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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

August 20, 1971

By the Staff
Board of Governors
of the Federal Reserve System

The Domestic Economy

Gross national product - outlook. The President's new economic program announced August 15 has necessitated a reappraisal of the outlook. At this time, we are presenting our revised and still quite tentative projections only for the last two quarters of this year. Our major new assumptions are:

1. That Congress will enact fairly promptly the new fiscal proposals.

2. The 90 day wage-price freeze will be generally effective, although some further rise is likely. Some catch-up will occur in the closing weeks of the year after the freeze expires.

3. No new major strikes for the remainder of the year.

4. The 10 per cent supplemental duty on imports will be in effect at least to the end of the year.

The current dollar GNP increases in both the third and fourth quarters are somewhat smaller than in the projection of four weeks ago, because of the smaller rate of increase that is now expected in prices. But the rise in real GNP is larger, with the difference sizable in the fourth quarter.

We now expect a GNP increase of $18.0 billion this quarter, compared with $19.0 billion last time. But real GNP is projected to rise at an annual rate of 3.1 per cent, rather than 2.7 per cent. Consumer real takings are expected to be stimulated in the remainder of this quarter by elimination of the 7 per cent excise tax on new autos--

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

	QIII		QIV	
	Proj. of 7/21/71	Current	Proj. of 7/21/71	Current
	------------Billions of dollars------------			
GNP	19.0	18.0	27.5	25.5
Final sales	22.1	22.2	24.0	20.0
Personal consumption	16.0	14.1	15.8	13.5
Residential construction	1.6	1.3	1.3	1.1
Business fixed investment	.5	.7	.5	- .4
Net exports	-1.1	1.7	.0	1.5
Federal purchases	1.1	.7	2.4	1.1
State & local purchases	4.0	3.7	4.0	3.2
Inventory change	-3.1	-4.2	3.5	5.5
	------------Per Cent Per Year------------			
Real GNP	2.7	3.1	5.0	6.6
GNP deflator	4.5	3.8	5.3 1/	3.0

1/ Excluding the effects of military pay increase, 4.4 per cent per year.

amounting to around $200 per car. We are now projecting sales of domestic-type autos at an annual rate of 8.6 million units, compared with 8.3 last time, and also some temporary rise in sales of imports.

The decline in inventory investment is larger, in part because the second quarter rate of accumulation was revised up and in part because we have reduced our earlier estimate of third quarter inventory investment. The expected improvement in auto sales should be reflected in a lower end-of-quarter level of dealer stocks than earlier anticipated and steel output has been cut very sharply.

Net exports are projected to move close to a balanced position and the improvement from the negative $2.2 billion of the second quarter to a negative $0.5 in the third contributes $1.7 billion to GNP. Some improvement had been expected earlier in view of the special circumstances making for the exceptionally large second quarter rise in imports. But we are also expecting over the balance of this quarter some favorable impact from the 10 per cent supplemental duty on imports.

Most other demand sectors are little changed. The July upsurge in housing starts, however, has led us to raise somewhat our estimate of starts for the quarter as a whole.

The impact of the new economic program is expected to be much greater in the fourth quarter. The projected rise in current dollar GNP is $25.5 billion, compared to $27.5 four weeks ago. But real GNP is projected to rise at an annual rate of 6.6 per cent rather than 5.0 per cent.

A further bulge in sales of new domestic autos is expected to contribute materially to the stepped-up pace of real growth. The reduction in the excise tax along with stability in new auto prices, at least in the first half of the quarter, is the major stimulating influence. Sales of new domestic-type autos are projected at an annual rate of 9.4 million units, from 8.6 million in the third quarter. Some of this bulge is at the expense of imports; while the absolute price of imports may change little--or even drop a little--roughly because of the offsetting effects of elimination of excise tax and higher import duties, such prices rise relatively to those of U.S. makes (no allowance has been made for effects of any changes in exchange rates).

A larger rise is now expected in inventory investment accompanying the faster rise in real takings of goods and improved expectations. A small surplus is projected for net exports of goods and services, with the 10 per cent supplemental duty expected to hold imports to only a marginal rise from the third quarter. The proposed investment tax credit, assuming enactment, is expected to have only a minor stimulative influence on expenditures before the end of the year.

In the Government sector, we have assumed a deferral of the military pay increase ($2.4 billion) until next year. Coupled with the other economy measures announced by the President, this has resulted in a curtailment of various types of Federal purchases. State and local government purchases also show a smaller increase and the rise in total government spending is $2.1 billion less than in the July Greenbook, despite the inclusion of an additional Commodity Credit Corporation purchases of farm products under the support program.

While the price-wage freeze is assumed to be effective, the GNP deflator continues to rise in the second half of the year but appreciably less than in our projection of four weeks ago. The further rise reflects the fact that the freeze straddles two quarters, with increases in the first half of the third and the second half of the fourth. Moreover, some price upcreep is expected during the freeze, in part because prices may be raised on a substantial volume of imports as a result of the supplemental duty. For the fourth quarter, the implicit GNP deflator is now projected to rise at an annual rate of 3.0 per cent rather than the 4.4 per cent (adjusted for the military pay increase) of last time.

With wage rates assumed to be under rather tight control for 90 days and with productivity expected to rise somewhat faster, the pressures for price increases should be small--at least during the freeze period. Under such circumstances, corporate profits before tax are expected to rise more than in our last projection. The unemployment rate is projected to change little on average in the last half of the year, probably edging down in the fourth quarter with 6.0 per cent now projected, as compared to 6.4 per cent a month ago.

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

	1970	1971 Proj.	1971 I	1971 II	1971 Projection III	1971 Projection IV
Gross National Product	974.1	1051.6	1020.8	1041.3	1059.3	1084.8
Final purchases	971.3	1047.2	1017.6	1035.6	1057.8	1077.8
Private	751.9	814.2	789.4	805.4	823.2	838.9
Excluding net exports	748.3	813.6	785.2	807.6	823.7	837.9
Personal consumption expenditures	615.8	667.3	644.6	660.9	675.0	688.5
Durable goods	88.6	102.4	97.6	100.8	104.0	107.0
Nondurable goods	264.7	282.3	272.0	279.8	285.3	292.0
Services	262.5	282.6	275.0	280.4	285.7	289.5
Gross private domestic investment	135.3	150.7	143.8	152.4	150.2	156.4
Residential construction	30.4	39.8	36.4	39.7	41.0	42.1
Business fixed investment	102.1	106.6	104.3	107.0	107.7	107.3
Change in business inventories	2.8	4.4	3.2	5.7	1.5	7.0
Nonfarm	2.5	3.9	3.0	5.2	1.0	6.5
Net exports of goods and services	3.6	0.6	4.2	-2.2	-0.5	1.0
Gov't. purchases of goods & services	219.4	233.0	228.2	230.2	234.6	238.9
Federal	97.2	96.6	96.7	95.7	96.4	97.5
Defense	75.4	71.3	73.0	71.8	71.0	69.4
Other	21.9	25.3	23.7	23.9	25.4	28.1
State & local	122.2	136.4	131.5	134.5	138.2	141.4
Gross national product in constant (1958) dollars	720.0	741.1	729.7	737.0	742.7	754.9
GNP implicit deflator (1958 = 100)	135.3	141.9	139.9	141.3	142.6	143.7
Personal income 1/	803.6	858.4	834.3	854.8	865.6	878.8
Wage and salary disbursements	541.4	575.6	562.3	572.4	579.6	588.2
Disposable income 1/	687.8	743.3	721.6	740.8	750.0	760.8
Personal saving 1/	54.1	57.0	58.4	60.9	55.8	52.8
Saving rate (per cent) 1/	7.9	7.7	8.1	8.2	7.4	6.9
Corporate profits before tax 1/	75.4	83.8	79.1	82.0	84.0	90.0
Corp. cash flow, net of div. (domestic) 1/	69.8	81.7	77.2	80.5	82.6	86.5
Federal government receipts and expenditures (N.I.A. basis)						
Receipts 1/	191.5	200.5	195.6	198.3	201.1	206.8
Expenditures	205.1	221.5	213.2	220.9	224.0	227.7
Surplus or deficit (-) 1/	-13.6	-21.0	-17.5	-22.5	-22.9	-20.9
High employment surplus or deficit (-) 1/	0.9	1.8	2.5	0.9	2.1	1.6
Total labor force (millions)	85.9	86.8	86.5	86.5	86.8	87.2
Armed forces "	3.2	2.8	3.0	2.8	2.8	2.7
Civilian labor force "	82.7	84.0	83.6	83.7	84.0	84.5
Unemployment rate (per cent)	4.9	6.0	5.9	6.0	6.1	6.0
Nonfarm payroll employment (millions)	70.7	70.8	70.6	70.8	70.7	71.1
Manufacturing	19.4	18.7	18.7	18.7	18.6	18.7
Industrial production (1967=100)	106.7	107.1	105.5	106.7	107.4	108.7
Capacity utilization, manufacturing (per cent)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Housing starts, private (millions A.R.)	1.43	2.00	1.81	1.96	2.11	2.13
Sales new autos (millions, A.R.)						
Domestic models	7.12	8.67	8.39	8.29	8.60	9.40
Foreign models	1.23	1.54	1.50	1.57	1.70	1.40

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.

1/ Reflects effects of total additional depreciation allowable under Treasury's newly-approved "accelerated depreciation range"guidelines, which are effective as of the beginning of 1971.

n.a. - not available.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1970	1971 Proj.	1971 I	1971 II	1971 Projection III	1971 Projection IV
	----------Billions of Dollars----------					
Gross National Product	45.0	77.5	32.4	20.5	18.0	25.5
Inventory change	-4.6	1.6	-0.5	2.5	-4.2	5.5
Final purchases	49.6	76.0	32.9	18.0	22.2	20.0
Private	39.9	62.3	28.4	16.0	17.8	15.7
Excluding net exports	38.3	65.3	26.9	22.4	16.1	14.2
Net exports	1.6	-3.0	1.5	-6.4	1.7	1.5
Government	9.7	13.6	4.5	2.0	4.4	4.3
GNP in constant (1958) dollars	-4.7	21.1	13.8	7.3	5.7	12.2
Final purchases	-0.5	19.9	14.3	5.0	9.6	7.8
Private	5.7	21.0	15.0	5.5	8.3	6.2
	----------In Per Cent Per Year---------					
Gross National Product	4.8	8.0	13.8[1/]	8.3[1/]	6.9	9.6
Final purchases	5.4	7.8	13.4	7.1	8.6	7.6
Private	5.6	8.3	14.9	8.1	8.8	7.6
Personal consumption expenditures	6.2	8.4	12.7	10.1	8.5	8.0
Durable goods	-1.4	15.6	59.8	13.1	12.7	11.5
Nondurable goods	6.9	6.6	1.6	11.5	7.9	9.4
Services	8.4	7.7	9.1	7.9	7.6	5.3
Gross private domestic investment	-1.8	11.4	18.9	23.9	-5.8	16.5
Residential construction	-4.4	30.9	43.9	36.3	13.1	10.7
Business fixed investment	3.5	4.4	13.9	10.4	2.6	-1.5
Gov't. purchases of goods & services	4.6	6.2	8.0	3.5	7.6	7.3
Federal	-2.0	-0.6	3.3	-4.1	2.9	4.6
Defense	-3.8	-5.4	-1.1	-6.6	-4.5	-9.0
Other	5.8	15.5	17.6	3.4	25.1	42.5
State & local	10.5	11.6	11.3	9.1	11.0	9.3
GNP in constant (1958) dollars	-0.6	2.9	8.0[1/]	4.0[1/]	3.1	6.6
Final purchases	-0.1	2.8	8.0	2.8	5.2	4.2
Private	1.0	3.6	10.4	3.7	5.6	4.1
GNP implicit deflator	5.5	4.9	5.3[1/]	4.1[1/]	3.8	3.0
Private GNP fixed weight price index[2/]	4.8	5.0	5.6[1/]	5.0[1/]	4.0	3.0
Personal income[3/]	7.1	6.8	8.6	9.8	5.1	6.1
Wage and salary disbursements	6.2	6.3	11.0	7.2	5.0	5.9
Disposable income 3/	8.5	8.1	11.5	10.6	5.0	5.8
Corporate profits before tax[3/]	-10.5	11.1	41.9	14.7	9.8	28.6
Federal government receipts and expenditures (N.I.A. basis)						
Receipts 3/	-2.7	4.7	13.3	5.5	5.6	11.3
Expenditures	8.2	8.0	6.5	14.4	5.6	6.6
Nonfarm payroll employment	0.6	0.1	2.5	0.7	-0.6	2.3
Manufacturing	-3.8	-3.6	1.0	-1.0	-2.1	2.2
Industrial production	-3.6	0.4	7.3	4.4	2.5	7.5
Housing starts, private	-2.3	39.7	8.1	32.7	29.6	5.1
Sales new autos						
Domestic models	-15.9	21.8	216.1	-4.7	15.1	37.2
Foreign models	16.0	25.4	60.2	19.7	32.1	-70.6

1/ At compounded rates.

2/ Using expenditures in 1967 as weights.

3/ Reflects effects of total additional depreciation allowable under Treasury's newly-approved "accelerated depreciation range" guidelines, which are effective as of the beginning of 1971.

Manufacturers' orders and shipments. New orders for durable goods rose 3-1/2 per cent in July, according to the advance report, after a slight increase in June. The series has been revised to new benchmark levels back to 1966.

In July, there were substantial increases for defense products, motor vehicles, capital equipment, and construction and miscellaneous durables. Iron and steel orders were unchanged and orders for other primary metals declined. Orders for household durables were unchanged at a level reduced from May. For capital equipment, the increase was the second in a row and the July figure was 7 per cent above May.

Shipments declined in July, partly because of a fallback from June's high level of defense shipments. Steel and motor vehicle shipments were up in July but other major categories were down.

The order backlog declined half a per cent in July after falling 2.6 per cent in June. Steel backlogs continued to fall sharply sharply, but there was a slight increase for defense products and a 2 per cent rise for capital equipment.

Unit auto sales and stocks. Sales of new domestic-type autos in the first 10 days of August were at an annual rate of 8.1 million units, 3 per cent below the rate in July and also the first 7 months of the year.

Dealer inventories of domestic type cars at the end of July totaled 1.6 million units, equivalent to a 55 day supply; this was down 4 per cent from June but about the same as a year ago.

Total sales of foreign and domestic-type cars were at a 9.9 million rate in July, up 8 per cent from a year earlier. The import share of the U.S. auto market came to 18 per cent for the month, compared with about 16 per cent in June and in July of last year. Low-priced imports represented nearly 16 per cent of the total market in July as compared with less than 14 per cent a year ago. Domestic small cars increased their market share to 21 per cent from 17 per cent a year earlier.

DISTRIBUTION OF U. S. AUTO SALES
(In per cent 1/)

	1970	1971		
	July	May	June	July
Domestic				
Total	84.2	84.1	83.9	81.9
Large	67.7	64.6	63.5	61.1
Small 2/	16.5	19.5	20.4	20.8
Imports				
Total	15.8	15.9	16.1	18.1
Low-priced	13.5	13.4	13.7	15.6

1/ Based on data that have not been seasonally adjusted.
2/ Compacts and sub-compacts.

Personal income. Personal income declined in July at an annual rate of $11 billion following a $20 billion rise in June. The June rise reflected in large part the 10 per cent increase in Social Security benefits, with payments made retroactive to January 1. Excluding the five-month retroactive payment amounting to an annual rate of $13-1/4 billion, personal income rose by $2.3 billion. Total wage and salary disbursements were virtually unchanged in July, as declines in private payrolls were about offset by the continued rise in government. Most of the decline in private payrolls occurred in manufacturing reflecting reductions in hours and employment.

PERSONAL INCOME
(Seasonally adjusted, annual rates, billions of dollars)

	1971			
	May	June	July	Net change June-July
Total	850.0	870.1	859.1	-11.0
Wage and salary disb.	573.3	574.8	574.7	- .1
Private	450.7	451.8	451.1	- .7
Manufacturing	162.0	162.4	161.3	-1.1
Other	288.7	289.4	289.8	.4
Government	122.6	123.0	123.6	.6
Transfer payments	90.5	109.0	96.4	-12.6
Other income	217.5	217.7	219.4	1.7
Less: Personal contributions for social insurance	31.3	31.4	31.4	.0

Consumer prices. Consumer prices rose at a seasonally adjusted annual rate of 2.4 per cent in July, well below the rate of over 5 per cent for both June and for the second quarter. Prices of both foods and of other commodities increased much more slowly than in the previous three months.

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	June 1970 to Dec 1970	Dec 1970 to Mar 1971	Mar 1971 to June 1971	June 1971 to July 1971
All items	4.9	2.8	5.3	2.4
Food	.9	6.0	6.3	1.0
Commodities less food	5.2	1.0	4.9	1.0
Services 1/	7.0	3.2	5.2	5.8
Addendum:				
Services less home finance 1/ 2/	6.9	8.5	6.3	5.9

1/ Not seasonally adjusted.
2/ Confidential.

Less than seasonal increases in prices of meats, poultry and fresh fruits and vegetables held the rise in the seasonally adjusted food price index to an annual rate of 1.0 per cent, down from about 6 per cent over the first half of this year and similar to the rate for the second half of 1970. Fresh fruit and vegetable prices, however, are 8 per cent above their year-ago levels.

NON-FOOD COMMODITY PRICES
(Percentage changes, seasonally adjusted annual rates)

	June 1970 to Dec 1970	Dec 1970 to Mar 1971	Mar 1971 to June 1971	June 1971 to July 1971
Commodities less food 1/	5.2	1.0	4.9	1.0
Apparel	4.3	1.0	4.4	.0
Gasoline 2/	4.0	-5.8	-3.4	-8.8
New cars	11.6	4.7	3.2	4.3
Used cars 2/	1.7	-9.5	30.3	-6.1
Home purchase	7.7	.8	8.7	2.0

1/ Includes items not listed.
2/ Not seasonally adjusted.

The reduced rate of price rise for nonfood commodities reflected, among nondurables, a continued leveling off in apparel prices and another drop in gasoline prices, reversing the June increase. Among durable goods the fall in used car prices and the small increase for home purchase were the main contributors. New car prices, however, continued to decline less than seasonally, tire prices rose, and the (confidential) index for durable goods excluding used cars and home purchase showed a 4.3 per cent annual rate of increase, above that for 1970 and the first half of 1971.

Service costs increased at about a 6 per cent annual rate. The lower rates for the first two quarters of this year reflect mainly the impact of the rapid decline in mortgage interest rates on home financing costs. As mortgage rates increased slightly in July, the series excluding home financing costs rose about like that for all services and more slowly than in 1970 or the first three months of 1971.

The Domestic Financial Situation

Corporate and municipal bond yields. Corporate and municipal bond yields, after plunging 50-70 basis points in the first few days after the Presidential announcement, appeared to stabilize at these new lower levels toward the end of the week. The fact that two small corporate utility bonds issued on Thursday were only about one-third sold indicated that institutional investors might be becoming somewhat more cautious. Sales continued to be brisk in the tax-exempt market, where some dealer positioning is occurring.

There is no evidence as yet of a buildup in the corporate calendar because of these yield developments but the September tax-exempt volume was boosted by several large announcements.

Savings and loan associations. More complete data now available indicate that savings and loan associations had a slightly smaller deposit inflow during July than had been estimated earlier. During July, passbook accounts actually decreased slightly for the first time since January, as special accounts increased by more than the net gain in total deposits. Savings and loan associations did not add to their liquid asset holding during the month, though they did increase their borrowing by a modest amount. Outstanding commitments apparently edged up slightly further in July, after seasonal adjustment.

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

	Mutual Savings Banks	Savings and Loan Association	Both
1970 - QI	2.7	2.3	2.5
QII	6.4	7.2	7.0
QIII	6.9	10.6	9.3
QIV	10.5	12.1	11.6
1971 - QI	17.7	26.0	23.3
QII p/	14.8	18.4	17.2
April*	19.0	23.1	21.8
May*	12.4	15.1	14.2
June* p/	12.4	16.1	14.9
July* p/	9.3	18.7	15.6

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

p/ Preliminary.

Government securities market and other short-term credit markets. During the two trading days following the Greenbook (Wednesday and Thursday) continued strength was evident in the Government securities market. Further yield declines of around 10 basis points were registered in the coupon market with the total yield change since August 13 now generally 50-70 basis points. The bill market showed even larger gains, stimulated in large part by Desk purchases for both the System and foreign account. Bill rates have declined about 20 basis points since the Greenbook, with most rates 60-90 basis points below their August 13 levels. The 3-month bill was most recently bid at 4.54 per cent, down 61 basis points since the President's announcement, and 92 basis points since the July Committee meeting.

Other short-term credit markets have registered smaller declines in rates of generally 12-25 basis points.

Federal finance. Estimates of the impact of the President's program on total activity and income in the first two quarters of calendar 1972 are not yet available and, therefore, only rough estimates can be made of budget totals for the fiscal year. However, as shown in the table that follows, the staff now anticipates a Federal deficit on unified budget basis of nearly $30.0 billion, about $6 billion more than the estimate in the July 22 Greenbook, as explained in the August 18 Greenbook; the new income estimates for the third and fourth quarter of calendar year 1971 do not cause any further significant change in the budget picture on a cash basis.

The new NIA budget projection indicates a deficit for the second half of 1971 of about $22 billion at annual rates, somewhat less than in the July 22 Greenbook. Total expenditures have been revised downward by $1.0 billion (annual rates) and total receipts revised upward by $.6 billion for the remainder of calendar 1971. On a high employment basis, the staff still estimates a small surplus for the half year; the surplus is somewhat lower than in the last Greenbook because of the changes in the fiscal assumptions.

Cash balance projections are now somewhat higher than in the August 18 Greenbook, due mainly to changes in the foreign sector.

Correction: The first column of the Greenbook table, page III-23 should read -1.0 for personal tax exemption and standard deduction combined, to add up to -4.2

INTEREST RATES

	1971			
	Highs	Lows	July 26	Aug. 19
Short-Term Rates				
Federal funds (weekly averages)	5.59 (8/18)	3.29 (3/10)	5.46 (7/21)	5.59 (8/18)
3-month				
Treasury bills (bid)	5.53 (7/19)	3.22 (3/11)	5.46	4.54
Bankers' acceptances	5.62 (8/19)	3.88 (3/10)	5.62	5.62
Euro-dollars	10.00 (8/17)	4.94 (3/17)	6.36	8.85
Federal agencies	5.70 (7/30)	3.27 (2/24)	5.67 (7/23)	4.84
Finance paper	5.62 (8/16)	3.62 (3/15)	5.50	5.38
CD's (prime NYC)				
Most often quoted new issue	5.75 (8/11)	3.62 (3/24)	5.62 (7/21)	5.50
Secondary market	6.05 (8/18)	3.80 (3/17)	5.80 (7/21)	5.88
6-month				
Treasury bills (bid)	5.84 (7/27)	3.35 (3/11)	5.77	4.62
Bankers' acceptances	5.75 (8/19)	4.00 (3/10)	5.75(e)	5.75(e)
Commercial paper (4-6 months)	5.88 (8/18)	4.00 (3/29)	5.75	5.62
Federal agencies	6.02 (7/30)	3.53 (3/10)	5.91 (7/23)	5.15
CD's (prime NYC)				
Most often quoted new issue	6.00 (8/11)	4.00 (3/24)	5.75 (7/21)	5.63
Secondary market	6.40 (8/18)	3.70 (3/3)	6.00 (7/21)	6.15
1-year				
Treasury bills (bid)	6.01 (7/28)	3.45 (3/11)	5.80	5.03
CD's (prime NYC)				
Most often quoted new issue	6.25 (8/11)	4.38 (3/3)	6.00 (7/21)	5.88
Prime municipals	3.60 (8/12)	2.15 (3/24)	3.50 (7/23)	3.00
Intermediate and Long-Term				
Treasury coupon issues				
5-years	7.03 (8/10)	4.74 (3/22)	7.00	6.14
20-years	6.56 (6/15)	5.69 (3/23)	6.45	6.13
Corporate				
Seasoned Aaa	7.71 (8/13)	7.05 (2/16)	7.63	7.52
Baa	8.93 (1/5)	8.28 (2/16)	8.75	8.66
New Issue Aaa	8.23 (5/20)	6.76 (1/29)	7.90 (7/21)	7.33
Municipal				
Bond Buyer Index	6.23 (6/24)	5.00 (3/18)	5.97 (7/22)	5.49
Moody's Aaa	5.90 (6/30)	4.75 (2/11)	5.65 (7/23)	5.15
Mortgage--implicit yield in FNMA auction 1/	8.23 (7/12)	7.43 (3/1)	8.23 (7/12)	--

1/ Yield on 6-month forward commitment after allowance for commitment fee and required purchase and holding of FNMA stock. Assumes discount on 30-year loan amortized over 15 years. e--estimated.

Table 2

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	July	Aug.	Sept.
Total net borrowing	4.3	4.9	-1.8
Weekly and monthly bills	.5	.6	.6
Tax bills	1.8	--	-1.8
Coupon issues	--	2.7	--
As yet unspecified new borrowing	--	--	--
Other (debt repayments, etc.)	2.0	1.6	-.6
Plus: Other net financial sources a/	.8	--	1.1
Plus: Budget surplus or deficit (-)	-6.7	-4.1	.2
Equals: Change in cash balance	-1.6 b/	.8	-.5
Memoranda: Level of cash balance, end of period	7.2 b/	8.0	7.5
Derivation of budget surplus or deficit:			
Budget receipts	13.3	15.6	19.5
Budget outlays	20.0	19.7	19.3
Maturing coupon issues held by public	--	4.1	--
Net agency borrowing	.6	.3	.4

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

Table 1
FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS 1/
(In billions of dollars)

	Fiscal Year 1971*	Calendar Year 1971 F.R. Board	Fiscal Year 1972e/ Jan. Budget	Fiscal Year 1972e/ F.R. Board 2/	F.R. Board Staff estimates, Calendar Quarters 1971: I*	II*	IIIe/	IVe/
Federal Budget								
(Quarterly data, unadjusted)								
Surplus/deficit	-23.2	-28.2	-11.6	-29.5	-8.2	1.6	-10.6	-11.0
Receipts	188.3	192.7	217.6	201.5	44.1	56.7	48.4	43.5
Outlays	211.6	220.8	229.2	231.0	52.2	55.1	59.0	54.5
Means of financing:								
Net borrowing from the public	19.4	21.0	10.6	n.e.	1.6	1.6	7.4	10.4
Decrease in cash operating balance	-.8	2.0	n.a.	n.e.	3.6	-4.3	1.3	1.4
Other 3/	4.5	5.0	n.a.	1.0	2.9	1.1	1.9	-.9
Cash operating balance, end of period	8.8	6.1	n.a.	n.e.	4.5	8.8	7.5	6.1
Memo: Net agency borrowing 4/	1.1	1.4	n.a.	n.e.	-1.0	-.9	1.3	2.0
National Income Sector								
(Seasonally adjusted annual rate)								
Surplus/deficit	-19.0	-21.0	-4.2	n.e.	-17.5	-22.5	-22.9	-20.9
Receipts	193.6	200.5	225.9	n.e.	195.6	198.3	201.1	206.8
Expenditures	212.7	221.5	230.1	n.e.	213.2	220.9	224.0	227.7
High employment surplus/deficit (NIA basis) 5/	1.3	1.8	n.a.	n.e.	2.5	.9	2.1	1.6

* Actual   e--projected   n.e.--not estimated   n.a.--not available

1/ Reflects effects of total additional depreciation allowable under Treasury's newly-approved "accelerated depreciation range" guidelines, which are effective as of the beginning of 1971.

(continued)

Footnotes
continued

FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS 1/
(In billions of dollars)

2/ Estimates are tentative because projections of income assumptions for second half of fiscal 1972 are not complete.
3/ Includes such items as deposit fund accounts and clearing accounts.
4/ 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.
5/ Estimated by F.R. Board staff.

International Developments

Foreign exchange markets. The EEC Council of Minister's Meeting on Thursday, August 19, ended without any agreement on common exchange policy. Official markets will open Monday, August 23, under varying conditions. The Bundesbank and the Netherlands Bank will allow their currencies to float. The French and Belgian central banks will institute two-tier exchange rate systems, with one rate for commercial transactions and another, floating rate for other transactions. The Belgian rate for commercial transactions will also be a floating rate. The Bank of England will suspend sterling's upper limit but maintain the existing lower intervention limit. The Bank of Italy and the Swiss National Bank have not yet announced exchange policies.

The Bank of Japan purchased $617 million on Thursday, August 19, and $155 million on Friday, August 20. The Bank of Japan, in an effort to stop the inflow, announced on Thursday that existing exchange controls would be strictly enforced; in addition Japanese commercial banks were instructed to limit their borrowings from foreign banks to the August 18th level and to accept no additional non-resident yen deposits. Success of the Bank of Japan's measures to stop the inflows will depend upon their ability to control non-bank speculative and hedging transactions.

SUPPLEMENTAL APPENDIX A:

LOAN COMMITMENTS*

Recent concern regarding a build-up in loan commitments has prompted the staff to design a special supplemental survey to accompany the regular Quarterly Survey of Loan Commitments. A discussion of the results of these surveys, as well as a complete tabulation of the special survey, appear below. Following the text, a summary of responses to the special survey can be found.

The supplemental survey indicates that, to a significant extent, the observed increase in commitments results from the continuing recovery in business activity. To the extent that the build-up comes from an unusual demand for commitments, such demand seems to be largely attributable to uncertainties such as those generated by the Penn Central and Lockheed crises. As a related factor, an increased amount of firm commitments now seems to be required to participate in the commercial paper market.

Of the 42 banks cooperating in the supplemental survey, one third indicated that the increase in commitments occurring at their banks was larger than would be ordinarily expected at this stage of the cycle. But, only 3 of the respondents at these banks indicated that the greater-than-normal build-up in commitments primarily was attributable to demand factors. Increased availabilty of funds and increased willingness to make commitments seemed to play a more significant role than an increased demand for funds caused by a bank customers' anticipation of tighter money. Perhaps because of borrower experience during recent periods of tight money, there has been some increase in borrower demands for legally binding commitments, and there has been some concomitant increase in the portions of commitments involving fees.

In spite of the increased emphasis on legally binding commitments, it appears that the ability of borrowers to protect themselves from tight money via commitments is reduced because most commitments are currently being made at floating rates which adjust upward or downward in accordance with the prime rate, or, in a few cases, in accordance with Euro-dollar rates. 1/ Substantial proportions of borrowers, in addition, must

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1/ In one case, Treasury bill rates and Federal Funds rates were used.

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

increase their compensating balances if there are take-downs of commitments. As an offsetting factor, an appreciable amount of commitments are held by borrowers with access to commercial paper or capital markets, so that such borrowers have significant financing alternatives which they may use in periods of tightness.

The conclusions obtained from the supplemental survey are reinforced by the results of the regular Survey of Bank Loan Commitments. As shown in Table II, unused commitments as in previous quarters showed a significant rise of $2.9 billion. However, the increase over the May-July period was not as large as the expansion recorded in either of the two previous surveys. The increase was most obvious in confirmed lines of credit which accounted for more than half the growth in unused commitments to commercial and industrial firms. Some small increments also occurred in commitments to nonbank financial institutions.

As indicated both in the supplemental survey and in the regular survey (see Table 3), the continued increase in unused commitments results to a significant extent from increased availability of funds. Weak loan demands also have played a small role.

New credit extensions over the summer months, shown in Table 1, increased sharply, but takedowns, expirations, and cancellations also showed substantial increases. A spot check by several Reserve Banks reveals that much of this activity reflects banks' annual reviews of existing credit lines, where expirations of existing credit lines are being offset by renewals of those lines. In the case of "other commitments" to C&I firms, most of the increase represents a major West Coast bank's shift in procedures for periodic reviews of loans made for international transactions.

The outlook for loan commitments, as indicated in Tables 2 and 3, may be affected by the less restrictive policies that have been adopted at some banks. But as an offset to any potential increase in unused commitments, more than two thirds of the respondents indicate expectations of a moderate rise in takedowns in the next three months.

SUMMARY OF RESPONSES

(1) (For all respondents). In the respondent's judgment, is the increase in commitments since July 1970 larger than might be considered "normal" for the phase of the business cycle--recession and early recovery--covered?

YES---14 NO---28

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(2) (Only for respondents answering yes to question 1). If so, does the increase seem to reflect mainly an increase in the demand for commitments by bank customers, or an increased willingness by banks to extend commitments in the light of increased fund inflows, or some combination of demand and supply factors?

DEMAND---3 SUPPLY---2 BOTH---9

If the last of these, has one factor been more important than the other?

DEMAND---2 SUPPLY---3 BOTH EQUAL---4

---

(3) (For respondents indicating that customer demand is of increased importance). To the extent that increased demand for commitments is at work, how important do you believe the following factors have been in generating such an increase?

	VERY IMPORTANT	RELATIVELY IMPORTANT	MARGINAL IMPORTANCE	NO IMPORTANCE	NO RESPONSE
(a) Customers have been anticipating tighter money...	3	6	3		
(b) Customers have reacted to uncertainties generated by the Penn Central crisis...	1	5	5	1	
(c) Coporate treasurers now have a greater desire for some sort of "insurance"...	2	7	2		1
(d) Firm commitments from banks are now required to a greater extent in order to participate in the commercial paper market...	3	4	4	1	
(e) Any other factors...					

(4) (For all respondents). Approximately what proportion of the dollar volume of your outstanding commitments on June 30, 1971 to commercial and industrial customers do you consider to be legally binding?

	TOTAL	TERM	REVOLVING	CONFIRMED LINES
100%	1	22	26	4
75-99%		4	1	1
50-74%	7	1		
25-49%		2	2	5
1-24%		4	3	5
0%				16
Total Responses	8	33	32	31
Unknown/ No Response	34	9	10	11

Have the proportions of binding to total commitments increased over the past year?

YES--8 NO--28 UNKNOWN/NO RESPONSE---6

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(5) (For all respondents). Approximately what proportion of the dollar volume of your outstanding commitments to commercial and industrial firms involve the receipt of a commitment fee?

	TOTAL	TERM	REVOLVING	CONFIRMED LINES
100%		15	13	
75-99%	1	9	13	
50-74%		3	2	
25-49%	5	3		1
1-24%	1	5	4	5
0%		5	9	35
Total Responses	7	40	41	41
Unknown/No Response	35	2	1	1

What is the typical size of that fee and has it been changed in the last year?

1%---1 1/2%---36 1/4%---3 UNKNOWN/NO RESPONSE--2

Fee changed? YES---10 NO---22 UNKNOWN/NO RESPONSE---10

(6) (For all respondents). For those commitments involving a commitment fee, what is the most common compensating balance required during the life of the commitment?

	TOTAL	TERM	REVOLVING	CONFIRMED LINES
20-25%				
16-19%	1	3	4	1
10-15%	17	27	27	24
1- 9%		1	1	1
0%	7	3	2	7
Total Responses	25	34	34	33
Unknown/No Response	17	8	8	9

What would be the compensating balance required for takedowns under these commitments? Please try to obtain this information separately for term loans, revolving credits, and confirmed lines of credit.

	TOTAL	TERM	REVOLVING	CONFIRMED LINES
20-25%	6	12	14	11
16-19%	2	13	9	10
10-15%	8	2	3	6
1- 9%	1	1	1	1
0%	1	5	6	5
Total Responses	20	33	33	33
Unknown/No Response	22	9	9	9

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(7) (For all respondents). Approximately what proportion of the dollar volume of outstanding commitments on June 30, 1971 to commercial and industrial customers that the respondent considers to be legally binding have been made to firms that, in respondent's judgment, have reasonable access to the commercial paper market? To the capital market?

	COMMERCIAL PAPER	CAPITAL MARKET
100%	1	1
75-99%	15	20
50-74%	10	10
25-49%	7	3
1-24%	4	2
0%	2	0
Total Responses	39	36
Unknown/No Response	3	6

(8) (For all respondents). Approximately what proportion of the dollar volume of all new commitments authorized during the past year are commitments to lend at an interest rate that will vary with the prime rate or some other rate?

	% TIED TO PRIME RATE
100%	15
75-99%	20
50-74%	3
25-49%	2
1-24%	1
0%	
Total Responses	41
Unknown/No Response	1

Has this proportion increased over the past year?

YES---24 NO---18

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

July 31, 1971

Table 1: NEW AND UNUSED COMMITMENTS

(Billions of dollars, not seasonally adjusted)

	New commitments made during 3-months ending			Takedowns, expirations, and cancellations during 3-months ending			Unused commitments Change during 3-months ending			Outstanding on
	Jan. 31r	Apr. 30r	July 31	Jan. 31r	Apr. 30r	July 31	Jan. 31	Apr. 30	July 31	July 31
Grand total commitments	21.1	24.5	35.0	17.4	20.7	32.0	3.7	3.9	2.9	65.0
Total - Comm. & Indust.	16.0	18.9	27.3	13.2	16.0	24.8	2.8	2.9	2.5	49.9
Total - Nonbank Finan. Institutions	3.8	4.0	5.6	3.0	3.7	5.2	0.7	0.3	0.4	11.7
Total - Real Estate Mortgages	1.3	1.6	2.1	1.1	1.1	2.0	0.2	0.5	3/	3.4
MEMO: Const. Loans (included above)	1.0	1.2	1.4	0.8	0.7	1.2	0.1	0.4	0.2	2.9
Total - Comm. & Indust. Term Loans	1.5	1.9	1.9	1.4	1.6	1.7	0.1	0.3	0.2	1.9
Revolving Credits	5.2	4.8	6.7	4.3	4.7	6.3	0.9	0.1	0.4	13.3
Total Term & Revolving 2/	6.8	6.9	8.8	5.7	6.7	8.3	1.2	0.2	0.5	15.9
Confirmed Lines of Credit	8.5	11.1	14.9	7.0	8.8	13.4	1.5	2.3	1.5	30.4
Other Commitments	0.7	0.9	3.5	0.6	0.5	3.0	0.1	0.4	0.5	3.6
Total - Nonbank Finan. Institutions Finance Companies	2.3	2.2	3.6	1.8	2.2	3.5	0.5	3/	0.1	7.3
For Mortgage Warehousing	0.7	0.6	0.9	0.6	0.7	0.7	0.1	3/	0.2	1.8
All Other	0.8	1.2	1.1	0.7	0.9	1.0	0.1	0.4	0.1	2.6
Total - Real Estate Mortgages Residential	0.4	0.6	0.9	0.3	0.4	0.8	0.1	0.2	0.1	1.2
Other	0.9	1.0	1.2	0.8	0.6	1.3	0.1	0.4	-0.1	2.2

NOTE: Figures may not add to total due to rounding. r - indicates revisions.

1/ Participants in Quarterly Interest Rate Survey with total deposits of more than $1 billion (42 banks).

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

3/ Less than $50 million. 4/ Revised figures reflect refined reporting proceedures at a major bank.

Table 2: VIEWS ON COMMITMENT POLICY

Number of Banks

	Oct. 31 1969	Jan. 31 1970	Apr. 30 1970	July 31 1970	Oct. 31 1970	Jan. 31 1971	Apr. 30 1971	July 31 1971
Total number of banks responding:	48	48	48	48	48	47	48	48
Unused commitments in the past three months have:								
Risen rapidly	0	1	0	0	1	3	5	1
Risen moderately	5	7	12	19	28	31	25	19
Remained unchanged	20	18	15	17	13	7	12	19
Declined moderately	23	21	21	12	6	6	6	9
Declined rapidly	0	1	0	0	0	0	0	0
Takedowns in the next three months should:								
Rise rapidly	0	0	0	0	0	0	0	0
Rise moderately	13	9	13	13	6	8	13	16
Remain unchanged	31	30	30	33	24	29	33	31
Decline moderately	4	9	5	2	18	10	2	1
Decline rapidly	0	0	0	0	0	0	0	0
Commitment policy compared to three months ago is:								
Much more restrictive	12	3	0	0	0	0	0	0
Somewhat more restrictive	20	15	7	5	2	0	1	2
Unchanged	15	29	40	37	19	8	25	38
Less restrictive	1	1	1	6	26	34	21	9
Much less restrictive	0	0	0	0	1	5	1	0

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

Indicated Change	Number of Banks Indicating Change	Reasons for Change (Number of Banks)		
		Increased Loan Demand	Reduced Availability of Funds	Both Demand and Funds
More restrictive	2	1	1	0
		Decreased Loan Demand	Increased Availability of Funds	Both Demand and Funds
Less restrictive	9	2	5	2

SUPPLEMENTAL APPENDIX B

SURVEY OF STATE AND LOCAL LONG-TERM BORROWING ANTICIPATIONS AND REALIZATIONS DURING THE SECOND QUARTER 1971*

Despite rising interest rates, State and local governments, in the second quarter of 1971, were generally able to carry out their borrowing and capital outlay plans. According to the FRB-Census1/ Survey of State and Local Long-term Borrowing Anticipations and Realizations,2/ net long-term borrowing shortfalls from planned levels of $6.63 billion for this period, amounted to $950 million. The behavior of municipal interest costs induced only $140 million in net shortfalls, the smallest since the survey's inception in 1969. Capital outlay postponements and cancellations of about $430 million were reported by the State and local sector; however, the level and movement of interest rates were responsible for only $4 million or 1 per cent of total capital spending cutbacks. Long-term borrowing plans for the July-December period total $11.6 billion, 80 per cent of which has already been authorized.

Table 1

LONG-TERM BORROWING ANTICIPATIONS AND REALIZATIONS
SECOND QUARTER, 1971
(Billions of dollars)

Anticipations	6.63
Less: Gross shortfall from reported plans	2.60
Equals: Planned borrowing undertaken	4.03
Plus: Borrowing above reported plans	1.65
Equals: Borrowing accounted for by survey	5.68
MEMO: Actual borrowing 1/	5.85
Net borrowing shortfall 2/	.95

1/ The actual borrowing is net of $196.9 million in PHA bonds which are outside the scope of this survey.
2/ Net borrowing shortfall = Gross shortfall less borrowing above expectations.

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

2/ The survey accounted for 97 per cent of the $5.8 billion actually borrowed during the quarter. (This actual borrowing total is net of $197 million of Public Housing Assistance bonds which are not within the survey (Footnote 2 continued on next page.)

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

Previously Postponed Borrowing

During the second quarter, State and local governments directly borrowed $5.85 billion through the issuance of long-term tax-exempt securities. At least $900 million of the borrowing accomplished represented postponements from earlier quarters. Although the Bond Buyer's Municipal Yield index increased about 80 basis points during the period, borrowing related to earlier interest rate induced postponements accounted for about 28 per cent of the reinitiated borrowing--most likely because higher yields were anticipated in the future.

Resolution of legal disputes surrounding some bond issues seems to account for more than one-half of the borrowing comebacks. State and local units that had previously postponed bond sales because of litigation or a lack of authorization were able to borrow $574 million during the April-June quarter.

Unrealized Long-term Borrowing Plans

Survey results indicate that the State and local sector experienced about $2.6 billion in gross long-term borrowing shortfalls. It appears that about 30 per cent of this amount was permanently cancelled, while other units reported that approximately $1.8 billion would be reinstated within a year.

Market conditions were responsible for only 13 per cent of gross municipal setbacks. Despite the climb of yields above 6 per cent, interest rate ceilings had a comparitively minor effect upon aggregate planned borrowing, directly accounting for $65 million of shortfalls. The judgment that rates were either prohibitively high or would fall from existing levels kept an additional $275 million from the market.

Both cities and school districts had problems in obtaining authorization for borrowing (Table 2). In large part, resistance to many of the bond election proposals might be attributable to voter sensitivity to high and rising tax burdens.

Borrowing postponements due to administrative and legal delays rose further in the second quarter from the already high rate in the preceding quarter. Much of these deferrals appears to reflect the need

(Footnote 2 continued)
frame.) Results presented in this analysis represent the responses of 522 units for the realizations survey and an additional 3,172 units for the anticipations survey or a response rate of 90 per cent and 76 per cent respectively. The nonrespondents to the anticipations and realizations surveys had no borrowing anticipations for the quarter and are assumed not to have had long-term borrowing or future anticipations as of June 30, 1971.

Table 2

GROSS BORROWING SETBACKS
SECOND QUARTER, 1971
(Millions of dollars)

	Interest Rate Induced	Authorization Not Obtained	Administrative and Legal Delays	Other	Total
States & State Colleges	52.7	14.9	164.1	277.1	508.8
Counties	55.8	38.2	160.6	14.4	269.0
Cities and Towns	58.8	180.3	597.2	111.5	947.8
Special Districts	102.1	12.6	52.8	66.7	234.2
School Districts	73.9	232.8	285.1	46.7	638.5
Total	343.3	478.8	1,259.8	516.4	2,598.3
Per cent	13.2	18.4	48.5	19.9	100.0

to resolve a number of difficult legal questions surrounding industrial aid/pollution control revenue bonds. In any case, firm guidelines pending from Treasury, should relieve the uncertainty still prevailing about the tax-exempt status of these issues.

Effects of Long-term Borrowing Setbacks

Both the capital outlay effect of borrowing setbacks as well as the financial alternatives utilized to support planned outlays are shown in Table 3. More than half of the amount involved in the long-term borrowing shortfalls represented funds that were not needed because of construction lags and other delays in the projects themselves rather than the funding of the project. To keep capital projects on schedule, where funding difficulty did occur, many units turned to temporary financial expedients. Short-term borrowing for this purpose amounted to $461 million. If market conditions permit, these units plan long-term funding of all but $35 million of this amount over the next year. In general, details on other alternative financial arrangements reflect a similar pattern of plans to fund projects eventually in long-term markets.

Table 3

ALTERNATIVE MEANS OF FINANCING BORROWING SETBACKS
SECOND QUARTER, 1971
(Millions of dollars)

	All Setbacks	Interest Induced Setbacks
Short-term borrowing	461.1	125.4
Use of liquid assets	301.2	122.3
Reductions of other outlays	217.2	2.5
Not currently needed	1,154.2	88.8
Other	111.9	0.0
Total	2,245.6	339.0
MEMO: Capital Outlay Reductions Induced by Setbacks	431.4	4.0

The capital outlay cutback effects of borrowing shortfalls fell heaviest upon school districts. Almost 90 per cent of their $244 million in cutbacks were induced by the inability to obtain voter authorization. All but $23 million of these capital projects, which lacked authorization, have been cancelled.

Rising levels of interest rates had little effect on cutbacks in capital outlays in the second quarter. As noted earlier the interest rate impact on long-term borrowing plans was quite small. Moreover, reliance upon liquid assets and lower cost short-term financing provided sufficient flexibility to avoid a direct effect on capital spending programs.

Borrowing in Excess of Plans

While interest rate developments during the second quarter induced some units to postpone long-term borrowing, other units accelerated their plans. It appears that at least $140 million in accelerated borrowing--from an appreciable number of units--was cause by the expectation that municipal interest rates would continue to climb during their planned spending horizon. Another $75 million in borrowing was related to opportunities offered by the falling level of rates earlier in the year. Additionally, the data indicate a speed up in authorization and completion of project plans. The staff feels this acceleration of $525 million was stimulated by both the relatively low tax-exempt rates of the first quarter and the rising yields required by investors in the April-June period. A large number of responding units which borrowed above plans would provide no information as to the reason.

Borrowing Anticipations

While the direct and indirect implications of the President's new economic program remains to be assessed, even before then, State and local governments responding to the survey indicate the strongest outlook in long-term borrowing plans in the history of the survey. The anticipations shown in Table 4 indicate that these units planned to borrow about $21 billion over the next 12 months. The bulk of these anticipations represented new plans, as market attempts over the last three quarters have generally been successful. Should, as now seems possible, State and local governments continue to evaluate market conditions as acceptable, volume for the third and fourth quarters of 1971 will likely continue to run strong. As of early July, $11.6 billion in long-term borrowing was anticipated for these quarters with $9.3 billion already authorized.

Table 4

LONG-TERM BORROWING ANTICIPATIONS
FISCAL YEAR, 1972
(Billions of dollars)

	Authorized	Unauthorized	Total
July - September	5.41	.71	6.12
October - December	3.91	1.56	5.47
January - March	2.30	3.02	5.32
April - June	1.70	2.32	4.02
	13.32	7.61	20.93