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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

December 9, 1970

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SUMMARY AND OUTLOOK

Nonfinancial

It now appears likely that real GNP will decline at an annual rate of about 2 per cent this quarter. The decline is attributable to the extended GM strike, with the return to full production taking somewhat longer than we had earlier anticipated. Discounting the strike and its secondary effects, however, expansive vigor still appears quite limited.

Industrial production is tentatively estimated to have declined about one-half per cent further from October to November to a level 7.5 per cent below the high of July 1969 (5.0 per cent, apart from the strike effects). Auto assemblies were about unchanged from the reduced October pace, but output of defense and business equipment continued to decline, with the latter down about 12 per cent from its October 1969 high. Retail sales have continued sluggish and several recent surveys suggest some further deterioration in consumer attitudes.

The labor market continued weak in November, with a further increase in the unemployment rate to 5.8 per cent. Manufacturing employment dropped 135,000 further, with widespread weakness in the durable goods industries. In nonmanufacturing activities, a decline in trade employment was about offset by increases in services and State and local government.

The GNP price deflator is projected to increase at a 4.2 per cent annual rate in the fourth quarter, somewhat more than anticipated earlier but less than in the third quarter. Industrial wholesale prices

from October to November were unchanged--for the first time in two years--while prices of farm products and foods declined. On the other hand, the latest reading on the consumer price index--for October--showed an annual rate of increase of 6.5 per cent, about the same as in September. This recent upsurge follows an interval in which the pace of increase in this index seemed to be moderating.

Outlook. The projected increase of about \$5.5 billion in nominal GNP in the fourth quarter is the smallest of the past year. The GM strike--including its effects on supplying industries--is estimated to have cut roughly \$8 billion (annual rate) from the rise in nominal GNP in the fourth quarter, following an estimated \$2 billion loss in the third quarter. The estimated strike loss thus cumulates to a \$10 billion effect on the level of GNP, most of which is likely to be made up in the first quarter of 1971. On this basis, we are projecting a very large rise of about \$26.5 billion in first quarter GNP, with real output expected to rise at an annual rate of nearly 6 per cent. Taking the fourth and first quarters together, however, growth in real GNP would average only about 2 per cent.

In the second and subsequent quarters of next year, increases in GNP are projected at about \$16 to \$17 billion and real growth at an annual rate of 2.5 to 3 per cent. Continued sizable advances in residential construction activity and in State and local purchases, reflecting ample availability of funds, provide much of the upward impetus. Business expenditures on plant and equipment are projected to remain relatively

flat over this period and to decline further in real terms. For the year, dollar outlays would be 1 per cent below those for 1970 and somewhat weaker than suggested by recent surveys. Following a post-strike bulge in the first quarter, growth in consumer spending is expected to rise at a relatively moderate pace for the balance of the year.

At the growth rates we are projecting for real GNP, the unemployment rate is expected to trend upward throughout the year. While resource use thus is likely to slacken further, there are a number of reasons for expecting only gradual moderation in the pace of overall price increase. In view of prospective sizable increases in wage rates, manufactured product prices will be reflecting a continued updrift in unit labor costs. In addition, relative stability in retail food prices in recent months may give way to some rise next year. Finally, there is little reason for expecting any important moderation in the upward trend of service prices, except for home financing costs.

Financial

Declines in market rates since the last meeting of the Committee have ranged generally to as much as one-half to three-quarters of a percentage point in both short and long-term markets. Further cuts in the discount and bank prime rates, evidence of additional weakness in the economy, and expectations of further easing in monetary policy have contributed to these declines, encouraging investors to bid aggressively for the very large continuing flow of new corporate and municipal security offerings.

A key factor in the prime rate cuts was the continued shrinkage

of outstanding business loans at banks. Loan repayments from the proceeds of capital market financings, auto-strike effects, and the general sluggishness of economic activity appear to have been mainly responsible for this persisting weakness. Since other loans were also on the weak side, while deposit inflows remained sizeable, banks have continued to add substantially to their security holdings.

Growth of the money stock in November was up a bit from the very slow pace of October, but transactions demands for cash were held down by sluggish economic activity, which included the effects of the auto strike. Although interest-bearing deposits at commercial banks expanded somewhat less rapidly than in October and the third quarter, growth of these deposits remained large. Moreover, the adjusted bank credit proxy rose considerably more than in October, as repayment of nondeposit liabilities slowed down somewhat and U. S. Government deposits rose.

Fragmentary information from non-bank thrift institutions suggests that their savings inflows also remained strong during November, reportedly encouraging a continuation of the heavy build-up of mortgage loan commitments that has occurred in recent months. The general downward pressure on mortgage rates being exerted by these developments led officials to reduce the ceiling rate on FHA and VA mortgages from 8-1/2 to 8 per cent, effective December 1.

Outlook. A significant slackening in the volume of new security issues is now widely forecast for the first quarter of next year. Federally sponsored housing finance agencies are expected to be sizeable net

repayers of debt over the period; the U. S. Treasury--which frequently has been a large seasonal borrower in January--is not expected to need additional new cash until late February or early March (beyond the minor remaining scheduled additions to regular bill auctions in December); and most analysts anticipate some moderation in the volume of corporate security offerings as well. While business needs for external financing will remain large, and the queue of unsatisfied capital market borrowers is reportedly still long (particularly among lesser-rated firms), the effort to improve liquidity by restructuring debt may have passed its crest. Also, with commercial banks apparently again soliciting business borrowers more actively, some corporate substitution of bank funds for capital market financing seems likely. The market for State and local government securities is, thus, the only sector where new issue volume is expected to expand. The Board's latest quarterly survey of State and local financing anticipations suggests that volume in this market may rise to a new record after the turn of the year.

At commercial banks, business loans will very likely strengthen somewhat as the economy recovers from the effects of the auto strike. But it is not clear that bank efforts to stimulate a significant pick-up of business borrowing, including a diversion of borrowers from market sources to banks, can be very effective at current interest rates. Despite the earlier cuts, the current spread of the prime rate over the commercial paper rate is still wide. The degree of interest by banks in CD funds will depend in part on their success in attracting

business borrowers and also on reactions to recent Board decisions affecting Euro-dollar borrowings.

With the competitive position of consumer-type accounts at bank and non-bank institutions substantially strengthened by recent sharp declines of market interest rates, inflows to such accounts are likely to be well maintained over the months ahead, absent a sharp drop in the saving rate. Assuming that the money supply continues to grow in a 5-6 per cent annual rate range, long-term interest rates will probably continue to trend down, although there may very well be periods of hesitation and temporary reversal along the way as market participants pause to take stock of underlying economic and financial tendencies. Short-term interest rates may already have made most of their adjustment, however, (given the above money supply assumption) in view of the projected first quarter resurgence in auto output, sales, and associated credit demands.

International developments and the balance of payments

The pause in the rise of industrial production abroad this year--which has spread to Japan since midyear--has had adverse effects on the U. S. balance of trade on the side of imports as well as of exports. This is a consequence of the easing of demand-supply conditions in world markets for semi-manufactured materials such as steel and textiles. Imports in October were even higher than in September, when they had risen instead of declining as had been expected. Imports of steel and of textile yarns and fabrics have been significantly larger than last spring, and the rise in total imports since last spring is

more than fully accounted for by increased purchases from continental Europe and Japan. Talk of new import quotas may have been an additional factor, but it has not brought any abnormal inflow of finished apparel and footwear.

On the export side, sales of steel, aluminum, and chemicals have been lower in recent months than they were last spring. Total exports, however, have risen in line with expectations because exports this autumn of agricultural products such as soybeans, wheat, and animal feed grains have been larger than expected. Aircraft shipments picked up in October, as scheduled.

The September and October trade statistics make it look very unlikely that earlier projections of a \$3-1/2 billion rate of trade surplus in the current quarter--and a \$5-1/2 billion rate of net exports of goods and services--can be realized. In the 4th-quarter column of the GNP table we have marked down the net export figure to \$5 billion, which may still prove to be high.

The generally accepted projections of real GNP in major industrial countries still call for considerable growth in European and Japanese economic activity next year, though at a slower pace than in the past two years and with much less strain on resources. The further growth in these economies and an upturn in Canada will help to sustain growth of world trade and, in particular, U. S. exports, but U. S. sales to European countries in the near term are likely to grow only slowly beyond current levels.

The over-all deficit in the balance of payments appears to

have been running in October and November at an annual rate of about \$3 billion on the liquidity basis before special transactions. On the official settlements basis, the deficit was extremely large in October and November (taking the two months together). The Board's action in amending the reserve requirements on Eurodollar borrowings has checked the run-off in bank liabilities to foreign branches for the time being, so that a much more favorable December balance on official settlements now seems probable.

There is insufficient evidence yet, either on trade or on capital flows, to call for a modification of the balance of payments projection for 1971 given at the last meeting of the Committee, which suggested that if unrecorded capital outflows were not unusually large, the adjusted liquidity deficit might be about \$3 billion next year. The decline in U. S. interest rates and the upturn in the stock market may be having mixed effects on flows of capital. It remains especially difficult to predict U. S. banks' Eurodollar repayments at any distance ahead.

December 8, 1970

SELECTED DOMESTIC FINANCIAL DATA

	1970					1970
	Averages					Week ended Dec. 2
	QI	QII	QIII	Oct.	Nov.	
Interest rates, per cent						
Federal funds	8.56	7.88	6.71	6.20	5.60	5.50
3-mo. Treasury bills	7.21	6.67	6.33	5.91	5.28	5.04
3-mo. Federal agencies	7.72	7.09	6.67	6.23	5.48	4.97
3-mo. Euro-dollars	9.26	8.87	8.34	7.94	7.17	7.31
3-mo. finance co. paper	7.94	7.41	7.31	6.76	6.16	5.50
4-6 mo. commercial paper	8.55	8.16	7.73	6.85	6.31	5.69
Bond buyer municipals	6.35	6.81	6.33	6.39	5.93	5.44
Aaa corporate-new issues	8.45	8.94	8.51	8.63	8.34	8.20
20-year Treasury bonds	6.78	7.14	6.96	6.88	6.58	6.35
FHA mortgages, 30-year	9.25	9.12	9.06	8.97	n.a.	--
	1970					
	QI	QII	QIII	Oct.	Nov.	
Change in monetary aggregates (SAAR, per cent)						
Total reserves	-2.9	2.6	19.2	-3.6	4.2	
Nonborrowed reserves	-0.4	4.1	24.4	-0.5	4.9	
Credit proxy	0.6	6.0	24.1	10.1	13.5	
Credit proxy + nondep. funds	0.5	6.5	17.2	1.1	7.4	
Money supply	5.9	5.8	6.1	1.1	2.8	
Time and savings deposits	1.4	14.1	32.2	20.3	15.1	
Deposits at S&L's and MSB's	1.7	6.9	10.0	10.5	n.a.	
Bank credit, end-of-month <u>1/</u>	2.5	6.6	13.9	-1.7	7.8	
Treasury securities	-12.3	30.2	25.9	-27.1	4.3	
Other securities	9.5	11.0	20.3	30.5	35.6	
Total loans <u>1/</u>	3.4	1.4	9.8	-5.3	1.2	
Business <u>1/</u>	6.3	9.8	1.8	-13.8	-8.6	
	1970					
	QI	QII	QIII	Oct.	Nov.	
Change in commercial paper (\$ millions)						
Total (SA)	3,185	2,091	-4,298	- 104	-1,526	
Bank-related (NSA)	2,226	1,033	-2,967	- 915	- 544	
	1968	1969		1970		
	2nd H.	2nd H.	QIII	Nov.	QIII	Nov.
New security issues (NSA, \$ millions)						
Total corp. issues	11,083	13,172	6,332	2,375	8,525e	4,050e
Public offerings	7,801	10,769	4,983	2,148	7,578e	3,750e
State and local government bond offerings	8,978	5,446	2,464	886	4,421	1,600e
Fed. sponsored agency debt (change)	798	5,687	2,717	1,025	1,442	434e
Fed. govt. debt (change)	11,072	9,812	4,741	2,695	7,366	3,440p

n.a. - Not available.

e - Estimated.

p - Preliminary.

SAAR - Seasonally adjusted annual rate.

NSA - Not seasonally adjusted.

1/ Adjusted for loans sold to bank affiliates.

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

	1969	1 9 7 0 P			
	Year	I	II	III	Oct.*
<u>Goods and services, net 1/</u>	<u>1,949</u>	<u>832</u>	<u>1,104</u>	<u>1,021</u>	
Trade balance 2/	638	505	829	720	86
Exports 2/	36,473	10,228	10,705	10,678	3,595
Imports 2/	-35,835	-9,723	-9,876	-9,958	-3,509
Service balance	1,311	327	275	301	
<u>Remittances and pensions</u>	-1,190	-328	-360	-360	
<u>Govt. grants & capital, net</u>	-3,828	-855	-725	-759	
<u>U.S. private capital</u>	<u>-5,233</u>	<u>-1,688</u>	<u>-1,870</u>	<u>-1,339</u>	
Direct investment	-3,070	-1,411	-1,434	-759	
Foreign securities	-1,494	-133	66	-576	-196
Banking claims	-541	145	-445	126	-152
Other	-128	-289	-57	-130	
<u>Foreign capital</u>	<u>12,330</u>	<u>1,738</u>	<u>1,749</u>	<u>1,065</u>	
Official foreign, liquid	-517	3,050	466	1,490	368
Official reserve holders, nonliquid	-996	-421	506	-244	-2
Other official foreign, nonliquid	259	-32	-198	-1	
Foreign commercial banks, liquid	9,217	-1,865	-102	-1,375	-394
New direct investment issues 3/	1,029	155	267	170	
U.S. corporate stocks	1,565	-85	-87	381	157
Other	1,773	936	897	644	
<u>U.S. monetary reserves (inc.-)</u>	<u>-1,187</u>	<u>481</u>	<u>1,022</u>	<u>801</u>	<u>407</u>
Gold stock	-967	-44	14	395	-1
Special drawing rights	--	-53	-37	-34	--
IMF gold tranche	-1,034	-253	227	406	121
Convertible currencies	814	831	818	34	287
<u>Errors and omissions</u>	<u>-2,841</u>	<u>-182</u>	<u>-920</u>	<u>-428</u>	
<u>BALANCES (deficit -) 4/</u>					
Official settlements, S.A.		-3,110	-1,994	-2,047	
" " , N.S.A.	2,700	-2,830	-2,061	-2,611	-773
Liquidity, S.A.		-1,656	-1,451	-855	
" " , N.S.A.	-7,012	-1,548	-1,426	-1,661	-400
Adjusted over-all, S.A.		-1,245	-1,892	-672	
" " , N.S.A.	-6,517	-1,145	-1,874	-1,486	-379
Financed by: 5/					
Liab. to comm. banks	9,217	-1,685	-187	-1,125	-394
Official settlements	-2,700	2,830	2,061	2,611	773

* 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 SDRs on January 1, 1970; total \$867 million, quarterly S.A., \$217 million.

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

THE ECONOMIC PICTURE IN DETAIL

Domestic Nonfinancial Scene

Gross national product. Recent data suggest a further weakening of activity in November. Although the effects of the GM strike were still distorting underlying economic trends, production and employment cuts occurred in sectors not affected by the strike, and retail sales continued sluggish. We are now anticipating an increase of only \$5-1/2 billion in GNP in the fourth quarter rather than the \$9 billion projected in the last Greenbook. Moreover, it now appears likely that the GNP deflator will rise more rapidly than we had earlier thought, and real GNP is projected to decline by 2 per cent, annual rate, from the third quarter.

Consumer demand appears to be even more sluggish than we had been estimating. Retail sales, excluding autos, showed no gain in November according to weekly data, and in real terms were little higher than a year earlier. Unit sales of domestic-type cars dropped from about 6 million, annual rate, in October to 5 million in November. While this decline reflected for the most part the increasing scarcity of GM cars, sales of non-GM models were running no better, or possibly slightly under, the pre-strike rate.

CHANGES IN GNP AND RELATED ITEMS, 1970
(Seasonally adjusted, annual rates)

	Fourth Quarter	
	Chart Show Projection	Current Projection
	-----Billions of dollars-----	
GNP	9.3	1.4
Final sales	13.3	10.9
Personal consumption	8.0	6.7
Residential construction	2.9	2.8
Business fixed investment	- .5	-1.6
Net exports	1.0	.7
Federal purchases	-1.2	- .8
State & local purchases	3.0	3.0
Inventory change	-4.0	-5.5
	-----Per cent-----	
Real GNP	- .2	-2.0
GNP deflator	4.0	4.2

Because of the recent sluggishness of auto demand, as well as the fact that GM is taking somewhat longer to get into full production than we had anticipated, we have cut back the projected rate of December auto sales, and reduced our estimate of the fourth quarter increase in consumer durable goods outlays by about \$1-1/2 billion.

Another reason for our forecast of a smaller GNP increase for the fourth quarter is the upward adjustment made by the Commerce Department in the third quarter rate of inventory accumulation, from \$4.0 to \$5.5 billion--part of which appears to have been involuntary. Although the book value of manufacturing inventories rose strongly in October, trade inventories declined sharply because of autos and December should see a further depletion of dealer stocks. We thus

continue to carry a projection of no inventory accumulation in the fourth quarter, and the decline from the third quarter rate of inventory investment is now \$1.5 billion greater than before.

The export surplus projected for the fourth quarter was also revised down. This less optimistic outlook reflects a surprisingly strong growth of imports over the past few months--particularly of industrial materials and machinery.

In other sectors, we are now projecting a somewhat larger downturn in business fixed investment outlays this quarter, reflecting mainly lower GM sales of cars and trucks to business. On the positive side, it still appears likely that we will have a strong gain in residential construction outlays and a moderate gain in State and local expenditures.

CHANGES IN GNP AND RELATED ITEMS, 1971
(Seasonally adjusted, annual rates)

	First Quarter		Second Quarter	
	Chart Show Projection	Current Projection	Chart Show Projection	Current Projection
	-----Billions of dollars-----			
GNP	22.5	26.6	13.5	16.5
Final sales	20.5	24.6	11.5	14.5
Personal consumption	15.0	16.7	7.9	9.9
Residential construction	2.2	2.3	1.6	1.5
Business fixed investment	-1.2	.5	-1.0	-.5
Net exports	.3	.5	.2	.0
Federal purchases	1.2	1.5	-1.0	-.1
State & local purchases	3.0	3.1	3.8	3.7
Inventory change	2.0	2.0	2.0	2.0
	-----Per cent-----			
Real GNP	4.3 ^{1/}	5.8 ^{2/}	1.7	2.7
GNP deflator	4.7 ^{1/}	4.9 ^{2/}	3.6	3.8

^{1/} Excluding effects of Federal pay increase, 3.8 per cent per year.

^{2/} Excluding effects of Federal pay increase, 4.0 per cent per year.

Activity in the early months of next year will likely be dominated by the recovery of auto production, with the major impact evident in higher consumer durable goods outlays, and to a lesser extent on inventories and business fixed investment. We are now projecting an increase in GNP of about \$26-1/2 billion in the first quarter, significantly larger than formerly, and real GNP rises at an annual rate of close to 6 per cent. With the return to full production by GM now apparently not likely till close to year end, the increase in auto output between the fourth and first quarters should be larger than we had earlier estimated, despite the fact that we have reduced somewhat the projected rate of auto sales for 1971. Consumer outlays for nondurable goods and services also are expected to rise slightly more, supported by larger Federal transfer payments. These transfers are now estimated to total about \$1-1/2 billion more per quarter in the first half of next year; by the end of the 1971 calendar year, they are expected to total about \$3 billion more than our previous estimates.

Growth in GNP in the second quarter is expected to slip back to about \$16-1/2 billion, following the first quarter catch-up in auto output and sales. (We have continued to exclude from these projections any assumption of a probable build-up of steel inventories as a strike hedge in the first two quarters and an offsetting decline later in the year.) The second quarter increase is also larger than we had formerly projected, due in part to more of a rise in consumer spending and in part to a smaller decline in defense outlays than estimated before. In addition, we continue to project a retroactive Federal pay raise of \$2.8

billion for the second quarter. (Following the procedure used by Commerce last year, these outlays are included in Federal purchases in the GNP accounts in the first quarter, but are treated as a \$5.6 billion increase in personal income in the second quarter, when they are assumed to be paid out.)

In the second half of 1971 GNP growth is projected to continue at about the second quarter rate, averaging around \$17 billion a quarter. We continue to make the same assumption with respect to monetary policy in 1971 as in the recent chart show. Reflecting the more favorable financial atmosphere, increases in residential construction activity and in State and local outlays are expected to provide additional impetus to overall growth. Federal government purchases and business fixed investment appear likely to be more or less neutral factors, while gains in consumer demand are expected to continue moderate after mid-year, supported in part by larger transfer payments. Since increases in employment and income are projected to be small and gains in disposable income modest, the saving rate is expected to decline somewhat from the second quarter.

Despite the projected rapid increase in the first quarter of 1971, the rate of real growth over the year as a whole is still expected to be significantly short of potential growth, and we are continuing to project gradual increases in the unemployment rate through the end of 1971. With lessening pressure on resources, we expect further easing of price pressures, but the recent strong increases in wages and consumer prices have caused us to raise our earlier price projection, quarter by

quarter, for the year as a whole. In sum, the unemployment rate is projected to rise to 6.7 per cent by the fourth quarter of 1971 while the rate of increase in the GNP price deflator slows only to 3.4 per cent.

CHANGES IN GNP AND RELATED ITEMS, 1971
(Seasonally adjusted, annual rates)

	Third Quarter		Fourth Quarter	
	Chart Show Projection	Current Projection	Chart Show Projection	Current Projection
-----Billions of dollars-----				
GNP	16.0	16.0	17.0	17.5
Final sales	15.5	15.5	16.5	17.0
Personal consumption	9.0	9.6	10.3	11.0
Residential construction	1.5	1.5	1.4	1.4
Business fixed investment	.0	.0	.5	.5
Net exports	.0	.0	.0	.0
Federal purchases	1.2	.6	.4	.1
State & local purchases	3.8	3.8	3.9	4.0
Inventory change	.5	.5	.5	.5
-----Per cent-----				
Real GNP	2.8	2.6	3.3	3.2
GNP deflator	3.4	3.6	3.2	3.4

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.)

	1970 Proj.	1971 Proj.	1970		1971 Projection			
			III	IV	I	II	III	IV
Gross National Product	976.7	1042.2	985.5	990.9	1017.5	1034.0	1050.0	1067.5
Final purchases	974.2	1038.4	980.0	990.9	1015.5	1030.0	1045.5	1062.5
Private	753.7	804.7	759.0	767.7	787.7	798.6	809.7	822.6
Excluding net exports	749.5	799.3	754.8	762.8	782.3	793.2	804.3	817.2
Personal consumption expenditures	617.1	660.5	622.1	628.8	645.5	655.4	665.0	676.0
Durable goods	90.1	95.0	91.2	88.3	95.0	94.5	94.5	96.0
Nondurable goods	264.3	281.2	265.8	270.0	274.5	279.4	283.5	287.5
Services	262.7	284.3	265.1	270.5	276.0	281.5	287.0	292.5
Gross private domestic investment	135.0	142.7	138.3	134.0	138.8	141.8	143.8	146.2
Residential construction	29.7	36.5	29.2	32.0	34.3	35.8	37.3	38.7
Business fixed investment	102.8	102.3	103.6	102.0	102.5	102.0	102.0	102.5
Change in business inventories	2.6	3.9	5.5	0.0	2.0	4.0	4.5	5.0
Nonfarm	2.1	3.9	5.0	0.0	2.0	4.0	4.5	5.0
Net exports of goods and services	4.2	5.4	4.2	4.9	5.4	5.4	5.4	5.4
Gov't. purchases of goods & services	220.6	233.7	221.0	223.2	227.8	231.4	235.8	239.9
Federal	99.6	99.6	98.6	97.8	99.3	99.2	99.8	99.9
Defense	76.4	73.9	75.8	73.8	74.3	73.5	73.7	73.9
Other	23.2	25.7	22.9	24.0	25.0	25.7	26.1	26.0
State & local	121.0	134.2	122.4	125.4	128.5	132.2	136.0	140.0
Gross national product in constant (1958) dollars	725.0	741.7	727.4	723.7	734.1	729.0	743.8	749.8
GNP implicit deflator (1958 = 100)	134.7	140.5	135.5	136.9	138.6	139.9	141.2	142.4
Personal income	801.3	852.3	807.2	814.4	829.4	848.6	858.5	872.5
Wages and salaries	540.4	571.1	543.8	546.2	556.2	569.5	574.5	584.1
Disposable income	685.1	733.1	693.0	698.6	713.9	730.1	738.2	750.1
Personal saving	50.1	53.1	52.7	51.2	49.4	55.4	53.5	54.1
Saving rate (per cent)	7.3	7.2	7.6	7.3	6.9	7.6	7.2	7.2
Corporate profits before tax	83.2	89.1	85.0 ^p	83.0	87.0	88.5	89.5	91.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	195.8	208.6	195.5 ^p	195.2	203.8 ^{1/}	207.5 ^{1/}	210.1	213.1
Expenditures	206.3	224.0	206.7	210.0	216.0 ^{1/}	225.9 ^{1/}	225.6	228.4
Surplus or deficit (-)	-10.5	-15.4	-11.2 ^p	-14.8	-12.2 ^{1/}	-18.4 ^{1/}	-15.5	-15.3
High employment surplus or deficit (-)	-0.9	4.0	-1.7	1.2	4.0	0.0	4.8	7.0
Total labor force (millions)	86.0	87.2	86.0	86.4	86.7	87.0	87.4	87.7
Armed forces "	3.2	2.9	3.1	3.0	3.0	2.9	2.9	2.9
Civilian labor force "	82.8	84.3	82.8	83.4	83.7	84.1	84.5	84.8
Unemployment rate (per cent)	5.0	6.4	5.2	5.7	6.0	6.3	6.6	6.7
Nonfarm payroll employment (millions)	70.7	70.8	70.5	70.2	70.6	70.7	70.8	71.0
Manufacturing	19.4	19.1	19.3	18.8	19.2	19.1	19.1	19.1
Industrial production (1957-59=100)	167.6	169.0	168.0	162.5	167.0	168.0	169.2	171.6
Capacity utilization, manufacturing (per cent)	76.6	73.3	76.3	72.3	73.8	73.3	73.0	73.0
Housing starts, private (millions A.R.)	1.41	1.77	1.51	1.58	1.65	1.75	1.82	1.85
Sales new domestic autos (millions, A.R.)	7.39	8.29	7.99	6.25	8.60	8.30	8.00	8.25

^{1/} Federal pay increase paid in 71-II retroactive to 71-I; included in Federal purchases in 71-I, but not in total Federal expenditures, wages and salaries and personal income until 71-II.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1970 Proj.	1971 Proj.	1970		1971 Projection			
			III	IV	I	II	III	IV
-----Billions of dollars-----								
Gross National Product	45.3	65.5	14.4	5.4	26.6	16.5	16.0	17.5
Inventory change	-5.9	1.3	2.4	-5.5	2.0	2.0	0.5	0.5
Final purchases	51.3	64.2	11.9	10.9	24.6	14.5	15.5	17.0
Private	43.0	51.0	9.3	8.7	20.0	10.9	11.1	12.9
Excluding net exports	40.7	49.8	9.2	8.0	19.5	10.9	11.1	12.9
Net exports	2.3	1.2	0.1	0.7	0.5	0.0	0.0	0.0
Government	8.4	13.1	2.6	2.2	4.6	3.6	4.4	4.1
GNP in constant (1958) dollars	-2.1	16.7	2.5	-3.7	10.4	4.9	4.8	6.0
Final purchases	2.9	15.5	0.9	1.1	8.5	3.0	4.3	5.6
Private	8.6	16.0	1.6	0.5	9.2	2.7	3.2	4.6
-----In Per Cent Per Year-----								
Gross National Product	4.9	6.7	6.1	2.2	10.7	6.5	6.2	6.7
Final purchases	5.6	6.6	4.9	4.4	9.9	5.7	6.0	6.5
Private	6.1	6.8	5.0	4.6	10.4	5.5	5.6	6.4
Personal consumption expenditures	6.9	7.0	5.0	4.3	10.6	6.1	5.9	6.6
Durable goods	0.1	5.4	-3.0	-12.7	30.3	-2.1	0.0	6.3
Nondurable goods	7.5	6.4	4.9	6.3	6.7	7.1	5.9	5.6
Services	8.7	8.2	8.0	8.1	8.1	8.0	7.8	7.7
Gross private domestic investment	-3.4	5.7	11.9	-12.4	14.3	8.6	5.6	6.7
Residential construction	-7.2	22.9	11.3	38.4	28.7	17.5	16.8	15.0
Business fixed investment	3.5	-0.5	3.1	-6.2	2.0	-1.9	0.0	2.0
Gov't. purchases of goods & services	4.0	5.9	4.8	4.0	8.2	6.3	7.6	7.0
Federal	-1.7	0.0	-4.4	-3.2	6.1	-0.4	2.4	0.4
Defense	-3.0	-3.3	-5.2	-10.6	2.7	-4.3	1.1	1.1
Other	2.7	10.8	0.0	19.2	16.7	11.2	6.2	-1.5
State & local	9.2	10.9	12.5	9.8	9.9	11.5	11.5	11.8
GNP in constant (1958) dollars	-0.3	2.3	1.4	-2.0	5.8	2.7	2.6	3.2
Final purchases	0.4	2.1	0.5	0.6	4.7	1.6	2.3	3.0
Private	1.5	2.7	1.1	0.3	6.3	1.8	2.2	3.1
GNP implicit deflator	5.2	4.2	4.6	4.2	4.9*	3.8	3.6	3.4
Personal income	7.0	6.4	2.9	3.6	7.4	9.3	4.7	6.5
Wages and salaries	6.2	5.7	3.2	1.8	7.3	9.6	3.5	6.7
Disposable income	8.5	7.0	5.5	3.2	8.8	9.1	4.4	6.4
Corporate profits before tax	-8.8	7.1	14.6	-9.4	19.3	6.9	4.5	8.9
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	-2.4	6.5	-2.4	-0.6	17.6	7.3	5.0	5.7
Expenditures	7.8	8.6	11.5	6.4	11.4	18.3	-0.5	5.0
Nonfarm payroll employment	0.6	0.1	-2.0	-1.7	2.3	0.6	0.6	1.1
Manufacturing	-4.0	-1.5	-6.0	-10.4	8.5	-2.1	0.0	0.0
Industrial production								
Housing starts, private	-4.1	25.5	70.0	18.5	17.7	24.2	16.0	6.6
Sales new domestic autos	-12.6	12.2	2.0	-87.1	150.4	-14.0	-14.5	12.5

* Excluding Federal pay increase, 4.0 per cent.

Industrial production. Industrial production in November is tentatively estimated to have declined a little over one-half per cent further to a level of about 161.3 per cent compared with the preliminary October figure of 162.3. Declines in output were centered in business and defense equipment, some materials, and the auto supplying industries.

Auto assemblies in November were about unchanged from October and the GM strike had little or no further direct effect on changes in the index between these 2 months. Auto production schedules for December are estimated at a seasonally adjusted annual rate of 7 million units compared with 4 million units in November. The rise in auto production plus other direct and secondary effects due to the strike settlement will probably add about 2 points or more to the total index in December.

Output of consumer goods other than autos probably changed little in November. Production of television sets and appliances was maintained at about the October level and output of furniture again increased, but production of room air-conditioners was reduced further.

Among business equipment lines, output of industrial equipment and commercial aircraft declined again, but production of commercial equipment--mainly communication equipment--rose following 7 months of decline.

Production of raw steel declined in November and trade reports indicate some cutback in output of aluminum and some other nonferrous metals. Production of paper and paperboard remained below year ago levels and the employment data indicate output reductions in the rubber and chemical industries from October to November.

Retail sales. Estimates based on data the four weeks ending November 28 suggest that retail sales in November were 1.0 to 1.5 per cent lower than now shown by the preliminary figures for October. Even exclusive of the automotive group, sales apparently were down slightly.

In November, sales of new domestic autos declined to a seasonally adjusted annual rate of 5 million units, down nearly a fifth from October and two-fifths from a year earlier. Sales of imported cars were at an annual rate of 1.4 million, up 5 per cent from last month and 10 per cent above a year earlier. Dealers' stocks of domestic autos continued to decline and at the end of November were a fourth below the mid-summer high and 30 per cent below a year earlier.

According to the preliminary estimate, retail sales in October declined 1.3 per cent, about the same as shown by the advance figures. The revised figures show September sales edging up a trifle rather than unchanged. Sales of the automotive group were off 13 per cent in October, primarily because of the GM strike, but other sales were up 1.5 per cent, with relatively large gains at furniture and appliance stores and apparel stores.

Consumer credit. Reflecting in part the effect of the GM strike, there was a sharp decrease in the volume of auto financing during October which in turn was responsible for the first monthly decline in total consumer instalment credit outstanding since April 1961. On a seasonally adjusted annual rate basis, the overall reduction in October amounted to \$1.0 billion; automobile credit fell at a \$2.4

billion rate but there were partially offsetting increases in nonautomotive consumer goods and personal loans.

The reduced volume of lending activity and the large inflow of repayments and deposits has enabled a number of major commercial banks to announce across-the-board reductions in interest rates on consumer loans. Rates on consumer loans--which tend to be less flexible than other interest rates--were generally last increased during late 1968 and early 1969 when they reached maximum legal ceilings in some states, such as New York. The recent decreases have amounted to about 1/2 per cent on a simple annual interest rate basis. Consumer loan rates vary widely across the country, however; even after announced reductions, the rate on personal loans at a major California bank is about 14-1/2 per cent (simple annual interest) while in New York a similar bank loan may be available in a range of 11 to 12-3/4 per cent.

Consumer surveys. The latest round of consumer surveys by Census, the National Industrial Conference Board, and the Michigan Survey Research Center all indicate a worsening of consumer attitudes. The Census survey taken in October reported a decline in expected car purchases and a further deterioration of family income expectations. The National Industrial Conference Board survey for September-October reported poorer business and income expectations, lower auto purchase plans and fewer plans to purchase a major appliance in the next six months. In both the Census and ~~NICB~~ surveys, however, there was some increase in home purchase plans.

The October-November index of consumer sentiment--compiled by the Michigan Survey Research Center (SRC) from five attitudinal questions on market conditions for household durables, expected business conditions, and present and expected personal financial situations--declined over 4-1/2 percentage points to 72.4 (February 1966 = 100), a new low for the series. Most of the decline was attributable to more pessimistic forecasts of one-year and five-year business conditions and an increased belief that now was a bad time to buy household durables.

The Michigan survey also indicated that consumers were very concerned with the possibility of future unemployment and existing inflationary pressures, although price fears did not intensify from the preceding survey. Automobile purchase plans were lower than a year earlier, as they have been all year. Purchase plans for household durables were also lower.

The Survey Research Center suggests, however, that the index of sentiment must always be interpreted in conjunction with actual changes in disposable income. Since disposable personal income has increased during the year--and consumers' evaluation of their present financial condition compared with a year earlier has not changed much--the Center believes that consumer expenditures will probably be higher than suggested by the index and will remain about the same relative to disposable income as in the first three quarters of this year. This ratio, of course, has been relatively low.

SELECTED CONSUMER SURVEY RESULTS

	1969	1970			
	Nov.	Feb.	May	Aug.	Nov.
<u>Michigan SRC</u>					
Index of consumer sentiment (February 1966 = 100)	79.7	78.1	75.4	77.1	72.4

	1969	1970			
	Oct.	Jan.	Apr.	July	Oct.
<u>Census Bureau</u>					
Index of family income expectations (Average Jan./Apr. 1967 = 100)	101.5	103.5	102.6	100.8	99.5

	1969	1970		
	Oct.	June	Aug.	Oct.
<u>National Industrial Conference Board</u>				
Expected business conditions six months hence				
Better	19.0	20.9	23.4	21.9
Worse	10.3	16.1	9.7	10.8

Automobile Purchase Plans

	November		
	1968	1969	1970
<u>Michigan SRC</u>			
Percentage of families planning to buy new and used auto in next 12 months	20.8	16.0	14.6

	(Seasonally adjusted)				
	1969	1970			
	Oct.	Jan.	Apr.	July	Oct.
<u>Census Bureau</u>					
Index of expected new car purchases; 6-12 month average (Jan./Apr. 1967 = 100)	103.9	106.0	105.8	105.8	103.8

	1969	1970		
	Oct.	June	Aug.	Oct.
<u>National Industrial Conference Board</u>				
Percentage of families planning to purchase an auto within 6 months	9.5	7.3	7.9	7.2

Manufacturers' new orders. New orders for durable goods dropped 4 per cent in October, according to preliminary data, although defense and capital equipment orders rose. The decline occurred mainly in motor vehicles and steel, reflecting the GM strike, but orders for household durables were also off and orders at the construction materials industries dropped back from a record September rate. On a six-months average basis, orders for defense hardware are now 21 per cent above a year earlier. The October increase for capital equipment brought this category of orders back to about their August level. Orders for nondurable goods were unchanged.

MANUFACTURERS' NEW ORDERS
(Seasonally adjusted monthly averages, billions of dollars)

	1970				Per cent change Oct. from Sept.
	QII	QIII	Sept.	Oct. Prel.	
Durable goods, total	29.5	30.6	29.9	28.7	- 4.0
Primary metals	4.8	4.8	4.7	4.3	- 8.1
Iron and steel	2.2	2.3	2.3	2.0	-12.9
Other primary metals	2.6	2.5	2.5	2.4	- 3.7
Motor vehicles and parts	3.9	4.1	3.6	2.8	-21.1
Household durable goods	2.1	2.1	2.1	2.0	- 4.2
Defense products	1.7	2.3	2.0	2.2	7.7
Capital equipment	8.2	8.3	8.2	8.6	3.9
All other durable goods	8.8	9.0	9.2	8.8	- 4.8
Nondurable goods, total	25.3	25.6	25.7	25.7	.2

NOTE: Detail may not add to totals because of rounding.

Shipments of durable goods declined nearly 5 per cent but continued to exceed new orders, and the order backlog declined 0.9 per cent; so far this year, the backlog has declined 8-1/2 per cent. Declines

in unfilled orders were largest for primary metals, both ferrous and nonferrous, and for capital equipment; despite the increase in new orders for capital goods, this backlog continued to decline, reaching a level 12 per cent below its peak last December. (Motor vehicle assembly plants do not report unfilled orders and for them new orders are equivalent to shipments, so that the presumed increase in backlog demands for autos is not reflected in the new or unfilled orders series.)

Business inventories. The book value of manufacturing and trade inventories combined rose at an annual rate of only \$0.7 billion in October as a sharp reduction of stocks at auto dealers about offset substantial increases at manufacturers and wholesalers. The minimal October increase compares to a rise at an annual rate of \$8.1 billion in September and \$10.7 billion over the third quarter.

CHANGES IN BOOK VALUE OF BUSINESS INVENTORIES, 1970
(Seasonally adjusted annual rates, in billions of dollars)

	QI	QII	QIII	Sept.	Oct.p
Manufacturing and trade total	4.9	4.9	10.7	8.1	.7
Manufacturing, total	4.2	2.9	3.8	2.0	6.9
Durable	2.9	.5	3.7	.4	3.8
Nondurable	1.3	2.4	.1	1.6	3.0
Trade, total	.7	2.0	6.8	6.0	-6.2
Wholesale	1.9	1.2	2.2	3.2	3.5
Retail, total	-1.2	.8	4.7	2.9	-9.7
Automotive	-1.6	1.0	2.8	.8	-12.0
Nondurable goods	.8	.5	1.8	1.0	2.1

The step-up in inventory growth at manufacturers was largely in the auto and steel industries, with the latter apparently willing to accept inventory increases while anticipating both a resumption of auto buying and pre-steel-contract-expiration stockpiling by steel users early next year. There was also an increase in inventory growth in October at home goods and apparel manufacturers. The rate of book value growth was about unchanged for consumer staples, capital equipment, and construction materials, while defense products inventories declined more than they had in September.

The inventory-shipments ratio rose sharply at durable goods manufacturers to the highest level since early 1961, and the nondurable goods ratio increased slightly. The increases mainly reflected the strike effects, with shipments down sharply in autos and steel while stocks rose. However, stocks of home goods and apparel also rose relative to shipments and unfilled orders, and capital equipment inventories rose further relative to unfilled orders. The defense inventory/backlog ratio was reduced further. Inventory/backlog ratios rose in a number of industries not affected by the auto strike, such as aircraft and several of the industrial machinery manufacturing industries.

INVENTORY RATIOS

	1969		1970	
	September	October	September	October (prel.)
Inventories to shipments:				
Manufacturing, total	1.66	1.68	1.75	1.81
Durable	1.95	1.98	2.12	2.23
Nondurable	1.30	1.29	1.30	1.31
Inventories to unfilled orders:				
Durable manufacturing	.715	.724	.821	.833

Cyclical indicators. The preliminary composite leading indicator rose 0.8 per cent in October and was 1.7 per cent above the May low. The coincident composite declined, as the GM strike depressed employment, production, and incomes in the auto-related sectors, with little offsetting strength elsewhere. The lagging composite rose slightly. The inclusion of the newly available figure for corporate profits resulted in an upward revision of the composite leading indexes for July through September.

COMPOSITE CYCLICAL INDICATORS
(1967 = 100)

	12 Leading Trend Adjusted	5 Coincident	6 Lagging
1970:			
April	114.9	122.0	130.6
May	113.6	121.2	130.7
June	114.2	121.4	130.6
July	115.9	121.4	130.7
August	115.1	121.1	131.7
September	114.6	120.5	133.1
October (prel.)	115.5	118.2	133.2 (H)

(H) Current high value.

The increase in the leading composite in October resulted from a sharp rise in housing permits and small increases in the manufacturing workweek, the ratio of price to unit labor cost, and the common stock price index. Partly offsetting downward influences were provided by unemployment insurance claims, new orders for durable goods, contracts and orders for plant and equipment, and industrial materials prices.

The October increases in the leading composite may not hold up. Data for October not yet incorporated in the preliminary figure include the change in consumer instalment debt, which was negative, and a sharp decline in inventory change. Fourth quarter corporate profits may well decline because of the GM strike.

In November, the preliminary price index for industrial materials declined, initial unemployment claims may provide some further downward influence, and the monthly average of common stock prices was down slightly in spite of increases late in the month. The manufacturing workweek was up slightly.

Construction and real estate. Seasonally adjusted value of new construction put in place, which had advanced to a new high in September, changed little in October or November. At a record annual rate of \$93.4 billion, the rate in November was 5 per cent above a year earlier in current dollars. However, in real terms as measured by the Census Bureau, it was still about 2 per cent below a year earlier and a tenth under its peak in January 1969.

In contrast with developments in the other major sectors, residential construction continued upward for the fifth consecutive month in November, and on a current dollar basis was nearly 15 per cent above the low of last June, although still somewhat short of the high achieved in April 1969. Outlays for nonresidential construction apparently changed little from the reduced October rate, and were 5 per cent under their peak of last March, reflecting mainly a sharp curtailment

in outlays for office and other commercial buildings. Public construction outlays edged off in November largely because of a drop in outlays for Federally owned projects, which are a relatively small proportion of the total and tend to be particularly volatile. Outlays for State and local projects, according to very preliminary Census Bureau estimates, have apparently changed little since June, at a level only moderately below their high in February of 1969.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	November 1970 (\$ billions) ^{1/}	Per cent change from	
		October 1970	November 1969
Total	93.4	--	+ 5
Private	64.9	+1	+ 5
Residential	32.0	+2	+11
Nonresidential	32.9	--	--
Public	28.4	-1	+ 5
Federal	3.2	-9	+ 6
State and local	25.2	--	+ 5

^{1/} Seasonally adjusted annual rates; preliminary. Data for the most recent month (November) are confidential Census Bureau extrapolations. In no case should public reference be made to them.

Seasonally adjusted private housing starts continued upward in October. Although the October rise was concentrated entirely in multi-family units, and in two of the four major regions, it was notably strong in those sectors and carried the over-all average to an annual rate of 1.55 million units--next to July, the highest for any month this year. Moreover, with building permits and aggregate mortgage commitment activity unusually high, indications now are that starts in the fourth

quarter as a whole may reach a rate of at least 1.58 million units. Such a rate would compare with 1.51 million rate in the third quarter and would be the highest for any quarter since early 1969.

PRIVATE HOUSING STARTS AND PERMITS

	October 1970 (Thousands of units) ^{1/}	Per cent change from	
		September 1970	October 1969
Starts ^{2/}	1,550	+ 3	+12
1-family	866	- 1	+13
2-or-more-family	684	+ 9	+10
Northeast	221	+12	+28
North Central	326	+26	+ 9
South	642	- 4	+12
West	361	- 4	+ 5
Permits	1,514	+10	+26
1-family	684	+ 1	+18
2-or-more-family	830	+18	+34

^{1/} Seasonally adjusted annual rates; preliminary.

^{2/} Apart from starts, mobile home shipments for domestic use in September--the latest month for which data are available--were at seasonally adjusted annual rate of 428,000, up 5 per cent from August, and nearly 3 per cent higher than a year earlier.

Rental vacancy rates, which had tended to stabilize earlier this year, edged off in the third quarter to 4.9 per cent of all rental units available and fit for use. This was the lowest average for any third quarter in the history of the regular series which began in 1956. Home-owners vacancy rates--a much less sensitive series than that for rental vacancies--turned upward slightly, but the average of 1.0 per cent was also low, and compared with a third quarter high of 1.6 per cent in 1963 and a level of 1.3 per cent as recently as the third quarter of 1967.

RENTAL VACANCY RATES
(Per cent)

	Average for third quarter of:						
	1957	1964	1966	1967	1968	1969	1970
All regions	5.2	7.7	6.8	6.4	5.4	5.0	4.9
Northeast	3.3	5.0	4.9	4.3	3.4	2.8	2.8
North Central	5.4	7.2	5.8	5.6	5.4	5.5	5.4
South	6.0	8.2	7.1	7.8	6.8	6.3	6.5
West	7.1	11.5	10.2	8.1	6.2	5.8	5.0

Anticipated spending for new plant and equipment. Business reported plans to spend \$80.6 billion on new plant and equipment this year, up 6.6 per cent from 1969, according to the November Commerce-SEC survey. While this expected increase is the same as reported in August, it is down from the 9.8 per cent and 7.8 per cent reported in February and May, respectively. According to November plans, expenditures will show little change in both the fourth quarter of 1970 and the first quarter of 1971 and then rise in the second quarter.

ANTICIPATED EXPENDITURES FOR NEW PLANT AND EQUIPMENT, 1970-1971
(Billions of dollars, seasonally adjusted annual rates)

	1970				1971	
	I	II	III	IV	I	II
	-----Actual-----				-----Anticipated-----	
Total	78.2	80.2	81.8	81.7	81.4	82.2
Manufacturing	32.4	32.4	32.1	32.1	31.5	31.1
Durable	16.4	16.3	15.7	15.3	15.7	14.9
Nondurable	16.0	16.1	16.4	16.8	15.8	16.3
Nonmanufacturing	45.8	47.8	49.7	49.6	49.9	51.1
Utilities	12.1	12.7	13.8	14.4	15.9	n.a.
Communications	9.1	10.4	10.6	10.7*	11.1*	n.a.

* Confidential, not published separately.

Actual third quarter spending for plant and equipment was somewhat greater than expected in the August survey mainly because of larger than anticipated spending by both durable and nondurable goods manufacturers--particularly in primary metals, nonelectrical machinery and petroleum. Nonmanufacturing spending came in a bit lower due to cutbacks from plans in railroads, airlines, utilities, and mining companies.

For the first half of 1971 the rate of spending is expected to equal that of the second half of 1970, and to be about 3 per cent higher than the first half of 1970. Most of the strength in early 1971 is expected to come from utilities and communications firms. In manufacturing spending for plant and equipment is expected to continue to decline. It might be noted that the \$82.2 billion annual rate indicated for the second quarter 1971 would be about equal to the figure implied by the 2 per cent increase for the year 1971 shown in the McGraw-Hill fall survey.

New appropriations by the 1,000 largest manufacturers according to the Conference Board survey rose 8 per cent in the third quarter, mostly in petroleum. Excluding petroleum (which is subject to very large swings) the increase was only 2 per cent. Durable goods manufacturers increased their appropriations almost 13 per cent as large gains in the transportation equipment (including autos) industry more than offset substantial declines in fabricated metals and electrical equipment. A 3 per cent increase in nondurables was entirely due to petroleum; sizable declines were reported in most other industries. Current estimates indicate that total appropriations will show little change in the fourth quarter. Given the lag of about three quarters between

appropriations and expenditures, the third quarter rise in appropriations would suggest leveling off or, perhaps, a slight pickup in manufacturing about mid-year 1971.

Labor market. The labor market continued to slacken in November, reflecting further secondary effects of the General Motors strike and weakness elsewhere in the economy. Nonfarm payroll employment dropped 134,000, with large declines in durable-goods manufacturing and trade. The unemployment rate increased from 5.6 per cent in October to 5.8 per cent, reflecting both layoffs of full time workers and an increase in the number of young women who entered the labor market seeking full-time employment. Unemployment among women aged 20 to 24 years jumped sharply, while unemployment among males aged 25 years and over edged up slightly to 3.3 per cent. Rates for men over 20 years of age have about doubled in the past year. Joblessness rose in most occupations in November, with particularly large increases in white-collar categories.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	November 1969	October 1970	November 1970
Total	3.5	5.6	5.8
Men aged:			
16 to 19 years	11.7	17.1	16.6
20 to 24 years	5.3	11.3	10.2
25 and over	1.7	3.2	3.3
Women aged:			
16 to 19 years	11.9	17.1	18.6
20 to 24 years	6.5	7.5	9.5
25 and over	3.1	4.7	4.7
White workers	3.2	5.2	5.5
Negroes and other races	6.2	9.3	8.8
White-collar workers	2.1	3.2	3.5
Blue-collar workers	4.2	7.2	7.3
Service workers	4.0	5.8	5.9

Employment. Manufacturing employment was further reduced by 136,000 in November after a drop of 560,000 in October. The November decline reflected additional layoffs at auto supplier plants and weakness in defense-related and capital goods industries. Particularly hard hit were the metal producing and metal fabricating industries as well as chemicals and rubber. The few manufacturing industries posting gains were concentrated in nondurable goods. The November drop included 26,000 nonproduction workers, bringing the net decline in this group to more than 200,000 over the past year.

Hours of work in manufacturing edged up 0.1 hour to 39.5 hours in November, but remained well below the August level. The November workweek was one hour shorter than a year earlier, largely reflecting the reduction in average overtime from 3.5 to 2.5 hours.

Outside of manufacturing, the largest employment decline was in trade. The job loss of 85,000 reflected general weakness in retail sales as well as the effect of the auto strike which accounted for an estimated one-third of the decline. Trade employment was up only 72,000 over the year ending in November, a much smaller rise than usual for this industry. Employment in construction was unchanged in November for the second successive month after declining rapidly in the first three quarters of this year.

CHANGES IN NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted, in thousands)

	Nov. 1968- Nov. 1969	Nov. 1969- Nov. 1970	Oct. 1970- Nov. 1970
Total	2,004	-728	-134
Manufacturing	143	-1,492	-136
Nonproduction workers	137	-2.8	- 26
Production workers	6	-1,274	-110
Durable	64	-1,272	-135
Nondurable	79	-220	- 1
Mining	9	2	6
Contract construction	138	-199	1
Transportation	115	29	- 9
Trade	539	72	- 85
Finance	160	99	14
Service	527	308	25
Government	373	453	50
Federal	18	-76	0
State and local	355	529	50

Growth in the service industries and State and local government has served as an important offset to weakness in employment in other sectors. Over the year, employment in services and finance rose by over 400,000 and State and local government increased by more than half a million. These large gains, however, were not sufficient to offset the declines in manufacturing, construction and Federal employment and in November total nonfarm employment was 700,000 below a year earlier.

Industrial relations. The agreement on a new contract by GM and the UAW was followed by a similar settlement at Ford (still subject to ratification). Full production at GM is being delayed, however, by

the continued strike of 23,000 Canadian workers who have not concluded a new agreement. In addition, workers continue on strike at three assembly plants and several smaller plants over local issues. As soon as GM and Canadian workers reach agreement, a settlement should follow shortly at Chrysler where one contract covers both U.S. and Canadian workers.

As a result of the recent GM agreement, cost-of-living escalator clauses will probably receive more emphasis. The wage increase in the GM settlement included a 33-cent "catch-up", the amount that would have been provided by an escalator clause had a maximum not been placed on such adjustments by terms of the 1967 contract. Labor unions in up-coming negotiations in cans, aluminum, steel, copper, and aerospace will also probably press for a large "catch-up" and new or unlimited cost-of-living escalator clauses.

In the railroad industry, recommendations of the panel appointed by the President have not been accepted by the unions, partly because of work rule changes. Since it appears unlikely that a settlement will be reached before the December 10 strike deadline, the President has requested Congress to extend the strike ban for 45 days.

Wholesale prices. Wholesale prices declined in November (October 13 to November 10) by 1.1 per cent at a seasonally adjusted annual rate. Industrial prices were unchanged for the first time since November 1968, and farm and food products dropped at a rate of 4.1 per cent. This presents a sharp contrast with October when industrial commodities--reflecting in part large increases for automotive products at the time of the introduction of new models--rose at a rate of almost 8 per cent and appeared to reverse a trend toward a slower rate of price rise.

WHOLESALE PRICES
(Seasonally adjusted percentage changes at annual rates)

	Dec 1969 to Mar 1970	Mar 1970 to June 1970	June 1970 to Sept 1970	Sept 1970 to Oct 1970	Oct 1970 to Nov 1970
All commodities	4.0	1.1	3.9	2.5	- 1.1
Farm and food products	6.8	-9.9	8.9	-14.7	- 4.1
Farm products	9.6	-10.1	5.1	-28.5	-17.1
Processed foods & feeds	8.7	6.2	5.6	- 1.9	3.9
Industrial commodities	3.1	4.5	2.9	7.8	0.0
Selected groups					
Fuels and related products and power	.8	6.5	11.3	20.1	12.4
Metals and metal products	9.0	8.9	- 1.0	4.0	-10.0
Nonferrous metals ^{1/}	9.1	4.2	-16.0	- 7.0	-23.1
Machinery and equipment	4.0	4.1	5.2	5.9	2.4
Finished goods	4.3	2.9	4.8	12.1	2.4
Producer finished goods	2.2	2.9	3.3	11.5	2.1
Consumer nonfoods	2.1	3.0	3.5	4.4	3.1
Nondurables	3.0	2.4	3.1	21.7	3.4
Durables					

^{1/} Not seasonally adjusted.

In November, increases for fuels including electric power rates, heating fuels, and gasoline again were among the most important price advances, and since the November 10th pricing date, major producers have announced increases for crude oil and gasoline. Machinery and equipment rose at a slower rate than in other recent months. Among commodities which showed declines, nonferrous metals dropped for the sixth consecutive month and steel scrap was lower. Lumber and wood products reached the lowest level since mid-1968--partly for seasonal reasons.

Producer finished products have increased faster this year than last despite declining prices of crude raw materials from March to November and a drop in intermediate materials since mid-year. The rise in machinery and equipment has paralleled that of last year while passenger cars have increased much more. Recent large increases in producer finished products apparently reflect to a large extent the predominant importance of increased labor costs.

WHOLESALE PRICES OF INDUSTRIAL MATERIALS ^{1/}
(Percentage changes at compound annual rates)

	Dec 1969 to Mar 1970	Mar 1970 to June 1970	June 1970 to Sept 1970	Sept 1970 to Oct 1970	Oct 1970 to Nov 1970
<u>Materials (excluding foods)</u>					
Crude materials	9.5	- 2.6	- 7.6	- 3.4	-18.0
Intermediate materials for manufacturing					
Durables	6.8	7.3	- 2.5	1.9	- 6.5
Nondurables	3.2	0.0	0.4	2.4	- 2.3
Components for manufacturing	4.5	4.8	6.5	4.0	0.0
Processed fuels and lubricants	1.2	7.2	15.7	20.5	18.9

^{1/} Not seasonally adjusted.

Nonferrous metals have fallen further during the last month as the effects of the General Motors strike have added to generally slack demands. Discounts on some aluminum fabricated products have been increased, and copper ingot prices have been further reduced by U.S. producers in response to falling world prices.

In November, price declines for livestock and meat accounted for most of the 4 per cent rate of decline in farm products and processed food and feeds. Little change in prices of livestock is foreseen this winter by the Department of Agriculture, as the Department expects hogs to edge up slightly seasonally and prices of cattle to exhibit only small changes.

Consumer prices. Consumer prices rose in October at a seasonally adjusted annual rate of about 6-1/2 per cent, the same as in September and much more than in the three preceding months. Indeed, the increases were comparable to those in the first quarter when food costs and particularly mortgage rates rose rapidly. But in contrast to the first quarter, the October rise was in large part attributable to non-food commodities while both services and food prices advanced more slowly than early in the year. New and used cars, household durables, gasoline and apparel all contributed to the October increase.

CONSUMER PRICES
(Per cent change, seasonally adjusted annual rates)

	Dec 1969 to Mar 1970	Mar 1970 to June 1970	June 1970 to Sept 1970	Aug 1970 to Sept 1970	Sept 1970 to Oct 1970
All items	6.3	5.8	4.2	6.5	6.6
Food	5.4	1.3	1.4	4.2	0.9
Non-food commodities	2.9	6.4	3.7	6.7	7.1
Services ^{1/}	11.2	7.3	7.2	7.9	6.3
Services less home finance ^{1/2/}	7.9	6.2	7.0	7.4	7.3

^{1/} Not seasonally adjusted.

^{2/} Not for publication.

Both 1970 and 1971 model cars figured in the 12 per cent annual rate of rise in new car prices; in addition, there was a sharp reversal in prices of used cars (which have almost as large a weight as new cars in the CPI). With the strike-induced delay in sales of 1971 models, prices of cars may continue to move higher for several months as the mix of sales between 1970 and 1971 models changes. However, in view of less than seasonal declines in prices of 1970 models, the increase may be moderate. The rise in household durable goods prices accelerated in October, but home purchase prices rose less rapidly.

Among nondurables, gasoline and apparel prices rose strongly. October represents the third successive month with a rate of increase for apparel of 6 per cent or more. This advance may slow soon in response to deferments of textile wage increases. Moreover, post-Christmas sales could be large, as in January of this year.

NON-FOOD COMMODITY PRICES
(Per cent change, seasonally adjusted annual rates)

	Dec 1969 to Mar 1970	Mar 1970 to June 1970	June 1970 to Sept 1970	Aug 1970 to Sept 1970	Sept 1970 to Oct 1970
Non-food commodities ^{1/}	2.9	6.4	3.7	6.7	7.1
Apparel	2.4	3.5	4.1	7.6	6.2
New cars	2.5	1.3	6.9	12.0	12.2
Household durables	2.6	3.0	2.3	2.2	4.5

Addendum:

Used cars ^{2/}	18.8	58.7	-13.2	-15.3	31.0
Non-food commod.adj. ^{3/}	2.6	4.1	6.8	5.4	6.2

1/ Includes items not listed.

2/ Not seasonally adjusted.

3/ Excluding used cars and home purchase. Not for publication.

The October seasonally adjusted increase for food--a rate of 0.9 per cent--reflected stability in grocery store prices at levels similar to March and April, and a slower increase for food away from home. Fruit and vegetable prices fell about seasonally, and egg prices declined counter-seasonally. Average prices for meat, poultry, and fish showed a small net rise after seasonal adjustment, in spite of the drop in pork prices.

The annual adjustment for previous over-estimate of health insurance costs reduced the rate of rise for services by about one per cent, to an annual rate of 6.3 per cent. Rents rose at a rate of 5.9 per cent, more than in any month since July 1956, with adjustments in rent-controlled units in New York and increases in other cities.

GNP price measures. Although the GNP deflator is widely used as a broad measure of price developments for the economy, it has deficiencies. One of these is that the weights shift from period to period as the composition of output changes; moreover, since the price of public employees' services is measured by average employee compensation, changes in both Federal and State-local pay-scales and in the salary-mix of employees appear as price changes. Both of these factors, but particularly the latter, have introduced distortions in the deflator over the past year.

PRICE CHANGES IN GNP AND PRIVATE GNP MEASURED BY
DEFLATORS AND FIXED-WEIGHTED INDEXES
(Per cent change at annual rates, seasonally adjusted)

	1969	1970	1970		
	Second Half	First Half	First Quarter	Second Quarter	Third Quarter R/
GNP					
Deflator	5.3	5.4	6.4	4.3	4.6
Fixed-weight index -1958	5.9	5.7	6.4	5.1	4.9
QIV-1965	5.6	5.5	5.9	5.0	4.7
Private GNP					
Deflator	4.5	4.7	5.3	4.0	4.7
Fixed weight index-1958	5.1	4.9	4.9	4.9	5.1
QIV-1965	4.9	4.8	4.8	4.8	4.8

R/ Revised.

The GNP deflator rose at an annual rate of about 4.6 per cent in the third quarter of this year compared to 6.4 per cent in the first quarter. Part of the drop was the result of changes in the composition of expenditures; a fixed-weight index (using either 1958 weights, as in the "Inflation Alert," or the more recent fourth quarter of 1965 weights) indicates a smaller decline. However, the drop derives largely from developments in the Federal sector, in particular the general pay increase for Federal employees in the first quarter. The fixed weight indexes for the private economy have risen at a fairly steady rate of close to 5 per cent over the last year, reflecting offsetting movements in major sectors.

The drop in the rate of price increase for the Federal government is shown clearly in the second table which presents fixed-weight (1965-IV) price indexes for major sectors. The consumer expenditure deflator exhibits a slower rate of rise in the second and third quarters than earlier this year and this can be traced almost entirely to improvement in the food supply. The investment goods index, on the other hand, shows an acceleration in cost increases which is almost entirely attributable to construction costs. Producers' durables prices have risen at a fairly steady rate over the last year and a half. The high rate of increase in the price index for State-local government, reflecting both salary and construction costs, has shown no tendency to moderate.

PRICE CHANGES IN GNP AND COMPONENTS
 MEASURED BY FIXED-WEIGHTED INDEXES 1/
 (Per cent change from preceding quarter
 at annual rates, seasonally adjusted)

	1969		1970		
	QIII	QIV	Q I	QII	QIII R/
Gross national product <u>2/</u>	6.1	5.0	5.9	5.0	4.7
Gross private product <u>2/</u>	5.1	4.8	4.8	4.8	4.8
Personal consumption expend.	4.8	5.0	5.0	4.4	3.9
Durable goods	3.1	2.5	2.5	1.5	3.8
Nondurable goods	5.2	5.7	4.9	3.7	2.4
Services	5.0	5.0	5.9	6.2	5.6
Gross private domestic investment (fixed)	5.9	3.6	4.4	6.3	8.4
Non-residential Structures	10.0	4.6	4.4	11.5	13.4
Producers' durables	4.2	4.5	4.7	3.8	4.4
Residential structures	4.5	1.0	3.8	5.2	9.6
Government purchases	14.6	6.8	16.0	5.8	3.6
Federal	6.3	5.5	6.3	6.6	8.2
State and local					

R/ Revised

1/ Fourth quarter of 1965 weights

2/ Includes change in business inventories and net exports of goods and services, not shown separately.

New farm legislation. The Agricultural Act of 1970, signed by the President on November 30, extends essentially the same type of price support and payment programs in effect since 1965 for another three years. Wheat, cotton, and feed grain farmers are given more flexibility in the crops they plant and payments will continue to be an important source of income to these producers. The Act provides programs for milk, wool, wheat, feed grains, and cotton; extends P.L. 480 (the "Food for Peace" program); continues the long-term land use adjustment program on a small scale; and makes some small commitments to rural development.

A new "set-aside" approach will replace the acreage diversion provisions required by the Act of 1965 on wheat, cotton, and the feed grains. As explained by the Secretary of Agriculture, the concept behind the "set-aside" is that the excessive amount of cropland available is general rather than specific as to certain crops and that if a proper amount of cropland is set aside, farmers will make good decisions as to how to use their remaining acreage. "Set-asides" are to be imposed whenever it appears that surplus supplies of these commodities are likely to develop. Farmers must comply with the "set-asides" and, in addition, maintain their old Act of 1965 soil conserving basis in order to be eligible for price support loans and payments. On their remaining cropland they are permitted considerably more latitude than formerly in selecting crops that will give the greatest return. Maximum "set-asides" are stipulated for cotton and wheat.

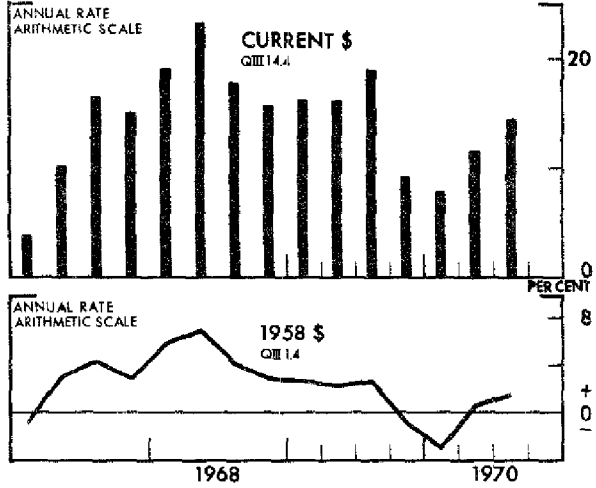
How farmers will react in 1971 to the more flexible planting patterns permitted by the "set-aside" approach is hard to predict and the uncertainties caused by the corn blight complicate the picture. The USDA announced tentative programs implementing the wheat, cotton, and feed grain programs on December 8. A survey of farmers' planting intentions will be made as of January 1 to see how they are responding to the programs, and final program announcements will be made after the survey results have been analyzed. The Secretary has authority to limit acreages of any of the program crops if it appears that surplus supplies are likely to accumulate.

Another new feature of the Act of 1970 is the setting of an annual ceiling of \$55,000 per crop on payments to producers of wheat, cotton, and feed grains. This provision was apparently included to increase public acceptance of the Act rather than to reduce payment costs. If such a limitation had been in effect in 1969, 1,100 producers would have been affected, mostly cotton producers, and aggregate, payments would have been reduced by about 2 per cent.

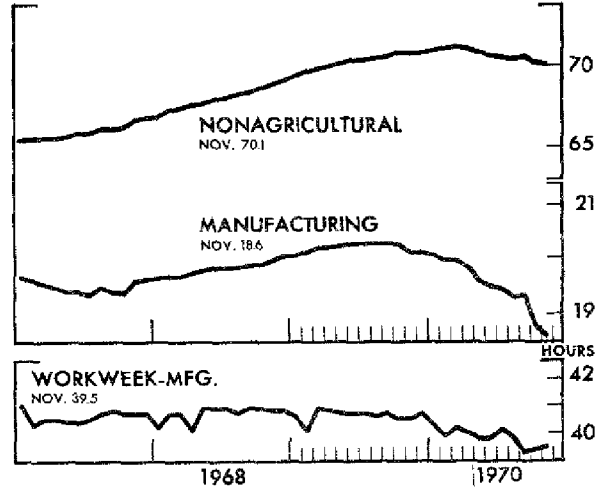
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED, RATIO SCALE

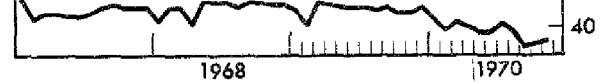
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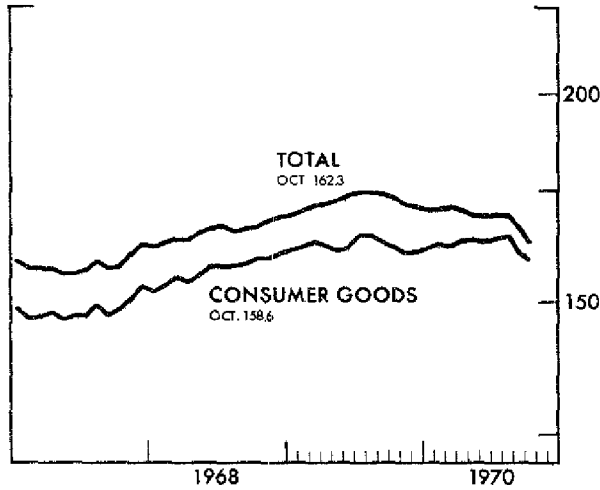
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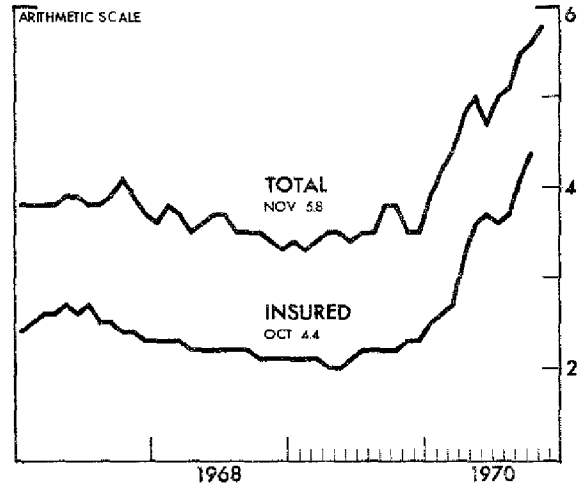
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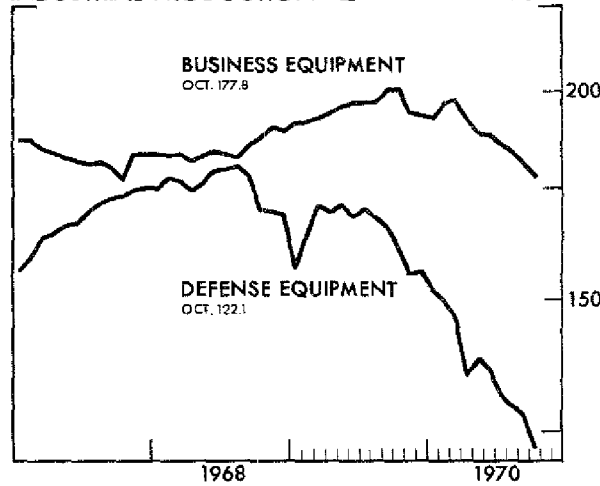
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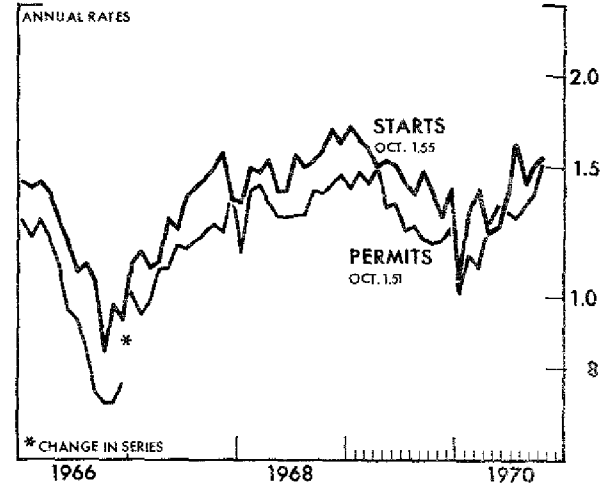
UNEMPLOYMENT RATES



INDUSTRIAL PRODUCTION - II

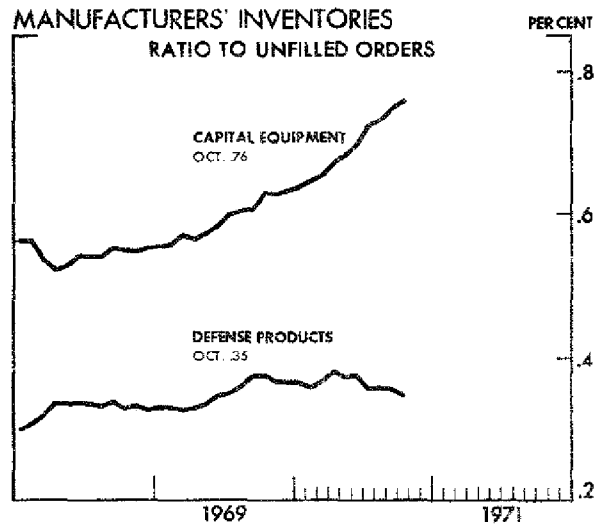
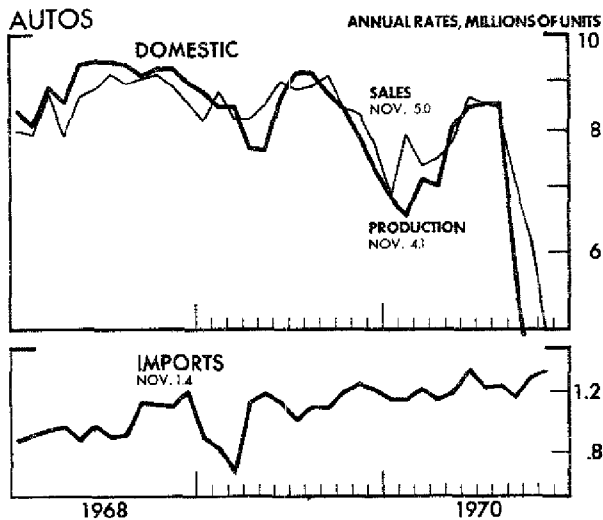
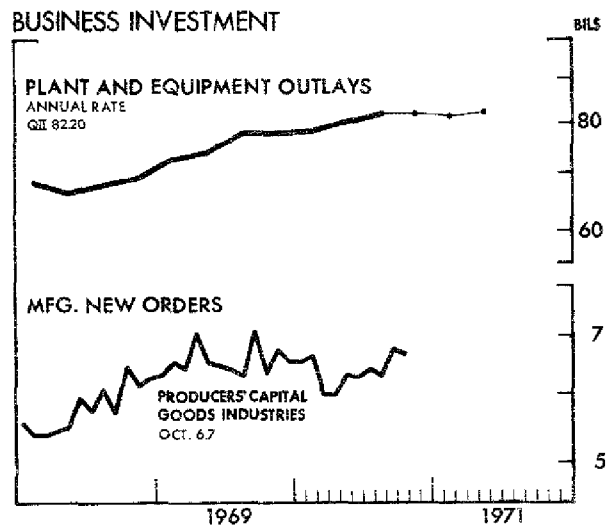
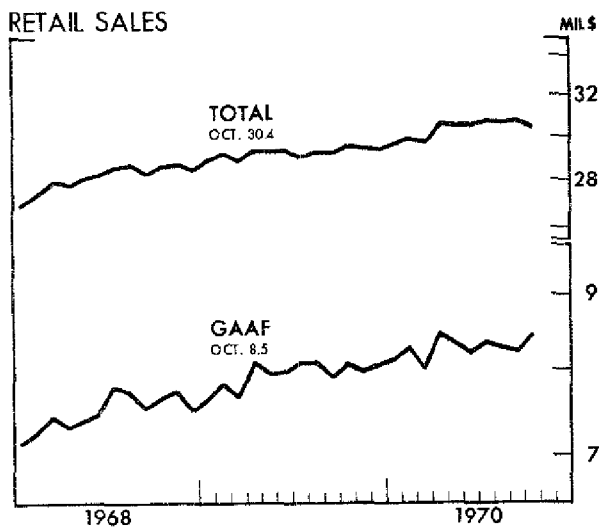
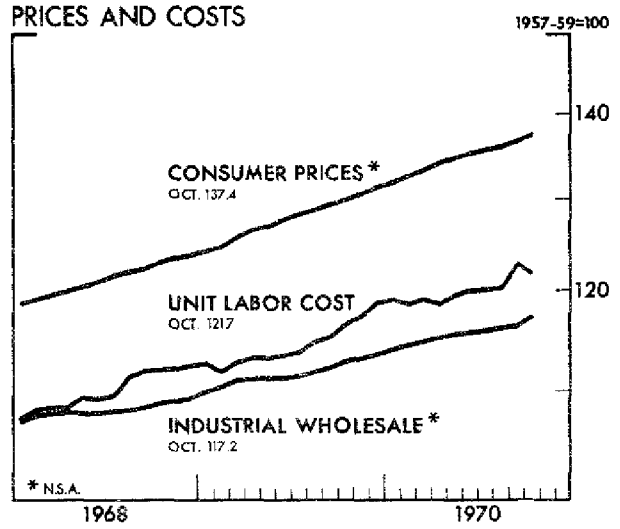
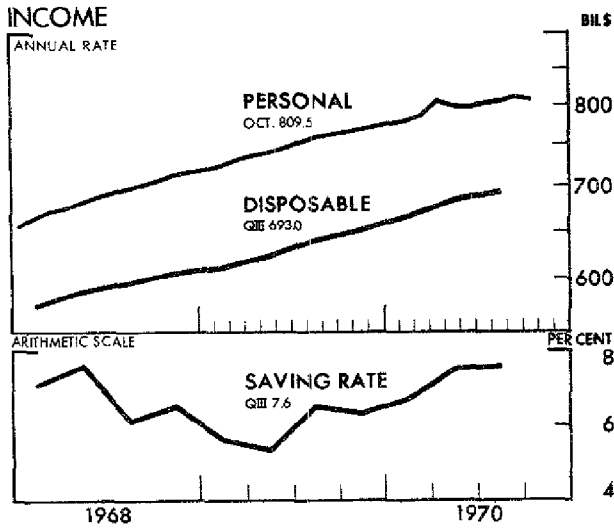


HOUSING



ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED, RATIO SCALE



THE ECONOMIC PICTURE IN DETAIL

Domestic Financial Situation

Monetary aggregates. Growth in the money stock (M_1) in November, on the basis of newly revised data, was at an annual rate of 2.8 per cent, a little faster than in October. A slowdown in the rate of currency expansion was more than offset by a small rise in privately-held demand deposits, which had shown a decline in October. The relative weakness in growth of M_1 since September appears to have been due in part to the effects of the auto strike; similar weaknesses were evident at the time of earlier major strikes. Corporations also may have reduced their compensating balances as they repaid loans. In any event, the slowing in money growth occurred in the face of sharp declines over this period in short-term interest rates.

MONETARY AGGREGATES
(Per cent, annual rates of change)

	<u>QII</u>	<u>QIII</u>	<u>1970</u> <u>Oct.</u>	<u>Nov.</u> <u>p</u>
1. Currency plus private demand deposits	5.8	6.1	1.1	2.8
2. Commercial bank time and savings deposits	14.1	32.2	20.3	15.1
a. large CD's	59.1	257.6	82.9	41.4
b. other time and savings	11.3	16.5	14.0	11.5
3. Savings deposits at mutual savings banks and S&L's	6.9	10.0	10.8	n.a.
4. Adjusted bank credit proxy	6.5	17.2	1.1	7.4
<u>Concepts of money</u>				
5. M_1 -(1)	5.8	6.1	1.1	2.8
6. M_2 -(1) + (2b)	8.4	11.0	7.3	7.0
7. M_3 -(1) + (2b) + (3)	7.9	10.7	8.5	n.a.
8. M_4 -(1) + (2b) + (3) + (2a)	8.9	15.9	10.8	n.a.

n.a. - Not available

p - preliminary

Average time deposits increased at a 15 per cent seasonally adjusted annual rate from October to November, about 5 percentage points less than the September to October increase and one-half the third quarter rate. The recent slower growth was principally a reflection of lessened bank desire to attract large negotiable CD's at prevailing interest rates in view of reduced loan demands. The seasonally unadjusted rise in CD's at weekly reporting banks was greater than the usual change between October and November, but by less than the corresponding comparison for October. Time deposits other than CD's and consumer-type declined for the second consecutive month, as banks were not interested in bidding for foreign official funds. After rough allowance for seasonality, consumer-type deposits rose at about the same strong rate as in October, but this was down appreciably from the exceptional rates of increase of the summer months.

NET CHANGE IN TIME AND SAVINGS DEPOSITS
(Billions of dollars, seasonally unadjusted)

	Sept. 30-Oct. 28		Oct. 28-Nov. 25	
	3-year	1970	3-year	1970
	average		average	
Weekly reporting banks				
Total time and savings	-.3	1.2	.3	1.5
Consumer-type	0	.4	-.1	.4
CD's	-.3	1.3	.5	1.7
All other	0	-.6	-.1	-.5
Country banks				
Total time and savings	.5	1.1	-.1	.6

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

Even though total time deposit growth slowed in November, the increase in the adjusted credit proxy, at more than a 7 per cent annual rate, was well above the very slow rate of growth in October. Much of the increase in the rate of growth of the credit proxy was attributable to slower repayment by banks of their nondeposit liabilities. Bank-related commercial paper outstanding and Euro-dollars borrowed from branches included in the proxy together declined \$1.5 billion in November, or about one-third less than in the previous month. In addition, banks received an increased volume of funds from U.S. Government deposits.

Bank credit. Total loans and investments at all commercial banks, adjusted to take account of amounts outstanding of loans sold to affiliates, rose at an 8 per cent annual rate in November following a slight decline in October. Banks acquired a moderate amount of U.S. Government securities during November as they participated in the Treasury exchange and cash financing that raised \$1.3 billion net; in October banks had reduced their holdings of Treasury issues considerably. Net acquisitions of other securities totaled \$2.4 billion in November, continuing the large amounts of recent months, and accounted for most of the increase in bank credit. The bulk of this rise in other securities was in short- and medium-term municipal issues, but banks also acquired some longer-term municipal securities as the yield structure made these issues increasingly attractive. Weekly reporting banks also increased their takings of agency and other securities in November.

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

	1970		1970	
	HI	QIII	October	November
Total loans & investments ^{2/}	4.5	13.9	- 1.7	7.8
U.S. Govt. securities	3.5	25.9	-27.1	4.3
Other securities	10.4	20.3	30.5	35.6
Total loans ^{2/}	2.4	9.8	- 5.3	1.2
Business loans ^{3/}	8.1	1.8	-13.8	-8.6

^{1/} Last Wednesday of month series.

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

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

Total loans (adjusted for sales) at commercial banks showed a small increase in November, following a large contraction in October. Commercial and industrial loans continued to show substantial weakness--declining at about a 9 per cent annual rate. Over the past three months, business loans adjusted for sales to affiliates have declined on average at a 10.3 per cent annual rate. Corporations reportedly are continuing to use some of the proceeds of capital market financings to repay short-term bank debt. However, the auto strike, together with generally sluggish economic activity, contributed to the slack in loan demands.

In view of weakness in business loan demand, declining market rates of interest, and sizable deposit inflows, banks have reduced their prime lending rate twice during the past month--to a level of 7 per cent. Moreover, banks reportedly have relaxed some of their lending terms and conditions other than interest rates and have begun to seek business loans more actively.^{1/} Most banks, however, still appear to be quite quality conscious in their lending policies.

Loans to other than commercial and industrial firms were also relatively weak in November. Security loans declined somewhat--after rising in the previous month--in reflection of reduced financing needs of U.S. Government and other security dealers. Consumer and real estate loans continued to rise at the moderate rate of the past few months.

Additions to the calendar have increased the staff's estimate of public bond offerings for December to \$2.2 billion, a less than seasonal decline from November. Although public stock issues are expected to show the normal seasonal decline in December, if the usual year-end bulge in takedowns of private placements occurs, total corporate offerings in December could be approximately \$3.4 billion. Thus, it appears that in 1970 total security issues will be 40 per cent greater than in 1969; public bond offerings, which account for two-thirds of the 1970 issue volume, are almost double their 1969 pace.

^{1/} Information on loan commitments may be found in Appendix B which reports on the results of the most recent Loan Commitments Survey. The Supplement to the Greenbook will contain a report on the most recent Bank Lending Practices Survey.

The January forward calendar of bonds definitely scheduled is now unusually modest by recent standards. Underwriters report that, while the potential volume of corporate borrowing is still substantial, firms are keeping their scheduling flexible to take advantage of possible future interest rate declines. The staff is assuming that January public bond offerings will ultimately reach \$2 billion--a substantial volume. However, the January pace could be smaller if potential issuers continue to delay offerings in anticipation of still lower interest rates.

In early December municipal bond yields were about 170 basis points below their 1970 high and 70 basis points below the level at the time of the last FOMC meeting. Extremely heavy bank purchases--including acquisitions of longer-term issues--continued to support the prolonged rally in tax-exempt bonds. Sales of long-term securities by State and local governments in November were somewhat below the October level, but the December calendar has built up rapidly in recent weeks. Thus, the staff now estimates that December offerings will be about \$1.3 billion, despite the holiday-shortened market period, and expects the January volume to return to the higher levels of this Fall. With the decline in rates and the large backlog of postponed borrowing, anticipated borrowing in early 1971 by State and local units remains high.^{1/}

^{1/} Appendix A reports on the most recent FRB-Census survey of State and local borrowing anticipations and realizations.

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

1969 - entire year	990
1970 - entire year	1,420e
QIII	1,474
QIV	1,607e
November	1,622p
December	1,300e
1971 January	1,600e

p/ Preliminary
e/ Estimated

Nonbank thrift institutions and mortgage markets. Indications are that deposit inflows to thrift institutions during November were maintained at the rapid pace of the previous two months. Trade reports suggest that inflows in early November were about as large as in the same period of 1967. Since then, the more marked decline in short-term market yields has further enhanced the attractiveness of thrift institution claims.

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

	Mutual Savings Banks	Savings and Loan Associations	Both
1970 - QI	2.4	1.4	1.7
QII	6.3	7.1	6.9
QIII	6.6	11.5	10.0
August*	4.7	6.8	6.1
September*	7.6	11.9	10.5
October* p/	8.4	12.0	10.8

p/ Preliminary.

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

With savings inflows to thrift institutions thus apparently continuing large, new mortgage commitment volume remained large in November, according to trade opinion and field reports. At savings and loan associations during October, new mortgage commitments rose further and outstanding commitments reached a record high on a seasonally adjusted basis. Savings and loan associations have accounted for most of the recovery since last spring in total mortgage lending activity.

As demand for mortgage credit slackened for seasonal reasons in November and as pressure on long-term rates eased, indications are that yields on residential mortgages declined somewhat further, at least on Government-underwritten loans. In line with these developments and with expectations of continued improvement, ceiling interest rates on new FHA and VA mortgages were reduced by administrative action to 8 per cent from 8-1/2 per cent, effective December 1. (The additional insurance premium on FHA loans remained at an annual rate of 1/2 of 1 per cent.) This was the first reduction in nearly a decade in the ceiling rate on Government underwritten mortgages.

The cut in the maximum permissible rate on these bellwether loans gave impetus to the downtrend in mortgage yields that was already under way in the secondary market. By December 7, auction yields for FNMA's 6-month forward commitments, based on FHA and VA loans carrying the new 8 per cent ceiling rate, were down to an average of 8.54 per cent. This was 36 basis points below the November 16 auction, and the lowest level in a year.

Despite the decline in yields to lenders, the 8 per cent mortgages carried somewhat higher average discounts--4.2 points for 6-month forward commitments in FNMA's December 7 auction compared with 3.1 points in the November 16 auction for 8-1/2 per cent loans. The larger number of points will, of course, tend to dampen the stimulative effect of the rate cut on market activity in the short run, no matter whether they are absorbed by home sellers (including builders) in reduced profits or are passed on to buyers in higher home prices. By administrative regulation, home buyers are permitted to pay directly no more than one discount point.

FNMA AUCTIONS

	Amount of total offers		6-month commitments	
	Received (Millions of dollars)	Accepted	Discount (Points)	Private market yield (Per cent)
<u>Weekly</u>				
1969 - high	\$410 (6/16)	152 (9/8)	10.5 (12/29)	8.87 (12/29)
1970 - high	705 (1/5)	151 (1/12)	6.5 (1/12)	9.36 (1/12)
<u>Bi-weekly</u>				
1970 - high	581 (1/26)	298 (1/26)	6.3 (6/28)	9.33 (6/29)
Oct. 5	268	150	3.3	8.92
19	353	150	3.1	8.90
Nov. 2	342	181	3.4	8.93
16	222	170	3.1	8.90
Dec. 7	167	128	4.2	8.54

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. Implicit yields shown are gross, before deduction of fee paid by investors to servicers of 50 basis points prior to August 10, 1970, auction, and 38 basis points thereafter. The bi-weekly auction scheduled for November 30 was postponed to December 7.

The reduced interest rate and lower yields on the new 8 per cent Government underwritten mortgages will undoubtedly encourage further cancellations by holders of FNMA's outstanding purchase commitments for loans bearing the former 8-1/2 per cent ceiling rate. Even prior to the rate reduction, when private investors were becoming more active in the market and mortgage prices were rising, such cancellations had been running well above the monthly volume experienced during the first half of 1970.

And with the change in ceilings along with the improvement in market conditions, it will not be possible for holders of older commitments to deliver 8 per cent loans at a sufficiently large number of discount points to produce a yield to FNMA equal to that specified in commitments applicable to 8-1/2 per cent loans.

Life insurance companies. Gross acquisitions of investment assets by life insurance companies during the third quarter were less than in the same period of the previous two years, despite an increase in funds generated from premium and investment income; an unusually large buildup of cash holdings more than accounted for the shortfall. Part of the liquid asset buildup reflects preparation for the normal fourth quarter increase in commitment disbursements, but part may also reflect a desire to increase liquidity in case policy loan demands during the fourth quarter are significantly larger than the \$437 million companies had projected. If excess demands do not materialize, the funds could be quickly invested in marketable securities before year end.

LIFE INSURANCE COMPANIES^{1/}
 SOURCES OF FUNDS INVESTED
 (millions of dollars)

	Actual third quarter			Expected fourth quarter ^{2/}		
	1968	1969	1970	1968	1969	1970
Ledger Assets ^{3/}	1,756	1,603	1,966	1,887	1,753	1,892
Cash ^{4/}	-232	-184	-900	623	368	975
Funds realized from						
Mortgages and Securities	1,906	1,967	2,024	1,791	1,864	2,009
Scheduled ^{5/}	1,047	1,155	1,181	1,130	1,281	1,455
Calls and Prepayments	470	374	332	461	368	317
Sales	389	449	511	200	215	237
Other Sales	33	70	30	39	27	26
Borrowed Funds	-180	-80	-193	-53	-135	-93
Subtotal	3,283	3,376	2,927	4,287	3,877	4,809
Less: Policy Loans	281	688	411	273	597	437
Total funds invested	3,002	2,688	2,516	4,014	3,280	4,372

^{1/} Sample of companies representing 80 per cent of industry assets.

^{2/} Reporting companies' expectations for the fourth quarter as of the end of the third quarter.

^{3/} Reflects premium receipts, net income, etc.

^{4/} A build up of cash and liquid assets is shown as a negative.

^{5/} Scheduled amortization and partial prepayment of mortgages plus bond maturities.

If the companies own projections for the fourth quarter prove accurate, fourth quarter investment acquisitions will be made in unusually large volume. Even if the large expected fourth quarter volume does materialize, however, total gross funds invested by the industry during 1970 -- exclusive of policy loans -- would be only about \$16 billion. Although this is about \$1 billion larger than the 1969 total, it would be the smallest volume -- except for last year -- since 1963.

Corporate and municipal securities markets. By early December, corporate and municipal long-term bond yields had dropped to levels 80 and 100 basis points, respectively, below their late October peaks. And, in early December, stock prices rose on increased volume with highest quality stocks--as measured by the Dow Jones Industrial averages--reaching new highs for 1970.

BOND YIELDS
(In per cent)

		New Aaa Corporate Bonds ^{1/}	Long-term State and Local Bonds ^{2/}
<u>1970</u>			
Low		7.95 (12/4)	5.41 (12/4)
High		9.30 (6/18)	7.12 (5/28)
<u>Week of:</u>			
October	23	8.64	6.45
	30	8.77	6.40
November	6	8.63	6.28
	13	8.40	6.12
	20	8.39	5.87
	27	8.20	5.44
December	4	7.95	5.41

^{1/} With call protection (includes some issues with 10-year protection).
^{2/} Bond Buyer (mixed qualities).

STOCK PRICES AND VOLUME

	Prices (Indexes)			Volume (Millions of Shares)		
	Dow Jones Industrial	NYSE	AMEX	NYSE	AMEX	
Previous 1970 High	811.31 (1/5)	52,36 (1/5)	27.02 (1/8)	21.3 (9/24)	7.9 (9/24)	
1970 Low	631.16 (5/26)	38.20 (5/25)	19.36 (6/13)	6.7 (5/11)	1.6 (5/11)	
<u>Week of:</u>						
November	6	771.97	45.85	21.95	10.8	2.4
	13	759.79	45.38	21.63	12.2	3.7
	20	761.57	45.47	21.44	9.7	2.5
	27	781.35	46.64	21.65	12.2	2.5
December	4	816.06	48.65	22.09	18.5	4.2

Per cent changes:

Late 1968 high to December 4	-17.2	-20.6	-33.6
January 1970 high to December 4	.6	-7.1	-18.2
May-June 1970 lows to December 4	29.3	27.4	14.1

NOTE: Highs and lows and all stock price data are for a single day. Weekly volume data are daily averages.

Both bond and stock markets were buoyed by the November cuts in the discount and prime rates. These developments reinforced the expectation that the 1971 new issue volume will be curtailed by a reduction in the corporate demand for funds and by increased availability of bank credit, including term loans. In this atmosphere, both dealers and investors were extremely aggressive buyers of bonds as

the view gained currency that interest rates would continue to decline in the weeks ahead despite the current high pace of new issues. The November public bond total was only marginally below the May peak, which had included a \$1.5 billion debt offering by AT&T. New stock issues are estimated to have been about \$800 million in November, and although takedowns of private placements apparently remained at low levels, total corporate securities offerings last month amounted to over \$4 billion, a record high.

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

	Bonds		Stocks	Total
	Public Offerings	Private Placements		
1969 - entire year	1,061	468	700	2,229
1970 - entire year	2,090e	405e	688e	3,185e
1970 - QIII	1,986e	315e	540e	2,842
QIV	2,517e	467e	767e	3,750e
November	2,950e	300e	800e	4,050e
December	2,200e	700e	500e	3,400e
1971				
January	2,000e	600e	700e	3,300e

e/ Estimated.

Government securities market. Interest rates over the maturity range of the Treasury yield have moved markedly lower since the time of the mid-November Committee meeting, along with drops in both the discount rate and the commercial bank prime rate. For Treasury coupon issues, the declines have ranged from 45 to as much as 70 basis points with the largest declines coming in the 3-5 year maturity area. Bill rates have also declined notably, although like yields on coupon issues they have rebounded from the lows reached just prior to Thanksgiving. Most recently bill rates were generally 30 to 45 basis points below mid-November levels with the key 3-month issue bid at 4.92 per cent, a decline of 30 basis points from its November 17 close.

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

	1970		Weekly average for week ending			
	Daily Highs ^{1/}	Daily Lows ^{1/}	Nov. 17	Nov. 24	Dec. 1	Dec. 8
<u>Bills</u>						
1-month	7.84 (1/28)	4.66 (12/1)	5.00	4.86	4.72	4.81
3-month	7.93 (1/16)	4.80 (11/23)	5.36	5.03	5.06	4.94
6-month	7.99 (1/5)	4.92 (12/4)	5.52	5.14	5.02	4.95
1-year	7.62 (1/30)	4.78 (11/23)	5.52	5.03	4.99	4.90
<u>Coupons</u>						
3-year	8.42 (1/7)	5.60 (12/4)	6.46	5.89	5.72	5.64
5-year	8.30 (1/7)	5.85 (12/4)	6.66	6.14	5.98	5.90
7-year	8.12 (4/26)	6.10 (12/4)	6.92	6.47	6.37	6.18
10-year	8.22 (5/26)	6.21 (12/4)	6.98	6.57	6.48	6.30
20-year	7.73 (5/26)	6.16 (12/4)	6.67	6.41	6.38	6.22
<u>Agencies</u>						
6-month	8.65 (1/27)	5.40 (11/24)	6.06	5.54	5.56	5.49
1-year	8.75 (1/2)	5.71 (12/7)	6.35	5.93	5.79	5.74
3-year	8.54 (1/2)	6.16 (12/7)	6.98	6.46	6.29	6.22
5-year	8.43 (1/15)	6.44 (12/7)	7.21	6.76	6.68	6.52

^{1/} Latest dates of high or low rates in parentheses.

In the bill market, demand has been quite firm, with the interest by banks particularly notable as deposit inflows have continued strong while loan demand has remained weak. In these circumstances, and with somewhat of a shortage of relatively short-term bills, the Treasury's auction on November 25 of a \$2.1 billion "strip" of bills was taken in stride by the market.

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

	November				
	Daily Average	Nov. 16	Nov. 23	Nov. 30	Dec. 7
<u>Treasury securities</u>					
Total	<u>4,773</u>	<u>4,182</u>	<u>4,119</u>	<u>4,906</u>	<u>4,846</u>
Treasury bills (total	<u>3,111</u>	<u>2,630</u>	<u>2,330</u>	<u>3,107</u>	<u>3,152</u>
Due in 92 days or less	521	313	275	868	728
93 days or over	2,591	2,317	2,055	2,239	2,425
Treasury notes and bonds (total	<u>1,662</u>	<u>1,552</u>	<u>1,789</u>	<u>1,799</u>	<u>1,694</u>
Due within 1-year	300	296	366	397	454
1-5 years	617	580	677	664	666
over 5 years	745	676	746	738	575
<u>Agency securities</u>					
Total	<u>1,064</u>	<u>909</u>	<u>1,149</u>	<u>1,228</u>	<u>1,136</u>
Due within 1 year	566	493	674	678	570
over 1 year	498	417	475	550	566

Despite the sizeable demands for both bills and coupon issues, dealers' positions in both of these areas have increased since mid-November. In the case of Treasury bills, the rise has taken place entirely in the shorter maturities where the bill "strip" was offered. Note and bond positions have risen by about \$150 million from an already inflated level at the time of the last Committee meeting. This has occurred despite System purchases of \$290 billion of coupon issues in two market operations. These purchases, in an atmosphere of continuing weakness in economic activity, heightened for many market participants the expectation of declines in long-term rates. Thus, in this sector of the market, dealers have met final investor demands only at fairly rapidly rising prices as they have sought also to maintain the size of their positions in the present situation of a rising market with generally declining financing costs.

New issue volume in the agency market has been very limited with only two issues of much note: a \$750 million FNMA offering, consisting of a \$500 million 3-year portion and a \$250 million 6-1/2 year option, and raising \$500 million in new funds; and a \$350 million 59-month FHLB issue, all of which represented new money. Yields on these were well below the last comparable issues, but all of them were accorded very good market receptions. Yields on outstanding agency issues have moved about in line with those on direct Treasury issues.

Other short-term credit markets. Preliminary data on commercial and finance company paper outstandings for November (based on data available through November 25) show a decline of \$1.2 billion to \$33.0 billion, seasonally adjusted. The largest decline--\$819 million--was in directly-placed paper where the usual autumn upsurge in finance company paper outstanding thus far has failed to materialize, reflecting the General Motors' strike, weakness in auto sales, and sizeable consumer credit repayments. The decline in bank-related commercial paper slowed to \$544 million for November from \$915 million in the preceding month. These outstandings now total \$3.1 billion, with the cumulative run-off since mid-August amounting to \$4.4 billion.

Declines in short-term rates from November 4 to December 2 were substantial, ranging from 3/10 to 1-3/8 percentage points. In the week ending December 2, there were some signs of a rebound in several rates--certificates of deposit in all maturities, Treasury bills and one year prime municipal notes. This reversal proved to be temporary, however, as Treasury bill rates in all maturities are again leading downward. As a result, from December 2 to December 7 there was some widening of spreads between commercial paper rates and Treasury bill yields from 65 to 110 basis points on one-month maturities and from 103 to 121 basis points on three-month maturities. These spreads are somewhat narrower than on November 4, and considerably narrower than in recent months.

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

	September	October	November 25 ^{1/}
<u>Amounts Outstanding</u>			
Total commercial and finance paper <u>2/</u>	34,284	34,152	32,987 <u>e/</u>
Bank related <u>3/</u>	4,586	3,671	3,127 <u>e/</u>
Nonbank related <u>4/</u>			
Placed through dealers	11,365	12,104	12,302 <u>e/</u>
Placed directly	18,333	18,377	17,558 <u>e/</u>
<u>Net Change</u>			
Total commercial and finance paper <u>2/</u>	-1,413	-132	-1,165 <u>e/</u>
Bank related <u>3/</u>	-2,671	-915	- 544 <u>e/</u>
Nonbank related <u>4/</u>			
Placed through dealers	+ 493	+739	+ 198 <u>e/</u>
Placed directly	+ 765	+ 44	- 819 <u>e/</u>

e - Estimated; see footnote 1.

1/ As of November 25. The end-of-month data will differ from these Wednesday figures, due to the difference in dating.

2/ Combines seasonally adjusted nonbank-related paper and seasonally unadjusted bank-related paper.

3/ Seasonally unadjusted.

4/ Seasonally adjusted.

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

	1969 Nov.-Dec. highs <u>1/</u>	Nov. 4	Nov. 25	Dec. 2	Net change (Nov. 4- Dec. 2)
<u>1-month</u>					
Commercial paper	9.25 (12/31)	6.50	5.63	5.50	-1.00
Finance paper	9.00 (12/31)	6.38	5.00	5.00	-1.38
Bankers' acceptances	9.00 (12/31)	6.38	5.50	5.50	- .88
Certificate of deposit--					
new issue <u>2/</u>	6.25	6.38	5.00	5.38	-1.00
Treasury bill	7.54 (12/31)	5.36	4.80	4.85	- .51
<u>3-month</u>					
Commercial paper	9.25 (12/31)	6.88	6.25	6.00	- .88
Finance paper	8.13 (12/31)	6.50	5.50	5.50	-1.00
Bankers' acceptances	9.00 (12/31)	6.38	5.50	5.50	- .88
Certificate of deposit--					
new issue <u>2/</u>	6.50	6.50	5.50	5.63	- .87
Treasury bill	8.00 (12/29)	5.56	5.06	4.97	- .59
<u>6-month</u>					
Bankers' acceptances	9.00 (12/31)	6.38	5.50	5.50	- .88
Treasury bill	8.09 (12/29)	5.78	5.04	4.99	- .79
<u>12-month</u>					
Certificate of deposit--					
new issue <u>2/</u>	7.50	6.75	5.50	5.63	-1.12
Treasury bill	7.86 (11/24)	5.89	5.00	4.94	- .95
Prime municipals <u>2/</u>	6.25 (11/12)	3.30	2.95	3.00	- .30

1/ Dates of highs in parentheses; latest date used if high occurred on more than one date.

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

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

Federal Finance. The latest information indicates that Federal expenditures in 1971 are likely to be larger than was assumed in the Chart Show and in the preceding Greenbook. The staff now projects NIA expenditures of \$214.7 billion for fiscal 1971 and \$224.0 billion for calendar 1971. These figures are \$1.2 billion and \$3 billion higher, respectively, than our previous estimates. The major portion of this revision is in transfer payments; prior estimates do not appear to have allowed adequately for the rising trend in program costs and unemployment.

The expenditure estimates are still rather uncertain. There is the unsettled social security legislation; our projections include an increase of \$3.9 billion annual rate in payments--an amount intermediate between the Senate and House proposals. There is the possibility (not allowed for in the estimates) of substantially increased grants-in-aid or revenue sharing programs; these, however, are not likely to be implemented for a while. There is still uncertainty in the estimates of defense spending. The full House and the Senate Appropriations Committee have both passed versions of the defense appropriations bill that are significantly below Administration requests, but there is considerable pressure by defense spokesmen for higher spending on the grounds of both defense needs and the stimulative effect of outlays in the hard-hit defense-related fields. There is also some uncertainty with respect to the quarterly impact of the Federal pay raise.

On the receipts side, the staff is projecting NIA actual receipts of \$200.5 billion for fiscal 1971 and \$208.6 billion for the

calendar year, somewhat higher than previously estimated due to higher income assumptions. On a unified budget basis, these estimates yield an expected budget deficit of \$15.5 billion for fiscal 1971, and \$18.2 billion for calendar 1971. The unified budget deficit for calendar 1970 is estimated to be \$12.1 billion.

The table below presents the projected annual growth rates in NIA Federal spending for the three half-years beginning with the second half of calendar 1970. As shown in the table, growth rates for spending are still smaller than the corresponding growth rates for "high employment" receipts (reflecting surtax repeal, tax reform, social security tax hikes, and normal growth). At high employment levels, receipts would slightly exceed expenditures in the projected period; the quite moderate-sized (\$1.2 billion) high employment surplus expected in the current quarter will increase in calendar 1971.

PROJECTED ANNUAL GROWTH RATES OF NIA FEDERAL EXPENDITURES

	Per Cent Annual Rate of Growth over		
	Previous Calendar Half-Year		
	2nd Half 1970	1st Half 1971	2nd Half 1971
Total purchases	-5.6	2.0	1.4
Transfers:			
to persons	14.6	24.8	10.8
grants to states	10.0	18.2	14.6
all others	<u>14.0</u>	<u>13.2</u>	<u>3.2</u>
Total expenditures	4.0	12.0	5.6
Memorandum:			
High empl. receipts	5.0	14.2	9.4

The Treasury's cash balances have been running somewhat higher than anticipated, partly as a result of short-term foreign official capital inflows going into special Treasury issues. Treasury financing operations in December have been partially completed through the bill strip financing. Only a moderate amount of additional cash will be raised during the remainder of the month through increases in the regular offerings of bill issues, amounting to \$100 million each in the weekly 3-month and 6-month issues and a \$200 million increase in the 1-year issue. The cash balance for the last day of December is estimated to be about \$7.7 billion. No further Treasury financing operations are expected before the February refunding, and no net new money is expected to be needed before late February.

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

	Fiscal Year		Calendar Years		Calendar Quarters					
	1970*	1971e/	F.R. Estimates		1970		1971 e/			
			1970	1971	III*	IVe/	I	II	III	IV
Federal Budget										
(Quarterly data, unadjusted)										
Surplus/deficit	-2.8	-15.5	-12.1	-18.2	-7.8	-9.5	-5.3	6.9	-9.0	-10.8
Receipts	193.7	197.0	190.7	203.2	46.5	41.2	48.0	61.1	49.4	44.7
Outlays	196.6	212.5	202.8	221.4	54.3	50.7	53.3	54.2	58.4	55.5
Means of financing:										
Net borrowing from the public ^{1/}	3.8	13.8	12.5	15.5	7.4	9.5	2.8	-5.9	9.3	9.3
Decrease in cash operating balance	-2.1	1.3	-2.4	2.0	-8	1.1	.5	.5	-1.6	2.6
Other ^{2/}	1.1	.5	2.1	.7	1.2	-1.1	2.0	-1.5	1.3	-1.1
Cash operating balance, end of period	8.0	6.7	7.7	5.7	8.8	7.7	7.2	6.7	8.3	5.7
National Income Sector										
(Seasonally adjusted annual rate)										
Surplus/deficit	-.4	-14.2	-10.5	-15.4	-11.2	-14.8	-12.2	-18.4	-15.5	-15.3
Receipts	198.9	200.5	195.8	208.6	195.5	195.2	203.8	207.5	210.1	213.1
Expenditures	199.3	214.7	206.3	224.0	206.7	210.0	216.0	225.9	225.6	228.4
High employment surplus deficit ^{3/}	1.1	.9	-.9	4.0	-1.7	1.2	4.0	0.0	4.8	7.0

* Actual
e--projected

- ^{1/} 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.
^{2/} Includes such items as deposit fund accounts and clearing accounts.
^{3/} Estimated by Federal Reserve Board Staff.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Nov.	Dec.	Jan.	Feb.
<u>Total net borrowing:</u>	3.4	3.5	-.2	-.5
Weekly and monthly bills	.9	3.3	--	.3
Tax bills	--	--	--	--
Coupon issues	2.0	--	--	--
As yet unspecified new borrowing	--	--	--	--
Other (agency, debt repayments, etc.)	.5	.2	-.2	-.8
Plus: <u>Other net financial sources</u> ^{a/}	-.6	-1.6	-.9	.4
Plus: <u>Budget surplus or deficit (-)</u>	-3.3	-.1	-1.0	-.7
Equals: <u>Change in cash balance</u>	-.5 ^{b/}	1.8	-.3	-.8
Memoranda: Level of cash balance, end of period	5.9 ^{b/}	7.7	7.4	6.6
Derivation of budget surplus or deficit:				
Budget receipts	14.0	15.7	17.0	16.7
Budget outlays	17.3	15.8	18.0	17.4
Maturing coupon issues held by public	6.0	--	--	5.0

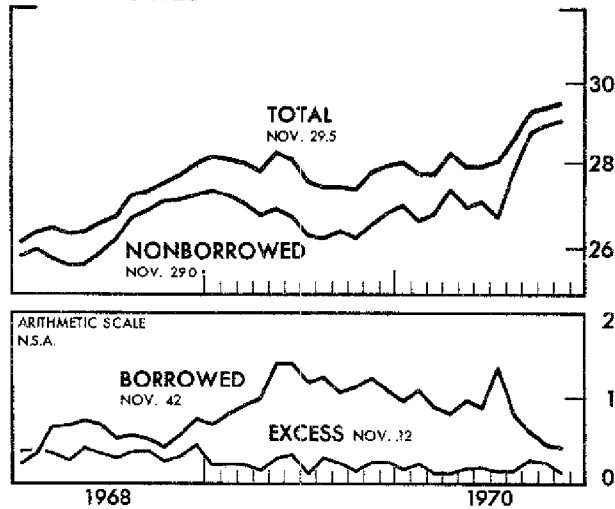
^{a/} Checks issued less checks paid and other accrual items.

^{b/} Actual.

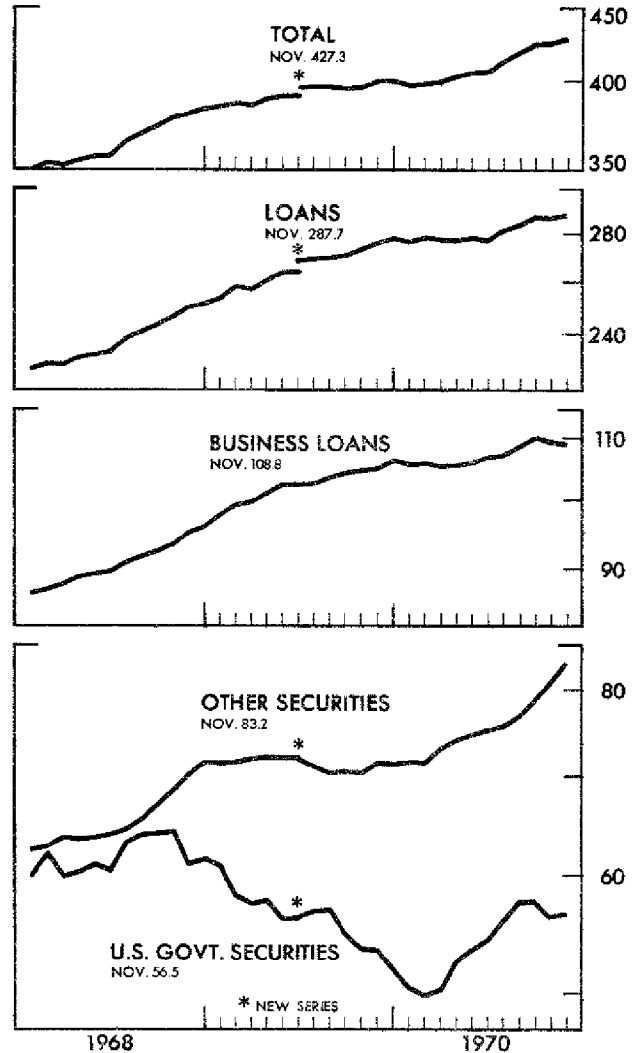
FINANCIAL DEVELOPMENTS - UNITED STATES

BILLIONS OF DOLLARS, SEASONALLY ADJUSTED, RATIO SCALE

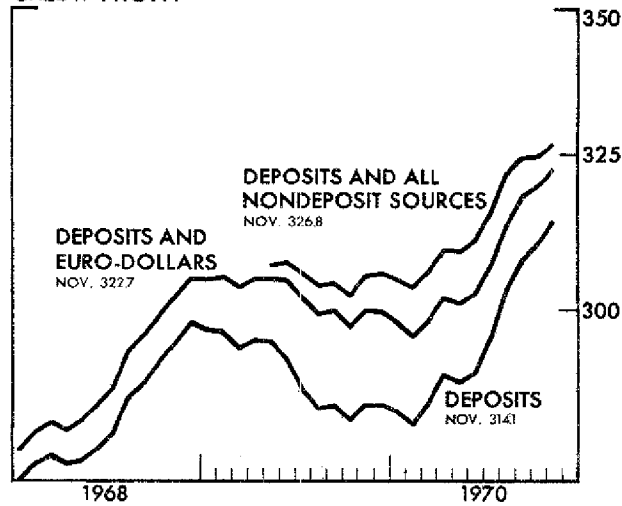
BANK RESERVES



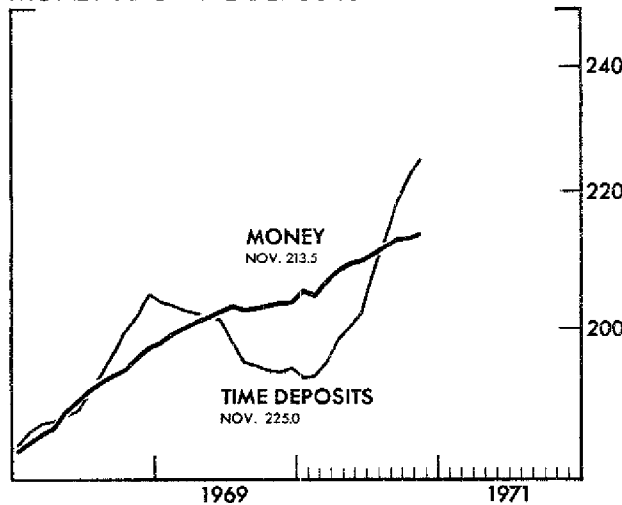
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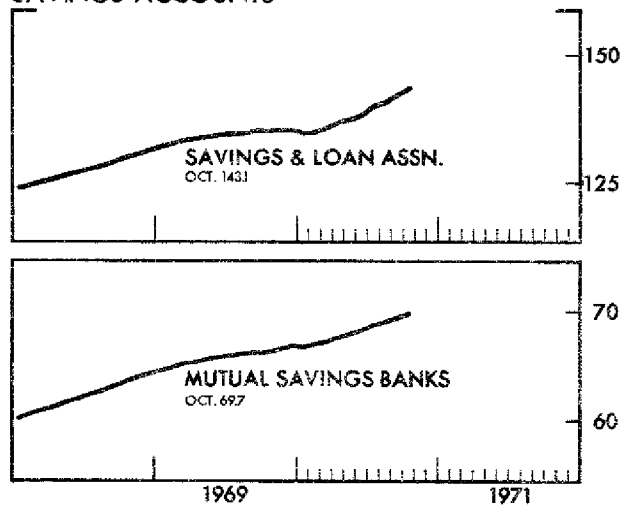
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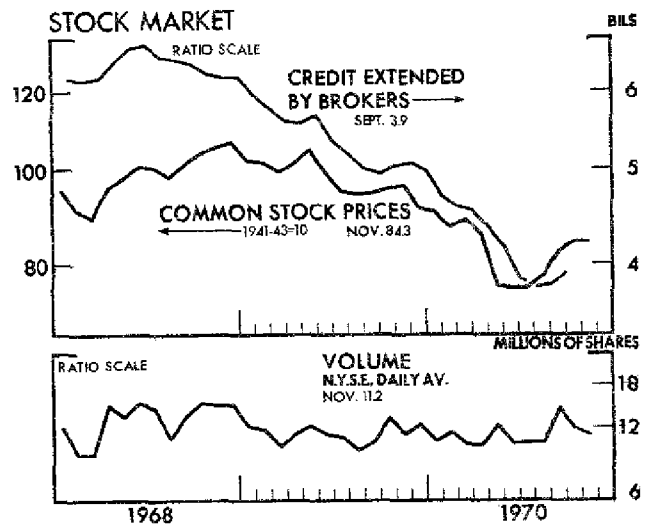
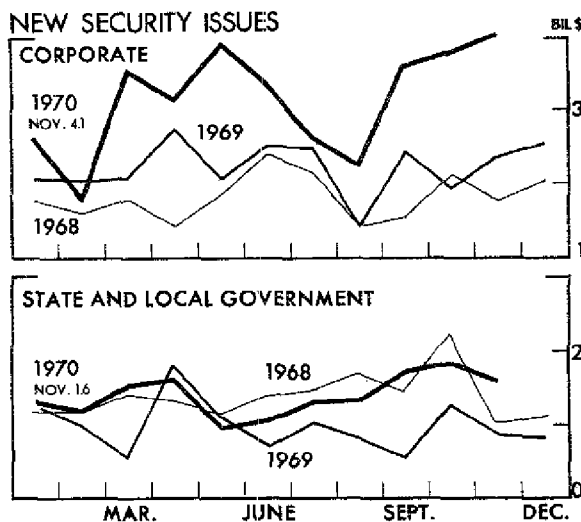
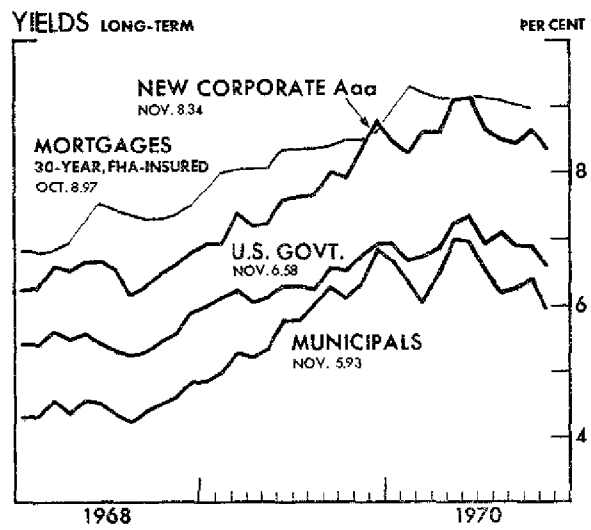
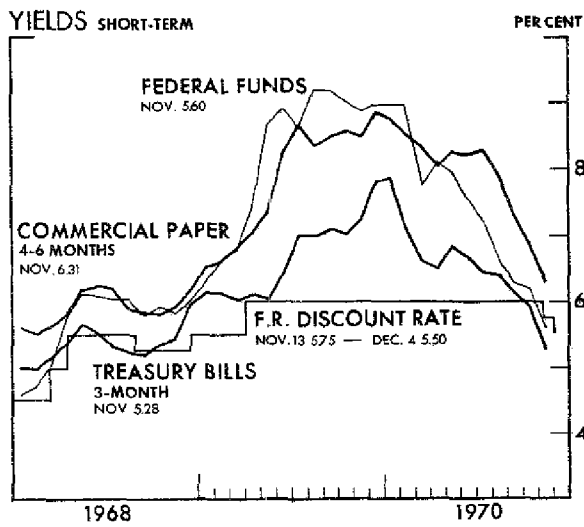
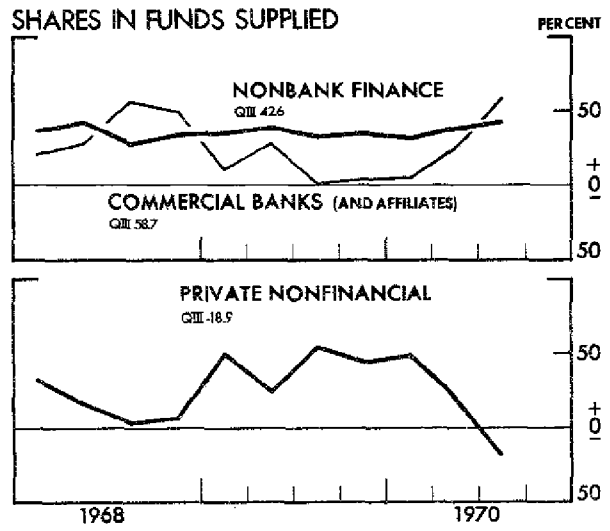
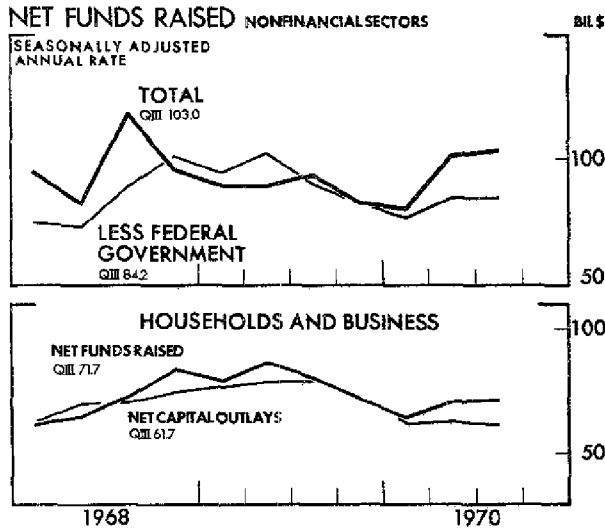
MONEY AND TIME DEPOSITS



SAVINGS ACCOUNTS



FINANCIAL DEVELOPMENTS - UNITED STATES



THE ECONOMIC PICTURE IN DETAIL

International Developments

Foreign exchange markets. The predominant influence on exchange market developments since mid-November has been the wide movements in interest rates in the Euro-dollar market and some national money markets. Major foreign currencies advanced from the beginning of the period until just before the Thanksgiving holiday as Euro-dollar rates continued to decline. Approaching month-end, Euro-dollar rates firmed strongly and spot exchange rates eased. In the second week of December, the movements in rates were again reversed, with Euro-dollar interest rates easing and foreign exchange rates firming.

The German mark was the center of exchange market activity in this period. The Bundesbank's change in reserve requirements, accompanying the cut in its lending rates on November 17, occasioned a massive inflow into marks during the next several days as German banks viewed the net impact of the policy changes as tending to tighten their liquidity positions. The result was the opposite of what the banks expected -- the Bundesbank purchased \$1.1 billion from November 17-24 in holding the DM at its ceiling rate in the exchange market, and German banks found themselves with large excess reserves. On December 2, the Bundesbank again lowered its discount and Lombard rates to slow the

inflow. Euro-dollar rates had risen in the interval, and as German call money rates dropped, the banks turned to the Euro-dollar market to employ their excess reserves. The mark price of dollars rose sharply, inducing some covering of short dollar positions, which further increased the price of dollars. The exchange rate touched parity at one point on December 4, and the Bundesbank sold a small amount of dollars. Euro-dollar interest rates eased subsequently, however, and the mark turned firmer in the exchange markets.

Other continental currencies also tended to move inversely to Euro-dollar rates, reflecting interest arbitrage out of and into that market. The National Bank of Belgium purchased some \$60 million in the last half of November and early December. The System drew an additional \$70 million on the swap line with the Belgians during the period, raising outstanding drawings on that line to \$320 million. The Bank of France purchased around \$110 million during the second and third weeks of November, but has not made significant purchases since that time.

Dutch money market conditions were easier in the period under review than previously, and the guilder exchange rate dropped substantially in the first week of December as Euro-dollar rates rose. Officials of the Netherlands Bank indicated that they expected the Dutch money markets to remain amply liquid through January.

Italy's reserve gains, which had been quite large from mid-August to early November, slowed markedly later in the month, and the Bank of Italy sold dollars on balance in the latter half of November. The Swiss money market tightened in November and the Swiss franc firmed steadily till month-end. The BNS began doing over-year-end swaps with Swiss banks in early December, causing the exchange rate to ease somewhat.

Sterling moved in a narrow range throughout the period, showing strength in mid-November with the release of good October trade figures, which apparently bolstered confidence in sterling sufficiently to induce short-term uncovered inflows into sterling from the Euro-dollar market. Britain's published reserves showed an increase of \$65 million in November after substantial debt repayments, including the final \$125 million of the September drawing on the System.

The Canadian dollar market was quite active, but the exchange rate moved relatively little. The Bank of Canada was in the market only two days in the period and only for nominal amounts.

Euro-dollar market. Until the last few days of November Euro-dollar rates eased about in line with declines in U.S. money market rates, but lagged behind them. On average, in the period November 1-25, the excess of Euro-dollar rates over the cost of domestic funds to U.S. banks changed little from October.

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

Average for month or week ending Wednesday	(1) Call Euro-\$ Deposit ^{1/}	(2) Federal Funds ^{2/}	(3)= (1)-(2) Differ- ential	(4) 3-month Euro-\$ Deposit ^{1/}	(5) 60-89 day CD rate (Adj.) ^{3/}	(6)= (4)-(5) Differ- ential
1970						
August	7.26	6.61	0.65	8.19	8.17	0.02
September	7.88	6.29	1.39	8.03	7.64	0.39
October	6.65	6.20	0.45	7.94	6.97	0.97
Nov. 4	6.10	6.07	0.03	7.58	6.65	0.93
11	6.38	5.80	0.58	7.53	6.32	1.21
18	5.78	5.70	0.08	7.12	6.32	0.80
25	5.63	5.16	0.47	6.79	5.79	1.00
Dec. 2	6.91	5.50	1.41	7.31	5.79	1.52
8	6.75	4.98 ^{p/}	1.77 ^{p/}	7.30	5.79 ^{p/}	1.51 ^{p/}

^{1/} All Euro-dollar rates are noon bid rates in the London market.

^{2/} Effective rate.

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

^{p/} Preliminary.

Just before the end of November, very short-term U.S. rates firmed moderately and Euro-dollar rates began rising rather markedly. In part this advance in Euro-dollar rates reflected normal month-end tightening and the approach of the year-end (when seasonal pressures are particularly heavy). The rate increases carried over into the first few days of December, apparently under the influence of the Board's announcement (late on November 30) of amendments to Euro-dollar reserve requirements. Call deposits reached 7-1/4 per cent on December 2, but have since eased -- averaging 6-3/4 per cent in the week ended December 8. The three-month Euro-dollar rate went as high as 7-1/2 per cent

in the first week of December and has averaged around 7-1/4 per cent in recent days.

Gross liabilities of U.S. banks to their foreign branches (including domestic loan participations) declined by about \$850 million in the four weeks ended November 25, to total \$8.8 billion -- a decline of about \$1.7 billion from average liabilities in the five Wednesdays in September. In the following week liabilities declined \$190 million. Partial daily data indicate that this Wednesday-to-Wednesday decline was the net result of a \$0.6 billion reduction to November 30 and a sharp increase on December 1 and 2, despite rising cost differentials. Partial-daily data show a further increase (about \$475 million) in U.S. bank Euro-dollar takings through Monday, December 7. Since these borrowings often fall sharply at month-ends and subsequently rise again, the recent changes do not give a clear indication of the banks' reaction to the amendment of regulations.

In the reserve computation period ended November 25, four New York City banks gave up a total of \$520 million of their reserve-free historical bases. Although data are not yet available for banks outside of New York, estimates of their positions based on partial data suggest no substantial change by banks using an historical reserve-free base, while those using a three per cent of deposits base apparently repaid less than \$100 million.

Seasonal influences may be expected to keep Euro-dollar rates relatively firm until some time in January, although normal upward pressures on rates may be tempered by the recent easing in German and Dutch money markets. (See p. IV - 2) Canadian interest rates have continued to decline at a fairly rapid rate and Canadian banks are reported to be placing funds in the Euro-dollar market. The Swiss National Bank reportedly expects to do between \$700 million and \$800 million of swaps for the Swiss banks before the year-end; it will place the dollar proceeds of these swaps in the Euro-dollar market.

U.S. balance of payments. The liquidity deficit in October (seasonally adjusted and before special transactions) was quite small despite the poor showing of merchandise trade (described below). Weekly data suggest that the deficit in November was somewhat larger but as the yearend approaches the balances move too irregularly to be representative of underlying trends.

In October capital flows connected with transactions in securities probably resulted in a net inflow. Foreign net purchases of U.S. corporate stocks were about \$160 million -- down from the peak \$225 million of September, but still showing a sustained interest in the relatively strong U.S. market. There was also a sizable amount of corporate debt issues abroad -- roughly \$100 million. However, U.S. corporations seem to be relying this year on borrowing from foreign

banks to finance their foreign operations -- presumably shortening the maturity of their debt in the process.

Outflows of U.S. capital to purchase foreign securities in October were a high for the year at \$200 million. U.S. purchases of foreign stocks rose sharply to \$50 million, and purchases of foreign bonds totaled \$140 million, mainly for bonds of the Inter-American Development Bank. The Bank placed most of the proceeds in U.S. long-term time deposits. The calendar of foreign new bond issues is small for the rest of this year.

U.S. bank-reported claims on foreigners increased by \$150 million in October, following a larger outflow of \$270 million in September. About \$200 million of the September-October outflow was subject to VFCR ceilings. Bankers' acceptances in October were at a record level, and showed the largest monthly increase in the history of the acceptance market, reflecting trade financing as well as general credit facilities.

The deficit on the official settlements basis was about \$800 million in October (not seasonally adjusted). The preliminary indication is that the November deficit may be close to \$2 billion. While liabilities to foreign branches of U.S. banks fell by about the same amount in both months -- nearly \$1 billion -- liabilities to other commercial banks increased by \$1/2 billion in October and then appear to have decreased by a like amount in November. This swing in liabilities to other commercial banks partly reflects a seasonal

movement of funds between U.S. agencies of Canadian banks and their home offices, but is considerably larger than usual.

In November, liabilities to foreign official reserve holders may have risen by \$1-3/4 billion, most of it going to Germany. This compares with total increases of \$350 million in October (also largely for German account) and \$1.8 billion in the third quarter (\$2.1 billion for Germany). U.S. reserve assets in November fell by \$200 million -- mainly reflecting U.K. repayments of swap drawings and repurchase of guaranteed sterling.

Additional data now available on third quarter transactions confirm that there was a substantial reduction in the outflow of corporate funds in that period. The gross outflow of funds for direct investment abroad fell by 40 per cent, or nearly \$700 million, from the second to the third quarter. Net corporate outlays, however, fell by only one-half that amount as U.S. firms reduced their borrowing abroad while increasing their accounts receivable from foreign concerns other than direct-investment affiliates.

The balance on goods and services changed very little. There was a moderate increase in investment income as income payments fell and gross receipts rose, but this was offset by some reduction in the trade balance. Much of the quarter-to-quarter improvement -- nearly \$500 million -- stemmed from the resumption of foreign net purchases of U.S. corporate stocks. Another important factor was an inflow of

U.S. INTERNATIONAL TRANSACTIONS
(millions of dollars, seasonally adjusted)

	1969	1 9 7 0			Change	
		Qtr.1	Qtr.2	Qtr.3	Qtr.2	Qtr.3
Goods & services, net	1,949	832	1,104	1,021	-83	
Remittances & pensions	-1,190	-328	-360	-360	0	
U.S. Gov't grants & capital <u>1/</u>	-3,698	-943	-838	-761	+77	
U.S. corporate capital, net	-1,430	-1,285	-715	-357	+358	
Other U.S. private capital <u>1/</u>	-1,790	70	-340	-429	-89	
Other foreign private <u>2/</u> capital <u>1/</u>	2,852	543	148	702	+554	
Foreign official, <u>3/</u> nonliquid <u>1/</u>	192	-17	-171	-76	+95	
Errors & omissions	-2,841	-182	-920	-428	+492	
Memo: Special transactions affecting liquidity balance	(-1,055)	(-348)	(641)	(-166)	(-807)	
<u>Liquidity balance, before special transactions</u>	<u>-5,956</u>	<u>-1,310</u>	<u>-2,092</u>	<u>-688</u>	<u>+1,404</u>	
liquid liabilities to:						
Foreign commercial banks	9,217	-1,865	-102	-1,375	-1,273	
Other private foreigners <u>4/</u>	-501	-10	65	-61	-126	
<u>Official settlements balance, before special transactions</u>	<u>2,759</u>	<u>-3,183</u>	<u>-2,129</u>	<u>-2,125</u>	<u>+4</u>	
Financed by:						
Changes in U.S. reserve assets <u>5/</u> (increase (-))	-1,187	481	1,022	801	-221	
Transactions with foreign official agencies. <u>1/</u> (decrease (-))	-1,572	2,702	1,107	1,324	+217	

1/ Excludes special transactions.

2/ Includes international organizations; excludes liquid liabilities and lending to U.S. corporations.

3/ Excludes liabilities to foreign reserve holders.

4/ Includes international organizations.

5/ Excludes SDR allocation.

banking claims -- a net reversal of \$600 million from the second quarter. Errors and omissions, presumably largely unidentified capital outflows, though still large in the third quarter, were down by \$500 million from the second quarter amount.

U.S. foreign trade. The export surplus in October on the balance-of-payments basis was at a seasonally adjusted annual rate of \$1.0 billion -- slightly less than the already low \$1.3 billion rate of September.^{1/} In the four months of July-October, the surplus was at an annual rate of \$2.5 billion, almost \$1 billion below the second-quarter level.

The July-October surplus was smaller than had been anticipated earlier as a result of a strong upward surge in imports, especially of industrial materials. Imports reached successive record highs in September and October. Exports, after peaking in June, dipped in the third quarter but turned up again in October.^{2/} In the four months of July through October exports were at about the same annual rate as in the second quarter, while imports exceeded the second-quarter rate by about \$1 billion, or 2.5 per cent.

^{1/} The September balance has been revised downward because that month's imports were raised to include about \$58 million of automotive products from Canada, which were omitted in the September statistics as first published.

^{2/} Newspaper reports of a substantial export surplus in October referred to exports on the Census basis, including military sales which were unusually large in that month. On the balance of payments basis, military sales are excluded from merchandise exports.

In the July-October period, exports were at a seasonally adjusted annual rate of \$42.8 billion, on the balance-of-payments basis. A large increase from the already high second quarter level occurred in agricultural exports -- especially soybeans, wheat, corn, and grain sorghums -- with particularly large shipments in October. Higher export prices for animal feeds, reflecting short foreign supplies and strong growth in foreign demand, have contributed to the increased value of agricultural shipments. The advances in animal feed exports in July-October over the second quarter level more than offset declines in exports of rice, hides and skins, unmanufactured tobacco, and cotton.

Exports of nonagricultural products averaged a little lower in the July-October period than in the second quarter. There was a large cutback in exports of commercial aircraft in August and September; in October, as had been scheduled, aircraft exports picked up sharply once more. Other exports that were lower in July-October than in the second quarter included passenger cars to Canada -- reflecting the impact of the GM strike -- and industrial supplies such as steel, aluminum, and chemicals. Steel exports have fallen back to the pre-boom levels of the first half of 1969. Exports of machinery and passenger cars to countries other than Canada were up further in July-October.

The U.S. share of world exports of manufactured goods fell in the third quarter of this year, continuing the persistent downward trend since 1968. The shares of West Germany and Italy, in contrast, have risen in each quarter of this year; the share of Japan has been virtually unchanged.

Imports in July-October were at a seasonally adjusted annual rate of \$40.3 billion, on the balance-of-payments basis. Total imports rose steadily during the four-month period, with large increases over the second quarter rate occurring in certain industrial supplies and in machinery.

Steel imports were significantly above second quarter levels, despite the slackening in domestic steel production in September and October. A marked easing of steel supply and demand conditions abroad has made foreign steel readily available at attractive prices. Further increases in imports are expected in the remaining months of 1970 as foreign producers attempt to exhaust their voluntary quota allowances in anticipation of the possibility that the quotas will become mandatory.

Imports of textile yarns and fabrics in July-October were noticeably higher than in the previous three months. This increase may have been in reaction to the discussion of the Trade Bill, but imports of finished apparel and footwear -- also specified in the Bill -- did not show a similar rise. Total imports of fuels and lubricants were almost unchanged from the second quarter, as increases in fuel oil imports were offset by declines in crude oil imports, the latter caused by production and delivery problems.

Despite the shutdown of Canadian GM plants, imports of trucks and parts from Canada rose sharply in September and October.

Ford and Chrysler production in Canada did not increase sufficiently to compensate for the loss in GM production, and it may be that all three producers drew down their inventories in Canada. Automotive imports from Europe and Japan also showed strong increases in September-October, as domestic sales of these cars remained high.

By areas, total imports from the Common Market countries and Japan were higher in July-October than in the second quarter while imports from the U.K. and Canada were down. Purchases from the developing countries as a whole were virtually unchanged.

Outlook for merchandise imports of the major foreign industrial countries. Recent cyclical developments in a number of industrial countries indicate a slowing in the rate of advance of economic activity. From the beginning of this year through September, industrial production has failed to advance or has increased only slightly in Canada, France, Germany, Italy and the United Kingdom. In Japan, too, industrial production has been virtually flat since June.

What effect will current and prospective cyclical developments have on the imports of these six countries in the period ahead? And, in particular, are changes in total imports of these countries likely to affect their imports from the United States? As a step toward answering these questions, it was found useful to examine the composition of imports of this group of industrial countries, as well as some indicators of behavioral relationships between imports and economic activity in these countries. This examination suggests that from the second half of 1970 to the first half of 1971, the rate of increase in the value of imports of the six major industrial countries will be somewhat lower than the rate experienced from the first half of 1970 to the second half. The analysis further suggests that imports from the United States into the four European countries will grow more slowly than in 1970. The prospects for U.S. exports seem more favorable in Canada. Growth in U.S. sales to Japan, though possibly slowing, should continue to be strong.

Recent import developments in foreign industrial countries.

Despite the general leveling-off in industrial production this year, imports in the third quarter continued to rise strongly in France, Italy, and Japan. Canadian imports, which had leveled off in the first half of the year, picked up in the third quarter. British imports were depressed in July by a dock strike, but attained a new high level in the following three months. Only in Germany was the moderation in growth of the country's industrial output clearly associated with a sharp slowing of import expansion, and this slowing was confined-- during the third quarter at least--to imports of materials, while imports of final products continued to rise strongly.

IMPORT GROWTH IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change in U.S. \$ values,
seasonally adjusted, at annual rates)

	<u>1969</u> <u>1968</u>	<u>Jan.-Sept. 1970</u> <u>Jan.-Sept. 1969</u>	<u>1970-QI</u> <u>1969-QIV</u>	<u>1970-QII</u> <u>1970-QI</u>	<u>1970-QIII</u> <u>1970-QII</u>
OECD Europe	18	17	20	20	3
France	24	10	11	21	22
Germany	24	22	33	5	- 4
Italy	22	21	16	39	18
United Kingdom	5	7	8	27	-15
Japan	16	28	34	6	46
Canada	15	4	- 5	4 ^{a/}	11

^{a/} From June 1, 1970, a floating exchange rate for the Canadian dollar has been in effect.

Total import data for October are now available for Britain, Japan, and France, and in the first two cases show no significant departure from the trends described above. French imports, however, were off somewhat in October, and on average in September-October they were no higher than in the preceding two months.

During the first nine months of 1970 the value of imports into several of the major industrial countries totaled more than 20 per cent greater than in the corresponding period last year, continuing the trends that had been evident in Europe since early in 1968. A larger part of these increases in value, however, stemmed from price advances, while volume increases were smaller than before. In contrast to developments elsewhere, British and French imports, despite rapid increases since early this year, showed 9-month totals only moderately higher than a year earlier, because in both countries import growth between the two halves of 1969 had been slow. This slow growth during 1969 reflected, in France, a reaction to a sharp increase before the devaluation of the franc, and in Britain, the very slow growth of domestic economic activity during 1969. In Canada, too, total imports in the first 9 months of 1970 were only a little higher than a year earlier, reflecting Canada's success in restraining excess demand.

Imports and economic activity. In order to examine the response of imports to the levels of economic activity expected in the major foreign industrial countries in the period immediately

ahead, total imports were broken down into five broad categories.^{1/} The import categories were related to various indicators of economic activity. Ratios were derived from data covering the period 1964 to 1969-70. The ratios were then applied to forecasts of relevant indicators of economic activity in 1971 as recently revised by the OECD in the light of national official forecasts. In the derivation of the estimates for the second half of 1970, this procedure was supplemented, where possible, by using data of recorded imports for the third quarter of 1970.

The outlook for imports of the major industrial countries, derived in this manner, is summarized in the next table. For the six

OUTLOOK FOR IMPORTS^{a/} OF MAJOR INDUSTRIAL COUNTRIES
(Billions of U.S. \$, seasonally adjusted annual rates)

	1st Half 1970 (actual)	2nd Half 1970 (estimate)	1st Half 1971 (projection)
France	18.4	20.2	21.2
Germany	29.5	29.7	30.2
Italy	14.3	16.0	16.8
United Kingdom	21.3	22.1	23.1
Japan	17.9	20.3	21.8
Canada (excluding automotive imports) ^{b/}	10.2	11.2	12.0
Total	111.6	119.5	125.1

^{a/} Imports valued at c.i.f., except f.o.b. for Canada.

^{b/} For July-November 1970, import values expressed in Canadian dollars were converted into U.S. dollars by the average exchange rate prevailing during that period. For December 1970 and January-June 1971, an exchange rate of Can. \$1 = U.S. \$ 0.98 was used as the conversion factor. Imports in the first half of 1970 are staff estimates.

^{1/} Some adjustments in the data were made; automotive imports were treated separately in Canada, and imports of military equipment were excluded in several countries.

countries examined here--whose imports account for about two-thirds of total OECD imports (excluding the United States)--imports are projected to grow at an annual rate of about 10 per cent from the second half of 1970 to the first half of 1971. This suggests some slowing of the expansion of imports of these countries compared to the past three years.

These estimates are not precise, but their general orders of magnitude can be accepted with some confidence. The analysis looks only six months ahead; for certain classes of imports the flow of deliveries in so short a period is much affected by the demand and supply conditions which existed in past months. Thus, a moderation of private investment demand, such as is currently emerging for some European countries, is not likely to be reflected fully in imports until sometime in late 1971.

In Germany, there are noticeable cyclical patterns in the behavioral relationships between imports and economic activity. Total imports as a percentage of GNP, imports of consumer goods as a percentage of personal disposable income, and imports of capital equipment as a percentage of gross fixed investment all vary pro-cyclically; however, the time lags within which cyclical effects are registered vary considerably among categories. Imports of semi-manufactured goods as a percentage of GNP (less food and services) also move with economic activity, but

the pattern of the raw material import ratio is just the reverse. This pattern of raw material imports seems to suggest a shift in boom periods from importing unprocessed materials to importing materials embodying a somewhat higher degree of processing.

Superimposed on this cyclical pattern have been secular trends-- most notably the strong upward trend of the share of capital equipment imports in total imports. Imports of manufactured capital equipment now represent about one-fifth of total German imports and are second in importance to semi-manufactured products.

The ratio of total imports to GNP has varied pro-cyclically within a range of 13 to 16 per cent. The ratio stood at 16 per cent in the first half of 1970. Given moderation in the rate of growth of German economic activity, it is reasonable to assume that the ratio will be somewhat lower in the remainder of 1970 and the first half of 1971. But the importance of rising demand for capital equipment over the past year argues for only a very small diminution of the ratio given the time lags involved in the delivery of capital goods.

The outlook for aggregate economic activity in Germany is subject to a number of uncertainties. The OECD and official national forecasters still visualize a continuing significant moderation in the rate of expansion of activity throughout the first half of 1971. It is assumed here that business fixed investment expenditure will remain lower than it was in 1969. Private consumption is expected to advance only moderately in real terms.

Given this outlook and applying the observed relationships between imports and demand variables, total German imports are projected to increase very slightly in the first half of 1971 from the level recorded in the third quarter. This indicates a continuation of the slow import growth which began in Germany in the second quarter of this year.

In the United Kingdom, semi-manufactured products, raw materials, and food are the most important categories of imports. Over the past several years, imports of semi-finished products have moved up from third place, while imports of food have been declining in relative importance. Capital goods imports have shown a strong secular upward trend relative to total imports, a development of particular importance to the United States. Imports in this category-- of which the U.S. share is about 40 per cent--now represent about one-sixth of total U.K. imports, whereas they represented less than one-tenth in 1964. As of 1970, U.K. imports are equivalent to approximately 15-16 per cent of GNP.

Following a period of virtually no growth in economic activity in the United Kingdom, a moderate rise in aggregate demand (in real terms) is expected in the year ahead. Gross fixed investment and government current expenditures, both in real terms, may show small year-over-year advances. Private consumption expenditure is expected to rise moderately from its current high level.

On the basis of this outlook for U.K. economic activity and British import propensities, imports into the United Kingdom in the first

six months of 1971 are projected to reach an annual rate almost 10 per cent above the level of imports into the United Kingdom during the first half of this year. (No valid comparison can be made on the basis of third quarter data, since these were distorted by the dock strike.)

The commodity composition of French imports has changed significantly since the mid-1960's. Imports of food and raw materials have declined in relative importance from one-half to one-third of total imports, while semi-finished and finished goods have increased from one-half to two-thirds of the total. Total merchandise imports into France have averaged about 10 to 12 per cent of GNP in recent years, but this proportion has risen as a consequence of the franc devaluation.

Expansion in economic activity in France is expected to continue at a sustained pace in 1971. Private fixed investment expenditure will remain high, with, perhaps, a slight deceleration in real terms. Private consumption, however, is forecast to expand at a steady rate.

In line with this outlook for the expansion of economic activity in France, imports are projected to increase not as rapidly as earlier in 1970, but possibly to a level 7 per cent above imports in the July-October period.

In Italy, the composition of imports and the relationships between imports and economic activity are reasonably stable. Imports of raw materials and semi-finished goods account for almost 60 per cent of total imports; imports of capital equipment, which account for about

one-sixth of total imports, have been increasing strongly in 1969 and 1970. Total Italian merchandise imports are equivalent to about 13 per cent of GNP.

Economic indicators in Italy point to a vigorous expansion in economic activity in 1971, following a year of only moderate economic advance owing to labor unrest during much of 1970. All sectors are expected to contribute to the more rapid expansion of aggregate demand in 1971, with private consumer expenditure showing most buoyancy.

Imports into Italy, based on this economic outlook and Italian import propensities, are projected to rise in the first half of 1971 to a level about 7 per cent above imports in the third quarter. This would represent a rate of increase somewhat lower than has been seen so far in 1970.

In Japan the average propensity to import (in relation to GNP) is about 10 per cent -- lower than in other major industrial countries except for the United States. Imports of raw materials and semi-processed goods comprise over two-thirds of total imports. Imports of capital equipment -- almost two-thirds of which come from the United States -- constitute a relatively small but increasing share of total imports. This rising share is related to the spectacular growth of Japanese investment.

Some deceleration in the overall rate of expansion of the Japanese economy is foreseen for 1971, but the growth rate is expected to continue high. A slowing in the rise of private fixed investment

expenditures and of exports in the early part of next year, as well as a decline in inventory accumulation, are expected to contribute to the slower pace of advance in aggregate demand. Private consumption expenditure, however, is expected to accelerate through the first half of next year.

In line with the expected moderation in the rate of expansion of domestic economic activity, some deceleration in the growth of Japanese imports is projected for the first six months of 1971. Imports may still reach a level approximately 8 per cent above the level in the July-October period.

Merchandise imports into Canada are equivalent to roughly 14 per cent of GNP, with the U.S. share comprising close to three-quarters. Imports of capital equipment and of semi-processed products are the most important categories. As noted earlier, automotive imports -- about one-quarter of total Canadian imports -- have been excluded from this analysis, since they are, to a large extent, a function of U.S. automotive demand rather than economic activity in Canada. Imports of capital equipment as a percentage of gross fixed investment have seen quite a strong secular upward trend, contributing to the rising share of total imports in this category. The share of consumer goods in total imports has also shown a secular rise, even though imports of such goods, as a percentage of personal disposable income, have been declining in recent years.

Canada experienced a slight improvement in economic activity in the third quarter of this year, following policy-induced slow growth

in the first half of 1970. Continued expansion in aggregate demand is foreseen in the year ahead. Inventory replenishment and a renewed expansion in private consumption and private fixed investment expenditures are expected to contribute to more buoyant economic activity.

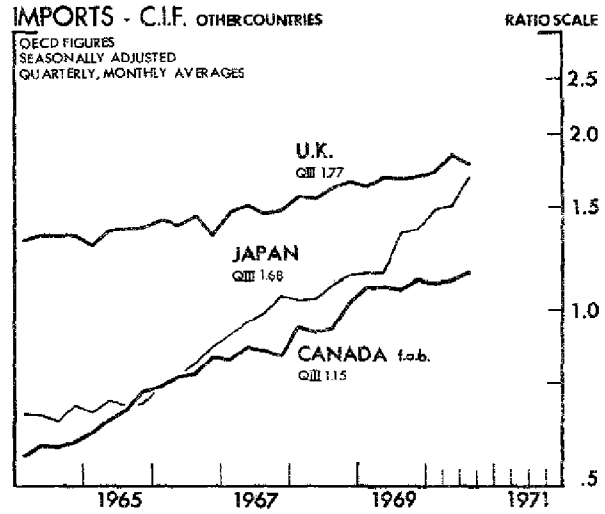
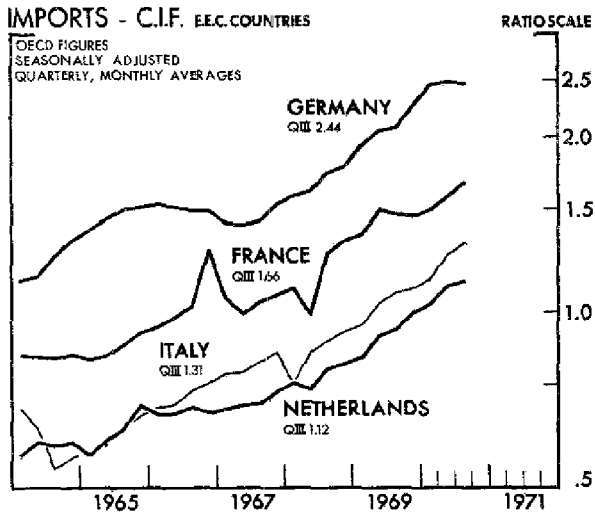
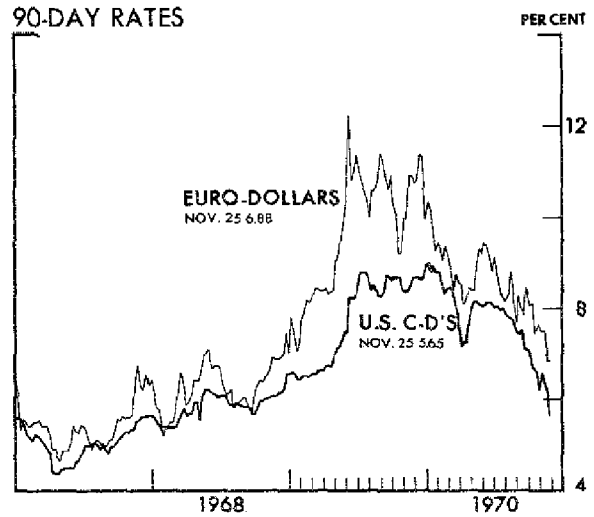
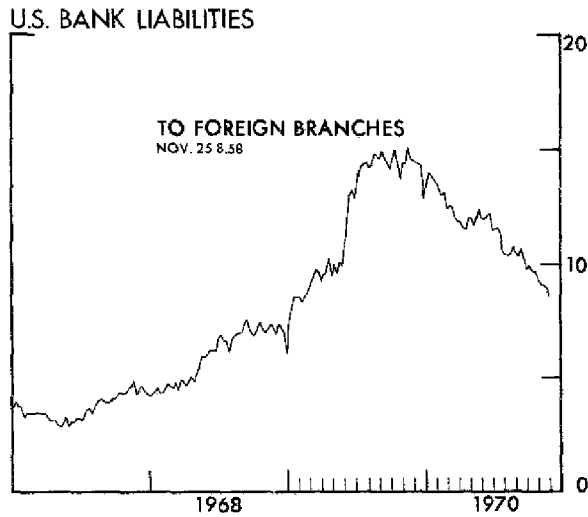
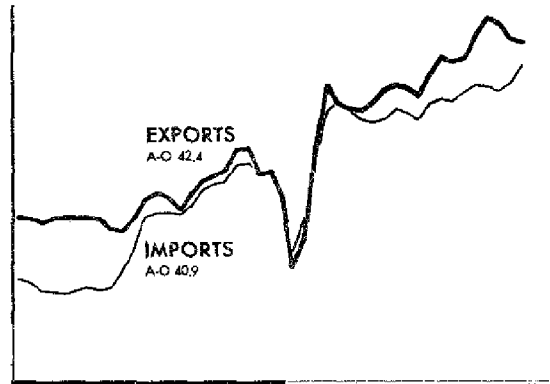
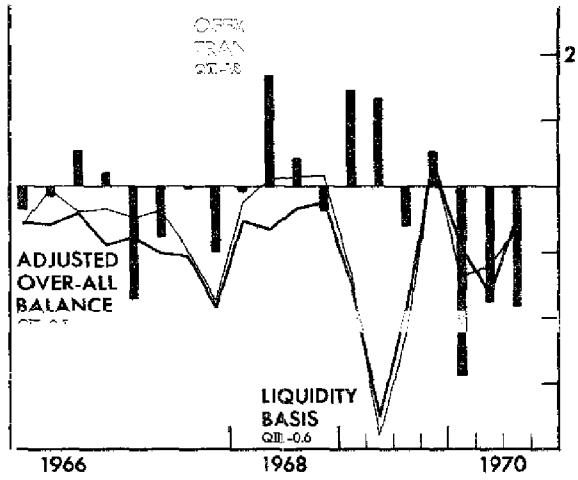
On the basis of this expected improvement in Canadian economic activity in the year ahead and Canadian import propensities, imports into Canada -- excluding automotive imports -- are projected to increase in the first half of 1971 to a level more than 10 per cent above the third-quarter level.

The projection of Canadian imports is subject to a major qualification. Possible effects of the floating Canadian dollar on the relationships of imports (valued in Canadian dollars) to the domestic demand variables have not been taken into account.

Implications for imports from the United States. The six countries examined here accounted for 50 per cent of total U.S. exports in the first nine months of 1970. On the basis of the trend of the U.S. share of imports by each country, broken down into major import categories, imports from the United States by the four European countries are projected to advance more slowly in the first half of 1971 than in 1970. Imports from the United States into Canada and Japan -- where U.S. market shares are especially high -- are projected to increase more strongly than imports into the four European countries. This results from the projection of a higher rate of import expansion in these two countries than in the European countries. However, since Canadian economic activity depends so much on U.S. developments, any prolonged weakness in the U.S. economy will tend to inhibit the Canadian recovery and reduce the growth of Canadian imports.

U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

BILLIONS OF DOLLARS



APPENDIX A: STATE AND LOCAL GOVERNMENT BORROWING
 ANTICIPATIONS AND REALIZATIONS: THIRD QUARTER 1970*

Preliminary results of the FRB-Census^{1/} survey of long-term borrowing anticipations and realizations of State and local governments for the third calendar quarter of 1970 indicate that these units suffered a gross long-term borrowing shortfall of over \$2 billion--approximately 40 per cent of the more than \$5 billion of borrowings planned as of mid-1970. This gross shortfall was partly offset by about \$300 million of borrowing by some units beyond the amount they had planned. An additional \$650 million of borrowing was accomplished by those units that refused to cooperate by providing adequate responses to the surveys.^{2/}

Table 1

GROSS LONG-TERM BORROWING ANTICIPATIONS AND REALIZATIONS
 THIRD QUARTER 1970
 (Billions of dollars)

Anticipations	5.33 ^{1/}
<u>Less:</u> Gross shortfalls from reported plans	<u>2.17</u>
<u>Equals:</u> Borrowing as planned	3.16
<u>Plus:</u> Borrowing above expectations	.27
Borrowing accounted for by nonrespondents	<u>.65</u>
<u>Equals:</u> Actual borrowing (survey results)	4.08 ^{2/}
<hr/>	
MEMO: Actual total borrowing	4.40 ^{2/}

1/ The June 30 survey erroneously reported anticipations for the third quarter of \$5.94 billion.

2/ Universe estimates based on sample frame understate actual borrowing by about \$200 million.

1/ The Bureau of the Census is responsible for the design of the sample as well as for the polling of respondents.

2/ The response rate throughout the history of this survey has been above 95 per cent. However, experience with the surveys for fiscal 1970 suggested that, in some periods, activity by nonrespondents was extremely significant. The Investment Bankers Association, beginning in mid-1970, began providing the Board with actual borrowing data for those (Footnote continues on next page.)

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

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While interest rate ceilings played a less significant role in borrowing postponements or cancellations than in previous surveys, they still accounted for 27 per cent of gross shortfalls from planned borrowing. However, some of the borrowing by nonresponding units may have been accelerated as the result of the downward movement of interest rates in the third quarter. Even after adjusting for this, the impact of monetary policy on borrowing shortfalls is understated by sole reliance on third quarter postponements or cancellations where the cause was indicated to be interest rates. A considerable number of units stated that construction projects that had previously been postponed because of inability to obtain financing could not be reinstated as rapidly as had been planned at mid-year. Indeed, 31 per cent of borrowing shortfalls--the single largest reason for long-term borrowing postponements and cancellations--occurred because of such timing delays in the underlying project. In many jurisdictions, units are not permitted to borrow beyond a stated minimum period prior to the need for funds and in other areas borrowing was voluntarily postponed because of physical reinstatement lags.

Long-term borrowing shortfalls occasional by interest rate movement produced only \$55 million of capital outlay cutbacks in the third quarter, although almost \$700 million of projects that had been planned could not begin because of the aforementioned delays in the reinitiation of projects, and these delays largely reflected the impact of high interest rates in the previous quarters. Other problems accounted for about \$200 million of capital outlay reductions.

The survey suggested that--as of September 30--State and local governments had sharply increased their borrowing anticipations for the current quarter and first quarter of 1971. Some of this increase in borrowing anticipations reflects postponements of third quarter borrowing because of the inability of units to reinitiate previously postponed projects. In addition, the downward trend of interest rates once again makes feasible much of the borrowing that had been postponed throughout the period of high interest rates in 1969-70. Actual borrowing in the

Footnote 2 continued from previous page.

units falling within the sample frame. In this way the borrowing of nonresponding sample units is now included in the survey results and special efforts are made to elicit information about such borrowing from nonrespondents. In most cases such units had not provided information on their planned borrowing in earlier surveys and hence were not included in the anticipations totals. Despite efforts to contact nonrespondents by telephone, the Census Bureau was not able to obtain adequate responses from units that, on a universe basis, accounted for an unusually large \$650 million of borrowing during the third quarter.

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last half of 1970 already has risen to a level almost one-fifth above the pace of the first half, in large part because of declining interest rates. And the survey results, as well as the trend of interest rates, suggest that actual borrowing should mount further in 1971.

The discussion and tables below provide further details regarding the survey results for the third quarter of 1970.

DEVIATIONS FROM PLANNED BORROWING

Table 2 provides details on the reasons for the \$2.17 billion of gross borrowing shortfalls in the third quarter of 1970. As suggested above, the largest single reason for shortfalls--particularly at the State and city level--involved timing problems associated with delays in reinitiation of previously postponed projects. Interest rates ranked second, particularly for school districts whose limited tax base reduces their ability to carry high cost financial obligations. Administrative or legal delays--including inability to obtain authorization to borrow--accounted for almost one-fifth of gross shortfalls. Such shortfalls are often associated with the general financial squeeze now characteristic of local governmental units. These three factors combined accounted for almost 80 per cent of all gross borrowing shortfalls.

Table 3 provides more detail on gross borrowing shortfalls caused by interest rates. As indicated, the then current cost of financing and the outlook for lower interest rates were the major causes of such borrowing postponements and cancellations. Noteworthy was the relatively slight effect of constitutionally or legislatively imposed interest rate ceilings, which had been generally raised or abolished by State legislatures over the last year or so. As in previous surveys, interest rate impacts in total were largest for school districts which reported shortfalls of over \$200 million, or over 35 per cent of total interest rate displacements.

Offsetting the \$2.17 billion of gross long-term borrowing shortfalls was about \$.9 billion of borrowing above expectations, as shown in Table 4. Most of this reflected borrowing by nonresponding survey units; some of their borrowing might have been planned but it could not be included in the survey anticipations because of their nonresponse. Although only \$55 million of borrowing above anticipations is indicated to have occurred because of interest rate declines, some of the \$650 million of unexplained borrowing could also have been produced by declining rates. It should be noted, however, that while the Bond Buyer index of municipal yields declined by almost 60 basis

Table 2

REASONS GIVEN FOR GROSS BORROWING SHORTFALLS BY UNIT TYPE
Third Quarter 1970

	(Millions of dollars)									Per Cent Distribution
	States	State Colleges	Counties	Cities	Towns	Special Districts	School Districts	Not Known	Total	
Timing problem	207.0	6.3	19.9	205.0	6.6	67.0	168.5	--	680.3	31.4
Interest rate	117.7	8.4	75.3	133.0	2.3	36.2	213.7	--	586.8	27.1
Authorization not obtained or other administrative or legislative delay	28.7	15.1	108.2	146.0	1.8	89.3	40.5	--	429.6	19.8
Construction costs too high	6.5	0.0	0.0	60.8	0.0	0.0	11.1	--	78.4	3.6
Federal or State loan unavailable	0.0	8.0	0.0	14.7	0.0	30.3	0.0	--	53.0	2.4
Other	21.4	0.4	1.0	53.4	17.0	16.0	29.5	--	138.7	6.4
No Response	--	--	--	--	--	--	--	198.4	198.4	9.2
Total	381.4	38.2	204.5	612.9	27.7	238.8	463.3	198.4	2,165.2	100.0
Per cent Dist.	17.6	1.8	9.4	28.3	1.3	11.0	21.4	9.2	100.0	

Note: Totals may not add due to rounding.

TABLE 3

STRICTLY CONFIDENTIAL (FR)

INTEREST RATE INDUCED BORROWING SHORTFALLS

BY UNIT TYPE

Third Quarter 1970

	(millions of dollars)								Per Cent Distribution
	States	State Colleges	Counties	Cities	Towns	Special Districts	School Districts	Total	
Interest Rate Ceiling	0.0	1.2	26.2	25.0	0.0	7.0	3.0	89.4	15.2
Interest Rate too high	83.1	7.2	45.7	71.7	2.3	27.2	146.8	384.0	65.5
Interest Rate Expected to Fall	<u>34.6</u>	<u>0.0</u>	<u>3.4</u>	<u>36.3</u>	<u>0.0</u>	<u>2.0</u>	<u>36.9</u>	<u>113.2</u>	<u>19.3</u>
Total	117.7	8.4	75.3	133.0	2.3	36.2	213.7	586.6	100.0
Per Cent Distribution	20.1	1.4	12.8	22.7	0.4	6.2	36.4	100.0	

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Note: Totals may not add or exactly agree with other tables due to rounding.

points during the third quarter, most of the decline in yields from peak levels occurred in November; by early December, tax-exempt yields had declined almost 90 basis points from the level at the end of the third quarter.

Table 4

BORROWING ABOVE EXPECTATIONS
THIRD QUARTER 1970
(Millions of dollars)

WITH REASONS KNOWN

Authorization made sooner than expected	50.6
Interest rates expected to rise	20.6
Interest rates declined	54.7
Project plans ready sooner than expected	113.6
Cost of project higher than planned	4.9
Other	<u>25.8</u>
Total With Reasons Known	270.2
REASON NOT KNOWN ^{1/}	<u>650.8</u>
Total	921.0

^{1/} Inadequate responses, see footnote 2 of text.

EFFECTS OF SHORTFALLS

As indicated in Table 5, over one-half of gross long-term borrowing shortfalls had no effect on capital expenditures (upper panel). About one-fourth of total shortfalls in long-term borrowing was offset by short-term borrowing and reduction in liquid assets. And almost one-third was associated with changes in plans of a

Table 5

EFFECTS OF GROSS LONG-TERM BORROWING SHORTFALLS

BY UNIT TYPE
THIRD QUARTER 1970

(Millions of dollars)										Per Cent Distribution
States	State Colleges	Counties	Cities	Towns	Special Districts	School Districts	Not Known	Total		
<u>NO EFFECT ON CAPITAL EXPENDITURES BECAUSE OF:</u>										
Short-term borrowing	93.5	9.2	4.5	109.3	13.2	12.9	178.4	--	421.0	9.4
Reduction in liquid assets	0.0	0.0	37.9	44.4	0.8	28.6	0.0	--	111.7	5.1
Reduction in current expenditures	0.0	0.0	0.0	2.4	0.0	0.0	8.6	--	11.0	0.5
No need and other	70.7	12.5	123.6	168.6	1.0	78.0	32.1	198.4	684.9	31.6
<u>CAPITAL OUTLAY IMPACT</u>										
Timing problems	207.0	6.2	19.9	204.9	6.6	67.0	168.5	--	680.1	31.3
Non-interest rate related	1.4	0.0	15.8	66.9	6.1	44.0	72.5	--	206.7	9.5
Interest rate related	<u>11.0</u>	<u>10.1</u>	<u>3.6</u>	<u>18.4</u>	<u>0.0</u>	<u>8.4</u>	<u>3.5</u>	<u>--</u>	<u>55.0</u>	<u>2.5</u>
TOTAL	383.6	38.0	205.3	614.9	27.7	238.9	463.6	198.4	2,170.4	100.0
Per Cent Dist.	17.7	1.8	9.5	28.3	1.3	11.0	21.4	9.1	100.0	

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Note: totals may not add or exactly agree with other tables due to rounding.

miscellaneous nature, especially in counties and cities. Such changes may reflect revisions in expenditure plans--and hence the need for financing--due to general tax difficulties.

The major capital outlay impacts associated with long-term borrowing shortfalls--shown in the lower panel of Table 5--occurred not because of interest rates, but rather because of the difficulties of reinitiating delayed projects, mainly in States, cities, and school districts. One of the more dramatic findings of the survey was that only \$55 million of capital outlay reductions occurred because of interest rates. This very small impact underlines the greater ease of financial markets during the third quarter.

CHANGING ANTICIPATIONS OF FUTURE BORROWING

Long-term borrowing anticipations for the current quarter (October-December) increased \$2 billion above the level reported as of June 30, 1970, an unusually sharp change. State and local government units planned, as of September 30, long-term borrowing of \$6.7 billion of which \$2.3 billion had not yet become authorized. In addition, an increase of anticipations has been posted for the first quarter of 1971 amounting to \$1 billion as is shown in Table 6. The December 30, 1970 survey will up-date these anticipations data.

Table 6

CHANGE IN BORROWING ANTICIPATIONS (Billions of dollars)^{1/}

	Anticipations for 1970-IV			Anticipations for 1971-I		
	Auth.	Unauth.	Total	Auth.	Unauth.	Total
Anticipations						
As of:						
June 30, 1970	3.2	1.4	4.6	1.7	1.4	3.1
Sept. 30, 1970	<u>4.4</u>	<u>2.3</u>	<u>6.7</u>	<u>2.3</u>	<u>1.8</u>	<u>4.1</u>
Increase	1.2	0.9	2.1	0.6	0.4	1.0

^{1/} Changes reflect revised anticipations only for the 528 units surveyed at September 30 (those sample units borrowing or planning to borrow in the third quarter). The entire 4,500 unit sample will be re-surveyed December 30, providing a clearer picture of revised anticipations.

Table 7 summarizes the increasing trend of recent State and local borrowing, the moderating impact of monetary policy on postponements and cancellations of such borrowing, and the resultant smaller impacts of policy on capital outlays. The declining path of interest rates, the backlog of financing previously postponed, and the upward adjustment in respondent expectations, all suggest that borrowing by State and local governments in the first half of 1971 is likely to expand to record levels. Reflecting the need to makeup borrowing and projects previously postponed, capital outlays of State and local governments can also be expected to accelerate.

Table 7

SUMMARY OF STATE AND LOCAL LONG-TERM BORROWING, SHORTFALLS
OF BORROWING AND CAPITAL OUTLAYS DUE TO HIGH INTEREST RATES
(Billions of dollars)

	Gross Actual Long-term Borrowing	Gross Shortfalls Due to High Interest Rates	Cutbacks in Capital Outlays Initiated Due to High Interest Rates
1969 - III	2.5	1.67	0.68
IV	3.0	2.24	1.20
1970 - I	4.1	0.97	0.20
II	3.7	1.10	0.25
III	4.4	0.59	0.06
IV	4.8e	n. a.	n. a.

e/ Estimated.

APPENDIX B: SURVEY OF BANK LOAN COMMITMENTS*

The 43 major banks that participated in the loan commitment survey covering the 3-month period ending October 31 indicated that the volume of takedowns, expirations and cancellations (hereafter referred to simply as takedowns) during this period fell significantly below that reported earlier in the year. New commitments also failed to match the volume of earlier report periods; however, the difference between new commitments and takedowns widened and the level of unused loan commitments rose markedly--nearly reaching the peak level prevailing in October of last year.

More than half of the banks reporting in the survey indicated that their commitment policies became less restrictive during the current period and only 2 banks stated that their commitment policies had tightened. This represents the first time since this survey was introduced in January 1969 that a predominant easing in commitment policies has occurred. As might be expected the reporting banks attributed the shift in commitment policy to both decreased loan demand and increased availability of funds. If deposit inflows continue at their recent strong pace, some further rise in unused commitments may occur in the coming months. Eighteen of the respondents indicated that they expect the volume of takedowns to drop moderately further, while only 6 banks expect an increase.

New Commitments

As in earlier periods, most new commitments reported were agreements with commercial and industrial firms. Commitments under confirmed credit lines accounted for the greatest proportion of the total C&I commitments. However, while maintaining essentially the same relative share, the volume of new commitments to C&I firms was substantially below that extended in the July 31 and April 30 report periods. The volume of new commitments to nonbank financial institutions also fell well below that recorded in the July 31 survey when finance companies were bolstering their credit lines in conjunction with the crunch in the commercial paper market, but was roughly in line with extensions in earlier report periods. The volume of new real estate loan commitments essentially matched that recorded in earlier periods of this year.

Takedowns, expirations and cancellations

Takedowns by commercial and industrial borrowers accounted for more than 80 per cent of the total recorded during the current period. While this is a comparatively large share of the total by historical standards, the C&I volume for the current report period was only half as large as that recorded in the July survey. Takedowns by nonbank financial institutions accounted for an additional 16 per cent of the total volume for the current report period with takedowns by real estate borrowers responsible for the remainder.

*Prepared by Frederick M. Struble, Economist, Banking Section, Division of Research and Statistics.

QUARTERLY SURVEY OF BANK LOAN COMMITMENTS AT SELECTED LARGE U.S. BANKS^{1/}

Table 1: NEW AND UNUSED COMMITMENTS
(Billions of dollars, not seasonally adjusted)

	New commitments made during 3-months ending			Takedowns, expirations, and cancellations during 3-months ending			Unused commitments			Outstanding on Oct. 31
	Apr. 30	July 31	Oct. 31	Apr. 30	July 31	Oct. 31	Change during 3-months ending			
	Apr. 30	July 31	Oct. 31	Apr. 30	July 31	Oct. 31	Apr. 30	July 31	Oct. 31	
Grand total commitments	18.6	21.8	15.2	19.3	29.8	10.6	-0.7	1.0	4.6	54.9
Total- Comm. & Indust.	14.5	17.0	11.6	15.3	15.7	8.4	-0.8	1.4	3.2	41.9
Total- Nonbank Finan. Institutions	3.0	3.9	2.6	2.8	4.1	1.3	0.1	-0.2	1.3	10.3
Total- Real Estate Mortgages	1.1	1.0	1.0	1.2	1.2	0.9	-0.1	-0.2	0.1	2.7
MEMO: Const. Loans (Included above)	0.9	0.8	0.8	0.8	1.0	0.8	0.1	-0.3	0.0	2.2
Comm. & Industrial Term Loans	0.8	1.2	0.9	0.8	1.4	0.7	0.1	-0.1	0.1	1.5
Revolving Credits	2.9	3.8	2.8	2.9	3.5	1.6	0.1	0.3	1.2	11.9
Total Term & Revolving ^{2/}	3.9	5.1	3.9	4.0	4.9	2.6	-0.1	0.2	1.3	13.9
Confirmed Lines of Credit	10.0	11.4	7.1	11.0	10.9	5.0	-1.0	0.5	2.1	25.4
Other Commitments	0.6	0.5	0.6	0.3	-0.1	0.8	0.3	0.6	-0.2	2.6
Nonbank Financial Institutions										
Finance Companies	1.9	2.5	1.6	1.6	2.8	0.5	0.4	-0.2	1.1	6.7
For Mortgage Warehousing	0.5	0.5	0.4	0.4	0.5	0.3	0.0	-0.1	0.1	1.5
All Other	0.6	0.9	0.6	0.8	0.8	0.5	-0.3	0.1	0.1	2.1
Real Estate Mortgages										
Residential	0.3	0.4	0.3	0.5	0.3	0.3	-0.2	0.0	0.1	0.8
Other	0.8	0.6	0.7	0.7	0.8	0.6	0.1	-0.2	0.1	1.9

^{1/} Participants in Quarterly Interest Rate Survey with total deposits of more than \$1 billion (43 banks).

^{2/} This item may exceed sum of previous two items because some banks report combined total only.

NOTE: Figures may not add to total due to rounding.

Table 2: VIEWS ON COMMITMENT POLICY

	Number of Banks						
	Apr.	July	Oct.	Jan.	Apr.	July	Oct.
	<u>30</u>	<u>31</u>	<u>31</u>	<u>31</u>	<u>30</u>	<u>31</u>	<u>31</u>
	<u>1969</u>	<u>1969</u>	<u>1969</u>	<u>1970</u>	<u>1970</u>	<u>1970</u>	<u>1970</u>
Total number of banks responding:	48	48	48	48	48	48	48
Unused commitments in the past three months have:							
Risen rapidly	4	0	0	1	0	0	1
Risen moderately	19	16	5	7	12	19	28
Remained unchanged	11	21	20	18	15	17	13
Declined moderately	14	11	23	21	21	12	6
Declined rapidly	0	0	0	1	0	0	0
Takedowns in the next three months will:							
Rise rapidly	2	1	0	0	0	0	0
Rise moderately	26	14	14	9	13	13	6
Remain unchanged	17	28	31	30	30	33	24
Decline moderately	3	5	4	9	5	2	18
Decline rapidly	0	0	0	0	0	0	0
Commitment policies in the past three months were:							
Much more restrictive	26	26	12	3	0	0	0
Somewhat more restrictive	15	16	20	15	7	5	2
Unchanged	7	6	15	29	40	37	19
Less restrictive	0	0	1	1	1	6	26
Much less restrictive	0	0	0	0	0	0	1

Table 3: EXPLANATION OF RECENT CHANGE IN NEW COMMITMENT POLICIES AS INDICATED IN THE CURRENT SURVEY

Indicated Change	Number of Banks Indicating Change	Reasons for Change (Number of Banks)		
		Increased Loan Demand	Reduced Availability of Funds	Both Demand And Funds
More restrictive	2	0	2	0
		Decreased Loan Demand	Increased Availability of Funds	Both Demand And Funds
Less restrictive	27	6	10	11