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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

April 28, 1971

TABLE OF CONTENTS

SUMMARY AND OUTLOOK

Nonfinancial

GNP in the first quarter increased $28.5 billion in current dollars, according to preliminary Commerce estimates. Real growth was at an annual rate of 6.5 per cent, with the GNP deflator estimated to have risen at an annual rate of 5.2 per cent.

We continue to expect less rapid expansion in the current quarter in both current dollar and real GNP, now that the post-strike recovery in auto sales has ended. Industrial production is tentatively estimated to have increased slightly further in April, with some rise likely in consumer staples, consumer durable goods other than autos, and in steel and some other materials. Auto assemblies in April are estimated to have declined to an annual rate of 8.2 million units from 9 million in March. Assemblies for May and June are scheduled at about the April rate.

Retail sales, which increased appreciably in March, are estimated on the basis of weekly data to have maintained their upward momentum in April. Sales of nondurable goods have been strong in the past two months following a lackluster performance early in the year. Sales of domestic autos in the first 20 days of April were at an 8.1 million annual rate, about the same as in the first quarter. Housing activity continued to rise at a rapid pace and starts increased sharply in March.

New orders for durable goods declined in March, mainly in the volatile defense orders group. Orders for capital equipment were off slightly, but have been essentially level since last November.

Book value of business inventories rose quite moderately in February, as in January, with increases in autos and steel more than offsetting declines in other sectors.

In the labor market, insured unemployment in early April remained at the February-March level, while initial claims edged down. Output per manhour in the private economy rose sharply in the first quarter, following no growth over the fourth quarter. Over the past year the gain in productivity, at 3.3 per cent, was substantially better than in the preceding two years. Compensation continued to increase sharply, however, and the increase in unit labor costs--both in the first quarter and over the year--remained relatively large.

The rise in consumer prices, seasonally adjusted, in March and over the first quarter as a whole was much smaller than for some time. Much of the recent improvement has resulted from the sharp decline in mortgage interest rates, which is not reflected in the deflator.

Outlook. The staff projects an increase of $19 billion in current dollar GNP for the second quarter and a rise in real GNP at an annual rate of about 3 per cent. Both figures are somewhat larger than in the preceding Greenbook; we have raised consumer spending because of the strength indicated in March-April retail sales, and residential construction activity mainly because of the March upsurge in starts.

Our projections for the second half of the year are virtually unchanged from those of four weeks ago. The assumption of a steel strike of about two months duration makes for an uneven quarterly pattern, but for both quarters combined, growth in real GNP is projected at an annual rate of about 4-1/4 per cent. The latest McGraw-Hill survey indicates a rise of 4 per cent in business capital outlays for 1971, the same as the recent Commerce-SEC survey, and we have therefore not modified our earlier projection.

Resumption of growth in the labor force and continued gains in productivity are expected to result in an increase in the unemployment rate during the second quarter. These factors also seem likely to make for relatively little change in the unemployment rate in the second half of the year, even with the projected real output increase. The rise in the implicit GNP deflator is now projected to slow somewhat less than formerly--to an annual rate of 3.8 per cent in the fourth quarter.

The recent pattern of wage and price developments suggests somewhat less moderation in underlying price pressures than we had been expecting. The rise in the GNP deflator is now projected to moderate to 3.8 per cent, annual rate, in the fourth quarter.

Financial

Interest rates in both short- and long-term markets generally rose upwards of 50 basis points in April, despite a continued rapid increase in the monetary aggregates and some moderation of credit demands. The increase in market interest rates reflected--in the main--a shift of investor expectations that was based, in part, on tauter money market conditions. An advance in the Federal funds rate was widely interpreted as a shift in monetary policy initiated both for balance-of-payments reasons and in order to reduce the rate of growth of the monetary aggregates. In addition, rates in long-term markets came under temporary upward pressure when it was thought that the Treasury, as a part of its May refinancing, might take advantage of the new statutory leeway to offer a long-term bond outside the 4-1/4 per cent interest rate ceiling.

Credit demands both in the open market and at banks have moderated somewhat in recent weeks. Net corporate demands in the commercial paper market appear to have remained small in the first half of April after sizeable net repayments in March. And corporate bond offerings, following the record March volume, were less in April than the staff had expected, reflecting in large part postponements of scheduled issues. Although real estate loans at banks probably continued to advance at the recent higher pace, bank business loans are expected to show only modest growth at best in April. Loan repayments from March security financings apparently continued to be large early in the month, and business loan demands at banks over the tax date were quite weak. Even with these weak loan demands, the increase in short-term rates encouraged an increase of one-fourth of a percentage point in the prime loan rate on April 22; most of the large banks have adopted this higher rate, but several key institutions have remained at 5-1/4 per cent.

Outlook. Assuming no further change in money market conditions, market interest rates may well stabilize, on balance, around current levels in the weeks ahead. The Federal sector, including agencies, will be a net repayer of debt in May and June. Although direct Treasury obligations are expected to decline by a less than seasonal $500 million, the housing agencies are expected to retire $1.5 to $2.0 billion of their maturing obligations. In addition, the corporate public bond calendar, while still large by historical standards, has not mounted as it often has in previous periods of market apprehension about the possibility of future interest rate increases. Bond offerings of State and local governments, however, are expected to continue at almost the record first quarter pace. While banks are likely to be in a position to continue to acquire a sizeable volume of tax-exempt obligations, they will be constrained by some expected reduction in net inflows of time deposits and by a possible moderate expansion in business loan demands. Thus, the municipal bond market may continue to be vulnerable to upward rate pressures during the current quarter.

The recent higher level of market yields--and the likelihood that earlier heavy swapping by the public from market instruments to deposit accounts has now largely run its course--should tend to decelerate deposit inflows to thrift institutions. Such a development has already occurred for bank consumer-type time deposits, on which offering rates have been generally lowered. In view of the recently changed financial environment, non-bank thrift institutions may remain cautious about following along with these deposit rate declines. And with aggregate credit demands to finance new construction being heavily supplemented by demands for used-home transfers and loan refinancing in the spring period of strong seasonal credit requirements, declines in interest rates on home mortgages are expected to slow.

International developments and the balance of payments

The heavy speculative movements from the dollar into the German mark and other European currencies that had built up to a peak in the first few days of April subsided for three weeks, but a recrudescence of uncertainty in recent days is indicated by the increased volume of demand for forward DM which the Bundesbank was having to meet until it suspended its forward sales today.

Interest rate differentials between U. S. and European national markets, which were narrowed by the rise in U. S. short-term rates after mid-March and by the effects of reductions in discount and other leading rates made by the Bundesbank and the Bank of England on April 1 and by some other central banks shortly thereafter, have been further affected by the marked easing of the German money market caused by the massive inflows of funds in March and early April. The key call money rate has fallen since then to 2 percent compared with 7-1/2 per cent at the end of March. German 3-month interbank loans are now down to 6-1/8 per cent.

Incoming data have shown some strengthening of the current economic situation in Germany in January and February. German domestic demand for machinery was given a boost by changes in depreciation allowances at the beginning of the year, and the period of retrenchment in business inventory policies that started in the spring of 1970 seems to have ended. As prices and wages are continuing to rise fairly strongly, the German government is unlikely to move soon toward an easier fiscal policy. On the other hand, the Bundesbank will hesitate to take measures to mop up the banks' excess reserves while exchange rate speculation is still in the air.

Since early April, the U. S. balance of payments has continued in sizable deficit on both the usual bases of measurement--though not quite so heavily as before. The reduction of U. S. banks' liabilities to their overseas branches in this period has been about matched by the U. S. Treasury's special borrowing from the branches.

U. S. foreign trade figures for March show a jump in exports that month and no change in imports. Commercial aircraft exports were at unsustainably high levels. As imports are likely to rise, we expect somewhat lower net exports of goods and services in the second quarter than on average in the first quarter.

The outlook for U. S. corporate and other private capital movements and for foreign purchases of U. S. securities during the second quarter is not as bright as would have been hoped for at the beginning of the year, mainly because of the widespread uneasiness about future exchange rates.

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SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	1970	1971			Per Cent Change* From		
	Dec.	Jan.	Feb.	March	1 mo. ago	3 mos. ago	Year ago
Civilian labor force (mil.)	83.6	83.9	83.4	83.5	0.1	-0.2	1.1 4/
Unemployment rate (%)	6.2	6.0	5.8	6.0	--	--	4.4 4/
Insured unempl. rate (%)	4.0	3.7	3.8	3.9	--	--	2.8 4/
Nonfarm employment, payroll (mil.)	70.3	70.7	70.6	70.6	0.0	0.4	-0.9
Manufacturing	18.8	18.8	18.7	18.7	-0.3	-1.0	-6.5
Nonmanufacturing	51.5	51.8	51.8	51.9	0.1	0.9	1.2
Industrial production (57-59=100)	164.4	165.6	164.9	165.2	0.2	0.5	-3.4
Final products, total	162.9	163.9	162.3	162.8	0.3	-0.1	-4.1
Consumer goods	162.4	165.2	164.0	165.4	0.9	1.8	2.1
Business equipment	177.9	174.3	172.0	170.7	-0.8	-4.0	-13.8
Materials	166.0	167.2	167.7	168.0	0.2	1.2	-2.2
Capacity util. rate, mfg.	72.9	73.4	72.8	72.6	--	--	79.6 4/
Wholesale prices (1967=100) 1/	111.0	111.8	112.8	113.0	0.2	1.8	2.8
Industrial commodities (FR)	111.4	112.0	112.3	112.6	0.3	1.1	3.6
Sensitive materials (FR)	109.3	108.8	109.9	111.1	1.1	1.6	-2.8
Farm products, foods & feeds	109.3	110.7	113.6	113.4	-0.2	3.8	0.4
Consumer prices (1967=100) 1/	119.1	119.2	119.4	119.8	0.3	0.6	4.6
Food	115.3	115.5	115.9	117.0	0.9	1.5	2.5
Commodities except food	115.5	115.2	115.2	115.5	0.3	0.0	4.4
Services	125.6	126.3	126.6	126.6	0.0	0.8	6.1
Hourly earnings, pvt. nonfarm ($)	3.32	3.34	3.35	3.37	0.6	1.5	6.0
Hourly earnings, mfg. ($)	3.46	3.49	3.50	3.52	0.6	1.7	6.3
Weekly earnings, mfg. ($)	136.27	139.30	139.69	140.02	0.2	2.8	5.5
Net spend. weekly earnings, mfg. (3 dependents 1967 $) 1/	100.47	101.13	100.76	101.39	0.6	0.9	1.1
Personal income ($ bil.) 2/	817.5	827.4	830.4	836.3	0.7	2.3	6.2
Retail sales, total ($ bil.)	30.5	31.1	31.3	31.9	1.7	4.4	6.9
Autos (million units) 2/	5.0	8.1	8.0	8.3	2.8	64.6	12.7
GAAF ($ bil.) 3/	8.5	8.5	8.5	8.6	1.0	1.1	7.0
12 leaders, composite (1967=100)	116.2	118.1	119.1	119.8	0.6	3.1	4.2
Selected leading indicators:							
Housing starts, pvt. (thous.) 2/	2,054	1,725	1,724	1,918	11.3	-6.6	37.8
Factory workweek (hours)	39.6	39.8	39.5	39.9	1.0	0.8	-0.7
Unempl. claims, initial (thous.)	292	283	284	297	-4.7 5/	-1.6 5/	-10.7 5/
New orders, dur. goods, ($ bil.)	30.6	31.4	31.9	31.2	-2.2	1.9	8.0
Capital equipment	8.7	8.8	8.8	8.7	-1.5	-0.4	2.9
Common stock prices (41-43=10)	90.05	93.49	97.11	99.60	2.6	10.6	12.4

* Based on unrounded data. 1/ Not seasonally adjusted. 2/ Annual rates.
3/ Gen'l. merchandise, apparel, and furniture and appliances. 4/ Actual figures.
5/ Sign reversed.

SELECTED DOMESTIC FINANCIAL DATA

	1970 Average			1971		
	QII	QIII	QIV	QI	March	Week ended April 21
Interest rates, per cent						
Federal funds	7.88	6.71	5.57	3.86	3.71	4.27
3-mo. Treasury bills	6.67	6.33	5.35	3.76	3.38	3.84
3-mo. Federal agencies	7.09	6.67	5.50	3.78	3.45	3.93
3-mo. Euro-dollars	8.87	8.34	7.46	5.33	5.11	5.84
3-mo. finance co. paper	7.41	7.31	6.12	4.48	4.05	4.33
4-6 mo. commercial paper	8.16	7.73	6.28	4.57	4.19	4.65
Bond buyer municipals	6.81	6.33	5.92	5.23	5.17	5.32
Aaa corporate-new issues	8.94	8.51	8.26	7.33	7.46	7.32
20-year Treasury bonds	7.14	6.96	6.57	5.98	5.94	6.04
FHA mortgages, 30-year	9.12	9.06	8.77	--	7.32	--

	1970			1971	
	QII	QIII	QIV	QI	March
Change in monetary aggregates (SAAR, per cent)					
Total reserves	2.6	19.1	6.6	11.0	9.2
Nonborrowed reserves	4.1	24.4	9.4	11.0	8.8
Credit proxy	6.0	24.1	15.1	17.0	14.9
Credit proxy + nondep. funds	6.5	17.2	8.3	10.9	8.9
Money supply	5.8	6.1	3.4	8.6	10.5
Time and savings deposits	14.1	32.2	21.8	27.3	25.9
Deposits at S&L's and MSB's	7.0	9.3	11.5	23.2	24.8
Bank credit, end-of-month 1/	6.6	13.9	6.1	13.8	10.8
Treasury securities	30.2	25.9	2.8	22.1	32.2
Other securities	11.0	20.3	34.5	30.4	30.7
Total loans 1/	1.4	9.8	-1.0	7.3	--
Business 1/	9.8	1.8	-9.2	2.5	-11.7

	1970			1971	
	QII	QIII	QIV	QI	March
Change in commercial paper ($ millions)					
Total (SA)	1,652	-4,232	- 760	-1,924	-1,411
Bank-related (NSA)	1,126	-2,985	-2,269	- 657	- 209

	1969	1970			1971	
	H1	H1	QI	March	QI	March
New security issues (NSA, $ millions)						
Total corp. issues	13,572	18,445	7,977	3,539	11,839 e	5,850 e
Public offerings	6,068	15,889	6,715	3,068	10,580 e	5,350 e
State and local government bond offerings	6,435	7,837	4,109	1,555	6,688 e	2,200 e
Fed. sponsored agency debt (change)	3,480	5,177	3,635	1,337	715 e	12 e
Fed. govt. debt (change)	-12,370	-4,414	1,981	2,314	1,575	675

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.

U.S. Balance of Payments
In millions of dollars; seasonally adjusted

	1 9 7 0		1 9 7 1 p/			
	Year	IV	I	JAN.*	FEB.*	MAR.*
Goods and services, net 1/	3,672	784				
Trade balance 2/	2,185	192	295	-20	100	215
Exports 2/	42,041	10,503	11,040	3,655	3,630	3,755
Imports 2/	-39,856	-10,311	-10,745	-3,675	-3,530	-3,540
Service balance	1,487	592				
Remittances and pensions	-1,387	-336				
Govt. grants & capital, net	-3,235	-852				
U.S. private capital	-6,351	-1,518				
Direct investment	-3,967	-410				
Foreign securities	-878	-261	-350	-317	-35	-43
Banking claims	-883	-679	134	531	-82	-170
Other	-623	-168				
Foreign capital	5,232	637				
Official foreign, liquid	7,613	2,605		427	1,796	
Official reserve holders, nonliq.	-271	-106		-60	-73	
Other official foreign, nonliq.	-437	-210				
Foreign commercial banks, liquid	-6,511	-3,142		-201	-1,434	
New direct investment issues 3/	840	248				
U.S. corporate stocks	702	487	120	130	-32	22
Other	3,297	755				
U.S. monetary reserves (inc.-)	3,344	1,040	862	505	165	192
Gold stock	787	422	109	32	1	76
Special drawing rights 4/	16	140	125	100	--	25
IMF gold tranche	389	9	255	235	--	20
Convertible currencies	2,152	469	373	138	164	71
Errors and omissions	-1,274	245				
BALANCES (deficit -) 4/						
Official settlements, S.A.		-3,539				
" " , N.S.A.	-10,686	-3,172		-872	-1,888	
Liquidity, S.A.		-780				
" , N.S.A.	-4,715	-91		-970	-497	
Adjusted over-all, S.A.		-397				
" " , N.S.A.	-4,175	315		-671	-454	
Financed by: 5/						
Liab. to comm. banks	-6,511	-3,487		-201	-1,434	
Official settlements	10,686	3,172		872	1,888	

* 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 allocations of SDRs; $867 million on Jan. 1, 1970, and $717 million on Jan. 1, 1971
5/ Minus sign indicates decrease in net liabilities. Data not seasonally adjusted.

THE ECONOMIC PICTURE IN DETAIL

Domestic Nonfinancial Scene

Gross national product. GNP increased by $28-1/2 billion in the first quarter according to preliminary Commerce Department estimates, $1 billion more than our last Greenbook projection. A larger increase than we had anticipated in State and local government purchases--mainly construction--was partially offset by a slightly smaller increase in business fixed investment. Other differences in outlays were minor. The increase in real GNP for the quarter was 6-1/2 per cent, annual rate.

The GNP deflator also rose somewhat more than we had assumed--5.2 per cent rather than 4.7 per cent. Excluding the effects of compositional shifts, the deflator for the private sector rose slightly less in the first quarter than in the fourth--4.8 per cent, compared to 5.1 per cent.

There were also differences between the Commerce estimates and our projections for the first quarter due to the handling of the proposed liberalized depreciation schedules. In last month's Greenbook we had assumed that the new schedules would be implemented during the first quarter, effective the first of the year; this implementation has not as yet occurred. As a result, both corporate profits and personal income (proprietors income) for the first quarter are somewhat larger than we had estimated, as are Federal government revenues. With personal and disposable income higher, the saving rate is estimated by OBE at 7.2 per cent in the first quarter rather than the 6.9 per cent we had projected. We have adjusted our projections of these components for the remainder of 1971 to exclude the estimated impact of the liberalized schedules, pending a final Administration decision.

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

	First Quarter		Second Quarter	
	Proj. of 3/31/71	Prel. OBE Estimate	Proj. of 3/31/71	Current
	----------Billions of dollars----------			
GNP	27.5	28.5	17.0	19.0
Final sales	28.8	29.7	14.3	16.4
Personal consumption	17.4	17.7	10.9	12.3
Residential construction	3.6	3.2	1.2	1.8
Business fixed investment	4.7	3.8	1.0	1.0
Net exports	.4	.2	- .5	- .3
Federal purchases	- .3	- .1	-2.0	-2.1
State & local purchases	3.0	4.9	3.7	3.7
Inventory change	-1.3	-1.2	2.7	2.6
	----------Per Cent Per Year----------			
Real GNP	6.4 1/	6.5 2/	2.7	3.1
GNP deflator	4.7	5.2	4.0	4.3

1/ Excluding effects of Federal pay increase 3.8 per cent per year.
2/ Excluding effects of Federal pay increase 4.2 per cent per year.

We are now projecting a GNP increase of $19 billion for the second quarter. This is $2 billion more than estimated last month, reflecting largely the firmer tone in consumer markets evident in recent weeks and the assumption that this will persist. Retail sales picked up toward the end of the first quarter and weekly figures suggest that this strength has carried forward into April. Sales of nondurable goods in particular have rebounded briskly following a lackluster performance in the first two months which was associated with a rise of only $1 billion in nondurable outlays in the first quarter. We are now projecting an increase of over $5 billion for nondurable outlays in the current quarter, $1-1/2 billion more than a month ago. Our projections of changes in other sectors of consumer purchases are little different from last month; we still anticipate a small increase in domestic type unit auto sales to an 8.3 million annual rate, although sales in the first 20 days of April continued at about the 8.1 million rate of the first quarter.

We now also expect a slightly larger increase in residential construction outlays this quarter, reflecting the surprisingly strong rise in new residential housing starts in March. However, we see no firm evidence as yet that underlying trends in housing are significantly stronger than we had projected for the year as a whole, and thus we have not revised our projections of starts for the second and subsequent quarters.

Other sectors remain about as projected last month. We have not revised the second quarter projection of State and local government expenditures despite the extraordinarily sharp increase in the first quarter. Our estimates for the remainder of the year had already incorporated a substantially larger increase in State and local government construction activity than the average quarterly gain during 1970; we believe that some of the surge in spending last quarter represented a catch-up in spending that is likely to be non-recurring.

We have revised up slightly our price projections for the second and subsequent quarters of 1971, as a result both of the somewhat disappointing performance of the price deflator in the first quarter and the less-than-expected improvement in unit labor costs in the past half year. But with current dollar GNP projected to rise somewhat more strongly this quarter than formerly estimated, real GNP is expected to increase around 3 per cent, annual rate, a bit more than we had projected last month.

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

	Third Quarter		Fourth Quarter	
	Proj. of 3/31/71	Current	Proj. of 3/31/71	Current
	--------Billions of dollars---------			
GNP	19.0	19.0	25.5	26.0
Final sales	23.0	23.0	20.5	21.0
Personal consumption	13.2	13.4	12.4	12.9
Residential construction	.9	.8	.8	.7
Business fixed investment	1.0	1.0	1.5	1.5
Net exports	.0	.0	.0	.0
Federal purchases	3.7	3.6	1.7	1.7
State & local purchases	4.2	4.2	4.1	4.2
Inventory change	-4.0	-4.0	5.0	5.0
	----------Per Cent Per Year---------			
Real GNP	2.6	2.4	6.0	6.0
GNP deflator	4.7 1/	4.9 2/	3.6	3.8

1/ Excluding effects of Federal military pay increase 3.8 per cent per year.
2/ Excluding effects of Federal military pay increase 4.0 per cent per year.

We still anticipate stronger growth of overall demand in the second half than in the current quarter and have made only very minor changes in our projections. Final sales are expected to increase by an average of about $22 billion per quarter, up from an expected rise of over $16 billion in the second quarter. The projected pattern of GNP changes in the last two quarters is affected strongly by the assumption of a steel strike of about 60 days duration, commencing about August 1. A sharp reduction in inventory investment is likely in the third quarter (strike or no), as steel stocks are liquidated. Nevertheless, third quarter growth in current dollar GNP is projected to be as large as in the second quarter ($19 billion), supported in part by an expected military pay increase at mid-year and a retroactive rise in Social Security benefits paid out late in June. GNP should increase substantially more--we are projecting a $26 billion rise--in the last quarter as a result of a rebound in inventory investment following the working down of steel stocks, a moderate acceleration in business fixed investment, and a relatively strong gain in consumer outlays.

In real terms, GNP in the second half of 1971 is projected to rise at an annual rate of 4-1/4 per cent--about in line with long term potential growth. With continued gains in productivity and a resumption of more rapid increases in the labor force likely to accompany increased growth, we expect unemployment to be somewhat higher than in the first half, averaging almost 6-1/2 per cent in the last two quarters.

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April 28, 1971

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

	1970	1971 Proj.	1970 III	1970 IV	1971 Ip	1971 Projection II	1971 Projection III	1971 Projection IV
Gross National Product	976.5	1048.7	985.5	989.9	1018.4	1037.4	1056.4	1082.4
Final purchases	973.1	1045.4	980.0	986.3	1016.0	1032.4	1055.4	1076.4
Private	752.6	810.9	759.0	763.1	788.0	802.8	818.0	833.1
Excluding net exports	749.0	808.3	754.8	760.5	785.2	800.3	815.5	830.6
Personal consumption expenditures	616.7	663.8	622.1	627.0	644.7	657.0	670.4	683.3
Durable goods	89.4	98.7	91.2	85.3	96.1	97.7	99.5	101.5
Nondurable goods	264.7	280.5	265.8	271.5	272.5	277.8	283.4	288.3
Services	262.6	284.6	265.1	270.2	276.0	281.5	287.5	293.5
Gross private domestic investment	135.7	147.7	138.3	137.1	142.9	148.3	146.1	153.3
Residential construction	29.7	37.3	29.2	32.2	35.4	37.2	38.0	38.7
Business fixed investment	102.6	106.7	103.6	101.3	105.1	106.1	107.1	108.6
Change in business inventories	3.5	3.6	5.5	3.6	2.4	5.0	1.0	6.0
Nonfarm	2.9	3.6	5.0	3.0	2.2	5.0	1.0	6.0
Net exports of goods and services	3.6	2.6	4.2	2.6	2.8	2.5	2.5	2.5
Gov't. purchases of goods & services	220.5	234.6	221.0	223.2	228.0	229.6	237.4	243.3
Federal	99.7	98.8	98.6	98.2	98.1	96.0	99.6	101.3
Defense	76.6	73.5	75.8	74.6	73.9	71.7	74.0	74.2
Other	23.1	25.3	22.9	23.5	24.1	24.3	25.6	27.1
State & local	120.9	135.8	122.4	125.0	129.9	133.6	137.8	142.0
Gross national product in constant (1958) dollars	724.1	740.9	727.4	720.3	731.6	737.3	741.7	752.8
GNP implicit deflator (1958 = 100)	134.9	141.5	135.5	137.4	139.2	140.7	142.4	143.8
Personal income	801.0	857.7	807.2	813.3	831.4	851.8	864.4	883.2
Wage and salary disbursements	540.1	577.4	543.8	545.2	560.2	571.7	582.0	595.7
Disposable income	684.8	735.1	693.0	697.2	714.9	731.8	740.9	752.9
Personal saving	50.2	51.5	52.7	51.8	51.3	55.1	50.4	49.1
Saving rate (per cent)	7.3	7.0	7.6	7.4	7.2	7.5	6.8	6.5
Corporate profits before tax	81.3	85.4	84.4	76.3	81.0	84.0	85.5	91.0
Corporate cash flow, net of dividends	69.9	74.3	70.7	67.7	71.1	73.2	74.7	78.3
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	194.8	206.5	194.9	191.7	198.8	203.4	207.4	216.4
Expenditures	206.3	223.0	206.7	209.9	214.0	221.0	224.2	232.9
Surplus or deficit (-)	-11.5	-16.5	-11.8	-18.1	-15.2	-17.6	-16.8	-16.5
High employment surplus or deficit (-)	-0.8	0.5	-1.7	1.3	1.4	-0.2	1.9	-0.9
Total labor force (millions)	85.9	87.0	86.0	86.5	86.5	86.8	87.1	87.5
Armed forces "	3.2	2.8	3.1	3.0	3.0	2.9	2.8	2.7
Civilian labor force "	82.7	84.2	82.8	83.5	83.6	84.0	84.3	84.8
Unemployment rate (per cent)	4.9	6.2	5.2	5.9	5.9	6.2	6.4	6.4
Nonfarm payroll employment (millions)	70.7	70.9	70.5	70.2	70.6	70.8	70.9	71.1
Manufacturing	19.4	18.8	19.3	18.7	18.7	18.8	18.7	18.9
Industrial production (1957-59=100)	168.2	167.8	167.9	162.7	165.2	167.5	167.8	170.8
Capacity utilization, manufacturing (per cent)	76.6	73.2	76.2	72.4	73.1	73.4	72.9	73.5
Housing starts, private (millions A. R.)	1.43	1.85	1.51	1.78	1.79	1.83	1.88	1.90
Sales new domestic autos (millions, A. R.)	7.12	8.30	7.99	5.38	8.13	8.30	8.30	8.50

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

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April 28, 1971

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1970	1971 Proj.	1970 III	1970 IV	1971 Ip	1971 Projection II	1971 Projection III	1971 Projection IV
	----------------Billions of dollars----------------							
Gross National Product	45.1	72.5	14.4	4.4	28.5	19.0	19.0	26.0
Inventory change	-5.0	0.1	2.4	-1.9	-1.2	2.6	-4.0	5.0
Final purchases	50.2	72.3	11.9	6.3	29.7	16.4	23.0	21.0
Private	41.9	58.3	9.3	4.1	24.9	14.8	15.2	15.1
Excluding net exports	40.2	59.3	9.2	5.7	24.7	15.1	15.2	15.1
Net exports	1.7	-1.0	0.1	-1.6	0.2	-0.3	0.0	0.0
Government	8.3	14.1	2.6	2.2	4.8	1.6	7.8	5.9
GNP in constant (1958) dollars	-3.0	16.8	2.5	-7.1	11.3	5.7	4.4	11.1
Final purchases	1.2	17.9	0.9	-5.7	12.4	3.6	7.4	7.0
Private	7.2	25.4	1.6	-5.4	13.0	4.5	6.1	5.1
	----------------In Per Cent Per Year----------------							
Gross National Product	4.8	7.4	5.9	1.8	11.5	7.5	7.3	9.8
Final purchases	5.4	7.4	4.9	2.6	12.0	6.5	8.9	8.0
Private	5.9	7.7	5.0	2.2	13.1	7.5	7.6	7.4
Personal consumption expenditures	6.8	7.6	5.0	3.1	11.3	7.6	8.2	7.7
Durable goods	-0.7	10.4	-3.0	-25.9	50.6	6.7	7.4	8.0
Nondurable goods	7.7	6.0	4.9	8.6	1.5	7.8	8.1	6.9
Services	8.7	8.4	8.0	7.7	8.6	8.0	8.5	8.3
Gross private domestic investment	-2.9	8.8	11.9	-3.5	16.9	15.1	-5.9	19.7
Residential construction	-7.2	25.6	11.3	41.1	39.7	20.3	8.6	7.4
Business fixed investment	3.3	4.0	3.1	-8.9	15.0	3.8	3.8	5.6
Gov't. purchases of goods & services	3.9	6.4	4.8	4.0	8.6	2.8	13.6	9.9
Federal	-1.6	-0.9	-4.4	-1.6	-0.4	-8.6	15.0	6.8
Defense	-2.8	-4.0	-5.2	-6.3	-3.8	-11.9	12.8	1.1
Other	2.2	9.5	0.0	10.5	10.2	3.3	21.4	23.4
State & local	9.1	12.3	12.5	8.5	15.7	11.4	12.6	12.2
GNP in constant (1958) dollars	-0.4	2.3	1.4	-3.9	6.5	3.1	2.4	6.0
Final purchases	0.2	2.5	0.5	-3.2	6.9	2.0	4.2	3.8
Private	1.3	4.4	1.1	-3.7	9.0 1/	3.1	4.1 1/	3.4
GNP implicit deflator	5.3	4.9	4.6	5.9	5.2 1/	4.3	4.9 1/	3.8
Fixed weight index 2/	5.1	4.5	4.6	4.9	4.7	4.2	3.9	3.8
Personal income	7.0	7.1	2.9	3.0	8.9	9.8	5.9	8.7
Wage and salary disbursements	6.1	6.9	3.2	1.0	11.0	8.2	7.2	9.4
Disposable income	8.4	7.3	5.5	2.4	10.2	9.5	5.0	6.5
Corporate profits before tax	-10.9	5.0	14.6	-38.4	24.6	14.8	7.1	25.7
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	-2.9	6.0	-2.4	-6.6	14.8	9.3	7.9	17.4
Expenditures	7.8	8.1	11.5	6.2	7.8	13.1	5.8	15.5
Nonfarm payroll employment	0.6	0.3	-2.0	-1.8	2.3	1.1	0.6	1.1
Manufacturing	-3.9	-3.1	-6.0	-13.1	0.8	2.1	-2.1	4.3
Industrial production	-2.7	-0.2	-3.3	-12.4	6.1	5.5	0.7	7.2
Housing starts, private	-2.6	28.9	70.3	70.1	2.7	8.0	11.0	5.3
Sales new domestic autos	-15.8	16.7	2.0	-130.5	204.4	8.3	0.0	9.6

1/ Excluding effects of Federal pay increase, 4.2 per cent in 71-I and 4.0 per cent in 71-III.

2/ Based on 1970-IV weights and excluding effects of Federal pay increases.

Industrial production. The lack of a definite trend in industrial production since the recovery from the GM strike and the limited output data available for April make it difficult at this point to estimate the likely change in the index from March to April. However, industrial production probably edged up somewhat further in April. Declines in auto production and in business and defense equipment are estimated to be somewhat more than offset by a rise in steel and increases in consumer staples, household goods, and materials other than steel.

Auto assemblies in April have been at an annual rate of 8.2 million units, down 8 per cent from March and a decline of 0.2 point in the total index. The April decline and the 8.2 million unit rate of output now scheduled for the second quarter as a whole, reflect the continuing moderate pace of new domestic car sales and the near-completion of rebuilding of GM dealers' inventories. On the expansive side, production of television sets was up about 10 per cent in the first two weeks of April.

Output of business equipment in March was down 15 per cent from the September-October 1969 high. The mixed nature of the February-March developments in this sector--industrial equipment and commercial aircraft down, a recovery of farm equipment from the February strike-induced low, and a one month rise in commercial equipment--provide little indication as to whether the extended production cutbacks in business equipment are nearing an end.

Among materials, output of raw steel and presumably steel mill products rose further in April, probably enough to offset the decline in autos and auto parts. The large rise in output of iron and steel in anticipation of a strike this summer--up 20 per cent since last November--is about over. Among other materials, production data for the first two weeks of April indicate some increase in paperboard, coal, and crude petroleum.

INDUSTRIAL PRODUCTION
1957-59=100, seasonally adjusted

	1969	1971			Per cent change	
	July1/	Jan.	Feb.	Mar.	July 1969 to Mar. 1971	QIV 1970 to QI 1971
Total index	174.6	165.6	164.9	165.2	-5.4	1.5
Consumer goods	164.4	165.2	164.0	165.4	.6	3.8
Autos	178.7	155.1	168.1	167.3	-6.4	71.2
Home goods	184.4	177.5	175.6	179.5	-2.7	- .3
Apparel & staples	158.1	162.7	160.4	161.3	2.0	1.0
Business equipment	196.9	174.3	172.0	170.7	-13.3	-3.3
Defense equipment	169.9	116.7	112.6	111.8	-34.2	-4.8
Materials, total	176.5	167.2	167.7	168.0	-4.8	1.6
Durable	167.0	148.3	149.7	151.0	-9.6	3.7
Steel	145.3	128.2	133.1	138.9	-4.4	10.9
Nondurable	186.4	186.8	186.2	185.5	- .5	.1

1/ Pre-recession peak.

Retail sales. Seasonally adjusted retail sales in April are estimated to be 1 per cent higher than March, based on data for the three weeks ending April 17. While it is still too soon to conclude that consumers are shifting toward a more optimistic buying mood, recent sales indicate a definite pickup from the sluggish performance of most sectors earlier in the year.

For durable goods, April sales may be about 1/2 per cent higher than March, with automotive sales increasing 1 per cent and furniture and appliance sales little changed. Nondurable goods sales, which showed little or no increase in the first two months, appear to be following a 1-1/2 per cent March increase with a 1-1/4 per cent rise in April. Strength this month largely reflects higher sales of general merchandise and apparel.

RETAIL SALES
Seasonally adjusted

	Percentage change from previous period					
	1970		1971	1971		
	IIIQ	IVQ	IQ	Feb.	March	April*
Total	.9	-1.2	3.3	.8	1.7	1.0
Durable	1.7	-9.0	11.3	2.3	2.2	.5
Auto	2.6	-15.7	21.9	5.7	2.3	1.0
Furniture & appliance	-3.8	- .7	4.3	-.7	1.5	.0
Nondurable	.6	2.3	.2	.1	1.4	1.2
Apparel	-.7	4.7	-1.1	-1.1	.2	5.0
General merchandise	.7	2.9	- .2	- .1	1.1	1.0
Total less auto and nonconsumption items	.4	2.0	- .1	.0	1.4	1.0

* Estimated from data for three weeks ending March 17, 1971.

Unit auto sales. Sales of new domestic type autos rose sharply in the first 10 days of April--when an incentive contest for a major make was completed--and declined sharply in the second 10 days. For the first 20 days of the month, sales were at an 8.1 million unit rate, about the level prevailing since January.

NEW AUTO SALES, DOMESTIC TYPE
Seasonally adjusted annual rates
Millions of units

		1971		1970
Jan.	Feb.	March	April*	April*
8.1	8.0	8.3	8.1	7.3

* First 20 days.

Consumer credit. Consumer instalment credit outstanding expanded at a seasonally adjusted annual rate of $1.2 billion in February, up slightly from January but far below the $5.0 billion rate of February 1970. Preliminary reports from a small number of commercial banks indicate that the increase in March for this holder group will be about the same as in February. The February increase was the result about equally of advances in automobile credit and personal loans.

Commercial banks in many areas of the country have been actively promoting the availability of funds for consumer instalment lending. In part this may account for the improvement in bank lending relative to finance companies. Instalment credit outstanding at commercial banks expanded at a seasonally adjusted annual rate of $1.3 billion in February, while finance company credit outstanding contracted somewhat more than that.

<u>Manufacturers' orders and shipments</u>. New orders for durable goods declined 2.2 per cent in March, according to the advance report, from a February level which has been revised upward since that month's advance report and now shows an increase of 1.5 per cent instead of a 1.7 per cent decrease. The March decline was accounted for mainly by a fallback of defense orders from a very high February level and to a lesser extent by declines in autos and steel. Orders excluding these three categories rose 1.3 per cent, rising slightly above the range within which they had fluctuated for more than a year, and reaching the highest point since late 1969.

The decline in iron and steel orders was anticipated, since such orders ordinarily peak early in a year in which wage negotiations are coming up. The backlog of iron and steel orders remains high--slightly above the previous high of early 1965. Motor vehicle orders were off slightly. The highly erratic defense orders series droppped considerably from a February level that apparently included large shipbuilding orders.

Capital equipment orders declined slightly from an upward-revised February figure; the level of orders for this group has changed little since November 1970. New orders increased for "all other" durables, about half of which are construction materials. There also appears to have been some recovery recently in orders for household durables, and the March level was 7 per cent above a year earlier.

MANUFACTURERS NEW ORDERS FOR DURABLE GOODS
Seasonally adjusted monthly averages

	1970	1971			
	Q IV	Q I (prel.)	Feb. (rev.)	March (adv.)	Change, March from Feb.
	-----Billions of dollars------				--Per Cent---
Durable goods, total	29.4	31.5	31.9	31.2	-2.2
Excluding autos & steel	24.0	24.3	24.5	24.2	-1.5
Excluding autos, steel, & defense	21.9	22.2	22.2	22.5	1.3
Primary metals	4.6	5.2	5.1	5.0	-1.9
Iron and steel	2.2	2.6	2.5	2.4	-6.9
Other primary metals	2.4	2.6	2.6	2.6	3.0
Motor vehicles and parts	3.2	4.5	4.8	4.6	-3.1
Household durable goods	2.1	2.2	2.1	2.3	6.9
Defense products	2.1	2.1	2.4	1.7	-27.8
Capital equipment	8.7	8.7	8.8	8.7	-1.5
All other durable goods	8.8	8.8	8.7	8.9	2.3

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

Shipments increased and the order backlog declined 0.6 per cent. The decline in the backlog was mainly at the aircraft industry, and was reflected in both the defense and the capital equipment groups.

Inventories. Book value of business inventories rose at a $4 billion annual rate in February, according to preliminary data; this was little different from the upward-revised January rate or from the fourth quarter. A large increase in trade inventories more than offset a decline in manufacturing. Since November, book value increases have been confined to the sectors directly affected by the GM strike and by steel inventory-building--auto, steel, and rubber manufacturing, automotive and metals wholesaling, and auto dealers. Elsewhere, stocks have declined.

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

	1970		1970	1971	
	Q III	Q IV	Dec.	Jan.	Feb. (prel.)
Manufacturing and trade, total	10.7	4.4	3.2	3.5	4.1
Autos and steel	3.4	-4.1	4.0	3.1	8.8
Excluding autos and steel	7.3	8.5	- .8	.5	-4.8

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

The business inventory-sales ratio declined slightly further in February. More than half of the improvement in this ratio since its November high has been in the auto-steel sector, where sales have risen faster than stocks, due mainly to the catch-up in auto buying. Although stocks have declined and sales improved, in the rest of manufacturing and trade, the ratios for these sectors are still slightly above those of last June. This is particularly true in trade, where the ratio excluding autos and steel had declined only slightly as of February. The apparent improvement of non-auto retail sales in March and April may help to reduce further the inventory-sales ratio in this area.

INVENTORY RATIOS

	1970		1971	
	June	Nov.	Jan.	Feb. (prel.)
Manufacturing and trade, total	1.56	1.63	1.57	1.56
Autos and steel	1.50	1.75	1.49	1.46
Excluding autos and steel	1.56	1.61	1.59	1.58
Wholesale and retail trade, total	1.36	1.39	1.37	1.37
Autos and steel	1.66	1.78	1.59	1.63
Excluding autos and steel	1.30	1.33	1.32	1.32

In March, dealers' stocks of new autos increased further, according to seasonally adjusted unit data, and by the end of that month amounted to a 58 days' supply. This was a higher ratio than at the end of February, in spite of increased March sales, but this level is not abnormal compared with other periods in which the sales rate was similar. According to unadjusted data, the supply of GM cars was still somewhat below year-earlier ratios, while non-GM dealers had some excess inventory compared with March 1970.

Cyclical indicators. The Census composite leading indicator rose 0.6 per cent in March, based on preliminary data. Since its low point in October, when series affected by the GM strike brought the composite back down to its May 1970 level, this index has risen each month for a total increase of over 5 per cent. This rise is a little below the average five-month rate of recovery in this series from lows reached during earlier postwar contractions, but it compares favorably with the rebound from the 1959 steel strike low. The coincident and lagging composites also rose by around half a per cent in March.

COMPOSITE CYCLICAL INDICATORS
(1967 = 100)

	12 Leading Trend Adjusted	5 Coincident	6 Lagging
1970:			
October	113.7	118.8	130.8
November	114.1	117.9	128.9
December	116.2	119.1	128.9
1971:			
January	118.1	121.1	129.3
February	119.1	121.5	130.2
March (Prel.)	119.8 (H)	122.0	130.9

(H) Current high value. The coincident composite reached its high in April 1970; the lagging, in September 1970.

Leading series rising in March were the manufacturing workweek, housing permits, industrial materials prices, and common stock prices. The ratio of price to unit labor cost was unchanged. Negative influences came from initial unemployment claims, new orders for durable goods, and contracts and orders for plant and equipment.

Residential construction and real estate. Seasonally adjusted private housing starts turned sharply upward in March to an annual rate of 1.92 million units. This was not far from the 2.05 million high reached last December when there was a contra-seasonal surge in FHA-insured subsidized units. Moreover, in the first quarter as a whole, starts actually edged above the fourth quarter. Including mobile home shipments--currently running at a seasonally adjusted annual rate of 400,000--the combined shelter total for the quarter was the highest on record, exceeding the 2.1 million peak indicated for the second quarter of 1950 when, of course, mobile home shipments were an insignificant factor.

Contributing strongly to the first quarter pace of housing starts was a further advance in multifamily units. Unlike single-family starts, which dipped somewhat, these continued upward to a seasonally adjusted annual rate of 805,000 and eclipsed the previous peak registered two years earlier. Regionally, the advance was marked in the West, where total starts rose considerably further to the highest rate since the fourth quarter of 1963.

PRIVATE HOUSING STARTS AND PERMITS
(Units in thousands)

	Starts			
	Total 1/	Per cent Single-family (Census Bureau)	Per cent FHA-insured 2/ (FHA Series)	Building permits
Annual - 1970	1,434	57	29	1,324
Quarterly (SAAR)				
1970				
I	1,252	54	23	1,085
II	1,286	58	28	1,257
III	1,512	56	28	1,358
IV	1,777	58	35	1,593
1971				
I	1,789	55	25	1,605
Monthly (SAAR)				
1970 - December	2,054	60	53	1,768
1971 - January (r)	1,725	55	29	1,635
February (r)	1,724	57	27	1,563
March (p)	1,918	54	20	1,618

1/ Apart from starts, mobile home shipments for domestic use in February--the latest month for which data are available--were at a seasonally adjusted annual rate of 404,000, about the same as the 1970 average, but a tenth below the peak in October 1969.

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

With mortgage commitments made by savings and loan associations continuing to climb to new peaks and builders' plans pointing higher, some further increase in starts is indicated for the second quarter. Because of technical measurement problems and other factors, however, a sag perhaps to a 1.8 million unit rate is a possibility for April.

Meanwhile, effective demands for both new and used residential units have apparently improved further in response to the marked liberalization of mortgage interest rates and other terms over the past year and the increased concentration of builders on lower-priced units. Release last mid-March of additional funds for FHA's major subsidy program, as described in the previous Greenbook, should also lend further support to this trend. In addition, the recent restoration of unused home loan underwriting benefits to veterans of World War II and the Korean conflict under the Veterans Housing Act passed last year has continued to prove helpful, particularly in the market for existing homes.

Residential vacancy rates thus far have remained exceptionally low. For rental units, the average of 4.9 per cent of units available and fit for use in the first quarter of the year was little changed from the previous quarter and the lowest for any first quarter since 1957. Vacancy rates for home-owner properties also held at a reduced rate nationally and in most regions.

RESIDENTIAL VACANCY RATES
(Per cent)

	Average for first quarter of:					
	1957	1965	1968	1969	1970	1971
Rental units	4.8	7.7	5.5	5.0	5.0	4.9
Northeast	3.0	5.5	3.4	2.9	2.1	2.1
North Central	4.6	7.2	5.0	4.9	5.5	5.7
South	5.7	8.3	6.8	6.6	7.1	6.7
West	6.6	10.6	7.3	5.9	5.4	5.2
Home-owner units	.8	1.5	1.0	.9	1.0	1.0

Plant and equipment spending. The McGraw-Hill April survey (confidential until 4-30-71) indicates that business plans to spend about 4 per cent more for new plant and equipment in 1971 than in 1970. This anticipated increase is about the same as reported in the February Commerce-SEC survey, but is above the 2 per cent increase shown in the fall McGraw-Hill survey. All of the expected increase is in the non-manufacturing sector--especially electric utilities. Manufacturers as a whole expecte no increase, with a 3 per cent gain in nondurable goods spending offset by a 2 per cent drop in spending by durable goods producers.

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

	1969 (Actual)	1970 (Actual)	1971 Comm-SEC (Feb. Plans)	1971 McGraw-Hill (Fall survey)	1971 McGraw-Hill (Spring survey)
Total	11.5	5.5	4	2	4
Manufacturing	11.7	.9	0	-2	0
Durable goods	13.0	-1.0	-3	-3	-2
Nondurable goods	10.3	2.7	2	-1	3
Nonmanufacturing	11.4	8.8	7	5	7
Transportation	8.0	- .2	-8	-12	-19
Electric utilities	16.7	19.1	22	9	18
Gas utilities	5.1	-6.7	-4	4	10
Communications	21.5	21.7	10	15	8
Commercial and other	6.0	3.4	4	3	6

Labor market. Productivity rose sharply in the first quarter, advancing at an annual rate of 5.3 per cent in the private sector. The sharp rise in total output following the GM strike, coupled with the more modest recovery of employment and hours, was responsible for the large gain. For the fourth and first quarters averaged together the rate of increase was 2.7 per cent.

Over the past year as a whole, productivity increased 3.3 per cent, a substantial improvement over the average for the previous several years. Increases in compensation per manhour have continued at a rapid pace, but with productivity advancing again, unit labor cost increases have slowed from the sharp increases of 1969 and early 1970, particularly in the nonmanufacturing sector. However, increases in unit labor costs continue at a rapid pace in manufacturing, where output is still well below earlier peak levels.

COMPENSATION, PRODUCTIVITY AND UNIT LABOR COSTS

	Compensation per manhour		Output per manhour		Unit labor cost	
	Private economy	Manufacturing*	Private economy	Manufacturing*	Private economy	Manufacturing*
Change from previous quarter: (annual rate)						
1970: I	6.8	5.6	-2.5	.9	9.6	4.4
II	5.3	7.2	3.7	5.1	1.5	2.0
III	7.7	8.4	4.3	2.5	3.3	6.0
IV	6.7	5.7	.1	- .6	6.7	6.6
1971: I	9.4	9.7	5.3	3.9	3.9	5.2
Change from year-earlier						
1969	7.2	6.3	.7	2.3	6.5	3.8
1970	7.1	6.9	.9	1.0	6.2	5.9
1970: III	7.2	7.2	1.5	1.3	5.0	5.9
IV	6.6	6.9	1.3	2.0	5.2	4.9
1971: I	7.3	8.0	3.3	2.8	3.8	5.1

* FRB data based on the manufacturing production index.

Increases in compensation per manhour (which includes fringe benefits) and average hourly earnings continued to be rapid in late 1970 and early 1971. In the first quarter, compensation per manhour in the private economy was 7.3 per cent higher than a year earlier and average hourly earnings of production workers were up 6.3 per cent. Increases in average hourly earnings accelerated in manufacturing and transportation, reflecting to a large extent recent collective bargaining settlements in the automobile industry and large pay raises in both the railroad and trucking sectors. Some moderation of wage growth has occurred in trade.

AVERAGE HOURLY EARNINGS OF PRODUCTION
AND NONSUPERVISORY WORKERS
(Per cent change from a year earlier)

	1970				1971
	Q I	Q II	Q III	Q IV	Q I
Total private	6.4	6.0	6.0	5.3*	6.3
Manufacturing	5.6	5.6	5.5	4.4*	6.5
Trans. & public util.	5.8	5.3	6.1	6.5	7.2
Finance	5.0	4.6	5.3	5.5	6.1
Services	8.2	7.8	8.3	8.3	7.8
Contract construction	10.2	9.0	9.5	8.7	8.7
Mining	6.9	6.6	6.5	6.4	5.8
Trade	6.6	6.1	6.2	5.5	5.6

* These smaller increases were primarily attributable to the strike of auto workers.

Industrial relations. The Construction Industry Stabilization Committee has approved the first wage and benefit increase subject to its review. Ironworkers in the Dallas-Fort Worth area negotiated a two-year settlement providing for a 30-cent increase effective April 1, 1971 to be followed at six-month intervals by wage and benefit increases of 40, 30, and 40 cents respectively. The 30-cent immediate increase (about 5 per cent) was ruled by the Ironworkers "craft dispute board" to fall within the limits imposed by the Executive Order issued by the President in March. However, the board indicated the union would have to supply additional information justifying the remaining $1.10 increases before they could be approved.

Settlements by other unions in the North Texas area included in the two-year multicraft contract covering 18,000 construction workers in 20 unions will be reviewed by the appropriate craft boards when they have been established. The master contract provides that wage and benefit increases total $1.10 for workers making less than $5.00 an hour and $1.40 for those making $5.00 or more. These increases would seem to average at least 10 per cent a year--rather than the 6 per cent general limit imposed by the Executive Order.

In the cement industry contracts covering 9,000 workers expire May 1. A two-year agreement with one company in April that is expected to set the pattern for the rest of the industry provides for a 9 per cent first-year wage increase.

Construction materials prices. Prices of construction materials increased sharply during the first quarter of 1971. The rise was largely a result of higher prices for lumber and wood products which now appear to be leveling off or even declining. Other construction materials price advances have accelerated this year.

Prices of lumber and wood products in the construction materials index declined more than 4-1/2 per cent in 1970 but rose more than 12 per cent in the first quarter of 1971. In part higher prices have reflected new softwood size standards which reduced lumber dimensions while nominal prices were maintained.

Other construction materials, which had increased only about 3 per cent during all 1970, rose about 1-3/4 per cent in the first quarter of 1971. Some of the largest increases were posted for flat glass, concrete ingredients and products, hard surface floor coverings, soil pipe, gypsum products, structural shapes, and asphalt roofing. In contrast, there were large declines in prices of building wire and nonmetallic sheathed cable during the first quarter, especially in March.

WHOLESALE PRICES OF CONSTRUCTION MATERIALS
(percentage changes at annual rates)

Commodities	Dec. 1969 to June 1970	June 1970 to Dec. 1970	Dec. 1970 to Mar. 1971
Construction materials	2.9	- 0.7	18.4
Lumber and wood products	-3.9	- 5.4	59.5
Other construction materials	5.3	0.9	7.0

Note: The two groups of construction materials shown above are estimated by Federal Reserve from BLS data.

Consumer prices. Consumer prices rose in March at a seasonally adjusted annual rate of 2.7 per cent as the effects of a substantial drop in mortgage interest rates partially offset a sharp increase in food prices. Other commodities, on average, continued to rise more slowly than last year.

Declining mortgage costs were also the main factor in the sharply reduced rise of consumer prices over the first quarter--when the consumer price index increased at a rate of 2.4 per cent (unadjusted). If mortgage costs had been excluded, the rise would have been at a rate of almost 4 per cent (also unadjusted), according to confidential estimates supplied by the BLS. Well over half of the increase in other service costs was offset by a drop in expenses for home financing. Excluding these, the rate of rise for services accelerated to about 8.5 per cent, higher than the previous peak in the first quarter of 1970.

EFFECT OF MORTGAGE COSTS ON CONSUMER PRICES
(Percentage changes at annual rates, not seasonally adjusted)

	June 1970 to Sept. 1970	Sept 1970 to Dec. 1970	Dec. 1970 to Mar. 1971	Feb. 1971 to Mar. 1971
All items, CPI	4.2	5.6	2.4	4.1
All items less mortgage costs1/	3.9	5.6	3.8	5.2
Services	7.1	7.0	3.2	0.0
Services less home financing1/2/	6.6	7.2	8.5	7.0

1/ Confidential.
2/ Excludes mortgage interest costs, property taxes and homeowners' insurance.

Food prices rose substantially in the first quarter after leveling off in the second half of last year. Much of the climb came in March, when both meat and fresh fruits and vegetables rose sharply. Retail prices of beef at chain stores rose further in April but pork declined.

Part of the easing in non-food commodities in the first quarter can be attributed to declining gasoline prices and to a leveling off in apparel prices. However, gasoline prices remain above early last year and mens' clothing prices rose in March at a record rate. A notable feature of first quarter developments was a leveling in home prices, which had previously been the fastest rising component among commodities. New car prices, however, rose strongly last quarter--in part because of delays in getting 1971 models onto the market--but fell in March.

CONSUMER PRICES
(Percentage change at seasonally adjusted annual rates)

	June 1970 to Sept. 1970	Sept. 1970 to Dec. 1970	Dec. 1970 to Mar. 1971	Feb. 1971 to March 1971
All items	4.2	5.5	2.7	2.7
Food	1.4	0.7	6.4	14.3
Commodities less food 1/	3.6	6.5	1.0	2.1
Apparel	3.8	5.2	0.7	0.0
Gasoline 2/	0.8	7.4	-5.8	-2.2
New cars	6.9	16.9	5.4	-7.1
Used cars 2/	-12.9	18.7	-9.5	15.8
Home purchase 2/3/	9.2	6.3	0.8	0.9
Services	7.1	7.0	3.2	0.0

1/ Includes items not listed.
2/ Not seasonally adjusted.
3/ Confidential. Estimated as a residual by Federal Reserve.

March 1, 1971 prices of farm land. Land values rose 3 per cent in the year ending March 1, 1971, the fourth successive year of a decelerating rate of rise. In the past year, values continued to boom along the east coast and to advance at very slow rates in the great agricultural areas of the nation. These disparate trends have been in evidence for the past three or four years.

Tight credit conditions have been a major factor in the slowdown in values in areas where demand for land is principally for agricultural uses. General uncertainty attending the protracted legislative review of the wheat, feed grain, and cotton programs prior to enactment of new legislation in late 1970 has been another. More recently the corn blight has entered the picture.

Along the populous east coast, an important factor supporting land values is the actual and the expected future demand for nonfarm uses. Undoubtedly, the booming demand for recreation homes is an important element of strength. In the Southeast, values continue to be influenced by new farming practices and technology as well as growing demands for nonfarm uses.

Apparently tight credit conditions have dampened demands for land in the agricultural areas more than in areas with large nonfarm demands. Respondents to the March 1, 1971 survey cited easing interest rates in recent months as a reason for expecting a pickup in values in major farming areas in the months ahead. In fact, the March 1 data show some evidence of strengthening since November in some areas.

CHANGES PER ACRE VALUES OF FARM REAL ESTATE
BY FEDERAL RESERVE DISTRICTS
Per Cent

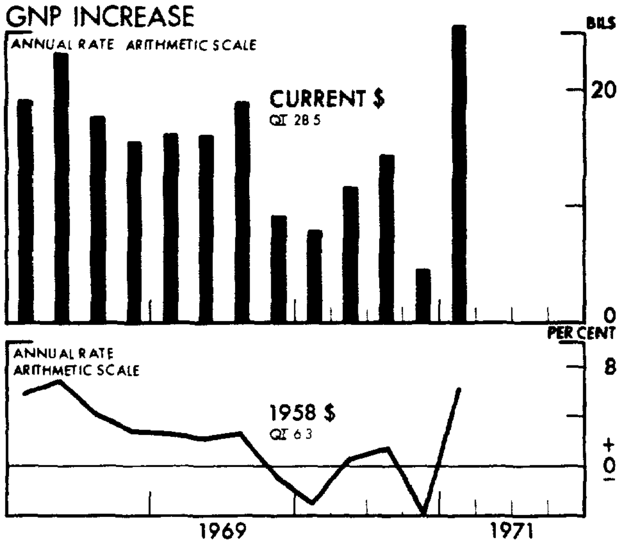
	March 1, 1971 1/	4 months ending March 1			Year ending March 1		
	1967=100	1969	1970	1971	1969	1970	1971
Boston	136	2	3	2	8	8	7
New York	136	2	4	3	8	8	7
Philadelphia	144	4	7	3	10	13	8
Cleveland	123	1	3	3	4	7	5
Richmond	129	3	4	3	8	3	8
Atlanta	136	4	4	5	9	8	8
Chicago	115	3	1	1	5	2	2
St. Louis	122	4	3	2	7	4	3
Minneapolis	119	1	2	2	6	4	2
Kansas City	115	1	0	2	4	2	2
Dallas	123	2	1	1	6	5	4
San Francisco	111	1	0	1	4	1	1
U.S.	120	2	2	2	5	4	3

1/ March 1, 1971 data to be released around May 1.

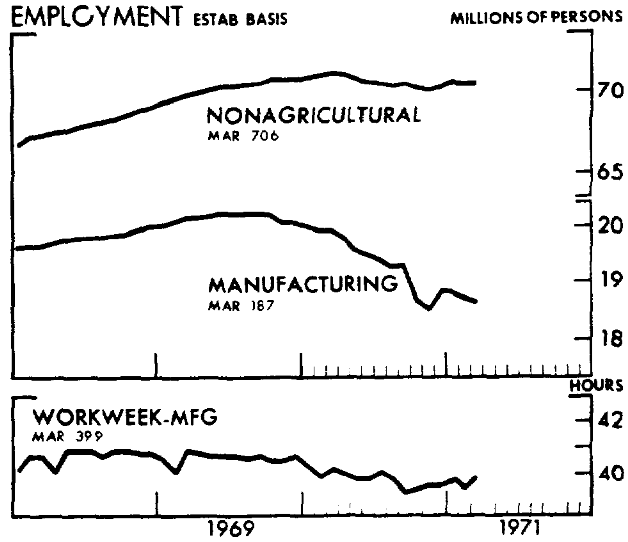
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED, RATIO SCALE

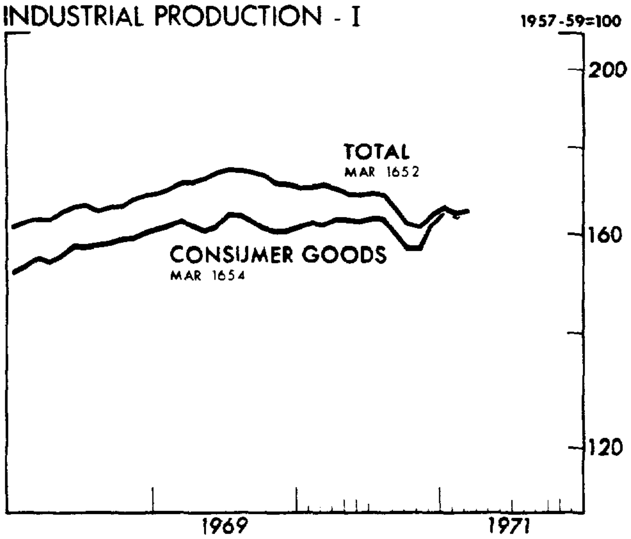
GNP INCREASE



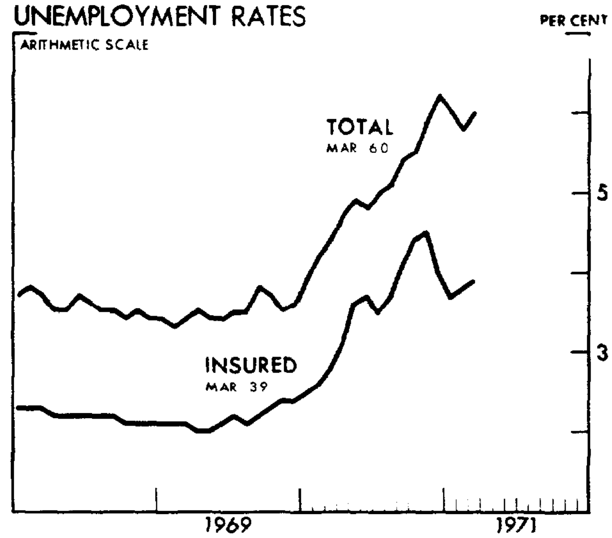
EMPLOYMENT ESTAB BASIS



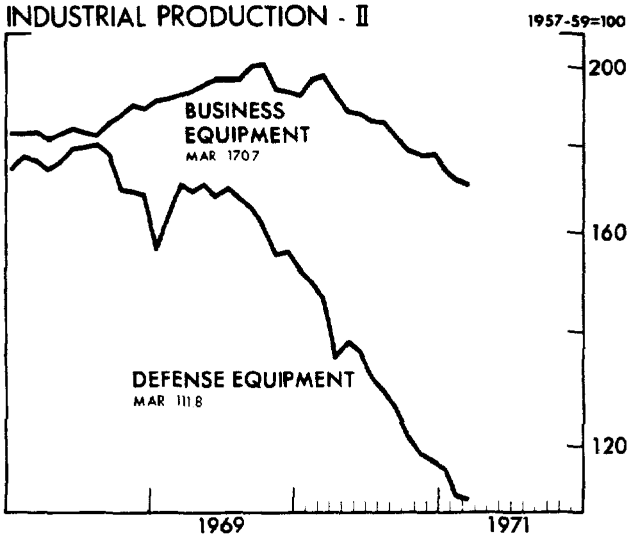
INDUSTRIAL PRODUCTION - I



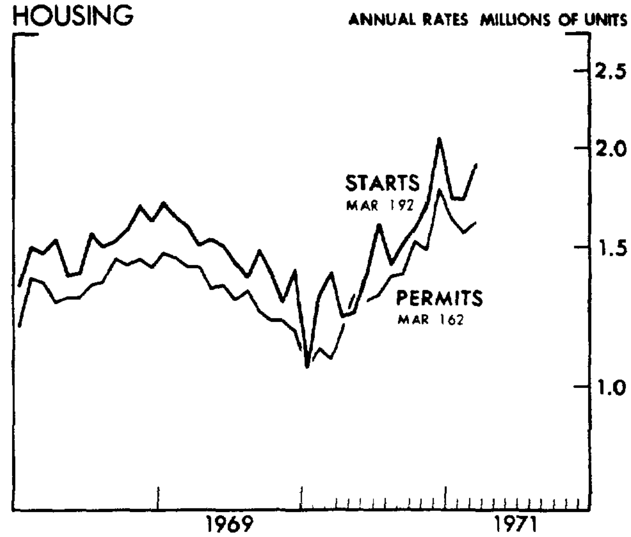
UNEMPLOYMENT RATES



INDUSTRIAL PRODUCTION - II



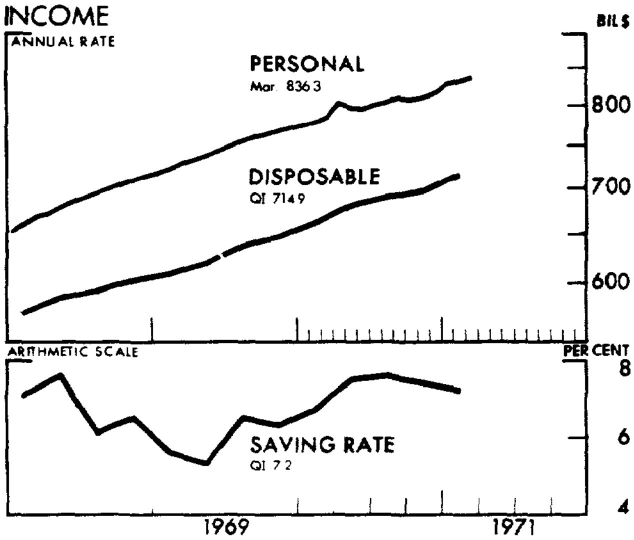
HOUSING



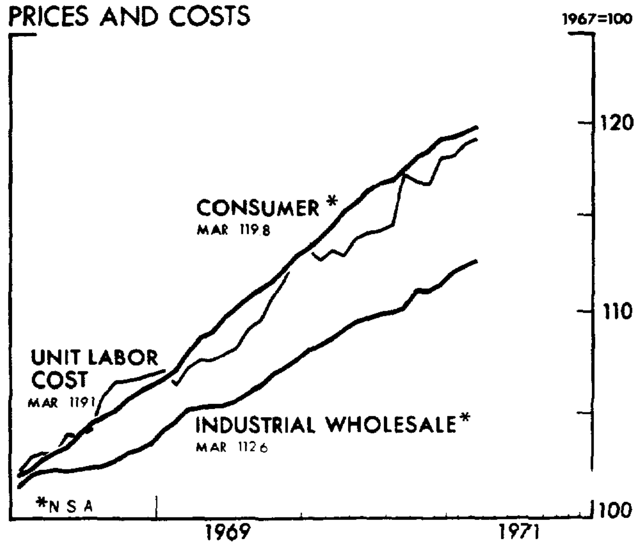
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED RATIO SCALE

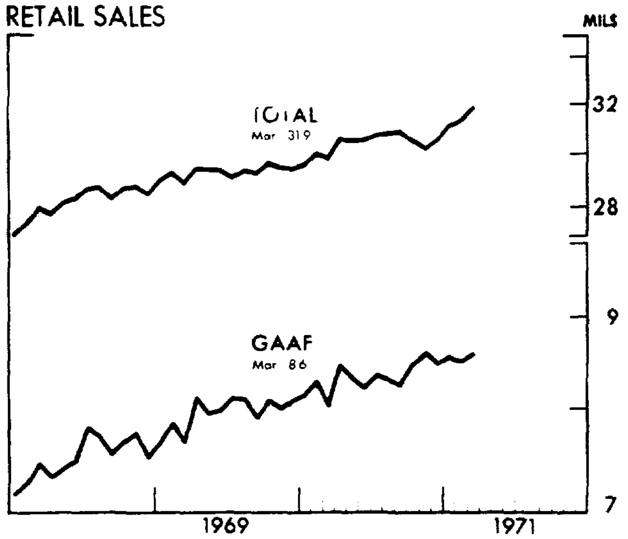
INCOME



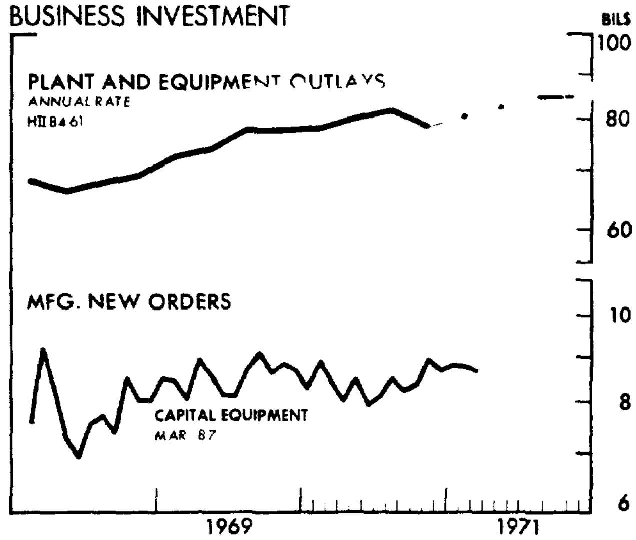
PRICES AND COSTS



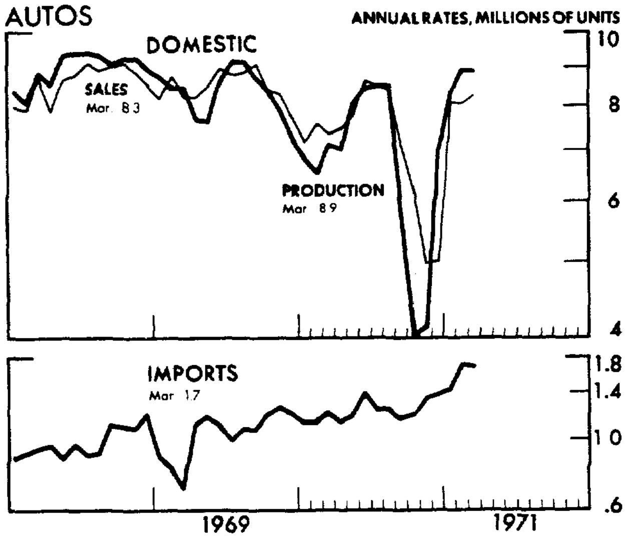
RETAIL SALES



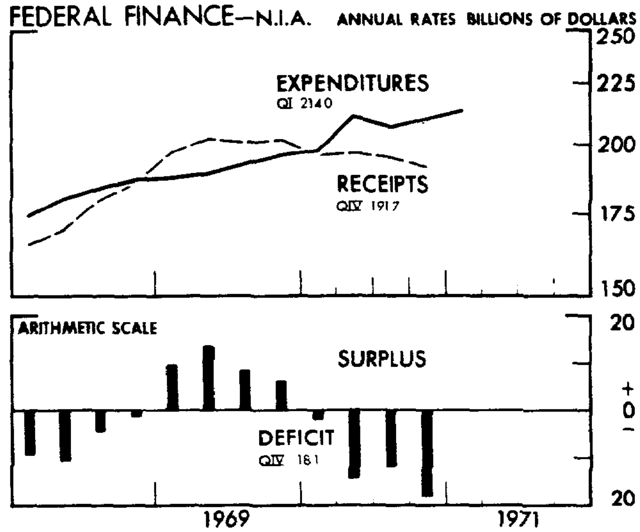
BUSINESS INVESTMENT



AUTOS



FEDERAL FINANCE—N.I.A.



THE ECONOMIC PICTURE IN DETAIL

Domestic Financial Situation

Monetary aggregates. All monetary aggregates continued to increase rapidly in March, as rates of growth slowed only moderately from the exceptionally strong February pace. As the table indicates, with these further strong advances, first quarter rates of growth in the three money supply concepts were substantially above those of the fourth quarter and also well above those of earlier quarters of 1970.

A further rise in the adjusted credit proxy also was recorded in March. The rate of increase was somewhat slower than in February, however, as growth of private demand deposits and time and savings deposits slackened and U.S. Treasury deposits dropped sharply. In addition, nondeposit liabilities declined markedly, particularly borrowings from foreign branches. This in part reflected the financing of foreign branch acquisitions of export-import bank certificates; but even after allowing for these transactions, the runoff was still quite large.

Data for the first two weeks in April indicate that M_1 increased substantially further. M_2 also rose significantly further over this period, although at a slower pace than in March, as the rate of growth in time and savings deposits diminished. Inflows of consumer-type deposits at weekly reporting banks in particular appear to have moderated, quite possibly in reaction to the impact of the recent reductions in rates offered on these deposits by many banks as well as to the corresponding

MONETARY AGGREGATES
(Seasonally adjusted, annual rates of change, in per cent)

	Annual		1970				1971		
	1969	1970	QI	QII	QIII	QIV	QI	Feb.	March
1. Currency plus private demand deposits	3.1	5.4	5.9	5.8	6.1	3.4	8.6	14.0	10.5
2. Commercial bank time and savings deposits	-5.0	18.4	1.4	14.1	32.2	21.8	27.3	28.6	25.9
a. large CD's	-53.3	132.4	9.5	61.8	256.2	79.4	27.9	12.1	19.2
b. other time and savings	1.4	11.5	.9	11.3	16.5	15.4	27.2	30.5	27.0
3. Savings deposits at mutual savings banks and S&L's	3.4	7.8	2.5	7.0	9.3	11.5	23.2	18.5	24.8
4. Adjusted bank credit proxy	n.a.	8.3	.5	6.5	17.2	8.3	10.9	12.9	8.9
Concepts of money									
5. M_1: (3)	3.1	5.4	5.9	5.8	6.1	3.4	8.6	14.0	10.5
6. M_2: (3) + (4b)	2.4	8.2	3.4	8.4	11.0	9.2	17.7	22.1	18.7
7. M_3: (3) + (4b) + (5)	2.8	7.9	2.7	7.9	10.3	9.7	18.8	22.1	19.5

III - 2

rise in rates on competing market instruments. Growth in total time and savings deposits at country member banks also appears to have been at a slower pace.

During the latter part of March, outstanding amounts of large CD's declined when rates on competing money market instruments began to rise. The weakening was particularly apparent at weekly reporting banks outside New York and Chicago. At banks in the latter cities, on the other hand, the late March declines were reversed in early April in part reflecting efforts on the part of these banks to position themselves to repay maturing CD's around the mid-month tax date.

Growth in the adjusted credit proxy also slowed further in early April, reflecting not only the reduced rate of total time deposit growth but also a continued marked decline in nondeposit liabilities. Head office liabilities to foreign branches dropped sharply further, largely in connection with foreign branch acquisitions of $1.5 billion of special Treasury certificates.

Bank credit. Total loans and investments of commercial banks, adjusted for loan transfers between banks and their affiliates, increased at an annual rate of almost 13 per cent from the last Wednesday of February to the last Wednesday of March, about the same as the rate over February. The increase over the first quarter as a whole was almost 14 per cent. The bulk of the March credit expansion was in security acquisitions, both Treasury and other. Over the first quarter, bank holdings of Treasury securities and other securities increased at annual rates of about 22 per cent and 30 per cent, respectively.

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

	1970	1971			
	QIV	Jan.	Feb.	March	QI
Total loans & investments 2/	6.1	14.9	13.1 4/	12.9 4/	13.8
U.S. Government securities	2.8	8.3	24.7	32.2	22.1
Other securities	34.5	39.3	19.0	30.7	30.4
Total loans	-1.0	9.1	9.4 4/	3.2 4/	7.3
Business loans 3/	-9.2	5.4	14.0	-11.7	2.5

1/ Last Wednesday of month series.
2/ Includes outstanding amounts of loans sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
3/ Includes outstanding amounts of business loans, sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
4/ Excludes $814 million of System matched sale-purchase agreements outstanding on February 24.

Total loans also increased somewhat in March but at a significantly slower pace than in January and February. The annual rate of increase for the first quarter was slightly more than 7 per cent. The March weakening in the expansion in loan portfolios was the result of a sharp downturn in business loans that partly offset generally moderate gains in other loan categories. The drop in business loans, which followed a two month period of fairly strong advance, in part reflected relatively small loan demand over the mid-month tax date. In addition, the volume of repayments of bank loans with funds obtained from capital market financings picked up in March after having moderated earlier in the quarter. With the March decline, business loan growth for the first quarter was held to a modest 2.5 per cent annual rate.

Seasonally adjusted weekly reporting bank data suggest that commercial bank credit continued rising during the first two weeks in April, again mainly in the form of substantial acquisition of securities. Bank acquisition of Treasury issues--mainly in connection with the April 6 Treasury financing operation--accounted for part of the further advance in investment holdings. Growth in holdings of other securities also remained substantial, as municipal securities, in particular, rose sharply early in the month.

Total loans also increased further in early April, spurred by a sharp increase in loans to brokers and dealers, which reflected a build-up in dealer investories, primarily in connection with the Treasury financing operation and a large system matched-sale purchase arrangement. Other major loan categories, on the other hand, changed only moderately with gains in some categories offsetting declines in others. Business loans rose slightly over the two weeks ending April 14, but data from New York reporting banks suggest that loan demands weakened over the tax payment date--business loans at these banks declined by $5 million in the week ending April 21 in contrast to increases averaging about $275 million in the comparable weeks of the three preceding years.

Many large banks raised their prime lending rate at the end of last week from 5-1/4 per cent to 5-1/2 per cent. This advance in the face of continued sluggish demands for loans was attributed to the rise in short-term market rates that had taken place since the prime rate was last reduced in early March. It also reflected the decision of a number of major banks to adjust their lending rates more frequently in response to changes in other short-term rates.

Nonbank thrift institutions. The most recent data suggest that nonbank depositary intermediaries are continuing to receive historically large deposit inflows, with as yet little sign of abatement. Indeed, during the recently-concluded reinvestment period, savings and loan associations received net new deposits of about a billion dollars, nearly all of which occurred during the first ten days of April. Similarly, New York City mutual savings banks received contraseasonal net inflows during the reinvestment period, although in relatively smaller volume.

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

	Mutual Savings Banks	Savings and Loan Associations	Both
1970 QI	2.7	2.3	2.5
QII	6.4	7.2	7.0
QIII	6.9	10.6	9.3
QIV	10.2	12.1	11.5
1971 QI (p)	17.5	25.9	23.2
February* (p)	15.7	19.8	18.5
March* (p)	21.2	26.6	24.8

(p) Preliminary.
* Monthly patterns may not be significant because of difficulties with seasonal adjustment.

The bulk of recent deposit inflows has continued to be in term accounts, which would not be withdrawn quickly in reaction to an adverse change in the now-favorable yield relationship between deposits and market securities. Not only do the minimum term requirements enhance the stability of such accounts, but in addition, where early withdrawal is possible only with a penalty such as at savings and loan associations, a shift to other assets prior to maturity would generally occur only if alternative yields rose by enough to cover the interest foregone by early withdrawal.

SOURCES OF DEPOSIT GROWTH DURING THE FIRST QUARTER
AT NONBANK THRIFT INSTITUTIONS 1/
(Millions of dollars, not seasonally adjusted)

	First Quarter		
	1969	1970	1971
Savings and Loan Associations			
Regular accounts	-2,481	-5,660	1,453
Special accounts	4,317	6,031	7,344
Total	1,836	371	8,797
New York State Mutual Savings Banks 2/			
Regular accounts	674	-653	635
Term accounts 3/	-23	848	1,184
Total	651	195	1,819

1/ Includes interest credited, which serves mainly to inflate the regular account data. "Regular" accounts include both passbook and daily-interest crediting accounts.
2/ These savings banks account for about 60 per cent of industry deposits.
3/ Savings banks did not receive real authority to offer term accounts until the first quarter of 1970.

The FHLBB has reacted to the large deposit inflows at S and L's by raising the required ratio of liquid assets another notch--from the 6.5 per cent (of deposits plus borrowed funds) just introduced on April 1 to 7.5 per cent effective May 1. This action was explained by the FHLBB as a counter-cyclical use of liquidity requirements as well as an attempt to try to stem repayments of outstanding advances; there is reason to believe that it might have some of this intended impact because those associations with the largest "excess" liquid assets generally are not those with advances outstanding. For example, on an aggregate basis, the industry at the end of March had liquid assets in excess of the new 7.5 per cent requirement amounting to about $7 billion. But according to FHLB staff tabulations of the individual associations, those institutions with outstanding advances had excess liquid assets sufficient to repay only about $3.3 billion in advances.[1/]

During the first quarter, savings and loan associations acquired, net, an unprecedented volume of liquid assets--partly to restore liquidity levels, partly to store funds for takedowns of mortgage commitments and for repayment of advances, and partly, it seems, for lack of alternative outlets. Despite the FHLBB's prepayment penalties on maturing fixed term advances, the net amount of borrowed funds at savings and loans declined by over one billion dollars. The record volume of mortgage loans purchased, on the heels of large purchases in the previous two quarters, suggests the extent to which associations were endeavoring to translate their increased funds into earning assets. The resultant easing in mortgage market conditions is suggested by the continued large

1/ This calculation is overly simplified because it neglects allocations of future deposit inflows; but it is indicative of the skewed distribution within the S&L industry of liquid assets and advances.

mortgage repayments during the first quarter, at least half of the year-over-year increase in which can be identified as related to mortgage refinancings.

SOURCES AND USES OF FUNDS
AT INSURED SAVINGS AND LOAN ASSOCIATIONS
(Billions of dollars, not seasonally adjusted)

	1970				1971
	Q1	Q2	Q3	Q4	Q1
Sources					
Deposit accounts 1/	.4	2.7	2.8	4.9	8.8
Borrowed funds	.3	.5	.2	.2	-1.1
Subtotal	.7	3.2	3.0	5.1	7.7
Gross mortgage repayments 2/	3.0	3.4	4.0	4.0	4.1
Other sources, net 3/	.3	.1	.7	-.1	.2
Total	4.0	6.7	7.8	9.0	12.0
Uses					
Increase in liquid assets 4/	.4	1.0	.6	1.1	4.2
Gross mortgage acquisitions	3.6	5.7	7.2	7.9	7.8
Total	4.0	6.7	7.8	9.0	12.0
Memorandum: Detail of gross mortgage activity					
Loans closed	3.3	4.9	6.2	6.4	6.1
Loans purchased	.3	.8	1.0	1.5	1.7
Refinancings (included in loan repayments)	.3	.4	.5	.6	.7

1/ Net change in deposits, including interest credited.
2/ Includes, in addition to repayments, proceeds from sales of loans and participations and miscellaneous credits. Excludes interest, taxes, etc.
3/ Includes net changes in loans in process, reserves and surplus, and other liabilities minus the net changes in miscellaneous loans and assets not set out separately in the "uses" statement.
4/ Reflects all eligible liquid assets, according to FHLB requirements. For 1967 and 1968, includes only cash and U.S. Government securities. Since 1968, includes also Federal agency issues maturing within five years.

Mutual savings banks' portfolio behavior during the first quarter contrasted sharply with that of savings and loan associations. While gross flow data are not available for the savings banks, on net their mortgage portfolio did not share in the increased funds available. Although liquid assets were rebuilt modestly, by far the greatest share of the fund flow increase was allocated to corporate and federal agency securities. The greater relative emphasis on securities may reflect the relatively greater speed with which those assets can be acquired--the lead time between commitment of funds and takedowns on mortgages being much longer, especially at a time of such rapid easing in market conditions. However, at least some of the profile of asset choices of mutual savings banks is a reflection of the higher relative yields that still are available on corporate securities, particularly in contrast with single-family mortgages.

NET SOURCES AND USES OF FUNDS
AT MUTUAL SAVINGS BANKS
(Billions of dollars, not seasonally adjusted)

	1970				1971
	Q1	Q2	Q3	Q4	Q1
Net Sources					
Deposit accounts 1/	.7	.8	1.0	1.9	3.3
Other, net 2/	-.1	.3	.2	-.5	-.3
Total	.6	1.1	1.2	1.4	3.0
Net Uses					
Liquid assets 3/	-.1	--	.1	.2	.2
Other securities 4/	.4	.6	.5	.6	2.0
Mortgages	.3	.5	.6	.6	.8
Total	.6	1.1	1.2	1.4	3.0

1/ Includes interest credited.
2/ Includes net changes in Christmas Club and other such "deposits," reserves and surplus, and other liabilities, minus net changes in state and local holdings, passbook loans, other loans, and miscellaneous assets.
3/ Net changes in cash and all U.S. Government securities.
4/ Corporate securities and Federal agency issues.

Mortgage market. With deposit flows to thrift institutions remaining exceptionally strong, both new and outstanding commitments at savings and loan associations surged in March to new highs that were sharply above year-earlier lows. Contributing to the S&L commitment uptrend over the past year have been large increases in loan refinancing volume as well as in mortgage purchases, as noted in the preceding section. Both have underscored the general improvement that has taken place in mortgage market conditions. While savings banks in New York State continued to increase their mortgage commitments through February, their

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

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

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

commitment backlog was still three-tenths below the highs of early 1969. As mentioned above, the savings bank industry has stepped up its purchases of corporate and federal agency issues.

In the first quarter, net total credit flows on all types of mortgages through the major institutional lenders for which current data are available were about the same as the advance total of the fourth quarter of 1970, despite a record seasonally adjusted rate of S&L net lending during the first three months of this year. Additional support from mutual savings banks and commercial banks provided an aggregate net flow of funds from these three major type lenders in the first quarter that was significantly larger than the high rate of the preceding quarter.

As mortgage flows from these sources expanded, however, net support from FNMA and GNMA was reduced further. In fact, the two housing credit agencies ran down their total mortgage holdings slightly for the first time in six years, owing partly to FNMA's portfolio sales.

NET MORTGAGE FLOWS BY SELECTED INSTITUTIONS
(Billions of dollars at seasonally adjusted annual rates)

	1970				1971
Type of Lender	I	II	III	IV	I
Savings & loan associations	5.0	7.2	12.6	17.3	17.7
Mutual savings banks	1.4	2.2	2.2	2.4	3.3
Commercial banks	2.3	.9	2.2	2.9	4.2
All three groups	8.7	10.3	17.0	22.6	25.2
FNMA-GNMA	6.3	5.6	5.1	2.6	- .1
All four groups	15.0	15.9	22.1	25.2	25.1

With no further increase in the rate of net mortgage lending during the first quarter, with home mortgages continuing relatively unattractive to nonbank diversified lenders as compared with new corporate bond issues, and with investor uncertainty about the future course of interest rates generally, yields in the sensitive secondary market for Government-underwritten home mortgages stabilized during March and early April, and then turned upward later in April, as confirmed by trade opinion as well as by FNMA's purchase auctions.[1/] These developments, along with the prospect of further sharp seasonal increases in mortgage credit demands through the spring, appear to have eliminated earlier

1/ Since late January, FNMA has no longer announced in advance any limit on the amount of mortgage purchase commitments it was prepared to accept in a forthcoming auction. This change in policy has strengthened FNMA's--and ultimately HUD's--influence on the average yield at which commitments are accepted.

trade expectations of another administrative reduction soon in the 7 per cent ceiling interest rate on FHA and VA mortgages, according to FNMA field reports.

RETURNS ON HOME MORTGAGES

Primary Market (Conventional loans)		Secondary Market (FHA and VA loans)	
Month	Rate	FNMA auction date	Yield
1970 High			
July, August	8.60	January 12	9.36
December	8.30	December 28	8.36
1971 - January	7.95	January 25	7.97
February	7.75	March 1	7.43
March	7.60	March 29	7.44
		April 12	7.45
		April 26	7.54

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

Rates on conventional first mortgages for new-home purchase declined less during March than in either of the preceding two months. Nevertheless, at 7.60 per cent, they averaged 100 basis points below last year's peak. In the normally capital-deficit regions of the Southwest and the West, even larger declines were reported. By March, regional rate differentials had narrowed to the lowest margins since the early 1960's, when mortgage credit was also in unusually abundant supply.

INTEREST RATES ON CONVENTIONAL
HOME MORTGAGES

Region	1970 high	March 1971	Basis point decline from 1970 high
Northeast	8.30	7.45	85
Middle Atlantic	8.40	7.45	95
Southeast	8.45	7.60	85
North Central	8.30	7.55	75
Southwest	8.90	7.75	115
West	9.40	7.65	175
U.S.	8.60	7.60	100
Memo: West minus Northeast (basis points)	110	20	90

Note: FHA series, rounded to nearest 5 basis points, for first mortgages to finance purchases of new homes.

On a 25-year conventional home loan, the 100 basis point rate decline has reduced the burden of debt service per dollar borrowed by about 8 per cent. However, indications are that year-over-year increases in average loan amounts as well as in such operating expenses as utilities and property taxes and insurance have offset at least part of the beneficial impact of lower interest rates on total *monthly cash expenditures* for new conventionally-financed dwellings. These units still account for the bulk of all new 1-family home purchases.

<u>Life insurance companies</u>. Easing of general credit conditions in the first quarter apparently increased the volume of life insurance company lendable funds. With interest rates lower and bank credit availability increased, drains of investment funds into policy loans tapered off to a pace less than one-third that of a year earlier.

NET CHANGE IN POLICY LOANS AT FIFTEEN LIFE INSURANCE COMPANIES 1/
(Millions of dollars, seasonally unadjusted)

	QI	QII	QIII	QIV
1966	126	210	334	311
1967	190	162	130	134
1968	181	247	219	169
1969	269	414	542	421
1970	461	413	322	228
1971	138 (p)			

1/ Reporting companies account for nearly two-thirds of policy loans outstanding in the industry.
(p) preliminary.

While complete data on fund sources are not yet available, an increase in discretionary fund flows is reflected in the recent sharp increase of new investment commitments at life companies. Moreover, new commitment activity appears to be receiving added impetus as the industry has become more willing to commit an increased portion of its projected cash flow. Even as recently as the end of last year, an unusually small percentage of investment funds expected over the next six months was allocated to commitments with takedowns scheduled over that same period. Such a strategy implied that the industry was endeavoring to maintain flexibility should its fund flow projections prove too optimistic.

For all of these reasons, total new commitment activity by a sample of life insurance companies during February reached the largest volume in eighteen months, with most of that increase represented by a restoration of the earlier volume of securities commitments. New commitments for corporate direct placements--as reported by a slightly smaller industry sample--increased significantly during the first quarter to the highest quarterly rate in over two years (STRICTLY CONFIDENTIAL). Most of the increase in direct placement commitment activity was represented by higher-quality issuers and by issues other than those with equity features.

CORPORATE DIRECT PLACEMENT COMMITMENTS
MADE BY LIFE INSURANCE COMPANIES 1/
(Seasonally unadjusted)

STRICTLY CONFIDENTIAL

	Total		Issues with Equity Features 2/ (millions of dollars)
	Millions of dollars	Average Yield	
1969 - QI	716	7.73	216
QII	721	8.19	184
QIII	608	8.70	151
QIV	601	9.10	191
1970 - QI	376	9.81	130
QII	499	9.83	105
QIII	431	10.24	128
QIV	686	10.30	61
1971 - QI (p)	1,021	9.02	102

1/ Reporting companies account for about two-thirds of industry assets. Dollar volumes are not seasonally adjusted.
2/ Includes convertibles and issues with warrants.
(p) Preliminary.

Corporate and municipal securities. In late March growing investor resistance developed to the reduced yield levels then prevailing in the long-term market, and rates on corporate and tax-exempt bonds rose steadily in April. Investor expectations of an upward trend in long-term interest rates were based on rising short-term rates and a growing market view that monetary policy had tightened and the economic outlook had improved.

The sharp upward movement of corporate bond yields in early April, coupled with technical delays incurred by some SEC registrants, resulted in a postponement of several large issues and a less rapid build-up in the calendar than had been anticipated. Although these postponements had already reduced the staff's original $3.0 billion estimate for April corporate public bond offerings, a last minute rescheduling of a large issue from last April to May further lowered the April projection. The staff now estimates that the April public bond volume will be $2.3 billion, and that May will amount to $2.7 billion.

BOND YIELDS
(In per cent)

		New Aaa Corporate bonds 1/	Long-term State and local bonds 2/
1970			
Low		7.68 (12/18)	5.33 (12/10)
High		9.30 (6/18)	7.12 (5/28)
1971			
Low		6.76 (1/29)	5.00 (3/18)
High		7.79 (3/5)	5.74 (1/7)
Week of:			
March	19	7.14	5.00
	26	7.08	5.03
April	2	7.15	5.15
	9	7.17	5.21
	16	7.32	5.32
	23	7.54	5.48

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

A major factor in the tapering of the recent and prospective pace of public bond offerings appears to be the reduced number of very large individual issues by industrial corporations. In March, 50 per cent of the dollar volume had been accounted for by issues of $100 million or more, whereas such issues amount to only about one-third of the lower April and estimated May volume. The industrial composition of the public bond offerings in April and May also is more typical of the 1970 pattern, with issues by manufacturing firms accounting for about one-quarter of the volume, instead of one-half, as in March.

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

	Bonds			
	Public Offerings	Private Placements	Stocks	Total
1969 - Year	1,061	468	700	2,229
1970 - Year	2,099	403	713	3,245
1970 - QIII	1,995	304	553	2,853
QIV	2,609	473	897	3,979
1971 - QI	2,789e	519e	737e	4,046e
March	4,150e	800e	1,200e	6,150e
April	2,300e	450e	1,100e	3,850e
May	2,700e	500e	700e	3,900e

e/ Estimated.

As noted earlier, life insurance company commitment activity has increased markedly in recent months, but because of lags this did not have much influence on takedowns until March 1971. There appears to have been a sharp upturn in that month and the staff now estimates that April and May private placements will be above the depressed average level of 1970.

Stimulated by a buoyant stock market, the volume of new equity issues appears to have remained slightly over $1 billion in both March and April. Scheduled stock offerings for May have not increased rapidly in recent weeks, however, and the staff has revised its May estimate down to $700 million.

Tax-exempt long-term bond offerings continue at historically high levels. The March volume reached $2.2 billion, and the staff expects that both April and May will be about $2 billion. Rates on municipal bonds have increased about 45 basis points since the last Committee meeting, reflecting mainly sympathetic reaction to pressures in other sectors of the long-term markets. Continued heavy purchases by commercial banks in the short- and intermediate-term area and by fire and casualty companies in the long end have sustained the market in the face of record issue volume.

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

	Long-term	Net Short-term
1969 - Year	991	294
1970 - Year	1,515	383
1970 - QIII	1,490	457
QIV	1,954	521
1971 - QI	2,230	554e
March	2,200e	700e
April	2,000e	750e
May	2,000e	n.a.

e/ Estimated.
Note: Long-term offerings are gross. Short-term offerings are Federal Reserve Board estimates of net sales.

Net short-term tax-exempt offerings continued to rise in March and April, in spite of a large volume of maturing issues, as gross offerings in both months exceeded sales of long-term bonds, Tax anticipation notes accounted for a growing proportion of short-term tax-exempt securities in recent months, perhaps reflecting the difficulties of some State and local authorities in meeting current operating expenses.

Stock market. In April, investors continued to project a sharp improvement in 1972 corporate profits and stock prices maintained the recent rate of advance that has made the recovery from 1970 lows one of the most rapid in recent years. As of late April, both the NYSE index and Dow Jones Industrial Average of stock prices had advanced about 50 per cent from their May 1970 lows and were about 5 per cent below their 1968 all-time highs. On the other hand, perhaps reflecting a relatively diminished investor preference for lower quality stocks during the rally of the last eight months, the AMEX index--which had previously declined more than the NYSE index--was up only a little over one-third in the same period and remains 20 per cent below its 1968 high.

Trading volume during April continued at historically high levels. The combined daily average of NYSE and AMEX volume thus far in 1971 has been 23.4 million shares vs. 15 million shares for all of 1970. Despite the large volume on the organized exchanges, indications are that brokerage back-office problems have remained manageable. Fails to deliver--the generally accepted indicator of brokerage back-office problems--are up from 1970, but for the first three and a half months of 1971 have remained relatively constant, fluctuating between \$1.6 and \$1.8 billion. This average is considerably below the peak of \$4.1 billion reached in December 1968.

At a meeting on April 19 at the SEC--attended by Board staff--representatives of the NYSE, AMEX and regional exchanges expressed confidence that, while the present level of trading had increased the potential for back-office problems, the brokerage industry was able to handle adequately the current volume. Reasons given for this confidence include the exchanges and NASD's increased awareness of the problems involved and their installation over the last year of greatly improved surveillance systems designed to detect early signs of back-office trouble with any brokerage firm. In addition it was pointed out that back-office problems have been reduced by the smaller volume of trading in OTC markets and increased average size of stock trades--from approximately 260 shares per trade in 1968 to 420 shares in 1971. This is apparently due to increased institutional activity.

An analysis of the composition of NYSE transactions shows that, between late 1968 and early 1970, institutions increased their share of NYSE volume from 10 per cent to 15 per cent. In addition, over the same period odd lot trades and trades of 100 shares, in which most individual investor activity is concentrated, showed a significant decline as a proportion of the total volume. These trends seem to be continuing in 1971.

It is too soon to ascertain whether the initiation of negotiated commissions for trades over $500,000 has significantly altered trading patterns. Preliminary evidence received thus far indicates that the number of trades over $500,000 has increased slightly, but is impossible to know yet if this reflects negotiated rates or merely enthusiastic trading associated with the market rally.

Government securities market. Interest rates in the U. S. Government securities market have risen on balance since early April, but more recently longer term yields have tended to stabilize. Over the period April 6-April 27 as a whole, yields on notes and bonds rose by 25 to 85 basis points, while bill rates are now 25 to 70 basis points higher than at the time of the April Committee meeting. The 3-month bill, which reached a high of 4.04 per cent on April 13, was most recently bid at 3.96 per cent.

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

	1971		Weekly average for week ending			
	Daily highs 1/	Daily lows 1/	Apr. 6	Apr. 13	Apr. 20	Apr. 27
Bills						
1-month	4.83 (1/6)	3.07 (3/12)	3.56	3.75	3.72	3.67
3-month	4.89 (1/4)	3.22 (3/11)	3.68	3.95	3.87	3.85
6-month	4.94 (1/4)	3.34 (3/11)	3.75	4.04	4.04	4.07
1-year	4.74 (1/4)	3.45 (3/11)	3.70	4.01	4.07	4.25
Coupons						
3-year	5.95 (1/6)	4.27 (3/22)	4.67	4.96	5.26	5.51
5-year	6.06 (1/8)	4.74 (3/22)	5.20	5.47	5.64	5.89
7-year	6.33 (1/8)	5.15 (3/23)	5.51	5.73	5.91	6.04
10-year	6.47 (1/6)	5.38 (3/23)	5.59	5.66	5.85	6.01
20-year	6.39 (1/4)	5.69 (3/23)	5.86	5.91	6.00	6.13
Agencies						
6-month	5.31 (1/6)	3.67 (3/16)	3.98	4.20	4.42	4.53
1-year	5.60 (1/4)	3.93 (3/16)	4.28	4.55	4.85	5.01
3-year	6.27 (1/7)	4.70 (3/24)	5.12	5.54	5.81	5.98
5-year	6.47 (1/6)	5.12 (3/23)	5.49	5.82	6.06	6.25

1/ Latest dates of high and low rates in parenthesis.

The tightening of the Federal funds market that immediately followed the April 6 meeting of the Committee was a major reason for the rise in bill rates that took place and also contributed to the weakening in the Treasury coupon sector. With their positions in bills still swollen by the series of offerings at the end of March, the rise in their financing costs, as well as the accompanying shift in expectations regarding the System's policy stance, made dealers increasingly restive with their holdings. At the same time the level of investor demand for bills fell short of expectations, perhaps as buyers looked toward even more attractive rates. Both of these factors worked to push rates higher. After mid-April actual and prospective bill demands improved; and with positions reduced by low auction awards and tax bill maturities, rates retreated from their highs. Most recently, however, bill yields have again tended to increase.

The weakening of the coupon-bearing sector of the market has been due in some degree to the tightening of day-to-day money market conditions, coupled perhaps with some disappointment at the Desk's relative lack of activity in the coupon market after a fairly regular series of purchases beginning in early February. Equally if not more important, however, was the market's expectation of a Treasury debt lengthening operation in May. On the basis of these various factors, price levels were reassessed and speculative investors, including banks, reduced their holdings, with the result that prices adjusted sharply lower. Most recently, trading has generally stabilized as the market participants have begun to doubt that the Treasury will lengthen the debt aggressively in light of the recent market weakness.

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

	March Daily average	Apr. 5	Apr. 12	Apr. 19	Apr. 26
Treasury securities					
Total	4,420	6,283	4,850	4,543	3,479
Treasury bills (total)	3,168	4,756	3,603	3,296	2,145
Due in 92 days or less	1,116	1,448	1,029	1,092	332
93 days or over	2,052	3,308	2,574	2,205	1813
Treasury notes and bonds (total)	1,252	1,527	1,246	1,247	1,334
Due within 1-year	341	487	450	437	499
1-5 years	438	556	411	400	389
over 5 years	473	484	386	410	446
Agency securities					
Total	982	1,281	1,179	1,059	1,145
Due within 1 year	547	647	585	519	608
Over 1 year	435	634	594	540	537

The Treasury is expected to announce on April 28 the terms for refunding of $5.8 billion of publicly held issues maturing in mid-May; details will be given in the Greenbook Supplement. The Treasury may at the same time indicate in general its plans for raising new cash. It would appear that new cash might not be needed until late May or early June, and that some $2-$3 billion over and above any amount required to cover attrition in the refinancing would finance the Treasury's cash needs until early July.

In the market for Federal agencies, new offerings in April were smaller than the $650 million reduction in FHLB issues, thus yielding a net decline in new cash of $461 million. For the first four months of 1971 this results in a net repayment of debt of $0.3 billion as compared to net borrowing of $4.2 billion in the corresponding period last year. The move toward longer maturities continues, with FNMA offering $150 million of 6-year 1-month and $250 million of 3-year 7-month issues. Despite the relatively small volume of new issues, yields in the agency market have risen steadily since mid-March when the lows were reached. As can be seen in the market yields table, rates on agency issues have risen 80 to 135 basis points from those lows. About 50 to 75 basis points of this advance has occurred since April 6.

Other short-term credit markets. Despite continuing weak demands for short-term market credit, short-term rates--with the exception of those on Treasury bills which dropped somewhat this past week--have moved up steadily over the past five weeks. Increases since the end of March have ranged from 25 to 75 basis points. The largest increases occurred in short-term commercial and finance company paper rates and in rates on certificates of deposit.

At the end of March, seasonally adjusted commercial and finance company paper outstanding totaled $31.0 billion, a decline of $1.6 billion for the month and $2.6 billion for the quarter. Nonbank related paper has fallen $1.9 billion since the end of 1970 and $1.4 billion in the past month.

The major share of the quarterly decline in nonbank paper was in directly-placed finance company paper which dropped $1.6 billion. This decline in outstandings is attributable to sluggish consumer credit growth, bank competition in the auto loan field, and long-term borrowings as well as to shifts by some finance companies to bank loans.

Since the loss of its Dun and Bradstreet prime rating, Chrysler Financial Corporation, in particular, has had to refinance sizeable reductions of its outstanding paper at commercial banks. On April 16 Standard and Poor's began rating Chrysler Financial paper for the first time and announced that its rating was favorable. In the following week (the latest for which data are available), the further run-off of Chrysler paper slowed but was not halted. The proceeds of Chrysler Financial's recently announced $90 million long-term debenture, by helping to restructure the firms liabilities, should help further to bolster the company's credit rating.

The outstanding amount of non-bank dealer-placed commercial paper, after increasing $2.8 billion between August 1970 and January 1971, leveled off in February 1971 and fell about $900 million in March. As rates on commercial paper have moved up in recent weeks--from an early March low ranging from 3-3/4--4-1/2 per cent for paper maturing in 30-270 days, to the current 4-1/2--5 per cent range--this paper has become a somewhat less attractive source of short-term funds vis-a-vis commercial banks even after taking into account the recent increase in the prime rate to 5-1/2 per cent at a number of leading banks. (Commercial paper rates reflect investor yields; the cost to borrowers is somewhat higher, perhaps as much as 1.0 per cent).

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

	1970		1971			Net change
	Highs	Lows	March 31	April 14	April 21	Mar.31-Apr.
1-month						
Commercial paper	9.25	5.50	3.88	4.38	4.50	+.62
Finance paper	9.00	5.00	3.50	3.88	4.13	+.63
Bankers' acceptances	9.00	5.50	4.13	4.63	4.63	+.50
Certificates of deposit--new issue 1/	7.75	5.00	3.63	4.25	4.25	+.62
Treasury bill	7.84	4.58	3.54	3.76	3.69	+.15
3-month						
Commercial paper	9.25	6.00	4.63	4.88	5.00	+.37
Finance paper	8.25	5.50	4.00	4.13	4.25	+.25
Bankers' acceptances	9.00	5.50	4.25	4.63	4.88	+.63
Certificates of deposit--new issue 1/	6.75	5.50	3.75	4.38	4.50	+.75
Treasury bill	7.93	4.74	3.64	4.00	3.86	+.22
6-month						
Bankers' acceptances	9.00	5.50	4.25	4.63	4.88	+.63
Treasury bill	7.99	4.78	3.74	4.10	4.07	+.33
12-month						
Certificates of deposit--new issue 1/	7.50	5.50	4.50	5.00	5.00	+.50
Treasury bill	7.62	4.74	3.68	4.10	4.17	+.49
Prime municipals	5.80	2.95	2.30	2.60	2.60	+.30

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

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

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

	December 1970	February 1971	March 1971
Total commercial and finance paper 1/	33,535	32,574	30,959
Bank related 2/	2,349	1,901	1,692
Nonbank related 3/	31,186	30,673	29,262
Placed through dealers	13,242	13,758	12,880
Placed directly	17,944	16,915	16,382

	March 1971 Net Change from	
	December 1970	February 1971
Total commercial and finance paper 1/	-2,581	-1,620
Bank related 2/	- 657	- 209
Nonbank related 3/	-1,924	-1,411
Placed through dealers	- 362	- 878
Placed directly	-1,562	- 533

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

Federal finance. Estimates of unified Federal budget receipts for FY 1971 have been revised downward by $0.9 billion because of lower-than-anticipated corporate tax receipts this past quarter, and a consequent downward revision in expected June payments. The downward adjustments reflect largely a shortfall in payments on 1970 rather than on 1971 liabilities.

Estimates of Federal outlays have not been revised since the last Greenbook, although April outlays do seem to be running at a slightly lower level than was then projected. The shortfall in receipts has thus increased the unified budget deficit expected by the staff for FY 1971, from $20.0 billion to $20.9 billion.

No significant change has been made in the high employment budget estimates for FY 1971 or for calendar year 1971 since the last Greenbook, so that the near-balance in the high employment budget continues.

Along with additional social security reform there is now a possibility of increases in social security taxes starting in January, 1972. The House Ways and Means Committee has tentatively approved an increase in the taxable wage base to $10,600 rather than to the $9,000 level recently enacted for January 1, 1972, plus rate increases starting with an increase from 5.2 per cent to 5.4 per cent effective the same date. If enacted, these measures would raise staff estimates of receipts for both actual and high employment budgets for FY 1972. Most of the effect of the wage base increase would not occur until the second half of calendar 1972, however, and staff estimates already include a $9,000 taxable wage base level and make some allowance for the additional expenditures that are involved in social security reform.

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

	Fiscal 1971e/		Fiscal 1972e/		Calendar Years		F.R. Board Staff estimates: Calendar Quarters				
	Jan. Budget	F.R. Board	Jan. Budget	F.R. Board	1970 Actual	1971e/	1970 IV*	1971 I*	1971 II	1971 III	1971 IV
Federal Budget											
(Quarterly data, unadjusted)											
Surplus/deficit	-18.6	-20.9	-11.6	-23.4	-11.4	-26.8	-8.9	-8.2	3.8	-10.2	-12.3
Receipts	194.2	190.5	217.6	211.0	190.5	196.4	41.1	44.1	58.9	49.2	44.2
Outlays	212.8	211.4	229.2	234.4	201.9	223.2	49.9	52.2	55.1	59.4	56.5
Means of financing:											
Net borrowing from the public	17.6	17.4	10.6	23.4	11.8	24.3	8.9	1.6	-.5	10.3	12.9
Decrease in cash operating balance	n.a.	2.0	n.a.	-1.0	-2.8	1.1	.7	3.6	-1.5	-1.2	.2
Other 1/	n.a.	1.5	n.a.	1.0	2.4	1.5	-.7	2.9	-1.8	1.2	-.8
Cash operating balance, end of period	n.a.	6.0	n.a.	7.0	8.1	7.0	8.1	4.5	6.0	7.2	7.0
Memo: Net agency borrowing 2/	n.a.	1.6	n.a.	n.e.	8.2	n.e.	1.5	-.7	-.8	n.e.	n.e.
National Income Sector											
(Seasonally adjusted annual rate)											
Surplus/deficit	-15.0	-15.7	-4.2	n.e.	-11.1	-16.5	-18.1	-15.2	-17.6	-16.8	-16.5
Receipts	200.0	197.2	225.9	n.e.	195.2	206.5	191.7	198.8	203.4	207.4	216.4
Expenditures	215.0	212.9	230.1	235.7	206.3	223.0	209.9	214.0	221.0	224.2	232.9
High employment surplus/deficit (NIA basis) 3/	n.a.	.2	n.a.	-1.2	-.8	.5	1.3	1.4	-.2	1.9	-.9

* Actual e--projected
n.e.--not estimated n.a.--not available
1/ Includes such items as deposit fund accounts and clearing accounts.
2/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.
3/ Estimated by Federal Reserve Board Staff. The level of the estimated series shown here differs considerably from the estimates by the Council of Economic Advisers. Continues to show effect of accelerated depreciation recently proposed by the Treasury.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

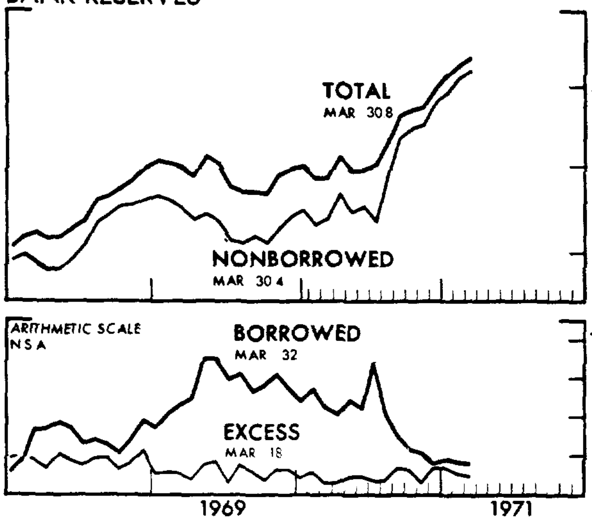
	April	May	June	July
Total net borrowing	-.1	-.9	.5	6.0
Weekly and monthly bills	2.8	--	--	--
Tax bills	-4.3	--	-2.5	--
Coupon issues	--	--	--	--
As yet unspecified new borrowing	--	--	3.0	6.0
Other (debt repayments, etc.)	1.4	-.9	--	--
Plus: Other net financial sources a/	.6	-.5	-1.9	.1
Plus: Budget surplus or deficit (-)	4.0	-4.2	4.0	-7.4
Equals: Change in cash balance	4.5	-5.6	2.6	-1.3
Memoranda: Level of cash balance, end of period	9.0	3.4	6.0	4.7
Derivation of budget surplus or deficit:				
Budget receipts	22.0	14.3	22.6	13.5
Budget outlays	18.0	18.5	18.6	20.9
Maturing coupon issues held by public	--	5.8	--	--
Net agency borrowing	*	-.5	-.2	.5

a/ Checks issued less checks paid and other accrual items.
*--Less than 50 million dollars.

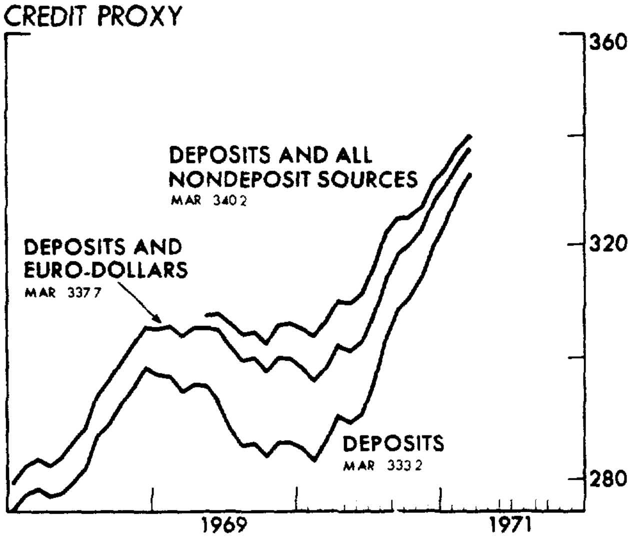
FINANCIAL DEVELOPMENTS - UNITED STATES

BILLIONS OF DOLLARS, SEASONALLY ADJUSTED, RATIO SCALE

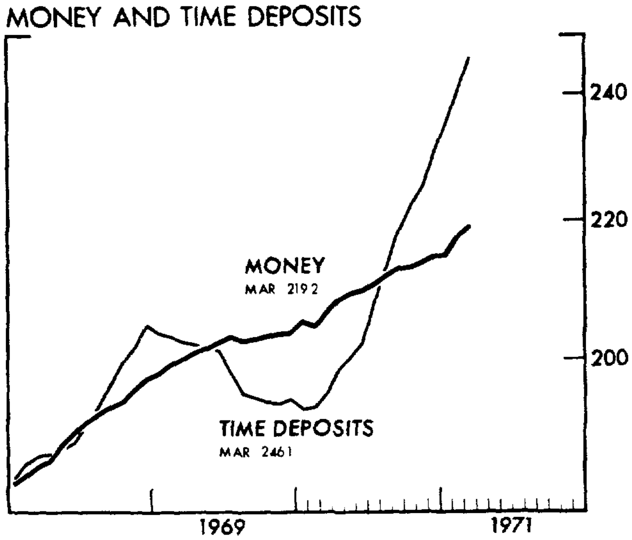
BANK RESERVES



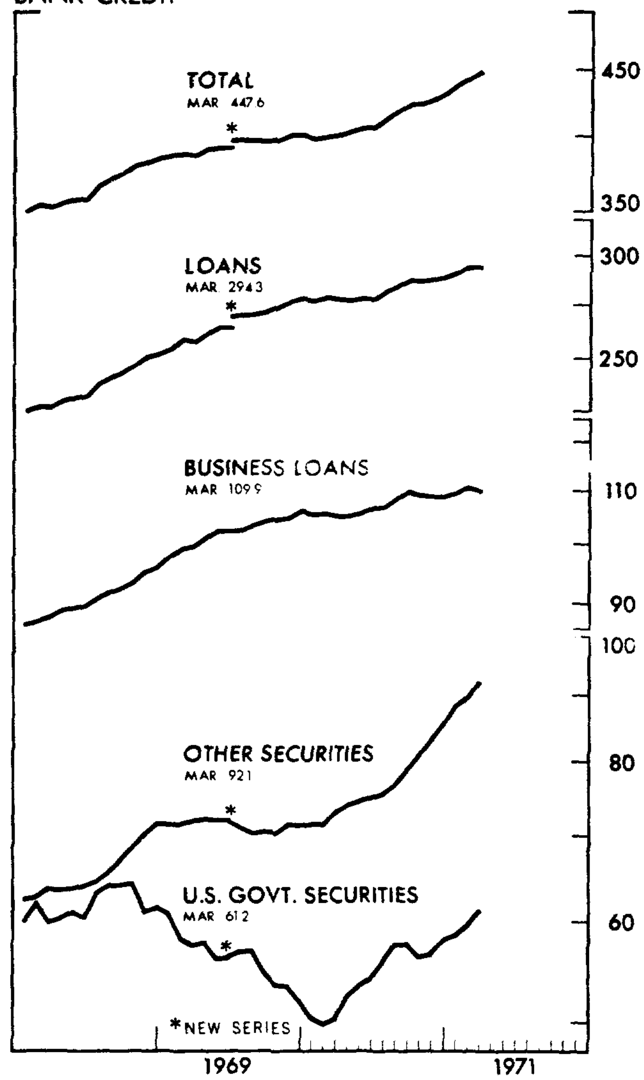
CREDIT PROXY



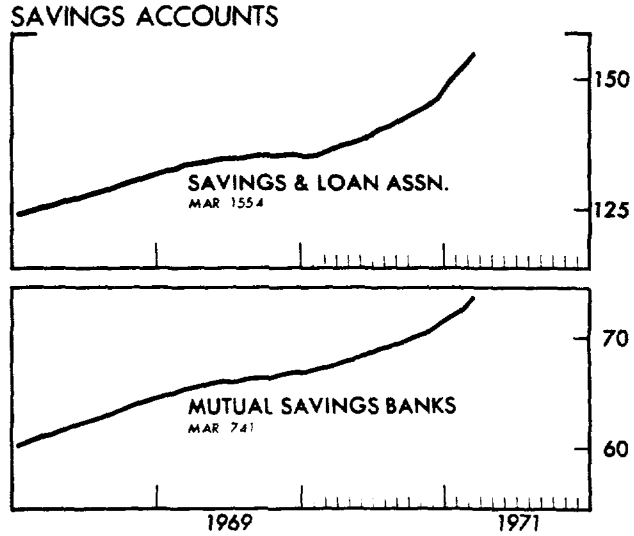
MONEY AND TIME DEPOSITS



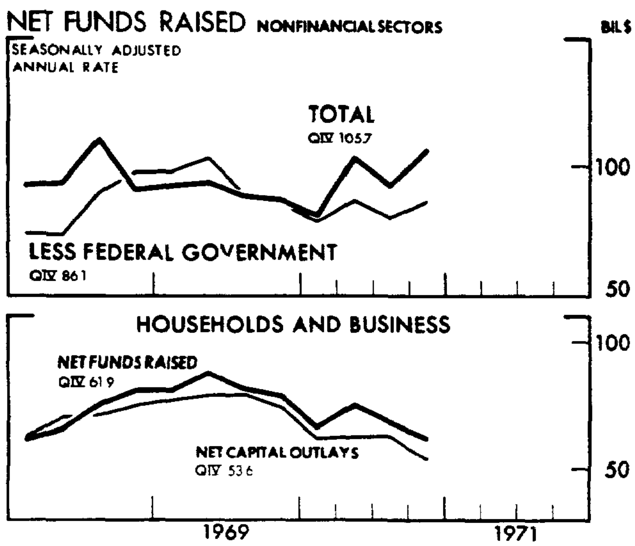
BANK CREDIT

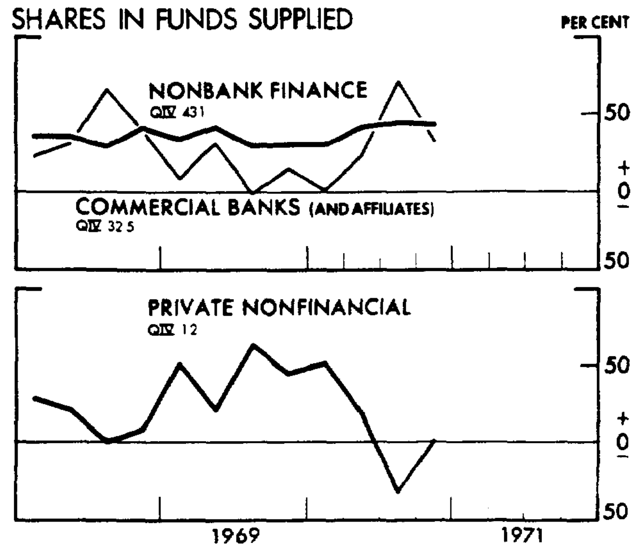


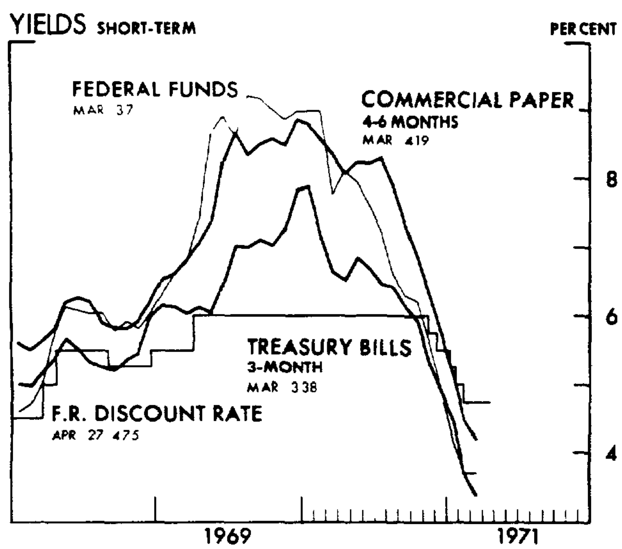
SAVINGS ACCOUNTS

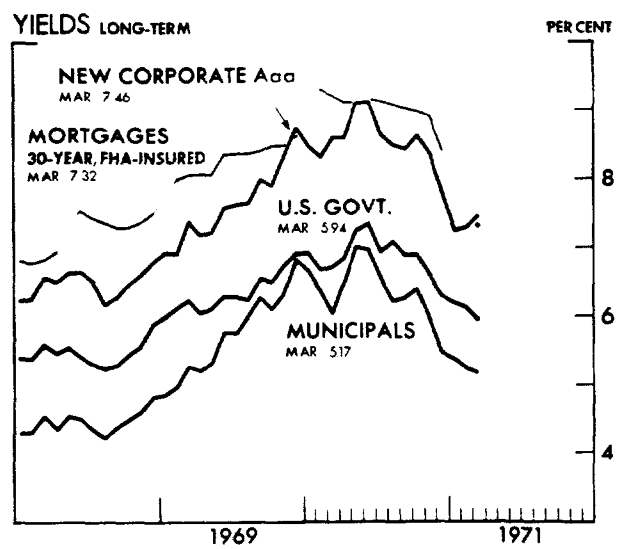


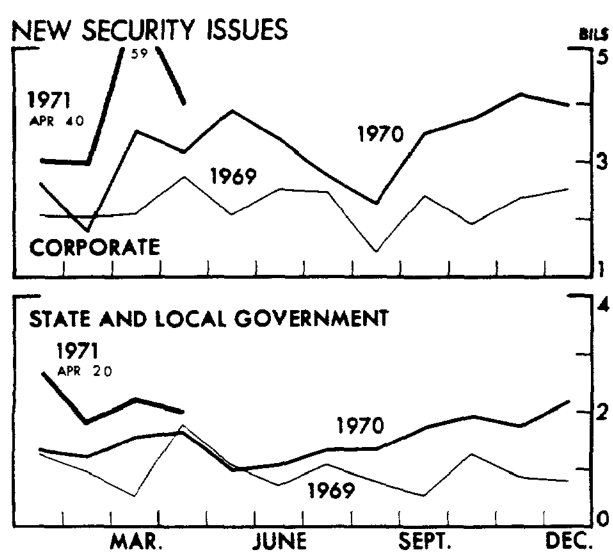
FINANCIAL DEVELOPMENTS - UNITED STATES

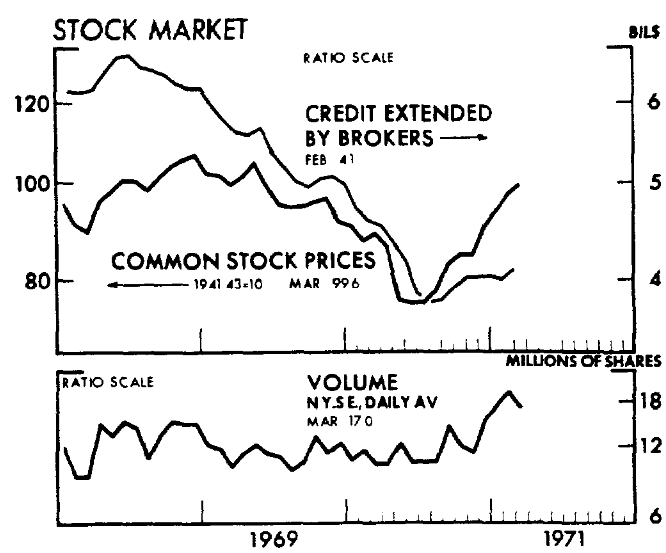












THE ECONOMIC PICTURE IN DETAIL

International Developments

Foreign Exchange Markets. Following the burst of speculation against the dollar and in favor of a few European currencies at the end of March and in the first two days of April, foreign exchange markets have regained a calmer, though still nervous, atmosphere. Net intervention purchases of spot dollars by the major European central banks, which totaled $1.3 billion in the three days March 31 - April 2, amounted to only $320 million in the subsequent three weeks. The principal factor contributing to the more settled market conditions appears to be the narrowing of the gap between dollar interest rates and European national interest rates as the former have risen (see Euro-dollar market) and the latter declined. Despite the quieter tone of the market in recent weeks, however, signs of uneasiness persist. Three-month forward rates for the Swiss franc, the Dutch guilder, and the Belgian franc remain above the spot ceiling rates for those currencies. The three-month mark rate moved above the spot upper limit on April 28, following the Bundesbank's withdrawal from the forward market.

Large-scale intervention in the forward market by the German Bundesbank was a major factor in reducing the demand for spot German marks and, consequently, in reducing the amount of spot dollar purchases by the Federal Bank. The Bundesbank's outright purchases of dollars (sales of marks) three-months forward amounted to nearly $1-1/2 billion from April 2 to April 28. From April 6 to April 27, the Bundesbank did not intervene in the spot market at all as the spot DM stayed well below its upper limit. In contrast, from March 31 to April 6, net spot dollar purchases had amounted to $800 million. The combination of this massive addition to the central bank's reserves in early April, and the reduction of the Bundesbank's lending rates on March 31, led to a sharp easing of money market conditions in Germany. The key call money rate, which had been around 7-1/2 per cent in late March, fell steadily to 4 per cent by mid April and to around 2 per cent by the 20th. Three-month money over the same period declined from about 7-5/8 to 6-1/8. German banks, flush with excess reserves, may well have been exporting funds to the Euro-dollar market during this period, selling spot marks against dollars and selling forward dollars against marks. The Bundesbank's sales of forward marks acted to depress forward mark premiums, encouraging such covered outflows. On April 28, the Bundesbank announced the cessation of its foward market operations with the hope that its withdrawal from the forward market would not result in the re-emergence of a heavy demand for spot marks. The spot rate reacted by firming sharply, to very near the ceiling. (The Federal Reserve Bank of New York, in co-operation with the Bundesbank, sold $66 million equivalent of forward marks for System account in the New York market in April. The System is covering its forward commitments to the market by drawing, for value in July, $60 million equivalent on the swap line with the Bundesbank.)

Among other central banks of the EEC countries, exchange market intervention was quite light after the first few days of the month. The central banks of Italy and Belgium had modest reserve gains, while neither the B.nk of France nor the Netherlands Bank purchased dollars. The Swiss National Bank purchased $220 million from Swiss banks ahead of the long Easter weekend, but sold this amount back to the banks when the markets re-opened.

The Bank of England purchased nearly $200 million during the month as sterling firmed from its early April lows. The London money market remained relatively tight, and on several days oil company buying was reportedly significant.

Euro-dollar market. The declining trend in Euro-dollar rates in the first quarter of this year was substantially reversed in April. Call Euro-dollar deposits have been quoted over a wide range in April but, on average, have firmed substantially from their March average. In recent days call deposits have ranged from 4-7/8 to 5-7/8 per cent, compared to a Federal funds rate of about 4 per cent. Three-month Euro-dollar deposit rates (now about 6 per cent) have increased fairly steadily in April -- about in line with increases in domestic CD rates, so that the excess of the three-month Euro-dollar rates over domestic CD rates of comparable maturity has not changed substantially in the course of the last several weeks.

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) Differential	(4) 3-month Euro-$ Deposit 1/	(5) 60-89 day CD rate (Adj.) 3/	(6) (4)-(5) Differential
1970						
December	6.70	4.90	1.80	7.25	5.82	1.43
1971						
January	5.16	4.14	1.02	5.92	5.10	0.82
February	4.79	3.72	1.07	5.54	4.34	1.20
March	4.62	3.76	0.86	5.11	3.79	1.32
April 7	5.00	3.98	1.02	5.64	4.08	1.56
14	5.79	4.20	1.59	6.08	4.34	1.74
21	4.50	4.27	0.23	5.84	4.47	1.37
28	5.23	4.09 p/	1.14 p/	6.03	4.60 p/	1.43 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

The advances in Euro-dollar rates in April were no doubt partly in response to the firming in U.S. money market rates over the same period. These advances have occurred at a time when interest rates in many of the major foreign national money markets have tended downward (most notably in Germany) following discount rate reductions in early April by several major European central banks. Aside from rising interest rates in the United States, the Euro-dollar market was perhaps substantially influenced by the emergence of speculative flows of funds into the continental currencies in early April, as well as reports (first widely circulated near the beginning of the month) to the effect that European central banks planned a concerted "squeeze" on the Euro-dollar market -- allegedly through a withdrawal of official deposits from that market.

Probably one of the most important influences on Euro-dollar rates in recent weeks has been that the amount of funds employed in the United State by the foreign branches of U.S. banks has stabilized since mid-April at about $5-1/2 billion (including $3 billion of foreign branch holdings of special Ex-Im securities and U.S. Treasury certificates), following very substantial and virtually uninterrupted declines from early January through the end of March.

On April 9 the foreign branches of U.S. banks made payment for the $1.5 billion U.S. Treasury certificate offering, which carried an interest rate of 5-3/8 per cent; on April 26 the first Ex-Im security offering of $1 billion was refunded at 6 per cent. The banks' shares in the refunding were based entirely on their share in the original (January) offering and not related in any way to changes in the banks' Euro-dollar positions since January.

In the computation period ended April 14 Euro-dollar borrowings of U.S. banks plus Ex-Im and Treasury secutity holdings of their foreign branches averaged about $0.75 billion less than in the preceding four week period, compared to a decline of $0.9 billion the time before.

U.S. balance of payments. More complete reports (strictly confidential) for March confirm that the deficits on both conventional measures of the balance of payments were extremely large in the first quarter. The deficit on the liquidity basis was about $3 billion, seasonally adjusted and before counting the second annual SDR allocation. As U.S. banks made large repayments of their Eurodollar borrowings, the deficit on the official settlement basis was nearly double the liquidity deficit -- over $5-1/2 billion.

The deficits on both bases were very large in the first week of April and continued to be sizable in the following two weeks. Major European central banks had only small reserve gains after the first week, though the German central bank purchased large amounts of forward dollars. Liabilities to commercial banks abroad have changed little on balance so far this month; the $1.5 billion issue of Treasury notes to foreign branches of U.S. banks on April 9 was substituted for claims on their U.S. head offices.

It is increasingly clear that the worsening of the liquidity deficit in the first quarter resulted in large part from outflows of U.S. funds attracted by higher interest rates abroad and influenced by rumors regarding possible changes in foreign parities. The March trade balance improved on the very low January-February results, so that the merchandise export surplus increased a little from the fourth to the first quarter, as described below. There were large receipts from the reduction of U.S. bank-reported claims on foreigners inthe first quarter, reversing the heavy outflow of the fourth quarter. On the unfavorable side, net capital inflows from transactions in securities in the first quarter were about $250 million less than in the closing quarter of 1970.

TRANSACTIONS IN SECURITIES
(Millions of dollars)

	1970 Q-1	1970 Q-2	1970 Q-3	1970 Q-4	1971 Q-1e/
Foreign purchases of U.S. securities:	297	381	697	828	650e/
Stocks	-85	-87	387	487	120
Issues sold abroad (Eurobonds)	155	267	170	248	375
Other corporate bonds	133	107	54	43	30
U.S. Gov't Agency issues purchased by Int'l. Instns.	94	94	86	50	125
U.S. purchases of foreign securities (-):	-133	66	-549	-261	-350
New Issues	-420	-91	-662	-284	-375
Redemptions	127	125	101	81)	25
Other	160	32	12	-58)	

e/ Estimated.

Foreign purchases of U.S. stocks were negative in February and small in March. In the first quarter total net foreign purchases of stocks were only $120 million, all in January; in the fourth quarter of 1970 they had been nearly $500 million. Partially offsetting this decline in foreign purchases of corporate stocks were larger foreign purchases of Eurobonds issued by U.S. corporations. Since mid-March, however, U.S. companies have had increasing difficulty in floating such issues, and foreign investors are requiring a higher rate of return on dollar-denominated offerings than on non-dollar issues. This cautiousness of foreign investors toward U.S. securities may reflect uncertainties about exchange rates.

Data are not yet available on other transactions, but it seems likely that outflows of U.S. corporate funds in the first quarter were very high. Investment outlays of foreign affiliates of U.S. firms are projected to increase 16 per cent in 1971 -- less than the extraordinarily large increase of 22 per cent in 1970, but still substantial. Interest rate and exchange rate considerations may have tended to accelerate the outflows.

U.S. foreign trade. The export surplus in March increased sharply over February, as exports rose 3-1/2 per cent while imports were unchanged. In the first quarter, the balance was at an annual rate of $1.2 billion, (balance of payments basis), moderately higher than the $0.8 billion of the fourth quarter but still far below the $3 billion rates recorded in each of the second and third quarters of last year.

Exports in the first quarter were $44.2 billion, at an annual rate (balance of payments basis) 5 per cent higher than in the previous quarter and 3 per cent above the peak recorded in the third quarter of 1970. All of the first quarter increase can be attributed to further rises in exports of agricultural commodities, heavy shipments of automotive equipment to Canada, and expanded deliveries of commercial aircraft. These gains were partially offset by declines in industrial materials; machinery exports were unchanged.

The gain in agricultural exports resulted from higher shipments of soybeans, cotton, and tobacco. Exports of grains declined slightly from the very high levels of the fourth quarter, perhaps a consequence of improved world supplies of feedgrains.

The increase in exports of automotive equipment to Canada is associated with the recovery from the GM strike. Automotive exports to other areas also rose considerably. The high rate of deliveries of jumbo jets in the first quarter is not likely to be sustained beyond May. Delivery schedules of the aircraft companies suggest a much slower rate of delivery after that month.

Imports in the first quarter were at an annual rate of $43.0 billion (balance of payments basis), 4 per cent higher than in the fourth quarter of 1970. The increase in imports was concentrated in automobiles, both from Canada and other areas, and in other non-food consumer goods. Imports of capital goods and foods were unchanged, while imports of industrial supplies declined slightly.

The increase in imports of automobiles and parts from Canada matched the rise in exports of automotive equipment in the first quarter, and was somewhat greater than would have been expected from the shortfall in imports in the fourth quarter as a result of the GM strike. This strong increase in autos from Canada (where 50 per cent of production is in compacts) along with the increase in autos from other areas reflects the continuing popularity of compact cars. Imports of cars from Europe and Japan in the first quarter were at an annual rate of 1-1/2 million units, accounting for about 15 per cent of the total auto market.

Despite an increase in hedgebuying of foreign steel in the first quarter, total imports of industrial supplies declined slightly. There is as yet no evidence of hedgebuying of foreign copper, though the labor contract in that industry expires in June. Despite some increase in March, imports of petroleum were lower in the first quarter than in the fourth quarter. The effects of liberalized quotas and higher prices resulting from the new agreements with foreign oil producers have not yet shown up in the import statistics.

U.S. MERCHANDISE TRADE1/
(billions of dollars, seasonally adjusted annual rates)

		1970					1971
	1969	Year	Q-1	Q-2	Q-3	Q-4	Q-1
Exports	36.5	42.0	41.0	42.3	42.8	42.0	44.2
Agricultural	6.0	7.3	6.9	7.0	7.5	7.7	8.5
Nonagricultural	30.5	34.8	34.2	35.3	35.3	34.3	35.7
Imports	35.8	39.9	38.9	39.3	40.0	41.2	43.0
Balance	+0.6	+2.2	+2.1	+3.0	+2.9	+0.8	+1.2

1/ Balance of payment basis

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

The ratio of imports to GNP rose further to 4.22 per cent in the first quarter. The increased share of imports in domestic consumption was particularly evident in consumer goods. While total domestic expenditures on consumer goods other than autos were essentially unchanged from the fourth quarter, total imports of consumer goods -- including televisions sets, radios, furniture, clothing, footwear, and tape recorders -- rose by over 5 per cent.

Economic activity in major industrial countries. In recent months renewed expansion of economic activity has occurred in Canada, and the pace of growth of demand and output has picked up again in Germany and France. In Italy, Japan, and the United Kingdom there are no signs of an acceleration of economic advance. There has been some relaxation of restrictive fiscal and monetary policies in most countries in order to stimulate domestic demand. However, reflationary policies are cautious, because prices and wages are continuing to increase at rates considered to be excessive by the governments and central banks. In Germany, no overt move toward less restrictive monetary policies has been made. The April 1 discount rate reduction was taken for external reasons, but short-term interest rates have been permitted to decline significantly. The massive inflow of short-term capital during March and the first days of April caused a marked easing in German financial markets.

The near-term outlook is for slow expansion, proceeding from a high base. The main stimulus in most countries is expected to come from the expansion of private consumption, while residential construction and government spending also will provide some strength to aggregate demand. Owing to low profit margins and conditions of excess capacity, private investment demand is expected to advance more slowly in 1971 than last year.

Recent data in Germany indicate renewed expansion of industrial activity. Industrial production advanced sharply in January and remained in February at the high January level. The steep January increase was chiefly due to an advance in output of machinery and equipment. In February, materials output rose considerably faster than earlier, offsetting declines in capital and consumer goods production, suggesting a termination of the period during which inventory accumulation was being held down.

New orders data (revised) show a sharp January increase above the high November-December level, and maintenance in February of the January level. Foreign orders, particularly for capital goods, recorded a large increase in January, but fell back to their December level in February. Order backlogs, no longer shrinking as rapidly as they had during most of 1970, were equal in January to almost 4 months of production for industry as a whole.

INDUSTRIAL PRODUCTION
(QI 1970 = 100)

	1970			1971	
	QII	QIII	QIV	Jan.	Feb.
OECD Europe	100	100	101	102 1/	
France	100	99	101	103	103 1/
Germany	100	99	99	105	104
Italy	98	98	100	100 1/	
United Kingdom	100	100	101		
Japan	105	108	107	108	107
Canada	99	99	99	100	101
United States	99	98	95	97	97

1/ Preliminary.

The restoration of accelerated depreciation allowances and the lowering of the investment tax in January had an important influence on new orders for machinery and equipment even before the end of 1970. The January-February rate of output in this sector is unlikely to be sustainable.

The substantial increases in disposable incomes over the past three years still are contributing to advances in private consumption. The scheduled ending of the 10 per cent personal income tax surcharge this June 30 should provide a spur for continuing strong consumer demand. Domestic bank credit continues to be tight and expensive, and cost pressures have lowered profit margins and reduced retained earnings. This will affect the pace of private investment expenditures. No stimulus to aggregate demand from government expenditures will be forthcoming in the months ahead. In March, mandatory ceilings were put on federal government outlays, and the Länder and municipalities were asked to limit their expenditures on a voluntary basis.

Industrial production in the United Kingdom increased by 1 per cent from the third to the fourth quarter last year, sparked by substantial inventory accumulation. That rate of advance has probably not been sustained this year. Owing to the postal strike, virtually no data on real output or expenditures since the end of 1970 are available, but unemployment and job vacancy statistics suggest a new slowing of activity. The number of jobless has been rising steadily since the beginning of 1970, with a brief pause last autumn. In the six months to April the increase amounted to 22 per cent. The April unemployment rate of 3.1 per cent of the labor force is extremely high by British standards, and reflects spreading efforts by employers to hold down costs.

With aggregate output not advancing, unemployment high and rising, and manufacturing investment lagging, the Chancellor's 1971-72 budget called for some reflationary action. However, since price and wage increases continue very large, the government's goal is limited to stimulate growth of total output at a rate of 3 per cent per annum. This is calculated to be sufficient to check the rise in unemployment by mid-year, though inadequate to lower it.

The offical government forecast indicates that expansion is expected to be consumption-led, with real consumer spending rising by 5.3 per cent from the first half of 1971 to the first half of 1972. Other major components of aggregate demand are expected to advance much less, and total output is projected to rise by 3.1 per cent.

Industrial production in France in the three months December-February was about 2 per cent above the previous three months' level.

Consumer expenditures, stimulated by a substantial relaxation of installment purchase terms last autumn, led the advance. Consumer goods inventories are being worked down, and the buildup of new orders should provide a stimulus to output in the months ahead.

Demands for exports and domestic demand for intermediate goods and, to some extent, capital goods have been relatively soft, particularly compared to last year. The decline in new orders for intermediate goods that started in the latter part of 1970 appears to have ceased in March, but activity in this sector remains subdued.

Unemployment rose throughout 1970, and more rapidly towards the end of the year. The recent large rise in industrial output was achieved with no increase in employment. Should unemployment continue to climb, pressure will mount on the government to raise its public works outlays. But as prices are continuing to rise, the authorities may proceed cautiously with expansionary budgetary measures. The monetary policy stance is likely to remain moderately expansive.

The Italian economy is still being seriously hurt by labor unrest. Industrial production in January-February reportedly was no higher than last September, and thus continued to be well below potential.

Late in 1970 the rate of rise in aggregate demand slowed, and so far in 1971 there evidently has been no pick-up. The pace of spending for plant and equipment has tapered off over the past year, because the troubled labor scene has been eroding business confidence and because the margin of unused industrial capacity has been growing. A levelling of exports since the third quarter of last year also has contributed to the weakened expansion of total output.

In early April, the Bank of Italy reduced its discount rate by one-half percentage point to 5 per cent. The Budget Minister has indicated that he is considering fiscal measures to increase total investment.

The pace of economic expansion in Japan has eased significantly. Industrial production this February was at about the same level as in mid-1970.

A marked deceleration in private plant and equipment outlays and a reduction in the rate of inventory accumulation have contributed to the slowing of Japanese expansion. Export expansion has remained strong and public works spending is rising.

Since last July, there has been a moderate decline in the rate of plant capacity utilization and there has been a slight decrease in employment in certain manufacturing industries. New orders for machinery and equipment, which have been weak since last autumn, declined in February.

The government and the Bank of Japan are counting on stronger private consumption demand, a resumption of more normal rates of inventory accumulation, and a rise in construction to spark a revival in expansion. Monetary conditions have eased, and a further small reduction in the Bank of Japan's discount rate is expected soon. The government also plans to spend 70 per cent of the budgeted public works outlays in the first half (April-September) of the current fiscal year.

The decline in economic activity in Canada bottomed out in the third quarter of 1970. The revival in activity, interrupted somewhat by the auto strike in the final quarter of 1970 and a severe winter, has been moderate, spurred principally by the expansion of consumer and government expenditures and by a buoyant housing sector. Industrial production in the three months ending February was 1.5 per cent above the rate of the previous three months.

Unemployment, which peaked at 6.8 per cent of the labor force in September, declined to 6 per cent in March. Some of this apparent improvement resulted from a withdrawal of job seekers from the labor market.

In manufacturing, deliveries advanced by 4 per cent in February. New orders rose by 4.5 per cent in February, extending the improving trend evident since December, and widening the order backlog. The strengthening of new orders, however, is confined largely to the durable goods sector, which was affected by a resumption of production following the automobile strike.

Consumer demand has revived, and public sector investment also is providing strength to aggregate demand. Although total investment, including housing, according to the latest government survey is expected to advance by 8 per cent this year, no increase in manufacturing investment is planned.

The government has relaxed its tight monetary policies and has gradually increased its spending and lending programs. The recent rise in prices, however -- following only moderate price increases last year -- is reviving fears of a new round of inflation, and may inhibit the government from pursuing more expansionary policies despite the relatively high rates of unemployment.

U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

BILLIONS OF DOLLARS