 billion during this period. The Staff forecast shows a temporary shift toward fiscal ease in the second quarter, largely resulting from the retroactive increases in Federal pay and in Social Security benefits. Thereafter the budget is expected to become more restrictive. As indicated in the table, a $15.6 billion high employment surplus is now projected for the first half of calendar 1971.

* These new estimates are not comparable to those shown in the last Greenbook because a different procedure has been introduced for calculating the high employment surplus. The present procedure involves a more detailed analysis of the components of high employment revenues, and attempts to correct for the bias toward fiscal restraint that generally appears in measures of the high employment surplus during periods of inflation.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Apr.	May	June	July
Borrowing operations				
New cash raised				
Unspecified new borrowing	--	2.0	--	4.0
Weekly and monthly bills	.7	.4	.4	--
Tax bills	--	--	--	--
Coupon issues	--	--	--	--
Other (agency, debt repayment, etc.)	-4.9	-1.3	-4.5	--
Total net borrowing from public	-4.2	1.1	-4.1	4.0
Plus: Other net financial sources[a/]	- .9	.5	- .6	.3
Plus: Budget surplus or deficit (-)	5.6	-4.4	8.0	-5.4
Equals: Change in cash balance	.5	-2.8	3.3	-1.1
Memoranda: Level of cash balance end of period	7.4	4.6	7.9	6.8
Derivation of budget surplus or deficit				
Budget receipts	23.8	13.7	24.0	12.5
Budget outlays	18.2	18.1	16.0	17.9

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

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

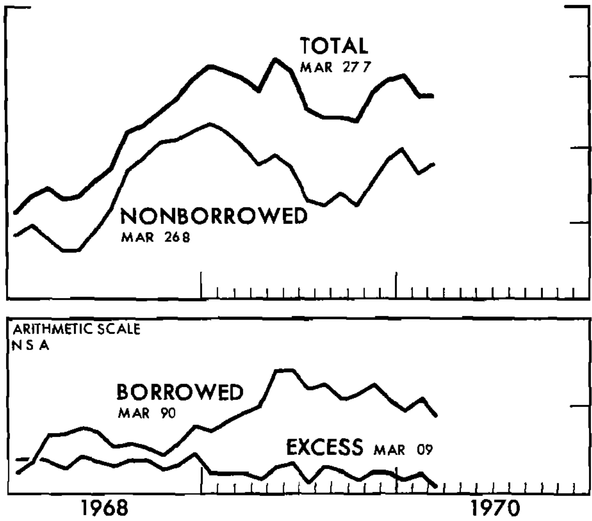
	Fiscal 1970 e/		Fiscal 1971 e/		Calendar Years		Calendar Quarters			
							1970			
	Jan. Budget	F.R. Board	Jan. Budget	F.R. Board	1969	1970 1/	I	IIe/	IIIe/	IVe/
Federal Budget										
(Quarterly data, unadjusted)										
Surplus/deficit	1.5	-2.5	1.3	-2.7	5.3	-6.0	-3.5	9.2	-5.1	-6.6
Receipts	199.4	196.5	202.1	201.0	195.6	196.1	44.3	61.5	47.7	42.6
Outlays	197.9	199.0	200.8	203.7	190.3	202.1	47.8	52.3	52.8	49.2
Means of financing:										
Net borrowing from the public 2/	-2.6	3.1	-1.2		-4.1	4.7	2.0	-7.2	4.1	5.8
Decrease in cash operating balance		-2.0			- .6	--	-1.6	-1.0	1.0	1.6
Other 3/	n.a.	1.3	n.a.	n.a.	- .7	1.3	3.1	-1.0	--	-.8
Cash operating balance, end of period		7.9			5.3	5.3	6.9	7.9	6.9	5.3
National Income Sector										
(Seasonally adjusted annual rate)										
Surplus/deficit	3.6	.8	1.6	-2.4	9.5	-5.3	-.2	-10.9	-6.2	-3.7
Receipts	201.7	200.5	205.4	204.3	201.5	199.3	197.5	199.7	198.3	201.6
Expenditures	198.1	199.7	203.8	206.7	192.0	204.5	197.7	210.6	204.5	205.3
High employment budget surplus/ deficit 1/	n.a.	3.6	n.a.	11.5	5.3	4.8	5.8	-1.0	4.9	9.6

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, as of July 1, 1969. This reclassification increased Federal debt, but is not treated as borrowing from the public.
3/ Includes such items as deposit fund accounts and clearing accounts.

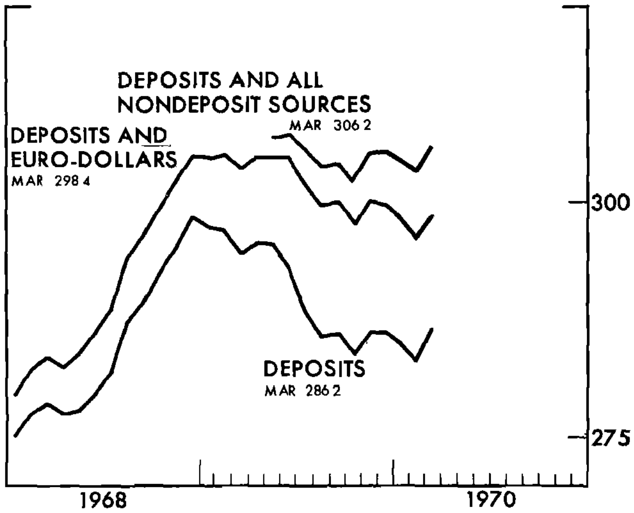
FINANCIAL DEVELOPMENTS - UNITED STATES

BILLIONS OF DOLLARS, SEASONALLY ADJUSTED, RATIO SCALE

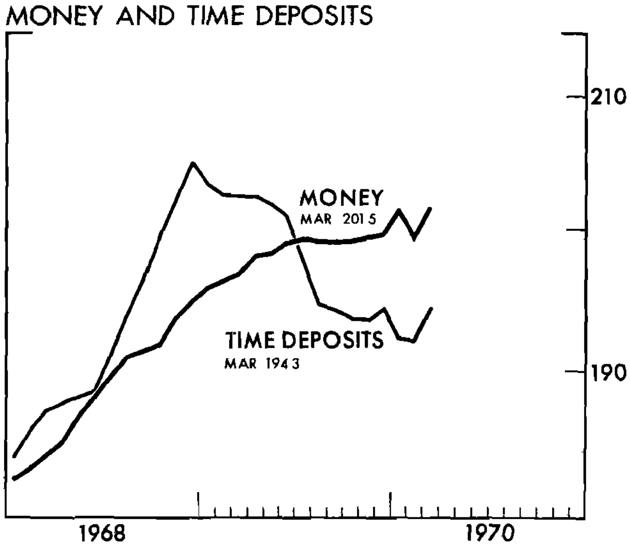
BANK RESERVES



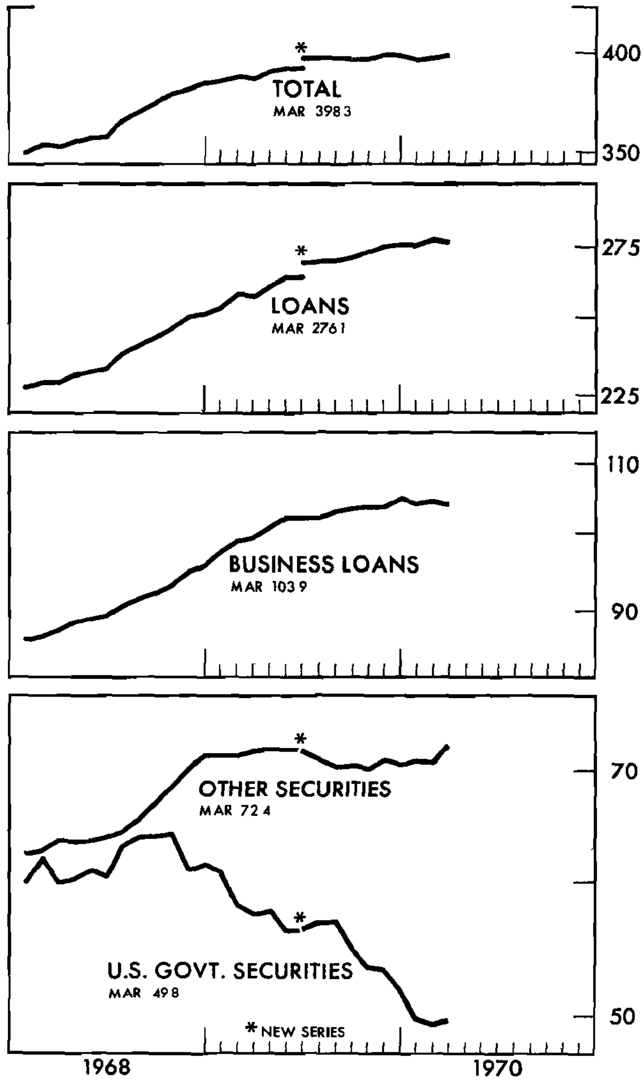
CREDIT PROXY



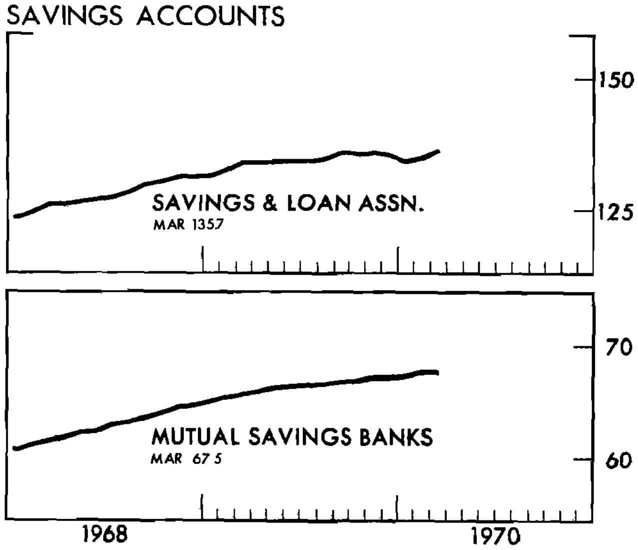
MONEY AND TIME DEPOSITS



BANK CREDIT

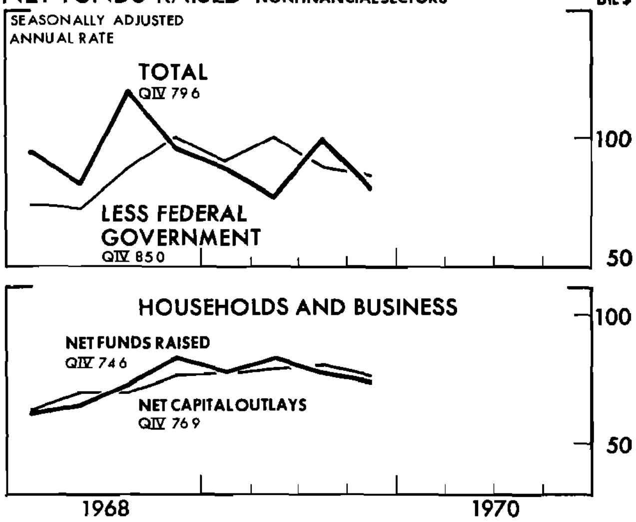


SAVINGS ACCOUNTS

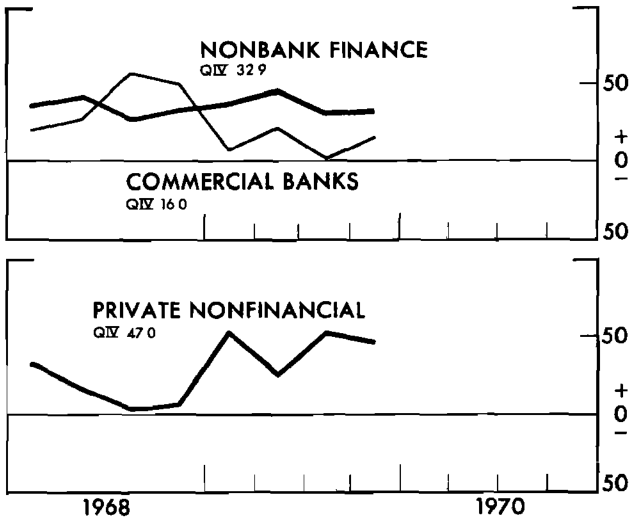


FINANCIAL DEVELOPMENTS - UNITED STATES

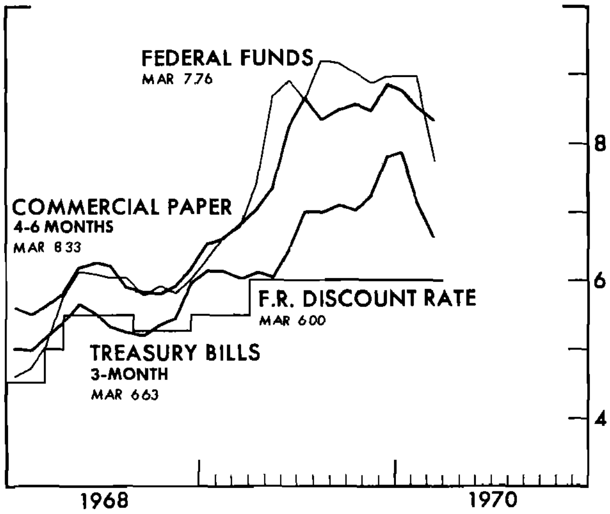
NET FUNDS RAISED NONFINANCIAL SECTORS



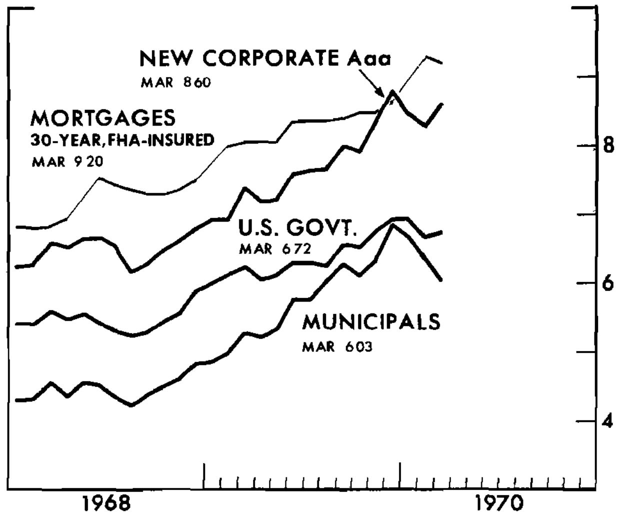
SHARES IN FUNDS SUPPLIED



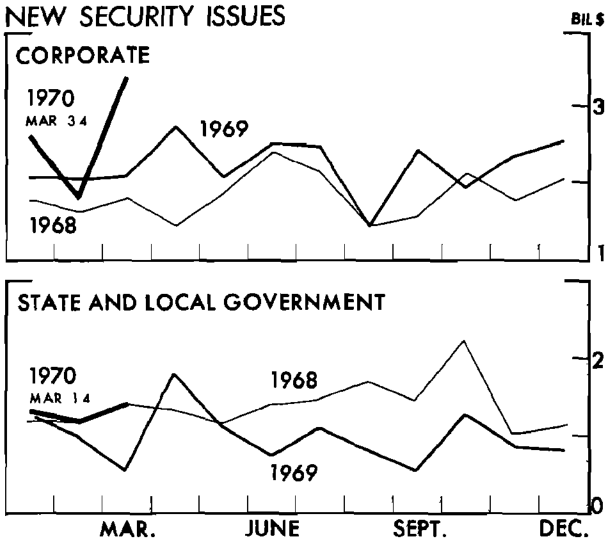
YIELDS SHORT-TERM



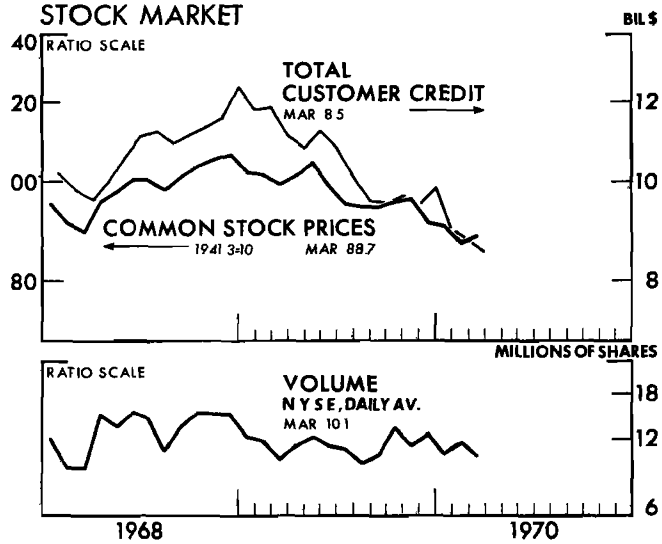
YIELDS LONG-TERM



NEW SECURITY ISSUES



STOCK MARKET



International Developments

U.S. balance of payments. The underlying balance of payments deficit appears to have been running in February-March at an annual rate in the $4-5 billion range. This can be seen in the table below in terms of either the adjusted over-all balance (financed by reserve transactions and U.S. commercial bank borrowing) or the liquidity balance before special transactions. The pattern of seasonal adjustments has become increasingly suspect, since it does not yet adequately reflect the large year-end flows that have resulted from the imposition of more severe restraints on capital flows in 1968. The apparent bulge in the deficit in January reflects these transitory flows, rather than a worsening in other transactions.

MONTHLY OVER-ALL BALANCES AND THEIR FINANCING
(millions of dollars)

	Jan.	Feb.	Mar.	1Q e/
Seasonally adjusted:				
Liquidity balance	-1,447	-169	-242	-1,858
Liquidity balance before special transactions	-837	-173	-521	-1,531
Adjusted over-all balance	-738	-302	-586	-1,626
Official settlements balance	-937	-1,134	-1,266	-3,337
Not Seasonally adjusted:				
U.S. reserve assets (inc. -)	435	-274	320	481
Liabilities to reserve holders				
Nonliquid	-667	-2	261	-408
Liquid	669	1,285	730	2,684
Liquid liab. to comm. banks	101	-832	-1,800	-1,531
Other liquid liabilities	42	-135	-83	-176
Total liquid liabilities	312	318	-153	477

e/ Based on preliminary data for March. (Breakdown of liquid liab. to commercial banks and others is guessed.)

Note. The following crude monthly seasonals are used: for official settlements balance: +500, +125, -45; for other over-all balances +200, +125, +75.

Some weakening in the trade balance and a larger capital outflow reported by banks were factors in the increase in these over-all deficits between February and March. The trade balance had been quite large in February, and was reduced in March as exports eased off while imports held at what is still a relatively high level. For the first quarter the trade surplus was at an annual rate of about $2-1/4 billion, a little lower than expected earlier because of the strength of imports.

Claims on foreigners reported by U.S. banks were reduced considerably in January and February, but rose by about $200 million in March. The net reduction in claims for the quarter, seasonally adjusted, was about $250 million.

Inflows of foreign capital to purchase U.S. corporate securities were much lower in the first quarter of this year than in the like period of 1968 or 1969, as shown in the following table.

Foreign Purchases of U.S. Securities 1/
(millions of dollars)

	1968		1969		1970
	Year	Q1	Year	Q1	Q1 e
Total	4,242	877	2,697	1,189	90
New issues sold abroad by U.S. corporations	2,129	580	1,026	401	125
Other corporate bonds	29	-12	156	37	65
Corporate stocks	2,084	309	1,515	751	-100

1/ Excludes Treasury issues and purchases of U.S. Govt. agency bonds by international and regional organizations.

U.S. corporations have reduced their sales of new issues abroad in the face of tighter markets, and probably also because many of them have substantial unused proceeds of earlier borrowings that they can use to finance their direct investments. Foreign dealings in U.S. corporate stocks again resulted in a net liquidation in March, but there has been some inflow of foreign funds to purchase U.S. corporate bonds. Current projections of the U.S. balance of payments for the rest of the year depend to a considerable extent on a much stronger inflow of foreign capital to purchase securities than has occurred so far.

Net U.S. purchases of foreign securities amounted to about $225 million in the first quarter, a little less than the quarterly averages of 1968 and 1969. The reduction in outflows results mainly from a change in investments in foreign corporate stocks; in 1968 and 1969 average quarterly net U.S. purchases of such securities were about $100 million, but there were net <u>sales</u> of nearly that amount in the first quarter of this year. The change reflects, among other factors, lessened interest in Japanese securities and the shares of gold-producing enterprises.

On the <u>official settlements</u> basis the first-quarter deficit was about $3-1/4 billion -- using the old seasonal factors. The large difference between this balance and the adjusted over-all balance reflects the almost continuous reduction in U.S. bank liabilities to their branches since mid-January; from that point through April 22 the reduction has amounted to about $2.3 billion. Part of this decline in liabilities was related to switching of foreign official accounts from the Euro-dollar market to CD's; for the first quarter the increase in such CD's was on the order of $1 billion, but not all of this would represent funds formerly held abroad. In addition, liabilities to nonbank private foreigners were probably reduced in the first quarter, though data are still incomplete. Partly off-setting this, liquid liabilities to international lending agencies increased somewhat.

Weekly data for April on the over-all balances are highly erratic and inconclusive. The weekly liquidity balances do not appear to be heading for a very large deficit for the month, while the rate of deficit on the official settlements basis appears to be somewhat lower than the high March rate.

U.S. foreign trade. The export surplus in March was considerably below the very high February level, as exports declined sharply while imports remained close to the February total. For the first three months of 1970 combined, the export surplus was at an annual rate of $2-1/4 billion (balance of payments basis), a further improvement over the $1.4 billion and $1.8 billion rates, respectively, in the third and fourth quarters of 1969.

Despite the pronounced drop in March exports from the very high February total, it still appears that exports are trending upwards. At the same time the rate of expansion in imports has slowed, although the absolute level is still higher than had been expected with domestic production and consumption at present levels. In current dollars, the ratio of imports to GNP in the first quarter topped 4 per cent for the first time. Based on previous experience a decline in the import-GNP ratio would be expected to accompany a domestic economic slowdown.

U.S. Merchandise Trade, Balance of Payments Basis
(billions of dollars, seasonally adjusted, annual rates)

		1969					1970p
	1968	Total	1H	2H	3Q	4Q	1Q
Exports, total	33.6	36.5	34.2	38.8	38.3	39.3	40.9
(Agricultural)	6.3	6.0	5.5	6.6	6.4	6.7	6.7
(Nonagricultural)	27.3	30.5	28.7	32.3	32.0	32.6	34.2
Imports, total	33.0	35.8	34.4	37.0	37.0	37.5	38.7
Balance	0.6	0.7	-0.2	1.4	1.4	1.8	2.2

p/ preliminary.

Currently the major strength in exports is in nonagricultural commodities, particularly industrial materials. Machinery exports have also increased following a dip in the closing quarter of last year. With economic activity in foreign countries still cyclically strong, further advance in such exports can be expected. Agricultural exports in the first quarter held at the high fourth quarter rate, but with new crops now entering world markets from the Southern

Hemisphere countries -- especially Argentina and South Africa -- it is questionable whether the current high rate of exports of grains and soybeans can be maintained.

Exports in the first quarter totaled $40.9 billion at an annual rate, balance of payments basis, 4 per cent higher than in the fourth quarter. The entire increase was in nonagricultural commodities, with steel, steel scrap, coal, aluminum and chemicals -- all of which had expanded in the last half of 1969 -- advancing further. Higher prices for coal and scrap metal contributed to the rising value of exports. Machinery exports, which were stalled from August through January, partly because of the G.E. strike, rose in February and March. In the first quarter, machinery exports were running about 15 per cent above the average of the first half of 1969. Exports of civilian aircraft were also larger in the first quarter than in the fourth quarter. Although deliveries of the Boeing 747 to foreign customers, which started in March, are expected to increase sharply in the coming months, these would be offset by declines in sales of smaller, lower-priced jet planes so that no further advance in the export value of commercial aircraft is expected during the last three quarters of this year.

Deliveries of automobiles and parts, which had declined from the third to the fourth quarter, fell again in the first quarter, reflecting the weakness in automobile sales both in Canada and in the United States.

Among agricultural commodities, larger exports of soybeans and cotton in the first quarter offset lower deliveries of tobacco and grains. Commercial wheat shipments picked up but corn exports have declined from the peak rates of the second half of 1969.

Imports in the first quarter were $38.7 billion at an annual rate, balance of payments basis, about 3 per cent above the fourth quarter 1969 rate. Purchases of nonfood consumer goods other than automobiles (particularly nondurables) were up very sharply. Imports of foreign machinery also rose, while arrivals of cars from Europe and Japan held steady despite the weakening in total domestic car sales. The value of imports of automotive equipment from Canada was down, although it is estimated that 50 per cent of Canadian car production is in compact cars, which are selling well this year. In the first three months of 1970 sales of U.S.-type compacts (including those made in Canada) and foreign cars combined have accounted for 27 per cent of total domestic car sales, compared with 18 per cent in the year-earlier period. The share of foreign-type cars alone has risen to over 13 per cent this year; last year it was about 11 per cent.

Buoyed by rises in prices of coffee and some nonferrous metals -- nickel, tin, aluminum -- the values of imported foods and industrial materials increased from the fourth quarter of 1969 to the first quarter of this year. Increased imports of meat and sugar more than offset decreases in coffee and cocoa.

U.S. Exports and Imports by Principal Categories
(billions of dollars, seasonally adjusted annual rates)

	1968	1969 Total	1969 1H	1969 2H	1969 3Q	1969 4Q	1970P 1Q
Imports, total 1/	33.2	36.1	34.6	37.5	37.2	37.8	38.9
Foods, feeds, & beverages	5.3	5.2	5.0	5.5	5.2	5.7	6.2
Industrial supplies	14.2	14.2	13.8	14.5	14.3	14.6	14.9
Capital equipment	2.8	3.3	3.2	3.5	3.5	3.5	3.7
Auto vehicles & parts	4.3	5.4	4.9	5.9	5.9	5.9	5.3
From Canada	2.6	3.5	3.2	3.9	3.7	4.0	3.3
From other areas	1.7	1.9	1.7	2.1	2.2	1.9	1.9
Consumer goods	5.3	6.5	6.3	6.7	6.7	6.6	7.4
All other	1.4	1.5	1.4	1.5	1.5	1.5	1.4
Exports, total 1/	34.6	38.0	35.5	40.4	40.2	40.6	41.3
Foods, feeds, & beverages	4.8	4.7	4.2	5.1	4.9	5.3	5.4
(soybeans)	0.8	0.8	0.7	0.9	0.8	1.0	1.1
Industrial supplies	11.0	11.8	10.8	12.7	12.5	12.9	13.7
Cotton	0.5	0.3	0.3	0.3	0.4	0.2	0.4
Tobacco	0.5	0.5	0.5	0.6	0.5	0.6	0.5
Other	10.0	11.0	10.0	11.8	11.6	12.1	12.8
Capital equipment	11.1	12.3	11.7	13.0	12.9	13.1	13.9
Machinery	8.6	10.0	9.4	10.7	10.8	10.5	10.9
Civilian aircraft	2.3	2.2	2.2	2.2	2.1	2.4	2.8
Auto vehicles & parts	3.5	3.9	3.8	4.0	4.2	3.8	3.6
To Canada	2.4	2.7	2.7	2.8	3.0	2.6	2.3
Consumer goods	2.3	2.6	2.5	2.7	2.8	2.6	2.7
All other	1.9	2.7	2.6	2.9	2.9	2.9	2.0

1/ Census Basis.
p/ Preliminary.

The pattern in imports of industrial materials was mixed. Imports of building materials, steel and iron ore were down sharply; the drop in iron ore was from a high level after the end of the strike at Canadian ore mines last summer. Imports of copper declined by 25 per cent, all in volume. Other nonferrous metal imports increased, both in quantity and price. Textile materials (yarns and fabrics) were imported in increased quantities. Arrivals of petroleum were also up, including large amounts of crude oil from Canada in January and February before a Presidential proclamation placed new quantitative restrictions on the inflow beginning March 1.

Foreign exchange markets. Strong demand for most major foreign currencies during April was reflected in rising exchange rates against the dollar and increasing reserves of some of the major European central banks.

The German mark exchange rate advanced rapidly from \$.27316 on April 1 to its upper limit of \$.27548 in trading on April 22, the first time the rate had reached this level since revaluation last October. The Bundesbank lowered its buying price for dollars ahead of the sharply declining market rate for the dollar and kept its total exchange market purchases of dollars down to \$115 million for the month. The strong demand for the mark was generally attributed to continued tight financial conditions in Germany. The 3-month interbank loan rate in Frankfurt currently is about 9-1/2 per cent -- where it has been since the increase in Bundesbank rates in early March -- compared with about 8-1/2 per cent on 3-month Euro-dollar deposits. German banks are unable to borrow Euro-dollar funds profitably because of a large marginal reserve requirement. German firms, however, are large borrowers of funds abroad.

Increased demand for francs pushed the French exchange rate from $.18056 on April 1 to successive new post-devaluation highs during the month, and on April 28 it was $.18108. The Bank of France purchased an estimated $225 million in the exchange market during April. M. Giscard d'Estaing, the French Finance Minister, announced April 23 that France has now repaid all its short-term debt to foreign central banks -- which had amounted to $1,550 million.

Demand for sterling continued firm during April and the Bank of England purchased about $260 million, down from an exceptionally large reserve intake of about $800 million in March. The market for sterling appeared little affected by the announcement of the March trade figures, the 1970 budget presentation, and the discount rate decrease from 7-1/2 to 7 per cent. Not surprisingly, in view of the passing of the period of extreme tightness in London financial markets due to tax collections, the net inflow of capital was less in April than the exceptionally favorable inflows during March.

The Canadian dollar exchange rate was at its upper limit for most of April and the Bank of Canada purchased about $250 million in the exchange market. Demand for Canadian dollars was spurred on at times by market rumors of an impending cut in Canadian commercial banks' prime rate and of a change in the exchange market intervention rate for the Canadian dollar. So far this year Canada has placed $400 million of its reserve gains into non-liquid U.S. Treasury notes.

The market for the Italian lira has been relatively well balanced this month. Although the lira exchange rate has been at its lower limit all month, the Bank of Italy has suffered no net reserve loss through market activity.

The price of gold rose to a recent peak of $35.95 an ounce in London trading on April 22, up from $35.38 on April 1. Reasons for the recent increase are not clear. However, it is expected that South Africa will need to sell increasing amounts of gold during the rest of this year to finance its balance of payments deficit -- which presently is relatively less unfavorable because of seasonal factors.

Euro-dollar market. In line with renewed tightening in U.S. money markets from mid-April, Euro-dollar rates rose substantially in the last ten days of the month, and by month-end were about the same as at the end of March. During the first half of April, Euro-dollar rates had fallen sharply further, with rates on most maturities reaching twelve-month lows.

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
Mar. 25	8.77	7.45	1.32	8.68	6.31	2.37
Apr. 1	8.67	7.93	0.74	8.54	6.33	2.21
8	8.67	7.68	0.99	8.59	6.39	2.20
15	7.30	8.02	-0.72	8.19	6.36	1.83
22	7.58	8.21	-0.63	8.08	6.51	1.57
29	8.63	8.43	0.20[p]	8.49	6.70	1.79[p]

U.S. banks' liabilities to their own foreign branches declined by $364 million from March 25 to April 22 -- to about $12.2 billion. Foreign official CD's at U.S. banks' head offices fell by roughly $150 million during this period.

Monetary conditions remain very tight in Western European countries. (In Britain, however, short-term interest rates have been adjusted downward in line with the Bank of England's rate reductions.) Coupled with renewed doubts about the likelihood of further declines in U.S. interest rates in the near future, market tightness abroad has tended to stem the decline, at least for the present, in Euro-dollar interest rates.

<u>Payments balances of major industrial nations.</u> Since the third quarter of last year, changes in the payments balances of major industrial nations outside the United States have been marked by the emergence of a very large surplus[1/] in Britain and by a rapid shift from deficit to surplus in France. Net foreign assets of the monetary authorities of these two countries increased by $2.6 billion in the first quarter of this year. This was more than the $2.5 billion gain in official net reserves in the first quarter registered by the Group of Ten countries (excluding the United States), as shown in Table 1 below. The combined increase for the G-10 countries reflected a balance of payments surplus for Canada as well as the United Kingdom and France. It might have been still larger in the absence of special transactions in Japan, whose balance of payments surplus exceeded $2.3 billion last year.

TABLE 1. CHANGES IN OFFICIAL NET FOREIGN ASSETS
(in millions of dollars; no sign=increase)

	1968	1969				1970[1/]
	IV	I	II	III	IV	I
United Kingdom	-869	433	196	- 142	850	2,049[2/]
France	-247	185	-1,219	- 264	198	537
Germany	707	-1,814	1,932	1,798	-4,920	170
Italy	-237	- 381	16	- 192	43	- 877
Belgium	-128	- 106	82	- 146	278	- 31
Netherlands	- 48	- 58	- 127	- 26	272	51
Sweden	-128	- 68	- 165	- 49	141	- 77
Japan	519	319	- 94	168	407	283
Canada	300	- 38	- 45	- 1	138	378
Total for G-10 countries excluding United States	-131	-1,528	576	1,146	-2,593	2,483
Switzerland	944	- 778	5	192	590	- 432

1/ Excluding initial allocation of SDR's. 2/ Estimated.
Source: Confidential BIS data.

1/ Surpluses and deficits are measured here by changes in net official reserves and net foreign assets of commercial banks. In British usage, a "balance of payments surplus or deficit" commonly refers to the balance on current account and long-term capital.

Britain's trade balance has strengthened further, and that of France has improved in spectacular fashion in the wake of last year's changes in the parities of the franc and the German mark. Both Britain and France have also had very large net inflows of capital partly based on confidence factors. Because the size of the mark revaluation improved the prospects for maintaining the post-devaluation parities of the pound and the French franc, funds that had fled from those currencies began to return, a process given additional impetus as trade positions improved. In both countries, monetary conditions have also been conducive to capital inflows.

In both Italy and Germany the past seven months have been turbulent. Italy, already beset by a heavy exodus of capital, suffered a hemorrhage of reserves in January-February before registering a surprising surplus in March. Explanations for these abrupt changes are not yet very clear, but the recent rises in Italian interest rates are now helping to curb the capital outflow. In Germany, the taking of revaluation profits meant a massive outflow of funds in the fourth quarter. More importantly, the heavy outflow of long-term capital that had gone on for a year and one-half contracted severely in the first quarter of this year as financial market conditions tightened.

It is likely that the British surplus has passed its peak; April reserve gains were in fact on a smaller scale. Confidence factors cannot produce a capital inflow indefinitely, and the current account surplus is likely to decline, because of more rapid wage and price rises in Britain, in spite of an anticipated improvement in the terms of trade. In France, the maintenance of the improved trade position will depend greatly on whether the authorities succeed in moderating the still rapid rise in domestic demand. What course Germany's balance of payments takes will be determined in great measure by the eventual effect on trade of the revaluation, an effect that it is still too early to gauge. Italy's large current account surplus should decrease further this year, but a diminution of the huge capital outflow the rest of this year may be expected to reduce the overall payments deficit. Canada's overall surplus should recede from its present high level. There is no indication that Japan's underlying surplus will diminish soon.

In the United Kingdom, gains in the net foreign position of the monetary authorities in the fourth quarter of last year ($850 million) and the first quarter of 1970 (estimated at $2 billion) were far in excess of those in the first three quarters of 1969, as seen in Table 1. Britain's current account has improved further. Last year the seasonally adjusted current surplus increased from an annual rate of $220 million in the first quarter to $1.30 billion in the third and $1.34 billion in the fourth. It has probably been still larger this year. The surplus in the trade balance--highly unusual for Britain--has increased in both of the most recent two quarters despite a slowing in the expansion of exports.

Britain had a $450 million net inflow of capital in the fourth quarter, all of it short-term. Confidence in the pound was boosted by the mark revaluation, and this affected some short-term capital flows directly (such as commercial leads and lags and uncovered investments). It also made covered interest differentials much less unfavorable to Britain by nearly eliminating the forward discount on sterling, but this is believed to have been a relatively unimportant factor. In the first quarter of the current year, the net capital inflow increased to an estimated $1.5 billion, presumably in large part of a short-term nature. In addition to continuation of the confidence element, reasons for this inflow were Bank of England sales of government securities to the non-bank public, and bank credit ceilings in the face of high demands for liquid funds, partly related to corporate tax payments. These conditions led British firms to borrow from foreign subsidiaries.

Following the devaluation of the franc last August, France had balance of payments surpluses amounting to $263 million in the fourth quarter of 1969 and nearly $700 million in January-March this year, as measured by changes in official and commercial bank net foreign assets (shown in Table 2). Deficits in the six quarters from 1968 Q-II through 1969 Q-III, a legacy of the events of May-June 1968, aggregated $4.94 billion.

Improvement of the trade balance has been rapid since the 11.1 per cent devaluation of the franc and the 9.3 per cent revaluation of the mark. In the second quarter of last year the trade balance was in deficit at an annual rate of $1.2 billion (with imports on an f.o.b. basis), but a rapid return to equilibrium produced small surpluses in December-February (and a larger one in March according to preliminary

TABLE 2. OVERALL BALANCE OF PAYMENTS SURPLUSES OR DEFICITS 1/
(in millions of dollars; no sign=surplus)

	1968	1969				1970
	IV	I	II	III	IV	I
United Kingdom	- 481	421	254	236	850	1,861 2/ 3/
France	-1,110	-559	-1,150	-219	263	698 3/
Germany	276	-635	1,843	754	-6,151	5 3/
Italy	1	-357	- 515	-117	- 186	- 719 3/
Belgium	- 80	- 50	100	- 68	190	1 2/
Netherlands	- 48	89	- 112	- 73	246	43 2/
Sweden	- 73	-132	- 150	- 81	32	- 87
Japan	587	278	637	658	710	- 13 3/
Canada	341	23	235	107	184	301 2/
Total, G-10 countries excluding United States	- 587	-922	1,142	1,197	-3,862	2,090
Switzerland	302	-327	301	347	- 153	n.a.

1/ Measured by changes in net foreign assets of the monetary authorities and commercial banks.
2/ Excluding change in commercial bank positions in March.
3/ Provisional.

reports). After devaluation, French exporters in nearly all cases did not lower the foreign-currency prices of goods sold abroad, in part because foreign currency prices had already been shaved in anticipation of devaluation, and in part to reconstitute profit margins. The dollar value of French exports rose at an annual rate of 15 per cent from the second quarter of 1969 to February-March of this year, aided by rapidly rising demand in most export markets. The trade balance improvement has also owed much to a halt in the expansion of imports, the dollar value of which was no greater in February-March than in the second quarter of last year notwithstanding the continuing rise in domestic economic activity. Import growth was slowed by the effect of devaluation on the franc prices paid by importers; in addition, it seems likely there has been some "living off of stocks" which had been built up to abnormal levels in expectation of devaluation.

A large-scale net inflow of capital to France began after the size of the revaluation of the mark removed the fear that a second devaluation of the franc might be necessary. In the fourth quarter France benefited from a net inflow of non-monetary capital estimated at $600-700 million, largely in the form of a favorable shift in leads and lags. This year, even though the shift in leads and lags has probably contributed less of a gain in reserves, the net capital inflow has persisted at a high level, responding to confidence factors and to changes in interest differentials. While Euro-dollar rates were declining, short-term interest rates in France were kept at the high levels attained when the discount rate was raised to 8 per cent last October.

French official net foreign assets rose by more than $500 million in the first quarter, and the commercial banks' net foreign position also increased nearly $200 million. In April, French reserves continued to rise rapidly. According to confidential reports, the dollar deposits which French banks were required to place with the Bank of France during the early part of 1969 were reduced from $841 million at the time of devaluation to about $240 million at mid-April; these re-transfers reduce official dollar holdings but improve the banks' net foreign position.

Germany's overall deficit of $6.15 billion in the fourth quarter was in great measure a consequence of a $4 billion outflow of short-term funds as speculators took revaluation profits and as earlier shifts in leads and lags were unwound, a process probably not completed by year-end. To these flows were added a $2.37 billion net outflow of long-term private capital, more than twice the quarterly average in the first three quarters. This increase in capital exports occurred primarily because German banks fulfilled a large volume of prior commitments for long-term loans.

The German payments position was close to equilibrium in the first quarter, not only because the taking of revaluation profits had ceased but also because Germany's exports of long-term capital began to shrink rapidly as the authorities allowed the domestic boom and capital outflows to tighten conditions in credit markets. The restrictive monetary policy stance was substantially reinforced by sizable increases in the discount rate and Lombard rate on March 6. Last year, the net outflow of long-term private capital (German- and foreign-owned combined) averaged $475 million per month; it held up in January ($550 million) but fell to $190 million in February. In comparison with last year, the February figures showed severe declines in portfolio investment abroad by German banks and other investors, and in net loans to foreigners (exceeding one year's maturity) by German banks and business firms, but little change in the flow of German direct investment abroad.

German trade figures in the months since revaluation have reflected, among other things, the "perverse" terms of trade effect of the parity change, i.e., a rise in the foreign currency value of given volumes of exports and imports (allowing for changes in prices in terms of marks). With Germany's trade already in surplus, the immediate effect of revaluation was to widen the surplus still further as valued in dollars or other foreign currencies. The adjustment of the volume of trade in response to the parity change could be expected to take some time, perhaps six to twelve months, but in the case of Germany possibly even longer given the very large export order backlogs still on hand. The full effect of the revaluation on the trade figures will in any event be rather less than the 9.3 per cent parity change would indicate, because of the partial de facto revaluation effect of the 4 per cent border tax adjustments applying to German non-agricultural trade from November 1968 until revaluation.

A distorting influence on the fourth quarter and January trade figures was the imposition, from the time of revaluation until year-end, of special levies on food imports from other EEC countries, which had the effect of shifting some fourth quarter imports into January. In February and March the German trade surplus amounted to nearly $4 billion, at a seasonally adjusted annual rate. This was little less than the surplus for last year as a whole.

In Italy, where the balance of payments had moved into deficit early in 1969 because of rising capital outflows, the further widening of the deficit in the fourth quarter was quite limited despite the large seasonal drop in tourist receipts. The deficit was favorably affected by the unwinding of speculative positions in German marks and by a new government program to expand foreign borrowing by state enterprises. But in January-February the net foreign assets of the monetary authorities and commercial banks declined nearly $800 million. Perhaps as much as $250 million of this loss was due to seasonal factors. In addition, first-quarter export receipts were reduced because of the strikes of the previous autumn. Exports had been rising at an annual rate of about 20 per cent before the strikes, but they fell 7 per cent (seasonally adjusted) from the third to the fourth quarter. Because about 75 per cent of Italian exports are paid for with a lag, most commonly 90 or 120 days, export proceeds in the first quarter may have fallen $250 million short of the levels that would otherwise have been attained. Capital outflows financed by exports of banknotes, which averaged $188 million per month in 1969, remained high at $203 million in January, but declined to $150 million in February, possibly because of deliberate administrative delays in crediting the accounts of foreign banks remitting the notes from abroad.

A $76 million Italian surplus in March is as yet unexplained, although one important known factor was a $200 million 5-year loan to IMI, an Italian government credit institution, by a consortium of banks in Europe. This was the largest in the recent burst of foreign borrowings by Italian state enterprises that earlier included several dollar issues in the Euro-bond market for a total of $205 million from October 1969 to February of this year. In March the outflow of Italian capital appears to have been drastically reduced. Factors that could have led to a reduction in this outflow included: 1) increases in interest rates on bank loans and bank deposits which followed a rise in the discount rate on March 6; 2) a further rise of 150 basis points in Italian bond yields between December and March, bringing the total rise since May 1969 to 180 basis points; 3) new regulations which severely curtail the length of time by which imports may be prepaid and repatriation of export proceeds may be delayed; and 4) increased confidence in the lira induced by rising interest rates and the formation of a new coalition cabinet after a lengthy period of caretaker government by a Parliamentary minority.

In the smaller European countries, the large surplus recorded by Belgium in the fourth quarter stemmed from developments affecting the trade accounts. The fourth quarter trade balance as measured by payments flows was improved over a year earlier by $230 million, of which $120 million reflected improvement in the balance on shipments through customs and the remainder a favorable shift in leads and lags after the German mark parity change. In the first quarter of this year, Belgium's external accounts were apparently close to balance.

The Netherlands also had a large fourth quarter surplus, in this case in spite of some deterioration in the trade balance. Speculative inflows following the floating of the mark at the end of September were supplemented by increased net imports of long-term capital. In the first quarter of this year the overall Netherlands surplus seems to have been fairly small. In Switzerland, year-end swaps between the Swiss National Bank and Swiss commercial banks reportedly totaled slightly under $800 million and were the major reason for changes in the Swiss National Banks' net foreign assets in the two affected quarters. Table 2 shows that Switzerland's overall balance of payments shifted from surplus to deficit in the fourth quarter.

The moderate improvement in the Swedish balance of payments that began in the fourth quarter of 1969 continued during the early months of this year. In the first quarter of 1970, Sweden had a balance of payments deficit of $87 million, compared with a deficit of $132 million in the same period last year. The Danish balance of payments, on the other hand, has continued to worsen. Preliminary figures for the first quarter of 1970 show a current account deficit of $160 million--a record quarterly total for Denmark, which had a current account deficit of $400 million for all of 1969. Excessive demand, as yet unaffected by very restrictive fiscal and monetary policies, is the major factor underlying this development.

In Japan, where the balance of payments surplus doubled last year, the surplus in the last quarter of 1969 was above that of a year earlier. For 1969 as a whole, Japan's overall surplus came to almost $2.3 billion, with the current account contributing $2.2 billion. A small deficit in the first quarter of this year was in part because of two special transactions; a $200 million 5-year loan to the World Bank by the Bank of Japan, and an $83 million Bank of Japan purchase of U.S. Export-Import Bank participation certificates. (These assets are not part of the Bank of Japan's official reserves.) In addition, there was some weakening of the current account in the first quarter, when there was a $100 million surplus compared with $177 million a year before. Little of this deterioration was in the trade account.

Strength in Canada's balance of payments continued in the fourth quarter, bringing the overall surplus for all of 1969 to approximately $550 million. Official net foreign assets, however, rose only a bit more than $50 million last year. In 1969, an inflow of long-term capital, mainly from sales of Canadian bonds in the United States and Germany, more than covered a current account deficit and a net outflow of short-term funds.

So far this year, the Canadian surplus has intensified markedly because of an exceptionally strong trade performance. In the first quarter, Canada had a seasonally adjusted trade surplus (imports f.o.b.) of $560 million--unusually large particularly if compared with last year when the trade surplus for the entire year was $617 million. Exports in

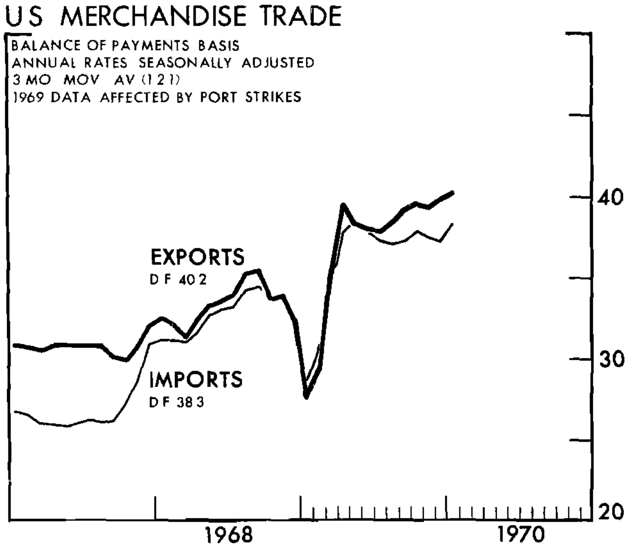
January-February, up 15 per cent from a year earlier, benefited from special factors affecting exports of crude oil to the United States and exports of iron ore and wheat. Imports, which have shown no growth since June 1969, were fractionally below a year earlier. It is expected that Canada's 1970 trade surplus will show a proportionately much smaller increase than the results of the first two months would imply, because of the disappearance of the special factors behind the recent buoyancy of exports.

There is some indication that in the first quarter long-term security issues by Canadian borrowers in the United States and other foreign markets were below the year-earlier total of nearly $600 million. Because of indications that Canadian banks substantially reduced their net foreign assets in March, Canada's first quarter surplus may have been a good bit less than the $300 million figure shown in Table 2 which omits March data for commercial banks.

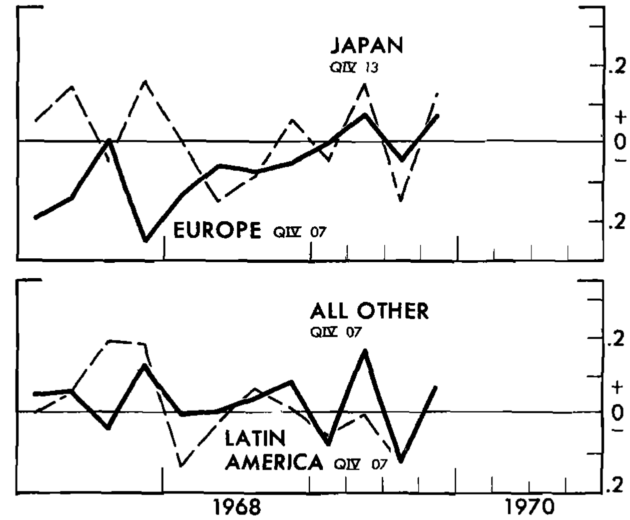
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

BILLIONS OF DOLLARS

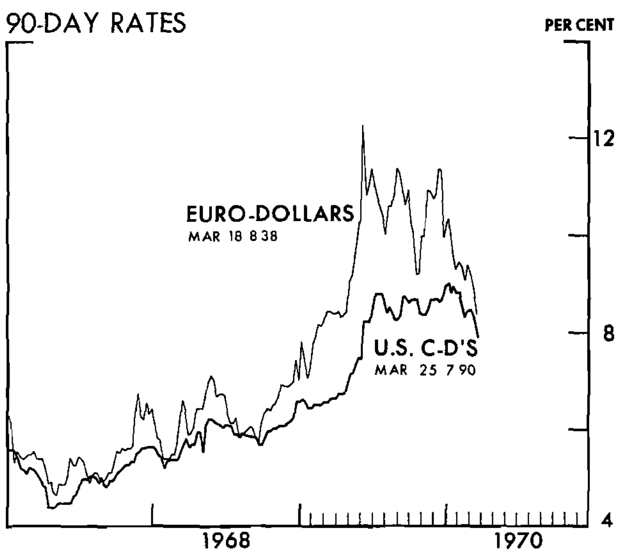
US MERCHANDISE TRADE



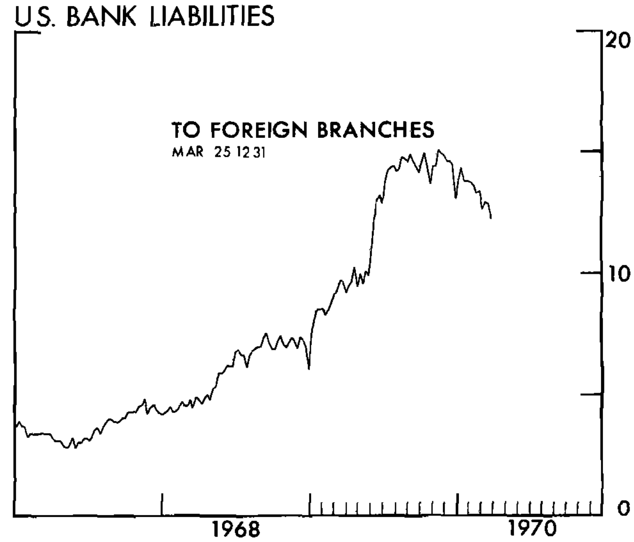
BANK LOANS AND ACCEPTANCES



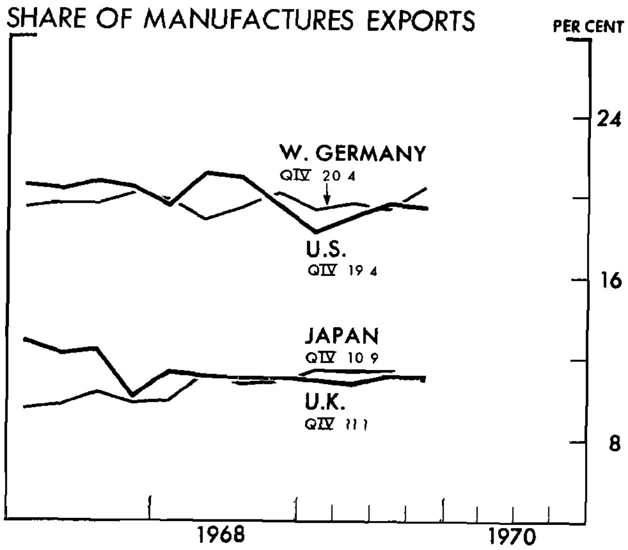
90-DAY RATES



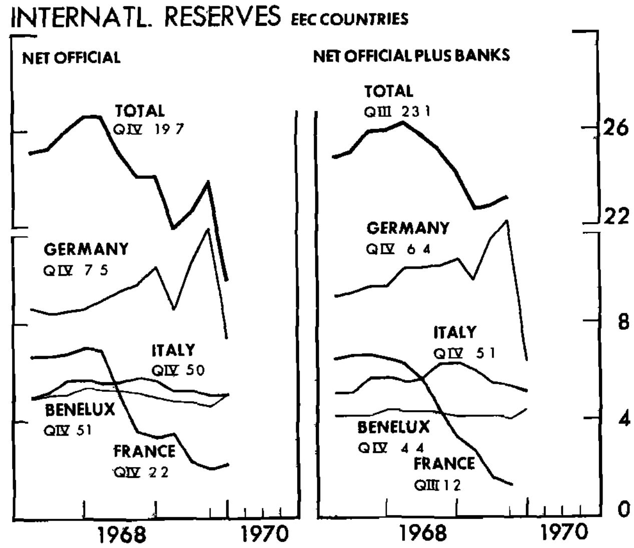
U.S. BANK LIABILITIES



SHARE OF MANUFACTURES EXPORTS



INTERNATL. RESERVES EEC COUNTRIES



Appendix A: THE UNITED KINGDOM BUDGET FOR FISCAL 1970-71*

The British government acted on April 14 to ease slightly both fiscal and monetary policy when it presented to Parliament the budget for fiscal 1970-71 (which began April 1).

The budget projects a smaller surplus in 1970-71 than in 1969-70. The reduction reflects primarily income tax relief (mainly for lower income taxpayers), a rise in the rate of increase of public sector expenditures, and a switch from net intake to net outflow of import deposits.

The principal monetary measures announced by the Chancellor in the budget speech were a cut in Bank Rate from 7-1/2 to 7 per cent effective April 15, the formal removal of the ceiling on bank lending instituted at the end of 1968, and a liberalization of the target for domestic credit expansion.

The principal rationale behind these easing measures was the very considerable improvement in Britain's external position that has been achieved in the last year. The basic balance of payments (the current account plus long-term capital), which had been in deficit by approximately £400 million (nearly $1 billion) in calendar 1968, recorded a surplus of about £400 million in calendar 1969. In addition, there were heavy short-term capital inflows toward the end of the year and in early 1970. Consequently, Britain repaid vast amounts of short- and medium-term external debt, reducing such liabilities from over $8 billion at the end of 1968 to less than $4 billion at the end of March 1970. Much of the repayment--about $2.4 billion--occurred during the first quarter of this year.

Though fitting as a restrained celebration of recent accomplishments, the appropriateness or relevance of the budget and related measures to future requirements may be questioned. The major problem currently confronting the British economy is a very rapid rise in wages, which increased at an annual rate of over 11 per cent from July to January and are undoubtedly continuing to rise rapidly. The measures announced April 14 will not check this wage explosion. In fact, they give some further stimulus to consumption, by providing tax relief primarily to those with a low marginal propensity to save.

The official government forecast which accompanied the presentation of the budget foresees an increase in real consumption of about 4 per cent from the first half of 1970 to the first half of 1971.

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* Prepared by Martin J. Kohn, Europe and British Commonwealth Section, Division of International Finance.

In current value terms, disposable personal income will probably rise at a rate not far below the rate at which wages are increasing. This implies--assuming no change in the savings ratio--a rate of price inflation of 6 to 7 per cent, faster than the rate at which prices are expected to rise in the United States and in major countries of Continental Europe.

The package of measures presented April 14 did not come as a surprise. With the necessity of calling an election within a year, the pressures on the government to ease were formidable.

The Budget for Fiscal 1970-71

The budget projects a surplus for the central government of £619 million--about 1.5 per cent of British gross domestic product--compared to £915 million in the year ended March 31. The public sector (including local authorities and public corporations) is expected to run a surplus of £244 million, compared with £598 million in 1969-70.

The projected decrease in the public sector surplus reflects in part an anticipated acceleration in public sector expenditures, which are expected to be 9.2 per cent higher in the current fiscal year than in 1969-70. The increase from 1968-69 to 1969-70 was only 5.2 per cent.

Refunds of import deposits will also contribute to the lower surplus. Net refunds will total over £400 million in 1970-71. In the last fiscal year they accounted for net receipts of £184 million. The import deposit requirement, initiated in November 1968, was extended beyond its planned expiration date in November 1969, though the amount importers were required to place with Customs was lowered from 50 to 40 per cent of the value of the goods being imported. In the budget speech, the Chancellor announced a further reduction, to 30 per cent.

Tax reductions announced by the Chancellor are expected to reduce revenue by about £220 million on a full year's basis. Changes in income taxes, affecting 18 million persons (2 millions of whom will cease paying tax), account for most of the revenues to be foregone. The most important revision is an increase in the flat-amount deductions for both single and married persons, explicitly designed to benefit primarily low income earners. The boosts in these reductions are to be partially offset by raising the tax on the first £260 of taxable income from 30 per cent to the standard rate of 41.25 per cent, but the two changes together are expected to cost £175 million a year.

Other changes in direct taxation include a rise in the amount of income from national insurance old-age pensions which can be exempted from taxation. The amount of income exempt from the surtax also was raised, from £2000 to £2500. This was the only move providing relief for relatively high income earners.

In the one measure aimed specifically at encouraging capital investment, the proportion of depreciation which can be deducted immediately on industrial building has been raised for buildings begun before April 6, 1972.

There were no changes in the corporate income tax, the selective employment tax or in sales taxes.

Monetary Policy Changes

The cut in Bank Rate to 7 per cent was the second reduction this year, the previous one--also of half a point--occurring March 5. The Chancellor attributed the move to the downward movement in Euro-dollar rates and to the strong position of the British balance of payments.

The abolition of the ceiling on bank lending to the private sector amounts mainly to acknowledgement of a fait accompli. The ceiling--imposed in November 1968--called for the clearing banks to reduce their loans--by March 1969--by about 4 per cent to 98 per cent of the amount outstanding in November 1967. (Loans for specific purposes of benefit to the balance of payments were exempt from the ceiling.) However, loans never were reduced to the 98 per cent target and in March were almost 6 per cent above the prescribed level. Since last October, though, the banks' failure to comply had occasioned no punitive action by the authorities, such as was taken last spring when the interest rate on special deposits which the clearing banks must maintain with the Bank of England was halved. (With the formal removal of the ceiling, the normal rate of interest on special deposits--approximately equal to the market rate on Treasury bills--has been restored.) The principal reason why the authorities abolished the ceiling--and had been unconcerned with enforcing it for the last several months--is the success of the authorities in restraining overall domestic credit expansion through holding down bank acquisitions of government debt, by means of the budgetary surplus and sales of long-term debt to nonbanks.

The removal of the loan ceiling does not mean, however, that bank lending will now be permitted to grow without restriction. First, the Chancellor indicated that bank lending formerly subject to the 98 per cent ceiling should expand by no more than 5 per cent in the current fiscal year. The new limit is less rigid than the previous ceiling because it applies to bank lending collectively, not to each individual bank as was true of the November 1968 directive. Second, the Chancellor announced a rise in the special deposits requirement, from 2 to 2-1/2 per cent. This means that each clearing bank must keep on deposit liabilities which it is not allowed to count toward the 28% liquidity requirement. The increase to 2-1/2 per cent is probably not large enough to slow significantly the expansion of bank lending and appears to have been intended primarily as a signal to the banks that they must continue to show restraint. An arrangement similar to the use of special deposits will be applied to the non-clearing banks to help control their lending.

The clearest indication that monetary policy is being loosened is provided by the Chancellor's statement that domestic credit expansion (DCE) may go as high as £900 million in fiscal 1970-71. In 1969-70 the DCE goal was £250 million, and the actual result was some domestic credit contraction. Domestic credit expansion is defined as the change in bank lending to both the private and public sectors, minus the increase in the country's net gold and foreign exchange reserves. DCE thus amounts to a measure of the change in credit supplied to the domestic economy by the U.K. banks plus credit supplied by the rest of the world (through acquisition of U.K. official liabilities).

The main justification for easing monetary stringency, according to the Chancellor, is to encourage capital investment. He indicated that lending institutions will continue to be kept under surveillance to insure that an easier money policy does not give rise to a disproportionate increase in lending for consumption purposes.

Incomes Policy

The Chancellor deplored the recent wage explosion, warning that the current rate of pay increases was unacceptably high. He gave no indication, however, that the government was prepared to take administrative action to slow wage rises. The government still has the power to delay wage and price boosts for up to four months but has not used this authority since the recent acceleration in wage increases began. Nor, in an election year, is it likely to do so, despite the virtual certainty that the rate of wage increases will not abate in the foreseeable future.

Growth Goals

The official Treasury forecast which accompanied the budget foresees a rise in real gross domestic product of 3-1/2 per cent from the first half of 1970 to the first half of 1971. The Chancellor, in the budget speech, estimated that, in the absence of the changes in taxation, growth would have been only 3 per cent. The Treasury acknowledges that 3-1/2 per cent represents a growth rate somewhat in excess of the "estimated rate of increase of productive potential," which is generally considered to be about 3 per cent. The feasibility of greater-than-capacity growth in the next year depends of course on the existence of unused capacity in the economy. The margin of unused capacity is not large, however, and, in certain important sectors such as production of machinery and equipment, capacity is thought to be tight.

Exports of goods and services--with an anticipated rate of growth of 4.3 per cent--are expected to be the fastest growing component of GDP between the first half of 1970 and the first half of 1971. However, this is much less than the 9 per cent rate of increase from the second half of 1968 to the second half of 1969. Growth in personal consumption is expected to accelerate, rising by 3.9 per cent in real terms from the first half of 1970 to the first half of 1971, in contrast to an increase of just over 1 per cent between the second halves of 1968 and 1969. Private sector fixed investment is also expected to grow more rapidly than in the recent past, with a 4.1 per cent rate of real growth predicted between the first halves of 1970 and 1971. Public sector expenditures on goods and services, which decreased in 1969, are expected to rise in 1970 but--at 2.5 per cent in real terms--will be lower than the rise in GDP. The projected rise in public authorities' consumption is 2.0 per cent, in public investment--3.4 per cent. A steady increase in inventory accumulation is forecast.

Imports of goods and services, which grew in real volume by only 1.3 per cent during 1969, are expected to rise by 6.3 per cent from the first half of 1970 to the first half of 1971. Thus final expenditures are projected to increase by 4.1 per cent in real terms, or by more than GDP. The Treasury minimized the detrimental effect of this surge in imports on the balance of trade because of an anticipated improvement in the terms of trade (with prices of imports expected to fall or rise less than those of exports).

An interesting though unexplained feature of the Treasury's forecast is a decline in the rate of growth in the first half of 1971. GDP is expected to gro by 4.3 per cent (annual rate) from the first half of 1970 to the second half of 1970, but by only 2.5 per cent from the second half of 1970 to the first half of 1971.