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Content last modified 6/05/2009.

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

May 20, 1970

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SUMMARY AND OUTLOOK

Nonfinancial

Revised Commerce Department estimates show a decline in real GNP in the first quarter at an annual rate of 3.0 per cent. More recently, industrial output and the labor market have continued relatively weak, and common stock prices have dropped considerably further. But with a substantial downward adjustment having already occurred in inventory investment, and with large income supplements promising to sustain final sales, we still expect that output of goods and services will about level off this quarter.

Recent developments. The first quarter decline in real GNP was chiefly attributable to a sharp drop in the rate of nonfarm inventory accumulation; the rate of inventory investment dropped to virtually zero for the first time in nine years. In April, industrial production declined to about its January level, but personal income showed an exceptionally large rise as a result of special payments--retroactive and increased social security benefits and a retroactive Federal pay increase. Retail sales advanced in April, with sales up at both durable and nondurable goods stores, although in early May auto sales turned sluggish.

The labor market eased substantially further in April, with the unemployment rate increasing to 4.8 per cent, from 4.4 per cent in March and 3.5 per cent at the end of last year. Much of the increase in unemployment reflects a much larger than "normal" increase in the labor force. But employment gains have also dwindled recently; and manufacturing employment is down considerably. In April, total nonfarm employment declined, largely as a result of strikes.

The increase in the GNP deflator, apart from the influence of the Federal pay raise, turned out to be slightly larger in the first quarter than the preliminary estimate. Some slowing, however, developed in the rise in wholesale prices over the course of the quarter. The wholesale price index was unchanged from mid-March to mid-April as lower prices of farm products and foods offset a further advance in industrial prices at about a 4 per cent annual rate. But consumer prices in April rose at an annual rate of about 6 per cent after allowance for seasonal influences.

Outlook. It now seems likely that any further decline in inventory investment this quarter will be modest. Moreover, the addition to personal income of higher social security benefits and the Federal military and civilian pay increases, including the retroactive features, is expected to generate a larger rise in consumer spending than in the first quarter. This assumes that the depressed stock market and Cambodian developments will not significantly dampen consumer outlays. On balance, both current dollar and real GNP are expected to show some improvement this quarter; in real terms, GNP should change little in contrast to the 3 per cent decline reported in the first quarter.

It seems even more probable than earlier that businessmen will cut back on their planned investment outlays this year. Contributory evidence includes the recent drop in new orders for machinery and equipment, the decline in profits, and results of the NICB survey of large manufacturers which indicate a further sizable decline in capital appropriations in the first quarter. We have, therefore, revised downward somewhat our estimates for business fixed investment for the second quarter and the last half of the year. In most other sectors the outlook for the current quarter has not changed materially.

We continue to anticipate a resumption of economic growth in the second half of this year, with real GNP now expected to rise at an annual rate of around 2-1/2 to 3 per cent. This is less than previously projected, in part because of the more moderate increase of business fixed investment spending now anticipated. Nevertheless, gains in final sales should be larger in the final half of the year than in the first half, in part reflecting a turn-around in residential construction activity. Moderate inventory accumulation is also expected to add to growth of GNP, in contrast to the decline in the first half of the year.

The labor market is expected to ease further over the balance of this year. Unemployment seems likely to increase again in May, in part reflecting layoffs due to the trucking strike. With a national agreement now ratified covering most of the trucking industry, the secondary impact on employment and unemployment from the strike should diminish considerably in the weeks ahead. But some further rise in unemployment is anticipated in the second half of the year since real GNP growth is projected to continue below potential. We have raised the projection for second half unemployment to a little over 5 per cent to take account of anticipated slower rate of real economic growth and more rapid increase in the labor force.

Output per manhour in manufacturing has begun to rise more rapidly in recent months and the rise in unit labor costs has moderated. The resumption of over-all economic expansion later this year should extend productivity gains to other sectors. With upward cost pressures abating somewhat, we continue to project a gradual slowing in the rise of the GNP deflator, to a 3.7 per cent annual rate in the fourth quarter.

Financial

Since the previous FOMC meeting, stock prices have dropped further; yields on corporate and municipal bonds have risen to levels above the previous highs of late 1969; and Treasury bill yields have remained generally at levels which make Regulation Q ceilings on large bank CD's noncompetitive. These developments were influenced by widespread uncertainties associated with recent disturbing domestic and international events and with developments affecting the economic outlook, including the outlook for fiscal policy. At the same time, the Treasury was engaged in a major, relatively complicated financing, and capital markets were under pressure from the huge AT&T "rights" financing. While interest rates have edged down a little most recently, particularly in the Treasury bill market, general confidence in the current and prospective state of securities markets remains quite fragile, particularly in light of the heavy anticipated volume of business and Government borrowing.

Prospective business and government demands for funds. Unless business spending is cut below our projections, there appears to be little room for any substantial lessening of business demands for external financing, given the current outlook for weak corporate profits. Corporate demands on capital markets into the summer are not likely to drop off much from recent advanced levels (ex-the AT&T debentures). While business borrowing at banks has slackened somewhat in March and April relative to the 1969 pace, in part related to the sharp slowing of inventory accumulation, bankers continue to report a fairly strong underlying business loan demand.

With business borrowing expected to remain large, the recent tendency for market participants to revise upward their projections of Federal cash borrowing has added to uncertainties about future interest rates. The Board staff estimates that the net Federal cash need for the second half of 1970 will amount to about $12 billion, or $3-1/2 billion larger than in the comparable period of 1969, but some market forecasts are for substantially larger financing requirements. As to the immediate future, the next Treasury borrowing is expected around mid-July, with the total July need for new money estimated at $4.0 to $5.0 billion.

In the case of State and local governments, the volume of borrowing has dropped off recently, as high interest rates and reduced bank demand have encouraged deferrals of new bond offerings. The backlog of unmet demands remains large, however, and expected action by the State of California to raise its interest rate ceiling could bring a significant part of this backlog into the market over the summer.

Outlook for mortgage markets. The general strengthening of deposit growth evident at non-bank thrift institutions during March and April may not be fully sustained in May becuase of competition from the attractive new Treasury and AT&T issues and the generally higher level of short-term market yields. In addition, the windfall increments to consumer cash flows in April and early May, from tax refunds and retroactive increases in social security benefits and Federal pay, will not be repeated after mid-May.

Still, for the second quarter as a whole, net inflows to thrift institutions should be significantly improved relative to the first quarter. This--together with the FHLB program of encouraging S&L's to shift to lower cost, longer-maturity expansion advances--should add to credit flows in the mortgage market. All of the major types of lenders queried in the FRB-FHLBB survey, now in the process of evaluation, report that they expect moderate improvement in mortgage commitments and flows and housing starts over the balance of the year.

Outlook for interest rates. Assuming moderate growth in money and bank credit, the weight of current and prospective credit demands seem likely to maintain yields in longer-term markets at high levels, although some moderate yield declines from recent highs would not be surprising now that the Treasury and AT&T financings are out of the way. Such interest rate declines would, of course, be extended by any evidence that businesses were cutting back significantly on their capital spending plans and by progress toward a cooling of domestic and international political tensions. In short-term markets the depleted state of dealer bill positions, and the sizable--if temporary--Federal debt repayment scheduled for June, may contribute to some further decline of Treasury bill rates over the weeks just ahead. But in view of the heavy Treasury cash requirement in early summer, any such yield decline may not be large and much of it may be only temporary, given the current course of monetary policy.

Balance of payments outlook

Exchange markets for the dollar have shown considerable weakness in recent weeks, and additions to reserves of other major industrial countries have been fairly widespread. In total these reserve accruals were continuing at a pace suggesting a fairly large U.S. official settlements deficit for the current quarter, even though U.S. banks did not repay Euro-dollar borrowings on balance over the period from the beginning of April to mid-May. The liquidity balance before special transactions has been in substantial deficit.

Seasonal factors affect the U.S. balance of payments unfavorably in April, but do not suffice to explain the apparent weakening of the liquidity balance in comparison with February and March. Nor is the explanation to be looked for in foreign trade, according to preliminary indications in advance of the compilation of customs data. Apparently capital flows of various kinds are running rather unfavorably.

Short-term capital flows between Canada and the United States have contributed to Canada's unusually large reserve gains lately. Financial market conditions and interest rate relationships are likely to stimulate continuing reflows to that country, since Canadian monetary policy is attempting to deal with strong inflationary forces. In European countries, too, the general outlook is for tight financial markets in coming months. Thus U.S. banks are likely to reduce their Euro-dollar borrowings further--perhaps to the May 1969 base total before many months pass--and other capital flows are likely to be influenced adversely.

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	1970 Jan.	Feb.	Mar.	Apr.	Per Cent Change* From 1 mo. ago	3 mos. ago	Year ago
Civilian labor force (mil.)	82.2	82.2	82.8	82.9	0.1	0.8	3.0
Unemployment rate (%)	3.9	4.2	4.4	4.8	--	--	[3.5] 4/
Insured unempl. rate (%)	2.5	2.6	2.7	3.2	--	--	[2.0] 4/
Nonfarm employment, payroll (mil.)	70.8	71.0	71.1	71.0	-0.1	0.2	1.7
Manufacturing	20.0	19.9	19.9	19.7	-0.7	-1.2	-1.9
Nonmanufacturing	50.9	51.1	51.2	51.3	0.1	0.8	3.2
Industrial production (57-59=100)	170.4	170.5	171.1	170.4	-0.4	0.0	-0.8
Final products, total	168.5	170.0	170.6	169.4	-0.7	0.5	-0.5
Consumer goods	161.5	162.0	163.7	163.5	-0.1	1.2	1.1
Business equipment	192.8	196.8	197.0	194.2	-1.4	0.7	0.1
Materials	172.5	171.3	171.8	171.4	-0.2	-0.6	-0.9
Capacity util. rate, mfg.	80.1	79.8	79.7	79.0	--	--	[84.5] 4/
Wholesale prices (57-59=100) 1/	116.0	116.4	116.6	116.6	0.0	0.5	4.2
Industrial commodities (FR)	114.0	114.4	114.7	115.1	0.3	1.0	3.6
Sensitive materials (FR)	116.0	115.9	115.7	116.6	0.8	0.5	1.6
Farm products, foods & feeds	118.2	118.7	118.8	117.6	-1.0	-0.5	6.0
Consumer prices (57-59=100) 1/ 5/	131.8	132.5	133.2	n.a.	0.5	1.4	6.1
Food	130.7	131.5	131.6	n.a.	0.1	1.3	7.5
Commodities except food	120.1	120.4	120.8	n.a.	0.3	0.4	3.4
Services	149.6	150.7	152.3	n.a.	1.1	2.7	8.1
Hourly earnings, pvt. nonfarm ($)	3.13	3.15	3.18	3.19	0.3	1.9	6.7
Hourly earnings, mfg. ($)	3.28	3.28	3.31	3.31	0.0	0.9	5.4
Weekly earnings, mfg. ($)	132.59	131.47	132.80	132.46	-0.3	-0.1	3.3
Net spend. weekly earnings, mfg. (3 dependents 57-59 $) 1/ 5/	86.86	85.57	86.22	n.a.	0.8	-2.1	-1.4
Personal income ($ bil.) 2/	774.3	778.3	783.3	801.1	2.3	3.5	8.9
Retail sales, total ($ bil.)	29.6	30.0	29.7	30.2	1.5	2.1	2.7
Autos (million units) 2/	6.8	7.9	7.3	7.5	1.7	9.3	-9.0
GAAF ($ bil.) 3/	8.1	8.3	8.0	8.2	2.8	1.3	1.7
12 leaders, composite (1963=100) 5/	149.8	151.0	150.8	n.a.	-0.1	-1.0	0.5
Selected leading indicators:							
Housing starts, pvt. (thous.) 2/	1,059	1,306	1,384	1,181	-14.7	11.5	-21.5
Factory workweek (hours)	40.3	39.9	40.2	40.0	-0.5	-0.7	-2.0
Unempl. claims, initial (thous.)	23.5	25.8	26.8	32.6	-21.7 6/	-39.1 6/	-78.3 6/
New orders, dur. goods, ($ bil.) 5/	28.9	29.7	28.6	n.a.	-3.5	-5.5	-3.6
Machinery & equipment 5/	6.4	6.6	6.0	n.a.	-9.4	-7.8	-6.8
Common stock prices (41-43=10)	90.31	87.16	88.65	85.95	-3.0	-4.8	-15.1

* Based on unrounded data. 1/ Not seasonally adjusted. 2/ Annual rates.
3/ Gen'l. merchandise, apparel, and furniture and appliances. 4/ Actual figures.
5/ Per cent change calculated to March 1970. 6/ Sign reversed.

SELECTED DOMESTIC FINANCIAL DATA

	Averages 1969 QII	QIII	QIV	1970 QI	Apr.	1970 Week ended May 13
Interest rates, per cent						
Federal funds	8.33	8.98	8.94	8.56	8.10	7.96
3-mo. Treasury bills	6.20	7.02	7.36	7.21	6.51	6.74
3-mo. Federal agencies	6.80	7.63	7.92	7.72	6.88	7.20
3-mo. Euro-dollars	9.69	10.89	10.48	9.26	8.36	8.51
3-mo. finance co. paper	6.72	7.74	7.89	7.94	7.26	7.38
4-6 mo. commercial paper	7.54	8.49	8.63	8.55	8.06	8.38
Bond buyer municipals	5.43	6.00	6.40	6.35	6.35	6.89
Aaa corporate-new issues	7.32	7.75	8.32	8.45	8.60	8.98
20-year Treasury bonds	6.14	6.34	6.71	6.78	6.85	7.11
FHA mortgages, 30-year	8.17	8.38	8.53	9.25	9.10	--

	Change During Period 1969 QII	QIII	QIV	1970 QI	April
Change in monetary aggregates (SAAR, per cent)					
Total reserves	1.2	- 9.3	1.4	- 2.9	20.0
Nonborrowed reserves	- 4.7	- 4.8	- 0.1	- 0.4	24.0
Credit proxy	- 2.2	- 9.4	0.1	0.6	16.8
Credit proxy + nondep. funds	n.a.	- 4.0	2.1	0.7	13.7
Money supply	4.5	--	1.2	3.8	10.7
Time and savings deposits	- 3.0	-13.3	--	0.4	22.2
Deposits at S&L's and MSB's	3.9	2.1	1.4	1.9	8.3
Bank credit, end-of-month	6.1	- 0.8	2.1	- 0.2	6.0
Treasury securities	- 8.4	-11.4	-21.2	-15.4	50.6
Other securities	0.6	- 7.2	--	10.8	16.6
Total loans	10.9	3.1	7.2	--	- 4.3
Business	10.8	5.1	5.0	- 3.8	- 2.3

	1969 QII	QIII	QIV	1970 QI	April
Change in millions					
Commercial paper (SA)	3,522	3,233	3,250	2,765	1,870
Bank related (NSA)	n.a.	1,350	1,614 r	2,224 r	109

	1968 QI	April	1969 QI	April	1970 QI	April
New security issues (NSA, $ mil.)						
Total corp. issues	5,178	1,428	6,218	2,748	7,831e	3,000e
Public offerings	3,454	989	4,680	2,098	6,604	2,600e
State and local government bond offerings	3,840	1,318	2,787	1,801	4,049	1,650e
Fed. sponsored agency debt (change)	1,112	281	1,194	841	3,714	783e
Fed. gov't. debt (change)	6,816	-1,630	157	-2,456	1,981	-4,500e

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

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

	1968 Year	1969 Year[r]	1970 I	1970 Jan.*	1970 Feb.*	1970 Mar.*
Goods and services, net 1/	2,524	2,015				
Trade balance 2/	634	632	519	--	375	144
Exports 2/	33,598	36,469	10,218	3,300	3,575	3,343
Imports 2/	-32,964	-35,837	-9,699	-3,300	-3,200	-3,199
Service balance	1,890	1,383				
Remittances and pensions	-1,159	-1,163				
Govt. grants & capital, net	-3,955	-3,865				
U.S. private capital	-5,157	-5,015				
Direct investment	-3,025	-3,060				
Foreign securities	-1,266	-1,380	-168	-18	-130	-103
Banking claims	269	-534	138	361	114	-191
Other	-1,135	-41				
Foreign capital	9,277	12,265				
Official foreign, nonliquid	2,282	-713				
Official foreign, liquid	-3,099	-528	3,264	668	1,346	728
Foreign commercial banks, liquid	3,382	9,424	-1,793	232	-902	-943
New direct investment issues 3/	2,129	1,026				
U.S. corporate stocks	2,084	1,515	-90	-41	-15	-34
Other	2,499	1,541				
U.S. monetary reserves (inc. -)	-880	-1,187	4/481	435	-274	320
Gold stock	1,173	-967	-44	-23	-24	3
Special drawing rights	--	--	4/-53	4/-32	-20	-1
IMF gold tranche	-870	-1,034	-253	3	-186	-70
Convertible currencies	-1,183	814	831	487	-44	388
Errors and omissions	-650	-3,050				
BALANCES, (deficit -) 4/						
Official settlements, S.A.			-3,313			
" " , N.S.A. 5/	1,638	2,713	-2,799	-429	-1,072	-1,300
Liquidity, S.A.			-1,944			
" , N.S.A.	168	-7,208	-1,602	-1,348	-87	-167
Adjusted over-all, S.A.			-1,520			
" " , N.S.A. 6/	-1,744	-6,711	-1,186	-661	-170	-357
Financed by: 7/						
Liab. to comm. banks	3,382	9,424	-1,613	232	-902	-943
Official settlements	-1,638	-2,713	2,799	429	1,072	1,300

* Only exports and imports are seasonally adjusted.

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

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

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

4/ Excludes initial allocation of SDRs on Jan. 1, 1970; total $867 million, quarterly S.A. $217 million.

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

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

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

THE ECONOMIC PICTURE IN DETAIL

Domestic Nonfinancial Scene

Gross national product. Revised Commerce Department figures indicate that activity in the first quarter weakened more than originally reported, with real GNP declining at a 3.0 per cent annual rate--about twice as rapidly as earlier estimated. The first quarter current dollar GNP increase was revised downward from $8.2 billion to $7.4 billion.

The relatively small overall change in current dollar GNP reflected some substantial offsets. Most significant was a $2.1 billion downward revision in the rate of inventory accumulation which is now estimated at only $0.8 billion, about $7 billion less than in the previous quarter and $10 billion less than last summer. In addition, net exports were revised down by $700 million, and there were small downward revisions in business fixed investment and durable consumption expenditures. On the other hand, Federal purchases were revised up as the result of the inclusion of the $2.1 billion retroactive portion of the Federal pay increase in the first quarter rather than in the second as assumed in our last projection.[1/] Since government pay increases

1/ While Federal purchases in the first quarter are thus raised by $2.1 billion, and Federal subsidies less current surplus of government enterprises (in the Federal government N.I.A. account) by $0.4 billion, because of the retroactive payment for postal workers, an accrual adjustment transfers the effect of these payments on total Federal expenditures, and the surplus or deficit, from the first quarter to the second quarter of the year when these payments were made.

are treated as a price rise, this adjustment was the major factor in a sharp upward revision in the implicit GNP price deflator from an annual rate of 5.0 per cent to 6.2 per cent.

Our present projection of current dollar GNP in the second quarter calls for a $10.4 billion rise from the first quarter--the same increase as projected three weeks ago, excluding the effect of our assumption about the retroactive portion of the Federal pay increase. Real GNP, as before, is expected to show a very slight decline from the first quarter level.

The most important change from our previous projection is a reduction in the growth of business fixed investment in the second quarter and for the remainder of the year. For the current quarter, we have reduced the projected increase in capital outlays from $2.2 billion to $1.0 billion, with a rise of only $1.0 billion expected after mid-year. For 1970 as a whole, the increase is now projected at 6 per cent instead of 8 per cent. Enough evidence has now accumulated in our view to warrant making some downward revisions in this important area. Recent indications of weakened demand include the downdrift in new orders for machinery and equipment, which by March were off about 10 per cent from their second quarter 1969 peak, and the latest NICB survey (for release Friday, May 22) which indicates that manufacturing capital appropriations were off 15 per cent in the first quarter. Moreover, the recent sharp break in stock prices in addition to the substantial first quarter drop in corporate profits are likely to dampen business investment plans. We anticipate, however, that continued strength in the nonmanufacturing sector of the economy (especially public utilities and communications) will support a high level of investment spending for the remainder of the year.

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

	First Quarter		Second Quarter	
	Preliminary Commerce Estimate	Revised Commerce Estimate	Last Projection (4/29)	Current Projection (5/19)
		(Billions of dollars)		
GNP	8.2	7.4	15.0	10.4
Final demands	13.0	14.4	16.9	12.1
Consumer expenditures	11.1	10.9	12.0	12.3
Business fixed investment	1.8	1.5	2.2	1.0
Net exports	1.0	.3	- .7	.0
Federal purchases	-2.1	.0	1.7	-2.7
Inventory change	-4.8	-6.9	-1.9	-1.8
		(Per cent per year)		
Real GNP	-1.6	-3.0	- .2	- .2
GNP deflator	5.0	6.2 1/	4.5 2/	4.5

1/ Excluding effect of the retroactive portion of the Federal pay raise, 5.2 per cent.
2/ Excluding effect of Federal pay raise.

Among other elements of our second quarter projection, net exports are now expected to show no change instead of a drop of $0.7 billion. The sharp housing starts drop in April brought the starts rate a little below our projection of 1.2 million units for the current quarter but the increase in building permits would seem to support the projected rate for the quarter as a whole. Consumer spending is still expected to increase significantly in response to the substantial gains in income brought about by the boost in Social Security benefits and the Federal pay increase. Retail sales rose briskly in April, after a relatively weak March, and seemed to gather strength as the month progressed. Auto sales, however, except for a spurt at the end of April, have not shown as much strength as expected. With information for almost half the quarter in, unit sales of new domestic autos have been at an annual rate under 7-1/2 million; as a result, we have reduced our auto sales projections from 7.8 to 7.6 million, annual rate, for the second quarter.

A further decline in inventory investment, with some actual liquidation, is expected in the second quarter. Auto production is now scheduled at more than an 8 million unit annual rate for May and also for June, and auto stocks may rise. But defense inventories are down and are likely to continue to decline. And the projected slower growth in investment spending may result in some runoff of machinery and equipment inventories. Moreover, the current and projected squeeze on profits, combined with high interest rates, could make for even more cautious inventory policies.

It still appears that there will be an appreciable recovery in economic activity in the second half, although the leveling off in business fixed investment now expected results in smaller gains in overall GNP than previously indicated. Residential construction is still projected to rebound and a modest increase in inventories is anticipated following the second quarter liquidation. Overall, we now expect current dollar GNP to increase by about $16 billion a quarter; in real terms, the rate of growth is expected to average a little under 3 per cent in the second half of the year.

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May 20, 1970

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

				1969			1970			
			1970					Projected		
	1968	1969	Proj.	II	III	IV	I	II	III	IV
Gross National Product	865.7	932.1	979.6	924.8	942.8	952.2	959.6	970.0	986.5	1002.5
Final purchases	858.4	924.1	978.9	917.9	932.0	944.5	958.9	971.0	985.5	1000.5
Private	658.1	709.5	755.6	705.0	715.0	726.2	737.7	749.7	761.4	773.8
Excluding net exports	655.6	707.4	752.1	703.4	712.3	723.5	734.7	746.7	757.4	769.8
Personal consumption expenditures	536.6	576.0	616.8	572.8	579.8	589.5	600.4	612.7	622.2	631.7
Durable goods	83.3	89.8	90.4	90.6	89.8	90.4	89.4	90.0	90.7	91.5
Nondurable goods	230.6	243.6	262.5	242.1	245.1	248.7	255.4	261.6	264.9	268.0
Services	222.8	242.6	263.9	240.1	244.9	250.3	255.6	261.1	266.6	272.2
Gross private domestic investment	126.3	139.4	136.1	137.4	143.3	141.8	135.0	133.0	136.2	140.1
Residential construction	30.2	32.2	30.1	32.7	31.4	31.6	30.2	29.0	29.2	32.1
Business fixed investment	88.8	99.2	105.3	97.8	101.1	102.5	104.0	105.0	106.0	106.0
Change in business inventories	7.3	8.0	0.7	6.9	10.7	7.7	0.8	-1.0	1.0	2.0
Nonfarm	7.4	7.8	0.6	6.7	10.3	7.4	0.4	-1.0	1.0	2.0
Net exports of goods and services	2.5	2.1	3.5	1.6	2.7	2.7	3.0	3.0	4.0	4.0
Gov't. purchases of goods & services	200.3	214.6	223.3	212.9	217.0	218.3	221.2	221.3	224.1	226.7
Federal	99.5	101.9	99.7	100.6	103.2	102.3	102.3*	99.6	98.9	98.0
Defense	78.0	79.2	75.8	78.5	80.3	79.2	78.9*	76.6	74.7	73.0
Other	21.5	22.7	23.9	22.1	22.9	23.1	23.3*	23.0	24.2	25.0
State & local	100.7	112.7	123.6	112.3	113.8	116.0	118.9	121.7	125.2	128.7
Gross national product in constant (1958) dollars	707.6	727.5	727.6	726.7	730.6	729.8	724.3	723.9	728.6	733.6
GNP implicit deflator (1958 = 100)	122.3	128.1	134.6	127.3	129.0	130.5	132.5	134.0	135.4	136.6
Personal income	687.9	747.2	800.9	740.5	756.5	767.4	778.6	800.8	806.6	817.6
Wages and salaries	465.0	509.9	546.8	504.3	516.9	525.0	532.4	545.0	550.6	559.0
Disposable income	590.0	629.7	680.9	622.0	639.0	647.5	660.4	679.5	687.6	696.0
Personal saving	38.4	37.6	47.4	33.3	43.1	41.7	43.5	50.1	48.6	47.2
Saving rate (per cent)	6.5	6.0	7.0	5.3	6.7	6.4	6.6	7.4	7.1	6.8
Corporate profits before tax	91.1	93.8	84.3	95.4	92.5	91.4	85.1p	82.5	84.0	85.5
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	176.3	201.5	200.4	202.8	201.3	203.3	198.7	200.8	199.2	202.7
Expenditures	181.5	192.0	205.4	189.3	193.6	196.7	198.4*	210.4*	205.7	206.9
Surplus or deficit (-)	-5.2	9.5	-5.0	13.5	7.7	6.7	0.3*	-9.6*	-6.5	-4.2
High employment surplus or deficit (-)	-10.0	5.3	4.0	7.8	3.9	5.6	5.2	-0.8	3.7	8.0
Total labor force (millions)	82.3	84.2	86.3	83.9	84.6	85.0	85.8	86.1	86.4	86.7
Armed forces "	3.5	3.4	3.2	3.5	3.5	3.5	3.3	3.2	3.2	3.1
Civilian labor force "	78.7	80.7	83.0	80.4	81.0	81.5	82.4	82.9	83.2	83.6
Unemployment rate (per cent)	3.6	3.5	4.8	3.5	3.6	3.6	4.1	4.9	5.1	5.2
Nonfarm payroll employment (millions)	67.9	70.1	71.4	70.0	70.4	70.7	71.1	71.2	71.4	71.8
Manufacturing	19.8	20.1	19.7	20.1	20.2	20.1	19.9	19.7	19.6	19.6
Industrial production (1957-59=100)	165.5	172.8	171.6	172.6	174.3	171.9	170.7	170.5	171.8	173.4
Capacity utilization, manufacturing (per cent)	84.6	83.7	78.6	84.5	84.2	81.7	79.9	78.6	78.2	77.8
Housing starts, private (millions A R.)	1.51	1.47	1.32	1.52	1.43	1.36	1.25	1.20	1.35	1.50
Sales new domestic autos (millions, A.R.)	8.62	8.46	7.69	8.54	8.45	8.13	7.35	7.60	7.80	8.00

*/ Federal purchases of goods and services and GNP, in '70-I, include the retroactive part of the pay increase for Federal military and civil service personnel ($2.1 billion annual rate). By means of accrual adjustments, however, this retroactive part is excluded from total Federal expenditures and the surplus or deficit in '70-I and included in these in '70-II. The retroactive part of the pay increase for postal employees ($.4 billion annual rate) is included in Federal government N.I.A. account item, subsidies less current surplus of government enterprises, in '70-I; this also is excluded from total expenditures in '70-I and included therein in '70-II.

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May 20, 1970

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1968	1969	1970 Proj.	1969			1970			
								Projected		
				II	III	IV	I	II	III	IV
	------------------------In Billions of Dollars------------------------									
Gross National Product	72.2	66.4	47.5	16.1	18.0	9.4	7.4	10.4	16.5	16.0
Inventory change	-0.1	0.7	-7.3	0.3	3.8	-3.0	-6.9	-1.8	2.0	1.0
Final purchases	72.2	65.7	54.8	15.8	14.1	12.5	14.4	12.1	14.5	15.0
Private	52.0	51.4	46.1	12.9	10.0	11.2	11.5	12.0	11.7	12.4
Excluding net exports	54.7	51.8	44.7	12.8	8.9	11.2	11.2	12.0	10.7	12.4
Net Exports	-2.7	-0.4	1.4	0.1	1.1	0.0	0.3	0.0	1.0	0.0
Government	20.2	14.3	8.7	2.9	4.1	1.3	2.9	0.1	2.8	2.6
GNP in constant (1958) dollars	33.0	19.9	0.1	3.6	3.9	-0.8	-5.5	-0.4	4.7	5.0
Final purchases	33.0	19.6	6.5	3.5	0.6	1.8	0.5	1.5	2.7	4.1
Private	24.9	18.3	10.1	3.9	1.4	2.8	2.2	3.0	1.9	3.6
	------------------------In Per Cent Per Year------------------------									
Gross National Product	9.1	7.7	5.1	7.1	7.8	4.0	3.1	4.3	6.8	6.5
Final purchases	9.2	7.7	5.9	7.0	6.1	5.4	6.1	5.0	6.0	6.1
Private	8.5	7.8	6.5	7.5	5.7	6.3	6.3	6.5	6.2	6.5
Personal consumption expenditures	9.0	7.3	7.1	7.7	4.9	6.7	7.4	8.2	6.2	6.1
Durable goods	14.1	7.8	0.7	10.0	-3.5	2.7	-4.4	2.7	3.1	3.5
Nondurable goods	7.2	5.6	7.8	5.9	5.0	5.9	10.8	9.7	5.0	4.7
Services	9.1	8.9	8.8	8.7	8.0	8.8	8.5	8.6	8.4	8.4
Gross private domestic investment	8.9	10.4	-2.4	6.5	17.2	-4.2	-19.2	-5.9	9.6	11.5
Residential construction	20.8	6.6	-6.5	-7.2	-15.9	2.5	-17.7	-15.9	2.8	39.7
Business fixed investment	6.1	11.7	6.1	10.5	13.5	5.5	5.9	3.8	3.8	0.0
Gov't. purchases of goods & services	11.2	7.1	4.1	5.5	7.7	2.4	5.3	0.2	5.1	4.6
Federal	9.7	2.4	-2.2	-3.9	10.3	-3.5	0.0	-10.6	-2.8	-3.6
Defense	7.7	1.5	-4.3	-2.5	9.2	-5.5	-1.5	-11.7	-9.9	-9.1
Other	16.8	5.6	5.3	-8.9	14.5	3.5	3.5	-5.1	20.9	13.2
State & local	12.8	11.9	9.7	14.0	5.3	7.7	10.0	9.4	11.5	11.2
GNP in constant (1958) dollars	4.9	2.8	0.0	2.0	2.1	-0.4	-3.0	-0.2	2.6	2.8
Final purchases	5.0	2.8	0.9	2.0	0.3	1.0	0.3	0.8	1.5	2.3
Private	4.7	3.3	1.8	2.8	1.0	2.0	1.5	2.1	1.3	2.5
GNP implicit deflator *	4.0	4.7	5.1	5.1	5.6 1/	4.5	6.2 2/	4.5	4.2	3.7
Personal income	9.3	8.6	7.2	8.9	8.6	5.8	5.8	11.4	2.9	5.5
Wages and salaries	9.8	9.7	7.2	8.9	10.0	6.3	5.6	9.5	4.1	6.1
Disposable income	8.0	6.7	8.1	7.7	10.9	5.3	8.0	11.6	4.8	4.9
Corporate profits before tax	13.4	3.0	-10.1	0.4	-12.2	-4.8	-27.6	-12.2	7.3	7.1
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	16.7	14.3	-0.5	8.5	-3.0	4.0	-9.0	4.2	-3.2	7.0
Expenditures	10.8	5.8	7.0	1.7	9.1	6.4	3.5	24.2	-8.9	2.3
Nonfarm payroll employment	3.0	3.4	1.9	3.3	2.0	1.7	2.3	0.6	1.1	2.2
Manufacturing	2.1	1.8	-2.0	1.6	1.8	-3.4	-4.0	-4.0	-2.0	0.0
Industrial production	4.7	4.4	-0.7	5.6	3.9	-5.5	-2.8	-0.5	3.0	3.7
Housing starts, private	16.7	-2.7	-9.7	-31.4	-22.7	-20.2	-32.1	-16.0	50.0	44.4
Sales new domestic autos	14.0	-1.9	-9.1	8.4	-4.2	-15.1	-38.2	13.4	10.5	10.3

* Based on deflators calculated to three decimals.
1/ Excluding effects of Federal pay increase, 4.3 per cent per year.
2/ Excluding effects of Federal pay increase, 5.2 per cent per year in 70-I.

Industrial production. The 0.4 per cent decline in industrial production from March to April followed a similar increase (revised) from February to March, as shown in the table. Both February and March were revised upward mainly because of revisions in the physical product data. The total index in April was at the January-February level and was only 0.8 per cent below a year earlier and 2.4 per cent below the July 1969 peak.

INDUSTRIAL PRODUCTION
Per cent changes

	February to March 1970	March to April 1970
Total index	.4	- .4
Consumer goods	.8	- .1
Business equipment	.1	-1.4
Defense equipment	-2.1	-3.8
Materials	.3	- .2

Major output declines in April occurred in business equipment, with production of industrial, commercial, and freight and passenger equipment down. Output of trucks was off 10 per cent but May schedules indicate a 10 per cent increase. The decline in the aerospace industry was about in line with preceding months. It is not clear, however, how much of the fall in manufacturing production, and especially in the equipment industry, was due to the effects of the trucking strike. The declines in manufacturing employment and in the workweek could have been caused by shortages of parts and supplies, as in the automotive industry.

Thus, output of autos and trucks declined sharply in the first week of the trucking strike but recovered in the following week.

Consumer goods production showed offsetting changes in April. Auto assemblies changed little from the annual rate of 7 million units reached in March. May and June production schedules, however, have been revised upwards to annual rates of 8.2 and 8.5 million units respectively. Output of household appliances rose further in April, but trade reports indicate some production cutbacks in May. Output of television sets dropped 19 per cent in April and was 35 per cent below the first half of 1969. Production of most other consumer goods changed little in April. Among materials, production of construction materials, equipment parts for further processing, and rubber products (because of a strike) declined. Output of iron and steel and most nondurable materials changed little.

Industrial production declined 2.4 per cent from July 1969 to January 1970, and then changed little from January to April, although there was considerable divergence among the major groups as shown in the table.

INDUSTRIAL PRODUCTION
Per cent changes

	July 1969 to January 1970	January 1970 to April 1970	April 1969 to April 1970
Total index	- 2.4	.0	- .8
Consumer goods	- 1.8	1.2	1.1
Durable	-11.3	4.2	- 4.2
Autos	-26.6	3.9	- 8.5
Nondurable	1.7	.2	2.9
Equipment, total	- 3.8	- .8	- 3.3
Business	- 2.1	.7	1.5
Defense	-10.2	-7.5	-16.6
Materials	- 2.3	- .6	- 1.1
Durable	- 4.1	- .9	- 4.6
Steel	- 7.0	1.4	- 2.9
Nondurable	- 0.6	- .4	2.4

Retail sales. The advance report for April indicates that retail sales were 1.5 per cent higher than in March (which was revised slightly downward, and weekly sales estimates showed increasing strength as the month progressed. Durable goods rose 2.5 per cent, partly as a result of higher sales among automotive outlets--reflecting in part the temporary effects of dealer incentive contests toward the end of the month--and continued improvement in sales of furniture and appliances. Nevertheless, sales of all types of durables were still below year earlier levels for the sixth successive month. Total April sales in current dollars were only 2.7 per cent above a year earlier.

Sales of nondurable goods were 1.1 per cent higher than in March, with gains reported at all major types of stores except food.

Department stores recovered the March decline, but were only 2.0 per cent above a year earlier. In 1969 department store sales averaged 9.3 per cent above 1968.

RETAIL SALES
Per cent change from previous month, seasonally adjusted

	February	March	April
All stores	1.4	- .8	1.5
Durable	2.9	-[illegible].2	2.5
Auto	4.1	.4	2.9
Furniture and appliance	-2.4	.1	[illegible].9
Nondurable	.7	-1.1	1.1
Food	- .3	[illegible].9	-[illegible].1
Department stores	.7	-2.7	3.2
Gasoline	[illegible].0	-[illegible].6	[illegible].5
Real, all stores (deflated by all commodities CPI)	1.0	-1.1	1.0

<u>Unit auto sales and stocks</u>. Sales of new domestic autos in the first 10-day period of May were at an annual rate of 6.8 million units, down 8 per cent from a month ago and 23 per cent below a year earlier when sales were quite high. The relatively poor showing in early May was due in part to sales contests which ended April 30.

Stocks of new domestic autos changed little during April and at month's end amounted to 58.8 days supply, down from 69.0 days at the end of January and 59.2 days at the end of April 1969.

Consumer credit. With credit extensions dropping sharply, consumer instalment credit outstanding increased at a seasonally adjusted annual rate of only $2.4 billion in March, the smallest increase since May 1967. Outstanding auto credit--where the drop in extensions has been concentrated--declined for the second month in a row. And the increases in nonautomotive consumer goods credit and personal loans were only one-half as large as those recorded in February. For the first quarter as a whole the rise in outstanding instalment credit amounted to slightly less than $4 billion, seasonally adjusted annual rate, compared with $6.8 billion in the fourth quarter of 1969 and a peak of $10.2 billion in the fourth quarter of 1968.

CONSUMER INSTALMENT CREDIT EXTENSIONS
(Billions of dollars, seasonally adjusted annual rates)

	Total	Automobile	Other Consumer Goods	Personal Loans
1968 - QI	92.8	30.2	29.3	31.2
QII	95.6	30.7	30.7	32.0
QIII	99.4	32.6	30.7	33.9
QIV	100.4	32.2	31.8	34.1
1969 - QI	100.7	32.4	31.5	34.6
QII	104.4	33.0	33.6	35.2
QIII	103.5	32.0	33.3	35.9
QIV	102.5	31.9	33.5	35.1
1970 - QI	102.2	30.0	35.5	34.6

Census consumer buying expectations. New car sales will rise considerably in the next six months, according to the April Census buying survey. More than the usual uncertainty surrounds this indicated rise. Strength was not widely based among income groups and calculation of the April buying plan index includes a weight of one-third from the January survey, which forecast too high a level of car sales. The number of major appliances expected to be bought was off sharply, but purchase plans for furniture and carpets were higher. Planned expenditures on home improvements were also higher.

Households were slightly less optimistic than in the first quarter about substantial increases in income within the next 12 months, but the level of such optimism is still high and well above a year earlier. As in the previous survey, much of the optimism about future income was in the under $3,000 income group (probably still reflecting increased Social Security benefits), although in the latest survey there was some increase in the $10,000 and over income group.

SURVEY OF CONSUMER BUYING EXPECTATIONS, SELECTED RESULTS

	1969				1970	
	Jan.	Apr.	July	Oct.	Jan.	Apr.
Index of expected 6-month unit car purchases (seasonally adjusted, Jan.-Apr. 1967 = 100)	99.4	103.3	104.0	100.8	104.7	109.4
Average chance in 100 of buying a new car--not seasonally adjusted	4.3	4.5	4.7	4.3	4.5	4.6
Number of major appliances likely to be bought per 100 households	27.9	25.8	26.2	28.6	25.5	24.3
Average chance in 100 of receiving a substantial income increase within 12 months	16.5	18.1	18.6	17.6	20.1	19.9

Inventories. Manufacturers' inventories increased somewhat more in March than previously reported, but the total book value change for the month--$4.6 billion, annual rate--was still well below the February rate. Most of the revision was in nondurable goods manufacturers. Wholesale stocks declined in March, according to the preliminary report, but there was a sharp upward revision in the February figures.

Retail trade inventories increased moderately in March. The value of auto dealers' stocks rose after four months of decline. Other durable goods retailers reduced their holdings and the growth of stocks at nondurable retailers was slower than in February. In April, dealers' unit stocks of new domestic autos were little changed.

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

	1969	1970		
	QIV	QI	February	March
Manufacturing and trade, total	13.5	4.3	11.7	4.6
Manufacturing, total	6.8	4.1	6.5	3.8
Durable	6.1	2.9	1.6	3.6
Nondurable	.7	1.2	4.9	.2
Trade, total	6.7	.2	5.2	.8
Wholesale	2.6	1.5p	4.4	-1.4p
Retail	4.1	-1.3	.8	2.2
Durable	2.1	-2.3	-2.0	1.0
Automotive	.6	-1.8	-3.4	2.0
Nonautomotive	1.5	- .5	1.4	-1.0
Nondurable	2.0	1.0	2.8	1.2

p - preliminary.

With stocks rising and sales declining, the business inventory-sales ratio rose in March. At the end of March, several ratios that vary significantly over the business cycle--the inventory-sales ratios for durable goods manufacturing and for retail and total trade, and the inventory-backlog ratio for durable manufacturing--were higher than in March 1967, and were at or above levels reached in the 1960-61 recession.

INVENTORY RATIOS

	1967		1970	
	February	March	February	March
Inventories to sales:				
Manufacturing and trade, total	1.59	1.60	1.57	1.59
Manufacturing, total	1.77	1.78	1.74	1.76
Durable	2.08	2.09	2.10	2.16
Nondurable	1.40	1.40	1.30	1.29
Trade, total	1.39	1.38	1.39	1.40
Wholesale	1.22	1.23	1.21	1.21
Retail	1.50	1.48	1.51	1.53
Durable	2.15	2.08	2.18	2.20
Automotive	1.73	1.61	1.74	1.77
Nonautomotive	2.70	2.74	2.79	2.80
Nondurable	1.21	1.20	1.22	1.24
Inventories to unfilled orders, durable manufacturing	.663	.675	.754	.767

Residential construction and real estate. Seasonally adjusted private housing starts, which had turned up sharply in the previous two months, dropped 15 per cent in April to an annual rate of 1.18 million units. The decline was concentrated in multifamily units, although single family starts also were down slightly further despite increasingly strong support from the Government-underwritten sector. Regionally, the drop in the Northeast from an exceptionally high March was most pronounced.

Unlike starts, building permits turned upward in April. Moreover, the rise was appreciable for both single and multifamily units and in most regions. Based on this and related developments, there may be at least a moderate rise in starts in May to or above a 1.2 million unit rate. This rate would compare with a seasonally adjusted annual rate of 1.25 million in the first quarter.

PRIVATE HOUSING STARTS AND PERMITS

	April 1970 (Thousands of units)1/	Per cent change from	
		March 1970	April 1969
Starts2/	1,181	-15	-22
1-family	693	- 1	-13
2-or-more family	488	-28	-31
Northeast	209	-34	-16
North Central	248	-14	-30
South	512	- 1	-10
West	212	-20	-36
Permits	1,249	+14	-17
1-family	612	+10	- 7
2-or-more family	637	+16	-24

1/ Seasonally adjusted annual rates; preliminary.
2/ Apart from starts, mobile home shipments for domestic use in March--the latest month for which data are available--were at a seasonally adjusted annual rate of 348,000, 13 per cent below a year earlier.

Sales of new homes by merchant builders dropped further in March to the lowest rate since the series began in late 1962. But with the pace of such building limited, stocks of such homes available for sale were little changed from either the previous month or a year earlier. The median price of homes actually sold in March was up somewhat from January to $24,200, but it continued well below the median price of all homes for sale by builders. Apart from greater concentration by buyers on lower-priced homes, a factor in this development has apparently been the relatively greater availability of funds for Government-underwritten mortgages which are most often utilized in the financing of properties at the lower end of the price scale. At the same time, however, prices of used homes involved in transactions have continued to advance; in March, the median price of such homes reached a new high of $22,820 or 8 per cent more than a year earlier, according to the National Association of Real Estate Boards.

Manufacturing capital appropriations. The latest N.I.C.B. survey (confidential until released Friday) shows that new capital appropriations of the 1,000 largest manufacturers were reduced by 15 per cent in the first quarter following a 5 per cent decline in the fourth quarter. These cutbacks suggest that fixed capital spending by manufacturers will be reduced later this year.

The major factor in the sharp first quarter drop was the petroleum industry, where appropriations were down 36 per cent following a 37 per cent increase in the previous quarter. But more significant was a reduction of 15 per cent by producers of durable goods following a 12 per cent reduction in the previous quarter. Non-durable goods manufacturers, excluding petroleum, increased appropriations by about 12 per cent in the first quarter following a 19 per cent drop.

Apart from the sharp rise and decline in petroleum, reductions in new appropriations have been large in the latest two reported quarters--down 7 per cent in the first quarter and down 14 per cent in the fourth quarter of 1969.

Labor market. The labor market apparently continued to ease in late April and early May. State insured unemployment totaled 1.8 million in the week ending May 2--an increase of 800,000 from a year earlier, compared to an over-the-year increase of about 600,000 as of mid-April. Initial claims for jobless benefits, which jumped sharply in early April, have declined somewhat in recent weeks, probably reflecting settlements of some local trucking industry disputes and a reduced number of secondary layoffs. Nevertheless, initial claims continue to average significantly above a year earlier. Other labor market data show continuing declines in help-wanted advertising, unfilled-job openings, nonfarm job placements, and factory employment and hours of work.

Nonfarm employment. Nonfarm payroll employment declined 88,000 in April, with reductions in construction and transportation attributable to strikes. Modest gains continued in trade, services and government (the latter due mainly to the hiring of more temporary census takers).

Manufacturing employment continued to decline in April, dropping by 144,000 over the month tc 19.7 million. The April decline was widespread--only three major industries, textiles, tobacco, and leather reported increases--but the bulk of the drop was in the durable goods sector. The average workweek in manufacturing declined 0.2 hour to 40.0 hours in April and is now 0.8 hour below a year earlier. Shorter workweeks caused by parts and materials shortages were widespread, suggesting that the teamster strike was responsible for part of the decline in average hours.

CHANGES IN NONFARM PAYROLL EMPLOYMENT, 1970
(In thousands, seasonally adjusted)

	Jan. to Feb.	Feb. to March	March to April
Total	186	56	-88
Government	69	79	90
Private	117	-23	-178
Manufacturing	-79	-21	-144
Nonmanufacturing	196	- 2	- 34

Labor force and unemployment. In the past, slow economic growth or declines and reduced employment opportunities have tended to bring slower growth in the labor force. In 1969-70, however, labor force growth has continued exceptionally strong despite rising unemployment. Compared to a projected 'normal" growth of 1.5 million annually, the labor force was up by about 2.3 million between April 1969 and April 1970, continuing the exceptionally large year-over-year increases of the preceding three quarters. Total employment rose by 1.3 million over the year, while unemployment increased by 1 million and the unemployment rate jumped from 3.5 to 4.8 per cent.

LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
(Change from a year earlier, in millions)

	1969		1970	
	III	IV	I	April
Civilian labor force	2.2	2.4	2.4	2.3
Employed	2.1	2.2	1.6	1.3
Unemployed	.1	.2	.8	1.0

The greater-than-projected labor force increases have centered in women and teenagers, whose participation usually is more discretionary than that of adult men. The number of men entering the civilian labor force has been a little less than the projected "normal."

CIVILIAN LABOR FORCE CHANGES
(In thousands, seasonally adjusted)

	Men, 25 years and over	Men 20 to 24 years	Women, 20 years and over	Both sexes 16 to 19 years
Projected "normal" growth, annually	405	308	607	168
		(Actual change from year earlier)		
1969:				
IIIQ	271	295	1,295	351
IVQ	359	282	1,176	580
1970:				
IQ	376	346	1,054	523

Continued strong gains in sectors which typically employ many women and teenagers may have been partly responsible for stimulating the continued rapid rise in their labor force participation over the projected levels. Trade, services and government--which employ large numbers of women and teenagers--have added nearly 1.5 million payroll jobs over the past year. It also seems probably that the pressure of inflation on family income, along with increasing layoffs of married men, have provided some of the incentive for the unexpectedly large labor force growth of women and teenagers.

In contrast to the service-oriented industries, wage and salary employment in commodity-producing industries--mainly male and full time--declined by nearly 350,000 over the past year, with the declines reflecting almost entirely layoffs of adult men, who tend to remain in the labor force regardless of economic conditions. Largely because of these layoffs full-time employment has dropped below the third quarter of 1969.

FULL- AND PART-TIME LABOR FORCE
(Seasonally adjusted, in thousands)

	1969		1970	
	III Q	IV Q	I Q	April
Full-time				
Civilian labor force	70,032	70,214	70,529	70,810
Employed	67,827	68,022	67,908	67,720
Unemployed	2,205	2,192	2,621	3,090
Rate	3.1	3.1	3.7	4.4
Part-time				
Civilian labor force	10,996	11,312	11,798	11,949
Employed	10,262	10,599	10,961	11,064
Unemployed	734	713	837	885
Rate	6.7	6.3	7.1	7.4

Unemployment rates for all groups have increased sharply in recent months, and most rates by age, sex, color and occupation are close to those of April 1965 when the over-all rate was last 4.8 per cent. The rate for men aged 25 years and over remains somewhat below its April 1965 level, while the rate for those of age 20 to 24 years is somewhat higher. The increase for young men is partially attributable to the recent large increase in their number in the civilian population, reflecting both reductions in the Armed Forces and the high birth rates of the post World War II years.

UNEMPLOYMENT RATES
(Seasonally adjusted)

	April		
	1965	1969	1970
Total	4.8	3.5	4.8
Men 20-24 years old	7.4	4.8	7.9
Men 25 years and over	3.0	1.6	2.6
Women, 20 years and over	4.7	3.8	4.4
Both sexes, 16-19 years	16.2	12.7	15.7
White	4.4	3.1	4.3
Negro and other races	8.4	7.0	8.7
Married men	2.5	1.5	2.4
Full-time workers	4.6	3.2	4.4
State insured	3.2	2.1	3.1
White-collar workers	2.4	1.8	2.9
Blue-collar workers	5.9	4.0	5.7
Service .orkers	5.5	4.5	5.0

Personal income. Personal income rose in April at an annual rate of nearly $18 billion, to $801 billion. This extremely large increase was due entirely to the increase in social security benefits and the 6 per cent Federal pay raise, including retroactive portions of both. Exclusive of these changes, personal income would have declined slightly--for the first time in recent years--reflecting widespread declines in employment and hours in manufacturing and strikes in trucking and construction.

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

	July 1969 to January 1970	1970 February	1970 March	1970 April
Personal income	$3.8	$4.0	$5.0	$17.8
Transfer payments	.5	1.1	1.3	12.7
Wages and salaries	2.9	2.2	2.9	5.1
Government	.6	.5	.4	6.7
Private	2.2	1.7	2.5	-1.6
Manufacturing	.3	- .8	1.1	- .8
Nonmanufacturing	2.0	2.5	1.4	- .8

Industrial relations. The tentative national agreement reached in early April between the trucking industry and the teamsters union has been ratified by mail ballot. Thus, secondary layoffs caused by shortages of parts and material resulting from local strikes and lockouts of truck drivers--already down from the mid-April high--should taper off further as most truck drivers return to work. However, transport services will continue to be disrupted by strikes of some steel haulers who feel their special interests have not been met and by strikes in Chicago pending a local contract settlement. The national contract is subject to renegotiation if the Chicago teamsters negotiate a larger increase in wages and fringe benefits than agreed to in the national contract--estimated at 8 per cent annually (exclusive of escalator increases) over a 39-month period.

Strikes continue involving 34,000 rubber workers at Goodyear and Goodrich, which began after expiration of contracts April 20, but tire shortages have not as yet developed because of earlier large inventory build-ups and continued production by Firestone and Uniroyal. Strikes in the construction industry continue to spread; more than 60,000 workers have gone on strike since early May. In settlements so far this year, construction workers have received average first-year wage increases of more than 18 per cent compared with an average of 13 per cent in major construction settlements during 1969.

Wholesale prices. The wholesale price index was unchanged from mid-March to mid-April (revised from the preliminary report of a decline of 0.1 per cent) as a rise of 0.3 per cent in the average price of industrial commodities was offset by a sharp decline in prices of farm products.

Metals and metal products accounted for about one-third of the increase in price of industrial commodities, as increases for copper and aluminum ingot and fabricated products more than offset a sharp decline in steel scrap. And the recent downward trend in the FRB sensitive industrial materials index was reversed mainly because of the increase of nearly 2-1/2 per cent in the price of nonferrous metals. Recent announcements by steel companies of increases effective June in the prices of steel sheets, used widely in industrial and consumer products, suggest that metals will have an important effect on the WPI in June. A rise in fuels and related products, as a result of sharp increases in prices of coal and coke, also contributed substantially to the advance of industrial commodities in April. Lumber and wood products increased for the first time since last November, largely as a result of higher prices for softwood plywood.

Livestock, eggs, and fresh and dried fruits and vegetables were the main contributors to the sharp decline in prices of farm products. Offsetting movements within processed foods and feeds resulted in no change for the month in that group.

Since December prices of industrial commodities have increased at an annual rate of 4.2 per cent, compared with 4.8 per cent in the previous four months. An important factor in the behavior of industrial prices has been the slower rate of advance in machinery and equipment prices, which may, however, in part reflect seasonal influences. The rate of rise for agricultural products, because of developments in March and April, slowed even more than that for industrial commodities.

WHOLESALE PRICES
(Percentage changes at annual rates)

	Dec. 1969 to Jan. 1970	Jan. 1970 to Feb. 1970	Feb. 1970 to Mar. 1970	Mar. 1970 to Apr. 1970	Aug. 1969 to Dec. 1969	Dec. 1969 to Apr. 1970
All commodities	9.4	4.1	2.1	0	4.5	3.9
Industrial commodities	5.2	4.2	3.1	4.1	4.8	4.2
Metals and metal products	10.7	11.5	8.6	7.5	8.5	9.7
Machinery and equipment	5.9	2.9	2.9	2.9	7.1	3.7
Lumber and wood products	-8.8	-13.8	-7.0	6.0	-3.6	5.9
Farm products and processed foods and feeds	18.6	5.1	1.0	-12.1	4.7	3.1
Farm products	8.6	12.8	6.3	-31.5	7.7	-1.1
Processed foods and feeds	24.5	.9	-2.9	0	2.7	5.6

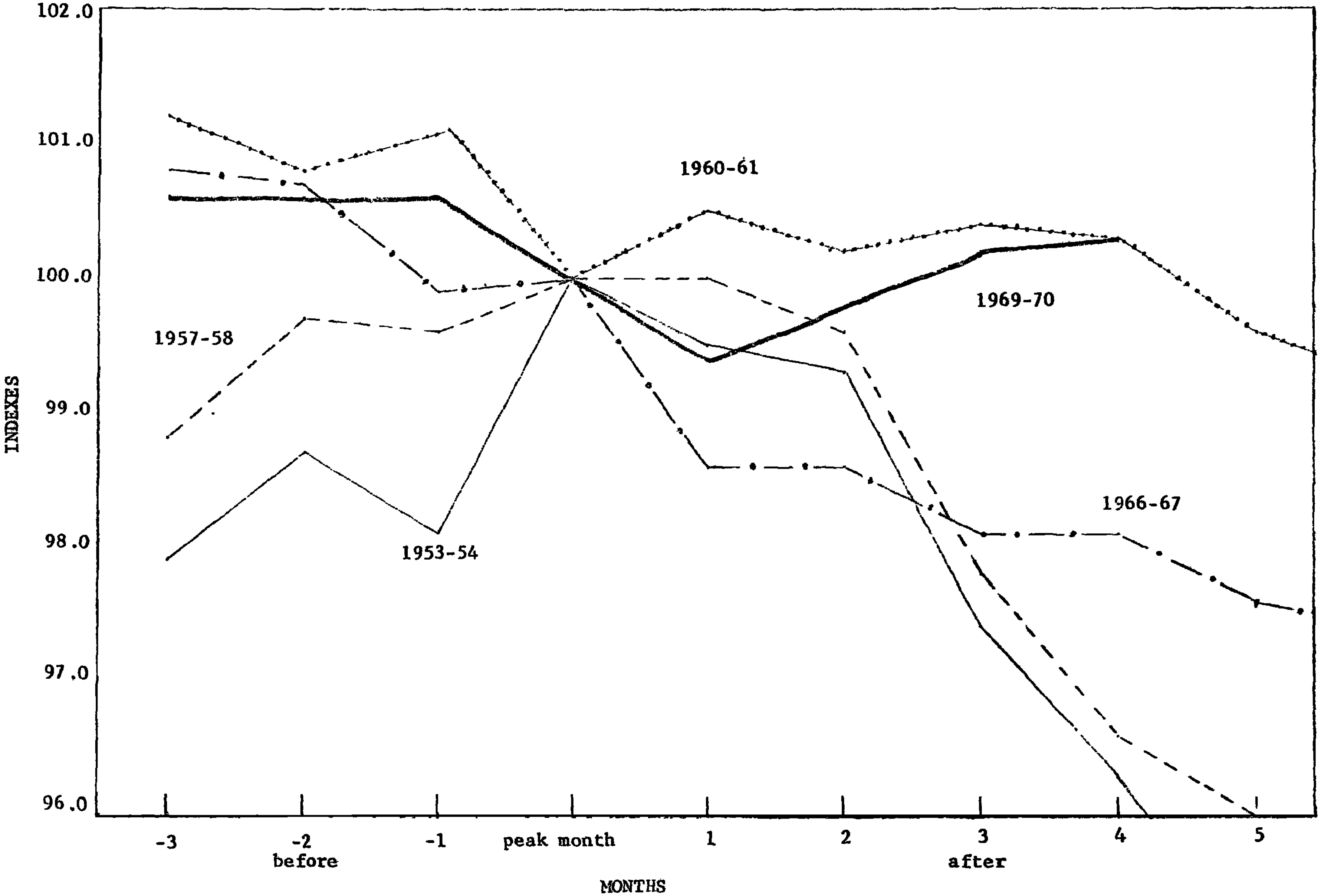
Price behavior during the present slowdown has been different from the price patterns during the comparable interval of other postwar declines in output. If we assume that the peak month of the recent expansion was November 1969 (the mid-month of the quarter in which real

GNP first declined), we find that prices for industrial commodities have continued to rise through April (5 months) while average experience during other recent recessions was a rather flat movement of prices over the first 5 months following the peak. This divergence is accounted for almost entirely by the faster rise this time in prices of industrial materials. Prices of industrial products, consumer non-foods and producers' equipment, have behaved much as they have in previous downturns.

The behavior of the ratio of price to unit labor costs in manufacturing also differs in the present slowdown from experience of other recent recessions. It has not shown the tendency to decline shown in earlier slowdowns--in fact it has risen somewhat since December, as may be seen in the following chart.

RATIO: PRICE TO UNIT LABOR COST, MANUFACTURING

(Index of peak month prior to recession = 100)



<u>Consumer prices</u>. Consumer prices rose at a seasonally adjusted annual rate of 6 per cent in April, faster than in March but about the same as in the first quarter as a whole. (The April increase was somewhat larger without seasonal adjustment.)

Food prices again rose sharply, although not so fast as in earlier months this year. Increases were large for fruits and vegetables, meat, and cereal and bakery products. Prices of men's and boy's clothing increased strongly and footwear prices continued to climb. Gasoline prices also increased, but were only about 1 per cent above a year earlier.

The rise in durable goods prices was the largest since last October. Used car prices (which are not seasonally adjusted) rose strongly after a period of little change but are still well below a year ago. Household durable goods continued to rise rapidly.

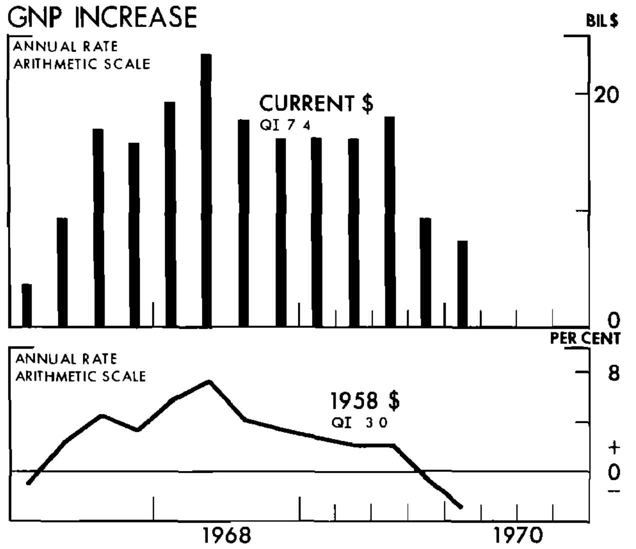
The increase in service costs in April was at an annual rate of about 8 per cent, compared with 11 per cent in the first quarter. The rise in insurance and finance costs continued very large and medical care costs continued to mount rapidly.

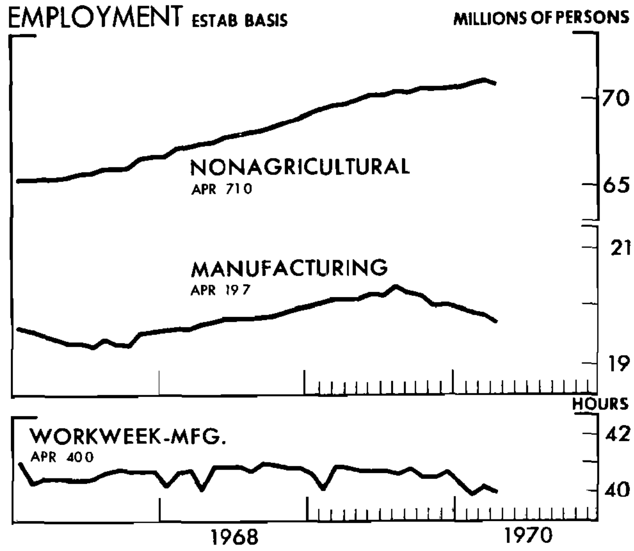
CONSUMER PRICES, APRIL 1970
Per cent change, seasonally adjusted, from

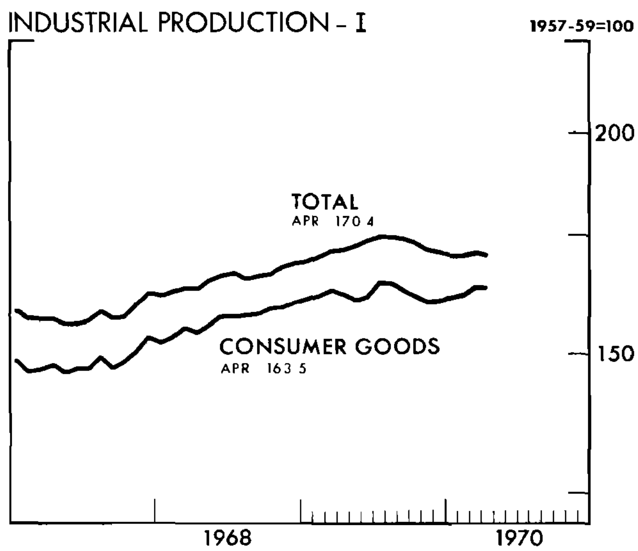
	April 1969	January 1970	March 1970
All items	6.0	1.4	.5
Food	7.1	1.2	.3
Apparel and upkeep	4.4	.8	.2
Transportation	3.5	.9	1.3
Services	8.0	2.5	.7
Insurance and finance	13.7	5.1	1.1
Utilities and public trans.	5.5	1.3	.5
Housing and home maintenance	8.9	1.8	.4
Medical care	6.7	2.6	.8
Addendum:			
All items, unadjusted	6.0	1.7	.6

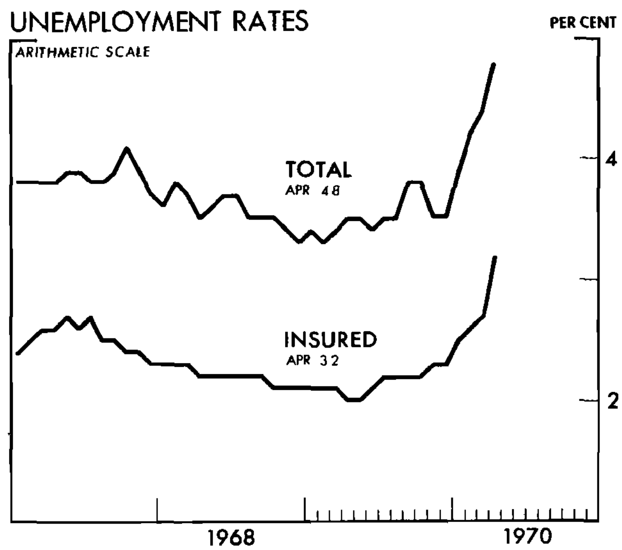
ECONOMIC DEVELOPMENTS - UNITED STATES

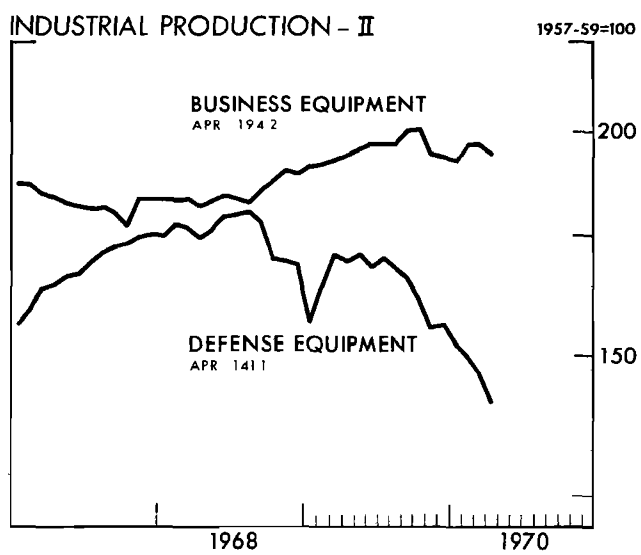
SEASONALLY ADJUSTED, RATIO SCALE

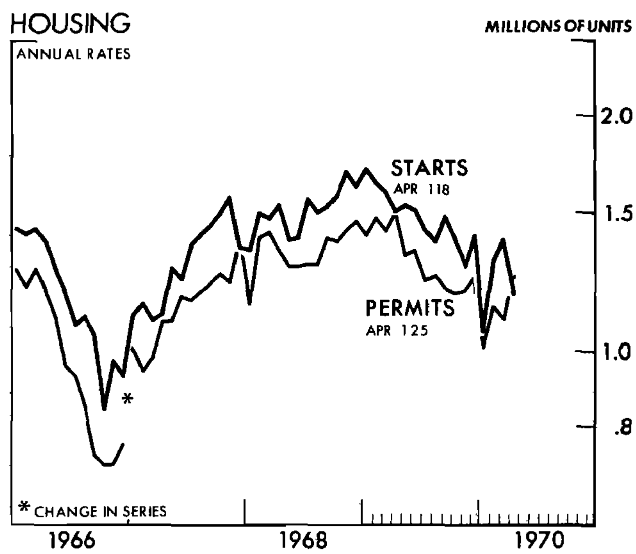








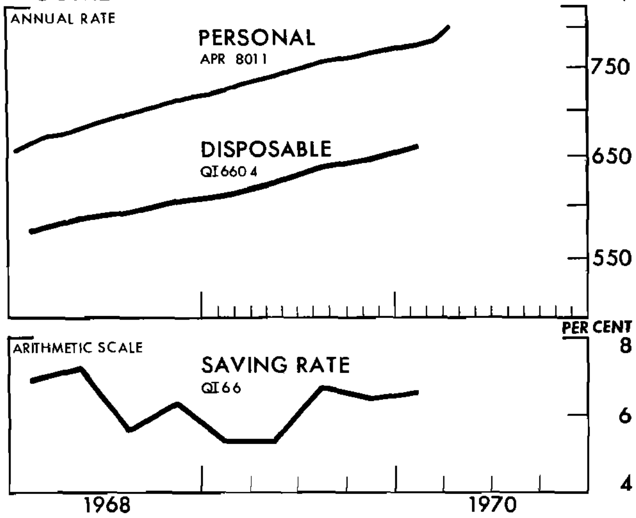




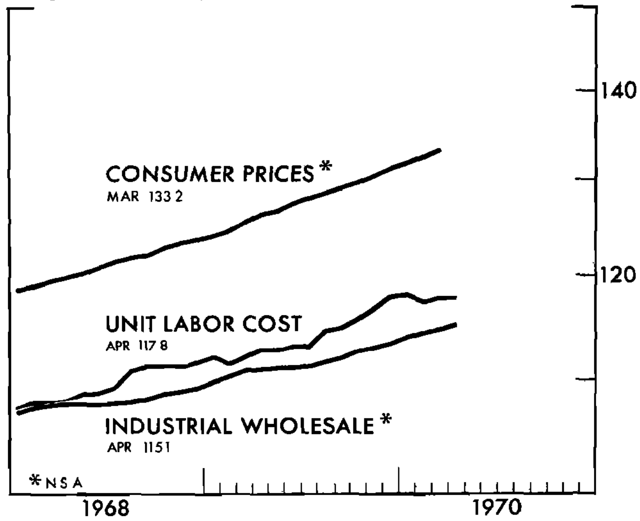
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED, RATIO SCALE

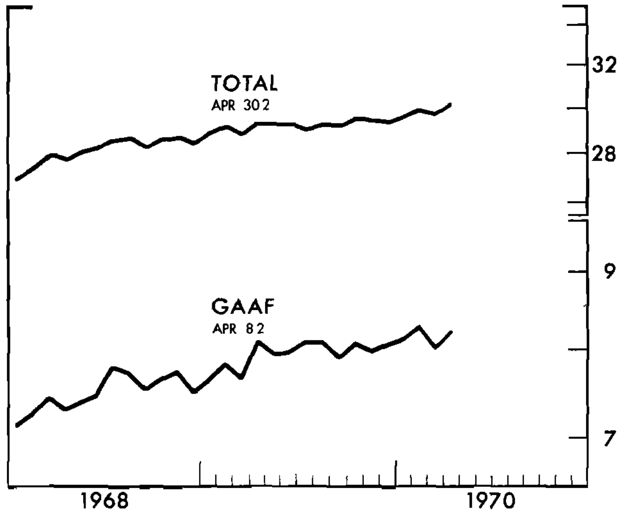
INCOME



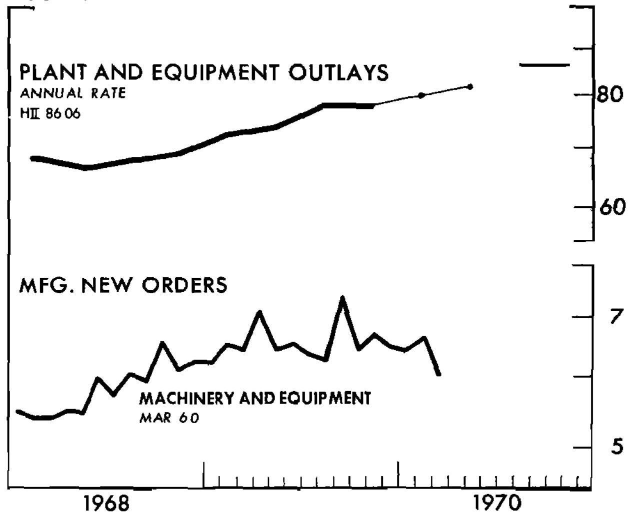
PRICES AND COSTS



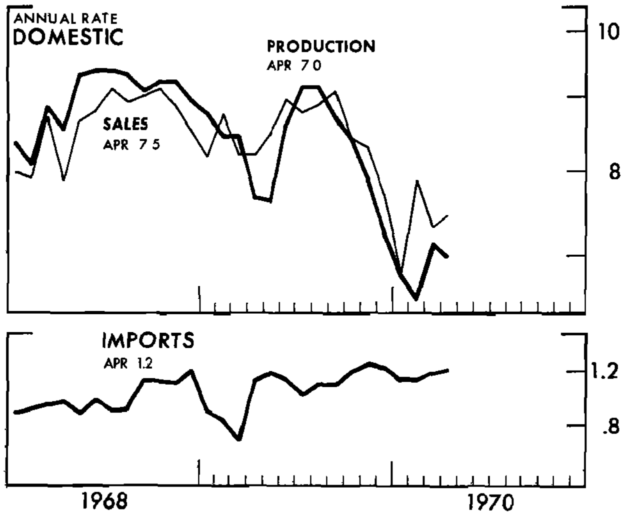
RETAIL SALES



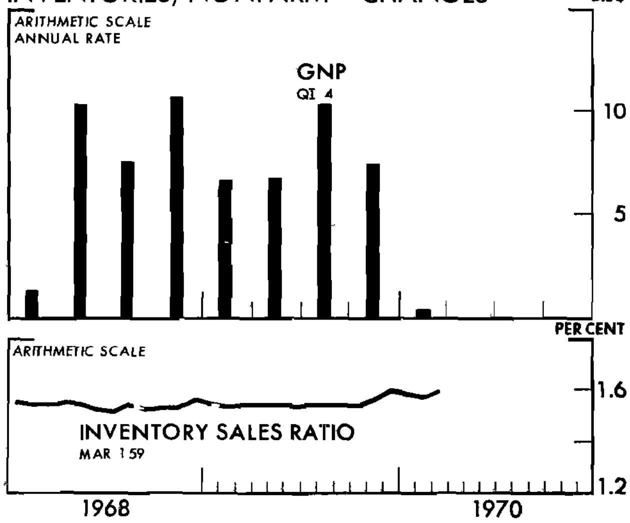
BUSINESS INVESTMENT



AUTOS



INVENTORIES, NONFARM - CHANGES



THE ECONOMIC PICTURE IN DETAIL

Domestic Financial Situation

Bank credit. Final seasonally adjusted data for April show a rate of growth in total bank loans and investments adjusted for loan sales to affiliates somewhat larger than that recorded in March and over the first quarter of this year. An exceptionally strong advance in holdings of investments, particularly U.S. Treasury securities, was responsible for this modest pickup. Total loans, adjusted for loan sales to affiliates, declined moderately over the month, extending a downtrend begun in March.

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

	1969	1970		
	2nd Half	Q I	March	April
Total loans & investments 2/	1.5	2.7r	4.5r	6.5
U.S. Govt. securities	-16.0	-15.4	9.7	50.6
Other securities	- 3.6	10.8	27.1	16.6
Total loans 3/	6.4	4.1r	- 2.5r	-3.4
Business loans	7.1	6.3	- 3.3	1.1

1/ Last Wednesday of month series.
2/ Includes outright sales of loans by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
3/ Includes outright sales of business loans by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.

r - Revised.

This edging down in loan portfolios in April was primarily due to a decline in security loans associated with a sharp cutback in dealer trading positions. But developments in real estate and consumer loans also continued quite weak and little strength was displayed by other major loan categories. Business loans, after adjustment for loan sales to affiliates, did show a slight increase over the month--in contrast to the minor decline that occurred in March--but this advance fell well short of the gains recorded in January and February of this year, or in the second half of 1969.

Weekly reporting bank data for the early part of May suggest that commercial bank credit developments may be weaker in May than in April, largely as a result of reduced participation in securities markets. Holdings of U.S. Treasury securities were liquidated in heavy volume during the two weeks ending May 13. Moreover, even though banks acquired a sizeable volume of new 18-month notes sold for cash on May 15, there were some redemptions on maturing issues and some bank liquidation of the new issue can be expected over the remainder of the month. Thus, the May increase in bank holdings of Treasury issues is likely to fall short of April's substantial rise. A similar conclusion appears warranted regarding the May increase in holdings of "other securities." Over the early part of the month banks continued to make fairly large additions to their holdings of these securities, particularly municipals, part of which they had subscribed to in early April when inflows of time and savings deposits were unusually large. However, dealers have reported sharp cutbacks in bank orders for municipal securities scheduled for delivery in mid- to late May because of uncertainties about the IRS position on the tax deductibility of certain interest costs.

With respect to loan developments in the early part of May, real estate and consumer loans have continued their generally weak pattern of other recent weeks, loans to nonbank financial institutions have stayed about unchanged, and loans to brokers and dealers have continued the decline begun in April. Business loans adjusted for loan sales to affiliates rose sharply during the first week of May but then according to preliminary data declined in the following week. On balance it appears that business loan demands at banks may have increased to some degree--in part because the cost of financing in the commercial paper market has risen appreciably above the prime rate--but data are as yet too fragmentary to come to a firm judgment.

Monetary aggregates. The money stock declined sharply over April, offsetting about three-fourths of the end-of-March bulge. The average level of the outstanding money stock in April was 10.7 per cent above March, 5.6 per cent higher than in December 1969 and 2.6 per cent above a year ago. Following its $5 billion decline during April, the money stock rose about $2 billion in the first week of May. This increase, which was unanticipated, was largely due to Federal Reserve purchases of Treasury issues in the week of May 6, undertaken to cushion markets during the Treasury refinancing, and to a sharp rundown of balances by the Treasury.

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

	1969	1970	
	2nd Half	Q I	April
Member bank deposits	-4.6	.6	16.8
Member bank deposits plus nondeposit sources 2/	-1.2	.8	13.7
Commercial bank time and savings deposits	-6.7	.2	22.2
Money stock	.6	3.8	10.7

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

Growth in time and savings deposits, after slowing abruptly over the mid-April tax date, picked up again during the latter part of the month and in the early part of May. The pace of advance in these recent weeks, although well below that established in late March and early April, was about in line with that prevailing in late February and early March.

The volume of negotiable CD's outstanding did decline in early May following only a small rise in late April. But other sources of time deposit funds on balance continued to provide a significant inflow. At country member banks, in particular, the recent inflow of time deposit funds was exceptionally large, as the pace of advance established in late March and early April was at least sustained and perhaps increased during the last half of April and the early weeks of May. Continued inflows of consumer-type deposits also occurred at weekly reporting banks over the latter part of April and the early part of May, although at a slower rate than in March. The recent retroactive payments in connection with the Federal pay raise and with increased social security benefits may have been partly responsible for maintaining inflows of consumer-type deposits.

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

	March 25 - April 15 1/			April 15 - May 6 1/		
	1968	1969	1970	1968	1969	1970
Weekly Reporting Banks						
Total time & savings	-1.4	-1.1	1.3	.5	- .5	.6
Consumer-type	- .5	- .6	- .3	.1	- .1	.1
CD's	-1.1	- .8	1.0	.2	- .5	.2
IPC	-1.0	- .7	.4	.2	- .2	.2
Other	- .0	- .1	.5	.0	- .3	.0
All other time	.2	.3	.6	.2	.1	.2
Country banks						
Total time & savings	.3	.3	.7	.2	- .0	.6

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

Nonbank depositary intermediaries. Deposit growth at nonbank intermediaries continued to exhibit a great deal of strength during April, particularly at savings and loan associations. The relatively slower growth in mutual savings bank deposits reflects the experience of the large, more interest sensitive, New York City institutions.

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

	Mutual Savings Banks	Savings and Loan Associations	BOTH
1969 - Q I	6.1	6.0	6.0
Q II	4.3	3.7	3.9
Q III	2.0	2.1	2.1
Q IV	3.3	.4	1.4
1970 - Q I p/	2.9	1.5	2.0
January *	-2.1	-6.7	-5.2
February*	5.4	2.2	3.3
March p/*	5.5	9.2	7.9
April p/*	6.2	9.3	8.3
March and April	5.8	9.3	8.1

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

p/ Preliminary.

In May, there were reports of a large number of individuals participating in the recent Treasury issue. It is not yet clear whether this and the AT&T issue have affected withdrawals from thrift institution balances or sales of other securities; the only firm indications for deposit flow patterns during May are from the large New York City savings banks, who during the first half ofthe month continued to receive inflows only marginally larger than a year earlier and much lower than in years before that.

Although complete April data are not yet available, there are indications that savings and loan associations have been responding to the FHL Bank's attempts to keep its advances up. Despite the large volume of deposits received, there was still a net increase in funds borrowed from the FHLB in April and in early May; the volume of new advances was lower than in the previous two years, but there were no net repayments as there had been in March and in 1967. Reflecting the combination of its own near-record high liquidity position and the only modest rise in net advances, the FHLB retired $100 million, on net, of its own obligations in its May refunding.

The FHLB has apprently been quite successful in its attempts since mid-April to encourage conversion of outstanding advances to a one-year, reduced cost, instrument. As of May 7, of the $9.9 billion total advances outstanding, $7.4 billion was of the type eligible to be converted to the one-year issue, and 62 per cent of that had already been converted.

The FHLB staff expects even more conversions in the near future, partly because one of its District banks has only just begun to implement the program.

<u>Mortgage market</u>. Loan originations in the residential mortgage market continue to be limited by slow property sales and the curtailed number of new starts, which in turn reflect the low level of commitment activity in recent months. Furthermore, FNMA field reports suggest that uncertainty concerning future interest rate movement is tending to encourage some potential mortgage investors to adopt a wait-and-see attitude, despite the improved deposit flows at the thrift institutions, which continue to allocate funds to increased holdings at liquid assets.

However, due partly to the low level of the mortgage commitment backlog and the prospects for some further improvement in savings inflows, the majority of lenders responding to the recently conducted FRB-FHLBB field survey of residential mortgage market conditions anticipated that the pace of their new mortgage commitments would improve modestly by the end of the third quarter. A detailed analysis of the survey results will appear as an attachment to the Greenbook Supplement.

Part of the confusion concerning future rate trends stems from the fact that as interest rates in other segments of the capital markets rose from mid-April through early May, yields on FNMA forward purchase commitments continued to decline. In response to what it considered an inconsistent movement of auction yields, and to pressure on its own resources, FNMA reverted to a weekly auction on May 4, a move intended to increase auction sensitivity to other current capital market developments. In addition, FNMA has in the past few weeks accepted a smaller proportion of the bids received, thereby adding to the upward pressure on auction yields. In the two auctions following the shift back to a weekly auction, yields on the 6-month commitments partially reversed their downward trend of the past four months, but at mid-May still remained 23 basis points below the January peak. Even with this rise in yields, the volume of bids has increased as some auction participants have attempted to replace commitments they obtained in January with new higher priced--and lower yield--commitments.

FNMA AUCTIONS

	Amount of total offers		Implicit private market yield on 6-month commitments
	Received	Accepted	
	(Millions of dollars		(Per cent)
Weekly Auction			
1969 High	$410 (6/16)	$152 (9/8)	8.87 (12/29)
1970 High	705 (1/5)	151 (1/12)	9.36 (1/12)
Bi-weekly Auction			
1970 High	581 (1/26)	298 (1/26)	9.29 (1/26)
March 9	355	276	9.19
23	395	239	9.14
April 6	268	190	9.07
20	316	185	9.04
May 4	443	195	9.04
Weekly Auction			
May 11	269	102	9.07
18	300	136	9.13

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

In the primary market, the average contract rate on conventional new-home mortgages remained unchanged in April for the third consecutive month, according to the FHA field office series based on commitments. Regionally, modest rate advances in the Northeast, Middle Atlantic and Southwest were offset by some easing of rates in the North Central and West. In the secondary market for existing FHA-insured mortgage loans, the rate declined for the second time in as many months.

AVERAGE RATES AND YIELDS ON SELECTED NEW-HOME MORTGAGES

	Primary market: Conventional Loans		Secondary market: FHA-insured loans		
	Level (per cent)	Yield spread (basis points)	Level (per cent)	Yield spread (basis points)	Discounts (points)
1969					
Low	7.55 (Jan.)	-40 (Dec.)	7.85e (Jan.)	-13 (Dec.)	2.8e (Jan.)
High	8.35 (Nov., Dec.)	69 (Feb.)	8.62 (Dec.)	108 (Feb.)	8.7 (Dec.)
1970					
January	8.55	9	9.25e	79e	5.7e
February	8.55	25	9.29	99	6.0
March	8.55	- 5	9.20	60	5.3
April	8.55	- 5	9.10	50	4.6

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

e/ - Estimated.

<u>Life insurance companies</u>. Recent data for a sample of life insurance companies indicate that policy loan pressure through April has persisted at about the same level as during the fourth quarter. More detailed and comprehensive data now available for the last two quarters of 1969 indicate that there was a sizeable number of large companies at which net funds advanced for policy loans equalled one-half or more of the total gross volume of all other investments. Thus, given the persistence of large policy loan volume, there is reason to believe that there were several large companies at which the net increase in policy loans during the first quarter was probably close to the size of their net increase in long-term investments.

NET CHANGE IN POLICY LOANS OUTSTANDING
AT 15 LIFE INSURANCE COMPANIES*
(Monthly averages in millions of dollars, not seasonally adjusted)

	1965-1966	1966-1967	1967-1968	1968-1969	1969-1970
Quarter IV	27	104	45	56	140
Quarter I	42	63	60	90	154
March	57	64	67	106	148
April	69	60	73	139	145

* These companies account for about 65 per cent of policy loans outstanding in the industry.

DISTRIBUTION OF 34 LIFE INSURANCE COMPANIES*
BY POLICY LOAN NET INCREASE AS PER CENT OF GROSS FUNDS INVESTED**

Policy loan increase as % of funds invested**	Number of Companies				
	Q IV '66	Q IV '67	Q IV '68	Q III '69	Q IV '69
Decrease to increase of less than 5%	2	19	13	0	3
5 to 10%	8	11	13	5	4
10 to 20%	12	3	7	8	8
20 to 50%	10	1	1	11	8
50% and over	2	0	0	10	11
Total companies	34	34	34	34	34
Weighted average, %	17.4	5.4	6.8	33.0	24.6

* These companies accounted for 57% of industry assets and 63% of industry policy loans as of the end of 1968.

** Funds invested exclude policy loans.

For well over a year, the industry had projected diminished cash flows, not just because of policy loans but also because of reduced return flows from existing investments and policyholder reluctance to prepay premiums or make optional extra premium payments. But to guard against the contingency of realized cash flows falling short of projections--which appears to have happened as policy loan volume was larger than anticipated--scheduled disbursements on forward investment commitments had been kept at a fairly constant level of about three-fourths of projected cash flow. This ratio, which had been maintained since 1966, represented a good deal more leeway than was the practice just prior to that time. However, during the fourth quarter, new projections of cash flows available for investment through the first half of 1970 were modified even further downward in light of the larger-than-expected policy loan volume. These projections suggest that for the first time since 1966, for a sample of companies representing a sizeable proportion of industry assets, commitments scheduled for takedown during the first half of 1970 represent over 85 per cent of projected cash flows available for such investments. This relatively high aggregate ratio suggests that the carefully husbanded leeway maintained between commitments and projected cash flow has been reduced, at least for some companies. To be sure, sources of funds such as increased sales of securities from portfolio and commercial bank lines of credit are available; but the data suggest a degree of pressure that has not been evident at life insurance companies in several years.

Corporate financing of fixed investment. Financing by corporations in capital markets thus far this year, despite its unusually large volume, has fallen short of the external financing needs generated by the continued rise in fixed investment. At the same time, borrowing from banks and other short-term sources, while well below its 1969 average, has contracted less than corporate spending for inventories and other working capital. These developments suggest that corporations as a whole have been financing fixed investment with relatively short-term funds to as great an extent as they did last year. While a number of companies have used the proceeds of new bond and stock issues to repay short-term debts, the bulk of such financing for restructuring purposes may still lie ahead.

A major feature of corporate financing since mid-1968 has been the increasingly large volume of external financing required to fill the gap between a relatively stable flow of internal funds and a rising level of fixed investment. Prior to 1969, on net, some long-term funds were used to finance short-term uses. A striking feature in 1969 was a shift in this relationship and the reliance on short-term borrowing to fill part of the long-term gap, with the result that short-term sources exceeded short-term uses--by $5-1/2 million--for the first time since 1956. In the 7 preceding years the short-term sources were less than short-term uses by an average of about $4 billion. Thus, in terms of the financing relationships of the earlier years, about $10 billion of corporate financing demands seem to have been shifted from the capital markets to the banking system and the commercial paper market last year. This is equivalent to half the net new long-term funds raised externally by corporate business in 1969 and exceeds the amounts raised in any year prior to 1966.

Preliminary estimates of flow-of-funds for the corporate sector in the first quarter of 1970 indicate a continued use of short-term borrowing to finance fixed investment. Despite the fact that short-term borrowing was $2-1/2 billion below the rate in the last half of 1969, short-term uses declined more and $7 billion of short term funds were available for long-term uses, $1-1/2 billion more than in the second half of last year. And, despite the record volume of funds raised in the capital markets in the first quarter of 1970, the ratio of long-term sources to long-term uses, after declining sharply in 1969, appears to have declined a little further. (The latest estimates of inventory accumulation and of corporate retained earnings in the first quarter, not incorporated in the table, would increase the excess of short-term funds and reduce still further the shortfall of long-term funds.) Thus there is no indication on net of restructuring of corporate balance sheets by repayment of short-term debts incurred last year.

Capital market financing in the second quarter appears to be rising faster than fixed investment, largely reflecting the AT&T offering and receipt by corporations of proceeds from a large volume of offerings sold in late March. Nevertheless, the relationship of long-term funds--internal and capital market funds combined--to long-term outlays thus far this year seems to have been no higher than in 1969. This means that potential long-term financing demands for restructuring purposes now overhanging the market are as large or larger than at the close of last year. While the present structure of interest rates may be inducing some corporations to continue rolling over their short-term loans, many must feel under pressure to replace them with more permanent funds.

FLOW OF FUNDS, NONFINANCIAL CORPORATIONS
(Dollars in Billions)

	1962-66	1967	1968	1969 H 1	1969 H 2	1970 Q I
	(Avg.)			(SAAR)		
Long-term sources	61.2	82.7	81.0	82.6	84.7	85.7
Internal 1/	50.8	61.2	63.1	62.9	62.5	62.3
Capital market	10.4	21.5	17.9	19.7	22.2	23.4
Long-term uses	51.3	68.7	71.2	80.9	83.2	87.6
Plant and equip.	46.8	63.8	68.0	75.2	79.2	81.8
Other 2/	4.5	4.9	3.2	5.7	4.0	5.8
Short-term sources	6.4	7.8	13.2	20.5	13.7	11.0
Bank loans n.e.c. 3/	5.8	6.4	9.6	13.4	8.3	5.5
Other loans 4/	.6	1.4	3.6	7.1	5.4	5.5
Short-term uses	10.0	13.5	16.1	15.1	8.0	3.8
Inventory accumulation	7.4	6.4	6.5	6.6	8.3	3.6
Other, net. 5/	2.6	7.1	9.6	8.5	- .3	.2
Per cent of long-term uses:						
Internal funds	99	89	89	78	75	71
Capital market	20	32	25	24	27	27
Total	119	121	114	102	102	98

1/ Total retained earnings and capital consumption allowances.
2/ Residential construction and foreign direct investment.
3/ Includes business bank loans reported as sold to bank affiliates. Excludes commercial paper held by banks.
4/ Includes loans from finance companies and sale of commercial paper (including that held by banks).
5/ Current assets (other than inventories) less current liabilities (other than bank and other loans).

<u>Corporate and municipal security markets</u>. New peaks were reached by corporate and municipal bond yields in mid-May, as the weight of heavy forward calendars and uncertainties related to foreign and domestic policies continued to depress prices of long-term securities.

BOND YIELDS

	Bond Yields	
	New Corporate Aaa 1/	Long-term State and Local Bonds 2/
<u>1969</u>		
Low	6.90 (1/10)	4.82 (2/23)
High	8.85 (12/5)	6.90 (12/18)
<u>1970</u>		
Low	8.20 (2/27)	5.95 (3/12)
High	9.10 (5/15)	6.96 (5/14)
<u>Week of</u>:		
April 17	8.65	6.50
24	8.75	6.73
May 1	8.91	6.79
8	8.98	6.89
15	9.10	6.96

1/ With call protection.

2/ Bond Buyer (mixed qualities).

In mid-May, the Board's index of yields on newly issued Aaa corporate bonds exceeded 9 per cent for the first time in its 19-year history, and $300 million of new public bond offerings were withdrawn. At these record yields, however, investors quickly bought out those issues that were marketed that week, and some of the larger borrowers who had previously postponed their offerings returned to the market. Consequently, the May volume of public bond issues is likely to be about $3.2 billion (including AT&T), down only slightly from the previous staff estimate. Although the sharply lower stock prices resulted in a number of cancellations and withdrawals of new equity offerings, the volume of new stock issues so far appears to be remaining at unusually high levels. This development probably reflects not only the pressing need for capital, but also the increasing need for many corporations to reduce debt ratios. With both bond and stock volume remaining large in May (excluding AT&T) and June, gross corporate issues are thus expected to remain at near the record April pace.

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

	Bonds				Stocks		Total	
	Public Offerings		Private Placements					
	1969	1970	1969	1970	1969	1970	1969	1970
Q I	886	1,521e	513	392e	674	697e	2,073	2,610e
II	1,137	2,333e	558	367e	756	633e	2,451	3,333e
April	1,268	2,000e	649	400e	830	600e	2,748	3,000e
May*	871	3,200e	510	300e	694	600e	2,076	4,100e
June	1,272	1,800e	514	400e	744	700e	2,530	2,900e

1/ Data are gross of underwriting expenses.
e/ Estimated.
* "Public bond" figure and "Total" include AT&T rights offering.

The May schedule of long-term municipal bonds was reduced significantly, as the sharp rise in rates and the slow movement of bonds out of dealer inventories depressed the market. State and local governments withdrew offerings and the pace of new bond filings slowed appreciably. The staff now estimates that long-term borrowing by state and local units in May will be only about $1 billion, $300 million less than previously estimated, and there is no evidence as yet that the June volume will be much higher. Undoubtedly, municipal financing plans have been dampened by the 100 basis point rise in the Bond Buyer index over the 8-week period beginning in mid-March.

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

	1969	1970
Year	990	--
Q I	927	1,350
Q II	1,216	1,217e
April	1,801	1,650e
May	1,110	1,000e
June	737	1,000e

e/ Estimated.

Uncertainty about the tax deductibility of the cost of some bank funds used to purchase municipal bonds still hung over the market after the ambiguous Internal Revenue Service announcement in mid-May concerning guidelines about investment of borrowed funds. Doubts about the nature of the guidelines and their future interpretation will probably restrict bank participation in the municipal market for the immediate future.

Stock market. Stock prices declined substantially further during the three weeks ended May 15, as trading volume continued at a moderate to light pace. Reflecting uncertainties regarding the implications for monetary policy of persisting inflationary pressures, as well as the corporate profits outlook and U.S. military involvement in Indochina, both the New York Stock Exchange Index and the American Stock Exchange Index have fallen more than 15 per cent since April 3 --when prices most recently began to erode--and 31 and 37 per cent, respectively, since cyclical highs of December 1968. Price-earnings ratios have declined to levels reached only once in the last decade--briefly--during late 1966.

The reduction in margin requirements on May 6 had only a brief impact on stock prices during the first week of May.[1/] Declines in broker-extended margin credit had continued into April, for which a $140 million drop to $4.4 billion is estimated, and there is little reason to expect that margin trading has increased during May. The average 9 to 10 per cent interest being charged by brokers on debit balances, combined with doubts that there will be a rapid recovery in stock prices, may limit--over the next several months--the added buying stimulus which the greater availability of stock market credit ordinarily provides.

1/ The Board reduced required margins on stocks from 80 to 65 per cent and on convertible bonds from 60 to 50 per cent, citing the more than 30 per cent decline in margin credit extended by brokers from June 1968--when margin requirements were last raised--through March 1970.

STOCK PRICES, TRADING VOLUME AND PRICE-EARNINGS RATIOS

	Stock Prices		NYSE	Average
	Amex Index	NYSE Index	Trading Volume 1/	Price-Earnings Ratio 2/
1968 - High	33.25 (12/20)	61.27 (11/29)	21,350 (6/13)	19.19
Low	21.58 (3/5)	48.66 (3/5)	6,700 (3/25)	16.45
1969 - High	32.91 (1/3)	59.32 (5/14)	19,950 (10/14)	18.31
Low	25.02 (7/29)	49.31 (7/29)	6,683 (8/11)	15.35
1970 - High	27.02 (1/8)	52.36 (1/5)	17,508 (3/25)	16.88
Low	21.22 (5/18)	41.99 (5/13)	6,650 (5/11)	14.71
Week Ended:				
April 3	24.92	49.70	9,647	16.88
10	24.33	48.86	9,010	16.57
17	23.35	47.29	10,064	16.05
24	22.40	45.53	9,806	15.60
May 1	21.99	44.75	11,369	15.16
8	21.69	43.61	10,577	14.71
15	21.11	42.14	11,349	14.16

1/ Daily average trading volume in thousands of shares for week ended data; actual daily total for highs and lows.

2/ Calculated for the Standard & Poor 425 Industrial Average on Wednesday of each week. Current or latest available annualized quarterly earnings are used in the calculation. Currently, the ratio is calculated using fourth quarter 1969 earnings, and thus the level of the ratio may be misleading; if investors are anticipating a seven per cent decline in earnings for 1970, for example, the effective price-earnings ratio on May 15 was 15.22

<u>Total private borrowing and lending</u>. Although corporate business continues the large excess of fixed capital outlays over internal funds that has been generating demand for long-term financing, the total amount of business excess spending diminished somewhat in the first quarter with the cutback in inventory investment. This improvement is reflected in Table 1 below on net financial investment, where the business net deficit is somewhat less deep in the first quarter than earlier. Households have also been improving their net financing position, starting from their unusually low surplus in the first half of 1969, through a combination of rising gross saving and reductions in capital outlays. The unusual deficit of private sectors throughout 1969 was the counterpart of the Federal Government's surplus of last year and the strong position of the rest of the world on current account <u>vis-a-vis</u> the United States. In the first quarter, both the Federal and foreign positions shifted to more usual relationships, with concomitant increases in the private balance of saving and outlays to a first quarter rate $15 billion above the 1969 year total. (Table 1)

Table 1

NET FINANCIAL INVESTMENT, BY SECTOR[a/]
(Net flows in billions of dollars,
seasonally adjusted annual rates)

	1965-68 average	1969	1969 half yrs. H 1	1969 half yrs. H 2	1970 Q I
Domestic private nonfinancial sectors	- .4	-23.3	-29.5	-17.3	-8.3
Households	27.5	20.3	13.4	27.1	30.5
Business	-23.9	-36.1	-32.6	-39.8	-33.6
State and local governments	-4.0	-7.5	-10.3	-4.6	-5.2
Federal Government and foreign	-6.3	12.3	17.5	7.0	-2.9
Federal Government	-4.9	8.6	12.0	5.2	- 1.2
Foreign	-1.4	3.7	5.5	1.8	-1.7

a/ Net financial investment is excess of financial asset acquisitions over increases in total liabilities. Except for sector discrepancies, it equals sector saving less capital expenditures.

This shift is reflected in first quarter financial data as a combination of reduced borrowing by private sectors and higher rates of financial flow from these sectors to markets. Private borrowing has, in total, been decreasing fairly steadily from the first-half 1969 peak, and this continued into the first quarter of this year. (Table 2)

Table 2

FUNDS RAISED IN CREDIT MARKETS
(Net flows in billions of dollars
seasonally adjusted annual rates)

	1965-68 Average	1969	1969 half years H 1	H 2	1970 Q 1
Total funds raised by non-financial sectors a/	80.1	87.8	91.0	85.0	81.3
U.S. Government a/	8.3	-4.0	-7.1	- .7	2.5
Debt of other sectors b/	71.7	87.4	96.4	78.5	71.3
Long-term debt	43.7	49.1	53.2	45.0	46.5
Bonds	19.4	21.8	24.5	18.9	23.0
Mortgages	24.3	27.4	28.6	26.1	23.5
Short-term debt	27.4	38.3	43.1	33.5	24.8
Bank loans n.e.c. c/	11.9	14.2	17.9	10.6	4.6
Open-market paper	1.1	3.3	4.5	2.2	5.0
Consumer credit and other	14.4	20.8	20.7	20.7	15.2
Corporate equities	.7	4.5	1.7	7.2	7.5

a/ Net of changes in Treasury cash balances.
b/ Private nonfinancial sectors and foreign.
c/ Includes business loans sold to bank affiliates.
d/ Issued by nonfinancial corporations.

Unlike earlier periods, however, the first quarter drop in private borrowing was extremely concentrated, falling entirely in short-term credit and even more specifically in loans directly from banks. Bank affiliates were important first-quarter lenders, and business continued to draw heavily on the commercial paper market, but these forms of credit flow were not sufficient to offset the sharp decrease in loans held directly by banks.

The drop in short-term credit is roughly consistent with the low inventory investment figures now estimated for the first quarter. However, short-term credit flows were still too large to be associated with the corporate push into security financings during the quarter. Net new bond issues in the first quarter were up sufficiently to hold the total of long-term financing roughly steady at earlier rates, offsetting the continuing decline in mortgage credit flows (Table 2). Moreover, the impact of corporate bond financing tends to be understated in the first-quarter figures on net new issues, because large offerings were still in process at the end of March and will be included in second quarter net issues along with the AT&T and other offerings of this quarter. The evidence is nevertheless that a restructuring of corporate debt is yet to come and that the large volume of capital market borrowing is being fully absorbed by the continuing large excess of fixed-capital outlays over internal funds.

As suppliers of credit, private investors were a principal source of short-term credit to business during the first quarter through their purchases of the continuing large volume of commercial paper offerings by bank affiliates and nonfinancial businesses (included in direct investment in private short-term claims in Table 3). These purchases were a continuation of the 1969 development of the commercial paper market that has brought private holdings of commercial paper from $14.5 billion at the end of 1968 to over $27 billion at the end of March this year. These holdings, at recent levels, are about five times the amount of large CD's held by these investors and more than half as large as private holdings of short-term Governments.

TABLE 3

SOURCES OF CREDIT MARKET FUNDS

(Net flows in billions of dollars, seasonally adjusted annual rates)

	1965-68 average	1969	1969 half years H1	1969 half years H2	1970 Q1
Total funds raised by non-financial sectors[a]	80.1	87.8	91.0	85.0	81.3
Supplied by:					
Private domestic non-financial sectors	48.7	40.3	38.7	41.1	46.0
Direct investment in credit markets	13.7	41.7	37.1	46.0	31.7
U.S. Government Securities	4.3	15.8	11.9	19.8	1.4
Private Claims--					
Short term	3.9	10.6	8.9	12.0	16.7
Long term	5.6	15.3	16.3	14.2	13.6
Corporate equities[b]	- 4.8	- 2.7	- 4.0	- 1.5	3.2
Deposits and currency[c]	39.8	1.4	5.5	- 3.4	11.1
Other sources[a] [d]	31.4	47.5	52.3	43.9	35.3

a/ Net of changes in Treasury cash balances.
b/ Net of security credit borrowing.
c/ Includes demand deposits and time and savings deposits at commercial banks, mutual savings banks, S&L's, credit unions,
d/ Mainly foreign funds and sources of funds to financial institutions other than deposits and credit market borrowing.

Private buying of long-term securities was not large in the first quarter by recent standards except in equities, which continued to be issued in the large volume established in the fourth quarter. Through a combination of circumstances, including low loan demand in March, banks were the main support for municipals in that quarter, while banks together with the home loan bank system were major buyers of Governments. The flow of household funds into equities (net of security debt) in the first quarter, however, is an upward shift of almost $6 billion from 1969 totals and in sharp contrast to the entire decade of the 1960's.

Government securities market. Yields on Treasury notes and bonds have shown only minor changes on balance since the May 5 meeting of the Committee. Treasury bill rates, on the other hand, have fluctuated fairly widely and are generally about 20 to 30 basis points lower than around the time of the meeting.

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

	Late 1969 Highs	1970 Lows	Week ending May 5	May 12	May 19
Bills					
1-month	7.54 (12/31)	6.22 (3/24)	6.66	6.56	6.52
3-month	8.08 (12/29)	6.08 (3/24)	6.94	6.75	6.75
6-month	8.09 (12/29)	6.18 (3/23)	7.19	6.85	6.94
1-year	7.86 (11/24)	6.20 (4/13)	7.16	7.05	7.09
Coupons					
3-year	8.51 (12/29)	6.87 (3/25)	7.90	7.89	7.92
5-year	8.33 (12/29)	7.05 (3/25)	7.97	7.96	7.96
7-year	7.77 (12/29)	6.98 (3/25)	7.94	7.87	7.89
10-year	8.05 (12/29)	6.90 (2/27)	7.86	7.82	7.85
20-year	7.14 (12/29)	6.55 (2/27)	7.13	7.11	7.12
Agencies					
6-month	8.70 (12/30)	7.17 (4/15)	7.68	7.67	7.61
1-year	8.87 (12/11)	7.46 (4/14)	8.09	8.23	8.24
3-year	8.55 (12/31)	7.75 (3/25)	8.27	8.28	8.25
5-year	8.47 (12/31)	7.78 (3/25)	8.19	8.29	8.30

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

The Treasury's May refunding operation raised somewhat more cash than anticipated, although the actual distribution of the public's takings of various issues was somewhat at variance with earlier expectations. During the refunding period, the success of the operation came into question as a result of market uncertainties following the President's announcement of U. S. involvement in Cambodia. However, very large reserve injections by the System improved the technical position of the market and strengthened prices of Treasury coupon securities. In the event, the financing turned out somewhat more successfully than expected with the Treasury raising a total of $2.0 billion in new cash, compared with an intended new borrowing total of $1.0 billion. This result reflected the Treasury's decision to allot in full the $3.6 billion in subscriptions to the 18-month, 7-3/4 per cent note, combined with an attrition in the exchange portion of the financing totaling only about $1.6 billion, slightly less than one-third of the publicly held maturing issues.

The System's large reserve injections during the financing period, which in the week ending May 6 totaled nearly $1.2 billion on a daily average basis, primarily took the form of outright bill purchases. Consequently, dealer's positions in Treasury bills have declined sharply and the technical position of the bill market is very strong. Nevertheless, market uncertainty about bill rates and likely financing costs has increased considerably as dealers have come to realize that somewhat wider variations in short-term interest rates and day-to-day money costs apparently may be expected under the System's current mode of operations. In addition, dealers are apprehensive that the System may sharply reverse the reserve supplying operations undertaken earlier in support of the Treasury financing. Thus, dealers have been wary of adding substantially to their positions, and sudden changes in demands or supplies have been reflected in relatively sharp rate movements.

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

	April Daily Average	May 4	May 12	May 18
Treasury securities				
Total	4,508	2,089	2,518	2,053
Treasury bills (totals)	3,816	1,521	1,300	1,035
Due in 92 days or less	721	-137	-126	-125
93 days or over	3,095	1,658	1,426	1,159
Treasury notes and bonds (total)	692	567	1,217	1,019
Due within 1 year	413	512	137	142
1-5 years	107	-32	677	523
over 5 years	172	87	404	354
Agency securities				
Total	705	699	699	554
Due within 1 year	479	536	500	419
over 1 year	226	164	198	135

There has been little activity in the market for Federal agency issues, and prices have generally moved in parallel with Treasury securities of comparable maturity. New issues have raised net $800 million in new cash thus far in May. The three major new issues were: a $400 million 28-month FNMA offering on April 29, all representing new money and priced to yield 8.40 per cent; a FHLB offering of a $500 million, 1-year issue and a $200 million, 2-year issue, yielding

8.20 and 8.15 per cent, respectively, and refinancing maturing securities, except for $100 million which were redeemed for cash; and $400 million of GNMA mortgage-backed bonds, all representing new cash and composed of $150 million 1-year bonds yielding 8-1/8 per cent and $250 million of 5-year bonds yielding 8-3/8 per cent. Other Agency issues taken together raised about $100 million in new cash. All of these issues were well received by investors.

Other short-term credit markets. Outstanding commercial and finance paper increased sharply in April from a higher revised March total. The $1.9 billion increase in total commercial and finance paper in April entirely represented directly placed paper and brought the average monthly increase for the first four months of the year to about $1.3 billion. Revised data indicate that bank-related paper increased by some $450 million in March, compared to an earlier estimate of about $125 million. The April increase in such paper is now estimated at about $100 million, whereas the increase in the first week of May totalled nearly $170 million.

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

	1970			
	February	March	April	May 1/
Total commercial and finance paper 2/	35,930	36,406r	38,276p	NA
Placed through dealers	13,088	13,319r	13,249p	NA
Placed directly	22,842	23,087r	25,027p	NA
Note: Bank-related paper 3/ (seas. unadj.)	5,967	6,433r	6,542	6,710
Bankers' acceptances	5,249	5,352	5,614	NA

1/ Bank-related paper as of May 6, 1970.
2/ Data for commercial and finance paper are seasonally adjusted, in contrast to similar data published in the Bulletin that are seasonally adjusted.
3/ Bank-related paper is included in directly-placed, dealer-placed and total commercial paper.
r--revised
p--preliminary

With growth in commercial paper strengthening once again, rates on private short-term credit instruments tended to advance slightly further for the most part in the first two weeks of May; even though Treasury bill rates declined somewhat over the period. Finance paper rates were unchanged to 1/4 higher, while 6-month commercial paper advanced by 1/8. In contrast, bankers' acceptance rates were generally unchanged, reportedly in response to a fairly marked increase in investor demand for acceptances.

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

	1969 Nov.-Dec. Highs 1/	May 1	May 8	May 15
1-Month				
Finance paper	9.00 (12/31)	8.00	8.00	8.13
Bankers' acceptances	9.00 (12/31)	8.00	8.00	8.00
Treasury bill	7.54 (12/31)	6.67	6.54	6.57
3-Month				
Commercial paper	9.25 (12/31)	8.25	8.38	8.25
Finance paper	8.13 (12/31)	7.50	7.50	7.75
Bankers' acceptances	9.00 (12/31)	8.00	8.00	8.00
Treasury bill	8.03 (12/29)	6.84	6.56	6.76
6-Month				
Commercial paper	9,25 (12/31)	8.13	8.25	8.25
Finance paper	8.13 (12/31)	7.50	7.50	7.50
Bankers' acceptance	9.00 (12/31)	8.00	8.00	8.00
Treasury bill	8.09 (12/29)	7.24	6.64	6.97
12-Month				
Prime municipals 2/	6.25 (12/12)	4.50	5.25	5.50
Treasury bill	7.66 (11/24)	7.21	6.99	7.14

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

<u>Federal finance</u>. On Tuesday, President Nixon announced that the Federal budget will show deficits of $1.8 billion and $1.3 billion in fiscal 1970 and 1971, respectively. The shift to deficit in fiscal 1970 from the previous projected budget surplus is due mainly to a $3 billion anticipated shortfall in revenues. Outlays in fiscal 1970 are expected to exceed the January budget estimate by only $300 million, thus reaching a total of $198.2 billion. (Current staff estimates indicate a somewhat larger deficit for the current fiscal year--about $3.0 billion, mainly due to a lower estimate for receipts.)

For fiscal 1971, outlays have been revised upward by $4.8 billion from the January Budget as a result of various spending revisions shown in the accompanying table. As is shown in the table, the budget revisions do not allow for a possible $1.9 billion of additional social security benefits in fiscal 1971 that would begin in January 1971 if the House Committee bill were to be enacted.

Despite the large increase in anticipated expenditures, the Administration budget review shows only a moderate shift toward deficit in fiscal 1971 due to the inclusion of $3.1 billion revenues from proposed new taxes. The speed-up in the estate and gift tax--proposed earlier--is included with a $1.5 billion revenue impact in fiscal 1971. This assumes passage of the proposed speed-up will be completed by June 30. The tax provides for a 7-month lag between the date of death and the date of payment of an estimated tax, a considerable speed-up from the present 15-months lag. Therefore, even assuming

PROJECTED CHANGES IN FEDERAL BUDGET OUTLAYS
(Billions of dollars, Fiscal Years)

	1970	1971
Total outlays, January Budget Document	197.9	200.8
Changes resulting from completed Congressional action	1.6	1.8
Federal employee pay raise 1/	1.2	1.4
HEW appropriations (mainly education)	.3	.2
Veterans' education benefits	.1	.2
Items not subject to tight control	1.3	2.3
Interest on the Federal debt	.6	1.0
Agriculture price supports	.3	.3
Unemployment Insurance Benefits	.1	.5
Public Assistance Grants (including Medicaid)	.3	.5
Anticipated miscellaneous changes	-2.6	.7
Proposed postal rate increase, net 2/ (negative expenditure)	.2	-.4
Cuts in medicare	-.3	-.3
Cuts in HUD (mostly model cities).	-.2	-.2
Cuts in NASA	-.2	--
Farmers' Home Administration	-.3	.3
Administration release of construction funds	--	.5
Family assistance program, House Postponement	--	-.4
Revenue sharing program, postponement	--	-.3
All other, net	-1.8	1.5 3/
Total outlays, new Administration estimate 4/	198.2	205.6
Addendum: Social Security benefit increase and reform included in House committee bill 5/		
5% benefit increase		.8
Reform		1.1
Total including Social Security Bill		207.5

1/ Assumes $.4 billion of pay raise absorption through personnel economies in fiscal year 1971.
2/ Reflects failure to raise postal rates in fiscal 1970, and proposed rate increases resulting in additional revenues of $1.6 billion in fiscal 1971 offset by revenue hikes of $1.2 already assumed in January Budget.
3/ Includes additional spending for education outside of HEW appropriation bill, additional pollution outlays, housing incentives, and miscellaneous.
4/ So far no revisions have been scheduled in defense outlays.
5/ Committee also provides for an increase in revenues, but this was already included in January Budget.

speedy passage, tax collections would not be affected until February 1971. The second revenue measure is a tax on lead in gasoline--imposed on manufacturers or importers of lead additives--that would add about 2.3 cents a gallon to the cost of gasoline and bring in an estimated $1.6 billion in revenue for a full year. Without these revenue measures the fiscal 1971 deficit would be $4.4 billion according to current estimates. Such a deficit however, would mainly be the result of low rates of economic growth since the high employment surplus for fiscal 1971--even without the additional revenues--would still show a surplus of close to $10 billion.

In regard to the Federal sector in the national income accounts, the Staff continues to project a small surplus ($1.2 billion) in fiscal 1970; the deficit in calendar 1970 is expected to be about $5.0 billion.

No revision for defense outlays in fiscal 1970 or 1971 was made in the Administration's new figures. Some question has arisen about the prospect for defense spending in light of the mixed behavior of advance defense indicators and recent action in Cambodia. Defense outlays other than personnel compensation would have to continue their recent pattern of decline in order for Budget targets to be met. Cuts in defense personnel have been substantial through March 1970.

The end-of-May cash balance at the Treasury is projected by the Staff to be about $5.0 billion. The net effect of the Treasury's May financing (after adjustment for attrition and Federal agency purchases of the new issues) was to add $1.7 billion to the cash balance. No further financing (other than additions to regular bill auctions) is now expected in fiscal 1970. In July and again in August the Treasury will need an estimated $4 to $4.5 billion of new money, with the lower end of this range likely if additions to regular bill auctions are continued beyond June. The next refunding will involve the quarterly note and bond maturities in August, of which $5.6 billion are publicly held.

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

	Fiscal 1970 e/		Fiscal 1971 e/		Calendar Years		Calendar Quarters 1970			
	Revised Budget 1/	F.R. Board	Jan. Budget	Revised Budget	1969	F.R. Board 1970	I	IIe/	IIIe/	IVe/
Federal Budget										
(Quarterly data, unadjusted)										
Surplus/deficit	-1.8	-3.0	1.3	-1.3	5.3	-8.3	-3.5	8.6	-6.0	-7.4
Receipts	196.4	195.5	202.1	204.3	195.6	194.8	44.3	60.4	47.6	42.5
Outlays	198.2	198.5	200.8	205.6	190.3	203.1	47.8	51.8	53.6	49.9
Means of financing:										
Net borrowing from the public 2/		3.5	-1.2		-4.1	7.0	2.0	-6.8	6.3	5.5
Decrease in cash operating balance	n.a.	-1.5	n.a.	n.a.	- .6	--	-1.6	- .5	- .5	2.6
Other 3/		1.0			- .7	1.3	3.1	-1.3	.2	- .7
Cash operating balance, end of period		7.4			5.3	5.3	6.9	7.4	7.9	5.3
National Income Sector										
(Seasonally adjusted annual rate)										
Surplus/deficit	n.a.	1.2	1.6	n.a.	9.5	-5.0	.3	-9.6	-6.5	-4.2
Receipts	n.a.	201.0	205.4	n.a.	201.5	200.4	198.7	200.8	199.2	202.7
Expenditures	199.3	199.8	203.8	208.3	192.0	205.4	198.4	210.4	205.7	206.9
High employment budget surplus/deficit 4/	n.a.	3.5	n.a.	12.6	5.3	4.0	5.2	-.8	3.7	8.0

e--projected
n.a.--not available
1/ Official Budget Revision: May 19, 1970
2/ Excludes effect of reclassification of $1.6 billion of CCC certificates of interest, as of July 1, 1969. This reclassification increased Federal debt, but is not treated as borrowing from the public.
3/ Includes such items as deposit fund accounts and clearing accounts.
4/ Estimated by Federal Reserve Board Staff.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

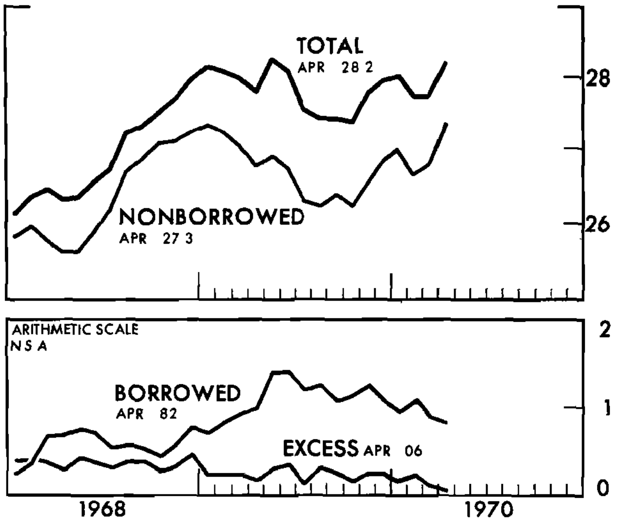
	May	June	July	August
Borrowing operations				
New cash raised				
Unspecified new borrowing	--	--	4.2	3.4
Weekly and monthly bills	.4	.6	.5	.4
Tax bills	--	--	--	--
Coupon issues	3.6	--	--	--
Other (agency, debt repayment, etc.)	-2.4	-4.5	--	-.8
Total net borrowing from public	1.6	-3.9	4.7	3.0
Plus: Other net financial sources[a/]	.2	-.9	.3	-.3
Plus: Budget surplus or deficit (-)	-3.8	7.2	-6.0	-3.3
Equals: Change in cash balance	-2.0	2.4	-1.0	- .6
Memoranda: Level of cash balance end of period	5.0	7.4	6.4	5.8
Derivation of budget surplus or deficit				
Budget receipts	14.0	24.1	12.5	14.9
Budget outlays	17.8	16.9	18.5	18.2

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

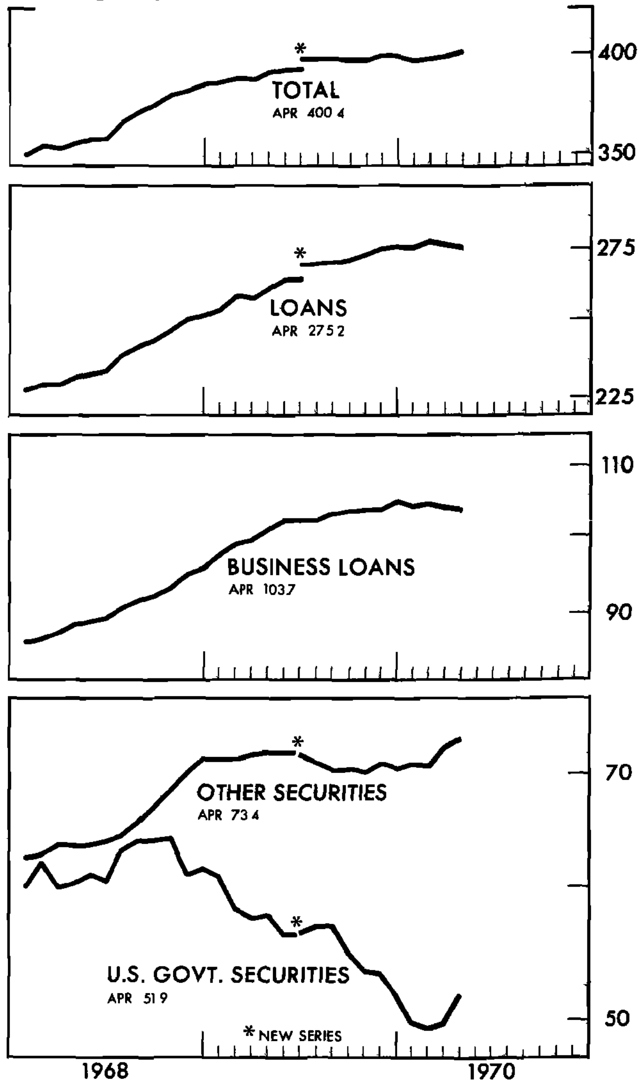
FINANCIAL DEVELOPMENTS - UNITED STATES

BILLIONS OF DOLLARS, SEASONALLY ADJUSTED, RATIO SCALE

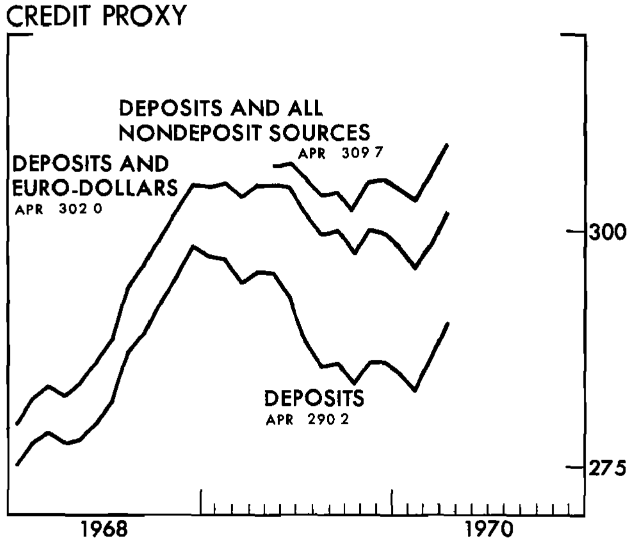
BANK RESERVES



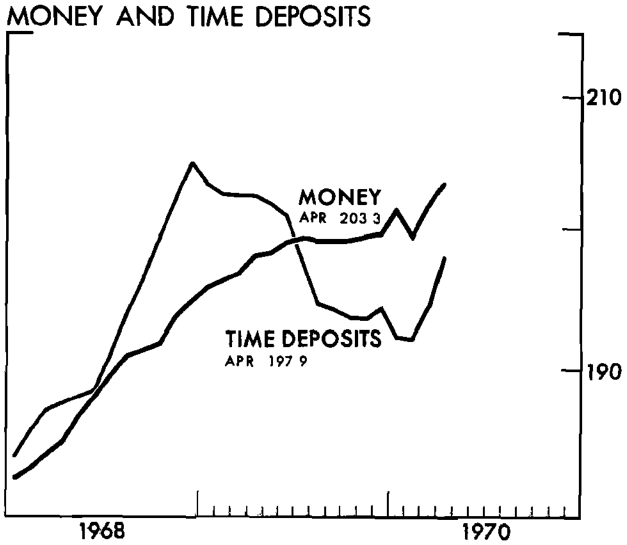
BANK CREDIT



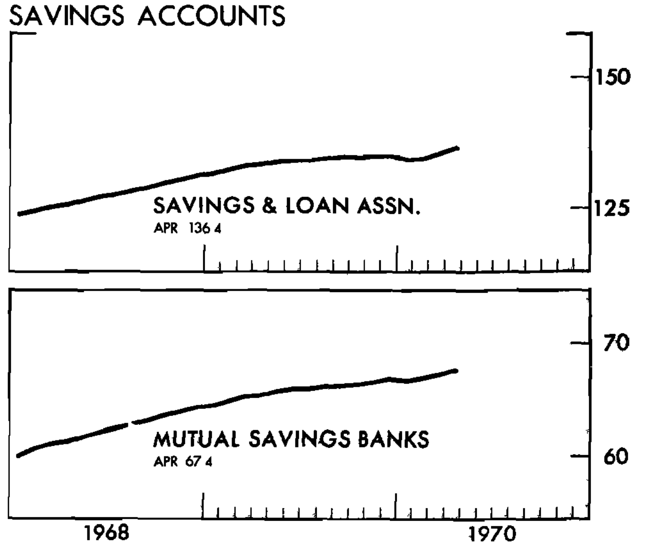
CREDIT PROXY



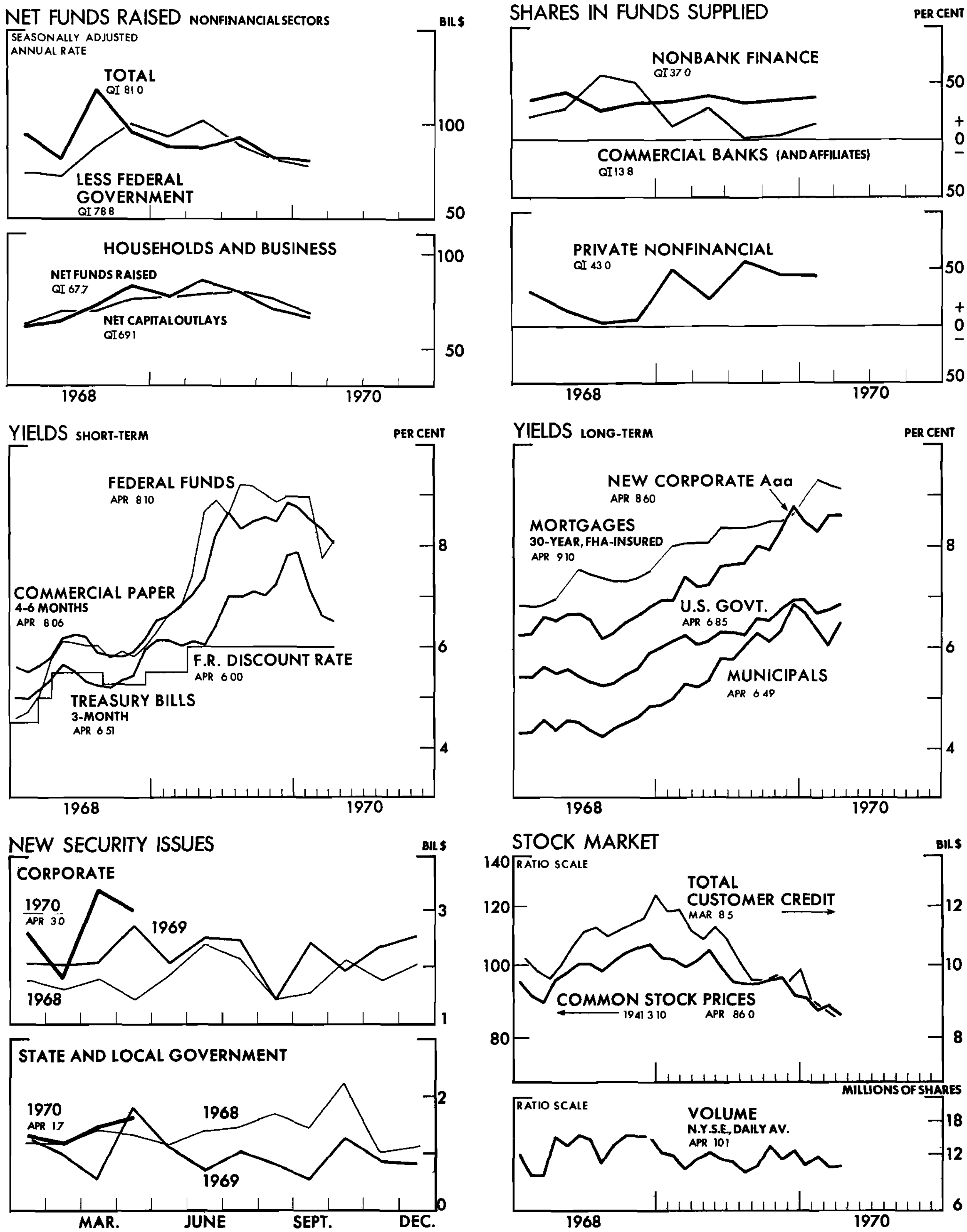
MONEY AND TIME DEPOSITS



SAVINGS ACCOUNTS



FINANCIAL DEVELOPMENTS - UNITED STATES



THE ECONOMIC PICTURE IN DETAIL

International Developments

U.S balance of payments. Little new information about the state of the balance of payments has become available in the short interval since the last Green Book. One new piece of information is that cash receipts from foreign governments to pay for current and future deliveries of military goods were exceptionally high in 1969 ($1.5 billion) and especially in the fourth quarter ($.6 billion) -- mostly because of large receipts from Germany; smaller amounts were also received from the U.K , Australia and a number of other countries. But in the first quarter of this year these receipts were much lower, and we understand they will probably not exceed $1.0 billion for the year.

Using the presently available data on the first quarter balance of payments as shown in the next page, the transactions not yet identified -- representing not only errors and omissions but also direct-investment capital flows and income receipts, government grants and credits, and a number of other categories -- amount to net payments nearly as large as the average in the first three quarters of 1969. This supports the surmise we had made earlier that a large reversal of fourth-quarter capital inflows occurred in the first quarter; whether this will finally appear as a recorded capital outflow or as a large unrecorded payments item is not yet known.

Balance of Payments 1/
(millions of dollars, seasonally adjusted)

	1968 Year	1969r Year	1969r Qtr.1	1969r Qtr.2	1969r Qtr.3	1969r Qtr.4	1970p Qtr.1
Merchandise excluding military							
Exports	33,598	36,469	7,472	9,583	9,580	9,834	10,218
Imports	-32,964	-35,837	-7,575	-9,608	-9,262	-9,392	-9,699
Net	634	632	-103	-25	318	442	519
U.S. purchases (-) of foreign securities	-1,266	-1,381	-323	-427	-562	-69	-168
U.S. banking claims (increase(-))	269	-528	67	-500	229	-324	138
Foreign purchases of U.S. corp. stocks	2,084	1,515	751	127	169	468	-90
Foreign purchases of other U.S. sec., excluding Treasury issues	2,276	1,518	622	210	224	462	367
Selected Government transactions, total	3,843	650	332	9	-236	545	-180
Nonscheduled debt repayments	269	-87	44	34	-154	-11	90
Nonliquid U.S. bank liabilities 2/	590	-675	-49	-176	-265	-185	-176
Nonliquid U.S. Government liabilities	2,010	-41	95	-171	-115	150	-244
Cash receipts for military sales	974	1,453	242	322	298	591	150
Liquid liab. to private foreign accts.	3,811	8,923	2,842	4,742	1,176	163	-1,801
Liquid liab. to official foreign accts.	-3,099	-528	-1,181	-625	1,819	-541	3,264
U.S. reserve assets (increase(-))	-880	-1,187	-48	-299	-686	-154	264
Allocation of SDRs	--	--	--	--	--	--	217
Other transactions (derived as residual)	-7,672	-9,614	-2,958	-3,212	-2,451	-992	-2,530
Balances (deficit(-)) 3/							
Official settlements balance	1,638	2,713	1,192	1,299	-615	837	-3,096
Liquidity balance	168	-7,208	-1,613	-3,818	-2,309	532	-1,727
Adjusted over-all balance	-1,744	-6,711	-1,760	-3,506	-1,926	481	-1,303

p/ Preliminary. r/ Revised.
1/ Items available, or partially estimated, for first quarter of 1970 as of May 15, 1970.
2/ Includes some non-official transactions.
3/ Includes initial allocation of SDRs in first quarter of 1970

New estimates of seasonal factors have now been introduced, primarily to pick up distortions resulting from the control programs. The first quarter data are only slightly affected, but the fourth quarter surpluses are greatly reduced.

Midway in the second quarter the monthly liquidity deficits still seem to be very large. The early monthly indicator for April shows a deficit approaching $1.0 billion, before special transactions of about $150 million. Even allowing for highly adverse seasonal factors in April, the rate of deficit is much larger than in the two preceding months. However, there was an extraordinary increase -- $544 million -- in Libyan reserves in the month, indicating that tax payments by U.S. petroleum companies were much larger than in April of 1969. There was a continuation of sizable deficits in the first two weeks of May.

On the official settlements basis the April deficit was probably relatively small, as liabilities to private foreigners increased. Liabilities of U.S. banks to their foreign branches rose by about $700 million in the month, but then were reduced by a like amount in the period to May 13. All major banks are still maintaining their liabilities to foreign branches at, or close to, the level of their reserve-free base. In the four weeks ended May 13, these banks still had on average about $1 billion of such liabilities subject to reserve requirements; in the prior four week period they held about $1.4 billion above the marginal base.

U.S. foreign trade. Preliminary indicators (duty collections, counts of exporters' and importers' shipping declarations, etc.) suggest that the April export surplus may have been somewhat larger than the relatively low March balance. Imports in April are estimated to have been about the same as in March and exports somewhat higher. The export surplus in the first quarter was \$2.1 billion at an annual rate (balance of payments basis) up from the \$1.3 and \$1.8 billion rates, respectively, in the third and fourth quarters of 1969.

One of the elements in the rise in value of both exports and imports in the first quarter was higher prices of industrial materials. Export prices of coal, aluminum and steel scrap -- leading items in the expansion of total exports since mid-1969 -- were all up substantially. As a result of the continuing economic boom abroad, exports of these products have accounted for an increasing portion of domestic production, and this has put considerable pressure on domestic prices. Coal and aluminum exports were 10 and 9 per cent, respectively, of U.S. output of these products in the first quarter compared to 9 and 5-1/2 per cent in 1968. Shipments abroad of steel scrap are now over 15 per cent of total U.S. shipments, up from 12 per cent in 1968.

Higher prices for steel mill products announced since the beginning of the year were not yet reflected in export prices through March. Export demand was probably one of the factors responsible for the price increases. Exports of steel rose from 2.2 million tons in 1968 and 5.2 million tons in 1969 to about 8 million tons ($1-1/4 billion) at an annual rate in the first three months of 1970. Exports of steel in the first quarter were 6-1/2 per cent of domestic production; for the year 1968 this ratio was 2-1/2 per cent. Meanwhile steel imports have declined.

The level of total imports in the first quarter was higher than expected, and all the more so in view of the downward revision of estimated real GNP in the first quarter. While increased purchases of nonfood foreign consumer goods and machinery account for much of the current strength in imports, higher prices of metals, newsprint and coffee are also a factor. It is estimated that the increases in the import prices of these commodities from the first half of 1969 to the first quarter of 1970 (shown in the accompanying table) raised the value of imports in the first three months of this year by between $400 to $500 million at an annual rate -- i.e., by about 1-1/2 per cent. Coffee prices may be expected to remain high as supplies have been reduced by frost damage to the Brazilian crop. Import prices of metals are also likely to be firm for some time, given the strong demand abroad.

IMPORT UNIT VALUES OF SELECTED COMMODITIES

	Jan.-June 1969 ($ per pound)	Jan.-March 1970 ($ per pound)	Per cent Increase Jan.-June 1969 to Jan.-March 1970
Coffee	.331	.413	25
Cocoa	.319	.379	19
Newsprint 1/	138.925	142.225	2
Copper	.461	.539	17
Nickel	1.019	1.299	27
Aluminum	.232	.240	4
Lead	.116	.143	24
Zinc	.126	.143	13
Tin	1.390	1.645	18

1/ Dollars per short ton.

Euro-dollar market. Euro-dollar interest rates moved slightly lower during the first week of May, but turned firmer around mid-month. By May 20 rates were generally about 1/4 per cent higher than at the beginning of the month.

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

Average for week ending Wednesday	(1) Call Euro-$ Deposit	(2) Federal Funds	(3) =(1)-(2) Differential	(4) 3-month Euro-$ Deposit	(5) 3-month Treasury Bill	(6) =(4)-(5) Differential
Mar. 25	8.77	7.45	1.32	8.68	6.31	2.37
Apr. 22	7.58	8.21	-0.63	8.08	6.51	1.57
29	8.63	8.43	0.20	8.49	6.74	1.75
May 6	8.23	8.46	-0.23	8.65	6.94	1.71
13	7.40	7.96	-0.56	8.51	6.74	1.77
20	8.28	8.07p	0.21p	8.81	6.71p	2.10p

Contributing to the upward pressure on Euro-dollar rates has been the $425 million Euro-market borrowing by ENEL, the Italian state-owned electric utility holding company, which included $300 million of Euro-dollar bank loans, the rest being 10-year dollar notes. The proceeds of this loan package are being drawn down in several tranches. Tight credit markets in Germany and Switzerland have also contributed to pressure on Euro-dollar rates.

U.S. banks' liabilities to their foreign branches showed little change during the first week of May, then declined by some $400 million to a total of $12,246 on May 13, about the same level as at the first of April. As foreign official CD's at U.S. banks' head offices also fell, by about $300 million from April 29 to May 13, it is evident that there was a substantial decline in U.S. banks' total use of interest-sensitive foreign funds.

Foreign exchange markets. Demand for most major foreign currencies has continued strong during May, as it was in April. Many currency rates have risen further against the dollar -- some to their upper limits -- and the Bank of Canada and major European central banks have together purchased just less than $1 billion in foreign exchange markets so far this month. In April they purchased $1.1 billion.

Strongest demand has been for the Canadian dollar. The Bank of Canada has purchased $315 million so far this month. Its reserves have increased almost $850 million this year (excluding its

SDR allocation) to a little under $4 billion ($4.1 billion including SDRs). The gain in the first quarter was primarily the result of a sharp, but mainly temporary, improvement in the trade account. Though the trade account is expected to weaken later, Canada's overall balance of payments may remain in strong surplus for some time as a result of favorable short-term capital flows. (Last year's total net short-term capital outflow was $1.3 billion).

The easier demand for the Canadian dollar following the decrease in the Bank of Canada's discount rate from 8 to 7-1/2 per cent on May 12 was only temporary, and the Canadian exchange rate soon moved back to its upper limit.

The German mark exchange rate continued to rise under the influence of tight domestic financial market conditions. It reached its upper limit on May 13 and the Bundesbank purchased $210 million, its largest intervention gain since revaluation. After markets closed that day, the Bundesbank announced supplemental measures designed to curb foreign borrowing by German banks (see Page IV - 15).

Tightening financial conditions in Switzerland caused a major Swiss bank to repatriate foreign currency assets about mid-May, and the Swiss National Bank purchased $250 million in a direct transaction with that bank. (The System then drew $200 million on the swap facility with the SNB, the only drawing by the System currently outstanding). This took considerable pressure off the exchange market, and the announcement that the Swiss National Bank would do foreign currency swaps over month-end with the commercial banks caused the Swiss franc exchange rate to fall substantially thereafter.

Demand for sterling has been generally firm in May, and the Bank of England has purchased about $100 million. However, uncertainty generated by announcement on May 18 of the general election to be held June 18 caused some selling of sterling and the pound rate fell sharply to around $2.4030, its lowest level since early February.

The French franc exchange rate continued to rise to successive post-devaluation highs through mid-May. Growing demand for the Dutch guilder -- reflecting tighter domestic credit markets -- pushed the exchange rate continuously upward during the first half of May, and continuing strength in Belgium's trade account together with relatively tight credit markets kept the Belgian franc very close to its upper limit. Each of these central banks has purchased some dollars in their exchange markets this month.

The market for the Italian lira has been generally well-balanced. The Bank of Italy used $400 million it acquired primarily from conversions of the ENEL loan (see page IV - 7 above) to reduce its swap drawings on the System to $400 million. (A further payment of $200 million on its swap drawings will be made on May 26).

The System repaid completely on May 15 its outstanding swap drawings on the National Bank of Belgium ($100 million) and the

Netherlands Bank ($60 million). The U.S. Treasury provided most of the necessary guilders and francs to the System by drawing $150 million on the IMF and selling $10 million of SDRs each to these central banks. This is the first time the United States has made use of its SDR holdings.

Financial developments in major industrial nations. Interest rates in nearly all industrial nations remain at high levels, despite some easing in several countries since the start of the year. Given the prospect of continued inflationary pressures, interest rates in most of these countries are not likely to decline in the immediate months ahead, nor to any significant degree by the end of the year. A marked decline in U.S. and Euro-dollar rates could modify the magnitude and timing of interest rate changes in some countries, but would most likely not affect basic policy stances.

Concurrent with the decline in short-term interest rates that occurred earlier this year in the United States and the Euro-dollar market, short-term interest rates in Canada, France, the Netherlands, the United Kingdom and Belgium also fell from the high levels that prevailed at the end of 1969, and short-term rates in Japan eased slightly starting in April. However, short-term rates in Italy, Germany and Switzerland advanced during the first four months of the year. In contrast to recent years, German rates currently are at or above international levels. The spread of short-term interest rates among industrial countries has narrowed substantially.

Declines in long-term interest rates during this period have been fewer and noticeably less pronounced than the declines in short-term rates. Long-term yields have risen steadily in Italy, the Netherlands, Switzerland and Germany. Long-term interest rates in industrial countries have come closer together than they were at the end of 1969.

TABLE 1. SHORT-TERM INTEREST RATES,1/
MAJOR INDUSTRIAL COUNTRIES 1969 AND 1970

	1969			1970				
	High	Low	Dec.	High	Low	Mar.	Apr.	Latest
France	10.87 (12/19)	7.75 (2/13)	10.41	10.63 (1/2)	8.50 (5/15)	9.47	9.05	8.50 (5/15)
Germany	9.00 (12/31)	3.75 (1/2)	9.00	9.56 (5/15)	9.00 (1/15)	9.56	9.56	9.56 (5/15)
Italy	7.50 (12/31)	5.50 (5/31)	7.50	8.25 (3/31)	7.50 (2/28)	8.25	n.a.	8.25 (3/31)
Belgium	8.50 (12/31)	5.00 (1/13)	8.50	8.50 (1/31)	8.00 (5/18)	8.15	8.06	8.00 (5/18)
Netherlands	10.00 (10/3)	5.63 (1/17)	9.09	8.75 (3/20)	8.00 (4/24)	8.62	8.03	8.25 (5/8)
Switzerland	5.00 (12/31)	4.00 (2/5)	5.00	5.50 (5/8)	5.00 (3/10)	5.38	5.50	5.50 (5/8)
United Kingdom	10.00 (9/5)	7.75 (1/17)	8.92	10.25 (3/4)	7.75 (4/17)	9.12	8.28	8.13 (5/19)
Japan	8.50 (12/31)	6.94 (6/20)	8.50	8.50 (3/28)	8.25 (5/8)	8.50	8.25	8.25 (5/8)
Canada	7.81 (12/31)	6.38 (1/30)	7.78	7.83 (1/7)	6.52 (5/13)	7.35	6.81	6.52 (5/13)
Euro-dollar	12.50 (6/10)	7.25 (1/3)	11.20	10.50 (1/9)	8.00 (4/17)	9.03	8.34	8.94 (5/20)
United States	7.80 (12/19)	5.92 (3/28	7.72	7.93 (1/2)	6.11 (3/26)	6.54	6.36	6.64 (5/19)

Note: Actual dates are indicated below the high, low and latest rates. If a high or low rate prevailed on more than one date, the latest date is shown. For months, the monthly average of end of week rates is shown.

1/ Rates quoted are generally for 3-month funds as follows: Italy and Switzerland, time deposits; Germany, interbank loan; the United Kingdom, local authority deposit; the Netherlands, public authority loan; Canada and the United States, Treasury bills; Belgium, tap rate on Treasury bills; Euro-dollar, deposit. For France and Japan, the call loan rate is shown.

TABLE 2. LONG-TERM INTEREST RATES,[1/]
MAJOR INDUSTRIAL COUNTRIES 1969 AND 1970
(per cent per annum)

	1969			1970				
	High	Low	Dec.	High	Low	Mar.	Apr.	Latest
France	8.01 (2/26)	7.17 (1/3)	8.01	8.08 (3/13)	7.93 (5/8)	8.05	7.99	7.93 (5/8)
Germany	7.45 (12/18)	6.34 (1/13)	7.24	8.06 (5/11)	7.35 (1/2)	7.63	7.66	8.00 (5/14)
Italy	7.28 (Dec.)	6.49 (Feb.)	7.28	8.36 (Apr.)	7.35 (Jan.)	8.33	8.36	8.36 (Apr.)
Belgium	7.86 (10/1)	6.65 (1/2)	7.73	7.82 (2/2)	7.64 (4/1)	7.65	7.64	7.78 (5/1)
Netherlands	8.23 (10/10)	6.71 (1/3)	7.88	8.62 (4/24)	8.03 (1/9)	8.37	8.53	8.50 (5/8)
Switzerland	5.40 (10/1)	4.37 (1/24)	5.34	6.08 (5/8)	5.31 (1/9)	5.76	5.87	6.08 (5/8)
United Kingdom	9.66 (6/12)	8.05 (1/2)	9.02	9.45 (5/14)	8.44 (3/6)	8.53	8.88	9.43 (5/19)
Japan	8.77 (Dec.)	8.34 (Jan.)	8.77	8.82 (Feb.)	8.81 (Jan.)	n.a.	n.a.	8.82 (Feb.)
Canada	8.33 (12/31)	7.16 (1/29)	8.33	8.37 (1/7)	7.79 (4/15)	8.05	7.88	8.17 (5/13)
Euro-bond	7.54 (1/3)	7.01 (5/23)	7.30	7.35 (2/20)	7.30 (1/16)	7.33	n.a.	7.32 (4/10)
United States	6.78 (12/24)	5.40 (1/24)	6.65	6.87 (5/5)	6.23 (2/25)	6.40	6.43	6.79 (5/19)

Note: Actual dates are indicated below the high, low and latest rates. If a high or low rate prevailed on more than one date, the latest date is shown. The monthly average of end of week rates is shown for most individual monthly rates. For Italy and Japan the monthly average rates are shown, while for Belgium the beginning of month yield is cited.

1/ Yields generally apply to long-term government and public sector bonds. Most are composite yields, but yields on specific issues are shown for the United States and the United Kingdom. For Germany and Japan, yields refer to a composite of private industrial bonds, while for Italy the composite yield is for all bonds except Treasury bonds. For France, the yield is net of withholding tax; gross yields are approximately one percentage point higher.

Prevailing interest rate levels basically reflect continued strong domestic demand conditions and restrictive monetary policies. Inflation is becoming more widespread, and, for some countries, intensified wage increases are adding fuel to the inflationary tendencies and expectations. Investment demand continues to be buoyant in most countries, despite the adoption of anti-inflationary measures. In some cases, a desire to consolidate short-term borrowings into long-term debt has been a factor influencing the rise of long-term rates. The fall in equity and bond prices in the United States also has contributed to the maintenance of a structure of high yields in financial markets.

Policy actions have reflected the official concern with inflation. France has retained tight credit ceilings, and such ceilings also are in effect in Switzerland, the Netherlands, Belgium and Denmark. Discount rate increases in Italy, Germany, Austria and Spain during the first four months of the year also indicate stiffening monetary policy postures. The Italian discount rate change, however, was motivated more by the desire to curb capital outflows by bringing yield levels closer to those elsewhere than to contain internal demand pressures.

The easing of interest rates in Canada and--to a limited extent--in the United Kingdom and Belgium--was motivated, in part, by the desire of the authorities to avoid short-term capital inflows.

The rise of interest rates in Germany, which started in the fall of 1969, has brought rates up to or above, those of most other industrial economies. While long-term rates continued to advance through early May, short-term rates declined in February but advanced somewhat since March. These high rates reflect the tight credit policy pursued by the Bundesbank (and intensified when the government failed to adopt more restrictive fiscal measures), a shrinkage of bank liquidity resulting from sizable capital outflows following the October mark revaluation, strong credit demands by both domestic and foreign borrowers, and an apparent effort by German borrowers to lengthen their debt maturities.

Earlier German forecasts of a slowdown in economic activity by mid-1970--not shared in by the Bundesbank--are now being proved wrong. Estimates of the growth in real and nominal GNP have been progressively revised upwards. The immediate concern of the authorities is to combat the intensification of price and wage advances.

To prevent German banks from circumventing monetary policy objectives by borrowing abroad, the Bundesbank in March imposed an additional 30 per cent reserve requirement on banks' gross external liabilities above a prescribed base period. Since banks were trying to by-pass this measure by selling securities to foreigners under repurchase agreements, the Bundesbank on May 14 reinforced the marginal reserve requirement regulation by reducing the rediscount quotas of the banks at the Bundesbank by the amount of securities sold to foreigners under such repurchase arrangements.

During the first quarter of this year, German firms have steadily increased their borrowing in the Euro-dollar market. In many cases, such borrowing has been facilitated by German banks guaranteeing their customers' loans. If Euro-dollar rates resume their decline or German interest rates increase further, there could be a substantial new flow of credit to German businesses in the months ahead. This would weaken the effectiveness of the restrictive monetary policy and result in a rise in German reserves.

Given the intensity of inflationary pressures, financial conditions are not likely to ease quickly. Unless fiscal measures are taken to combat the boom and until there are signs of a moderation in price advances, the very high interest rates now prevailing in Germany will not decline significantly.

Interest rates have advanced further in Italy this year. Bond yields in March had advanced by some 180 basis points above mid-1969 levels. Italian bond yields, however, had been relatively low in comparison with long-term rates in other financial markets.

The increases in interest rates reflect a response by the authorities to the need to stem the heavy outflow of capital. Italy incurred sizable balance of payments deficits in January and February, including heavy capital outflows. The need to discourage these outflows was made more critical by the prospect that Italy's current account surplus would shrink markedly in 1970.

On March 6 the Bank of Italy raised its rates for rediscounts and advances from 4 to 5.5 per cent. Commercial banks followed by raising their rates on domestic currency time deposits and on loans to customers. These increases brought Italian rates more in line with those prevailing abroad, and have apparently helped curb the capital outflow, partly by affecting the net extension of loans and trade credits to foreign borrowers by Italian companies. At the same time, the Bank of Italy has urged State enterprises to borrow abroad. Since the start of the year, more than $750 million has been raised abroad through the issuance of Euro-bonds and through medium-term foreign bank loans. In previous years, such enterprises have borrowed very small sums in foreign financial markets.

Apart from external considerations, domestic economic prospects by themselves would have justified some stiffening of monetary policy in the past six to nine months, although not to the degree that has occurred. The large wage increases granted in late 1969 will drive up unit labor costs sharply this year. The authorities are anxious that cost-push inflation not be exacerbated by an intensification of already substantial demand pressures. At the same time, the government wishes to see real output rise as fast as possible, and would be wary of monetary restraint that might unduly discourage investment.

Italy's balance of payments prospects are uncertain; containing capital outflows will depend greatly on political and economic confidence factors. Since the overall balance may be in deficit for the remainder of the year despite the recent tightening of monetary conditions, interest rates will probably not decline in the months ahead.

Interest rates have risen in Switzerland this year, but both short-term and long-term rates remain significantly below those prevailing in other financial markets. The demand for long-term funds has risen markedly because of the rising level of economic activity and enterprises' desire to retire shorter-term bank loans by raising long-term funds. With no slowing expected in the expansion of aggregate demand, interest rates are unlikely to decline in the near future.

To contain the inflationary pressures which have been developing, the authorities have adopted both fiscal and monetary stabilization measures. Effective February 1, Swiss commercial banks and the Swiss National Bank agreed to make more severe the quantitative limits on credit expansion initially agreed upon in the summer of 1969. The authorities also are curbing the issuance of Swiss-franc denominated bonds by foreign borrowers.

During the first four months of this year, the call money rate in France declined from the extremely high level which prevailed at the end of 1969, while long-term rates eased only slightly. But interest rates in early May remain high. Although the authorities appear to have succeeded in achieving a fairly rapid balance of payments recovery since the devaluation, a continued tight rein on internal demand remains necessary to maintain this improvement. The prospects for any significant easing of present restrictive credit policies are slight. Interest rates are likely to remain at the current level, and may even increase, in the months ahead.

The French call money rate, in effect set by the Bank of France, has been maintained above the corresponding Euro-dollar rate in order to attract short-term capital inflows as well as discourage illegal capital exports. As Euro-dollar rates have declined, the Bank of France has been able to lower the call money rate. However, the decline in this rate also reflects a significant easing in the banks' liquidity positions resulting from sizable balance of payments surpluses thus far this year.

Until recently, the expansionary impact of these payments surpluses was not being countered. On April 22, however, the National Credit Council raised by one percentage point (from 15 to 16 per cent) the part of commercial banks' required reserves that is held in the form of medium-term rediscountable bills.

The general credit ceilings in effect since October 1969 remain very restrictive. No expansion in absolute terms is permitted during the first half of this year in short-term bank credits and in most categories of medium-term bank credits. The French economy has been expanding rapidly and inflation is not yet under control. If, as now seems likely, the credit ceilings are allowed to expire at mid-year, general monetary measures to limit the supply of bank credit will replace the credit ceilings. Interest rates, thus, are likely to rise around mid-year.

In the Netherlands long-term interest rates have advanced steadily this year, reflecting a continuation of tight credit conditions. Short-term interest rates have eased, but remain high. Short-term rates have followed movements of U.S. short-term market rates.

Dutch authorities primarily wish to avoid an intensified wage-price spiral. Domestic and foreign demand for Dutch output continues strong, and inflationary signs are becoming more pronounced. The major restrictive monetary measure used by the Netherlands Bank has been the imposition of credit ceilings on the increase in short-term loans to the private sector by commercial and agricultural banks. Short-term lending was allowed to increase by 10 per cent in 1969 and the same rate of credit expansion is permitted this year through August. The Bank will very likely maintain this policy of credit restraint for the balance of the year.

Short-term interest rates in the United Kingdom have moved downward since the beginning of March. Bank Rate has been reduced twice this year--from 8 to 7-1/2 per cent on March 5 and by an additional half percentage point, to 7 per cent, effective April 15. Long-term rates declined during the first two months of the year, and then edged upward through mid-April. Since the budget was presented on April 14, long-term yields have risen by 70 to 80 basis points. The sharp drop in bond prices also was affected by the marked decline in U.S. bond prices.

The easing of British rates has been motivated in part by the desire to reduce the cost of foreign balances and to discourage large, but volatile, interest-sensitive capital inflows. The timing of the March Bank Rate cut was dictated by a sudden rise in short-term yields which, in turn, triggered a massive inflow of funds.

The huge short-term inflows which began in the fourth quarter of 1969 have been little affected by interest rate differentials between Euro-dollar and comparable sterling assets. Except for a few days early in March, the covered differential between sterling assets and non-sterling alternatives has been in favor of the latter. The capital inflow has been associated with a reversal of leads and lags in Britain's favor, reflecting primarily restoration of confidence in the pound. In addition, a major portion of the short-term capital inflow represented inter-company funds drawn to ease domestic liquidity pressures.

The decline in interest rates is an understandable response to the improved balance of payments position. Bank Rate cuts have gone hand in hand with a somewhat more permissive policy toward expansion of bank lending. In the Budget message, the ceiling on bank lending to the private sector was replaced by an informal guideline, calling for an increase in bank lending formerly subject to the ceiling of about 5 per cent in the year ending next March.

The rise in long-term rates is symptomatic of widespread public expectation of inflation, in view of accelerating price increases in recent months and the Chancellor's moderately expansionary budget for fiscal 1970-71. Given prevailing demand pressures, long-term interest rates probably will not fall back to the pre-budget level, and Britain will continue to have fairly high interest rates in the months to come.

This year there has been some decline in Belgian interest rates, with short-term rates falling more sharply than long-term rates. But interest rates were still high at the end of April. The decline appears to reflect internal developments as well as the influence of Euro-dollar rates. Belgian commercial banks have reduced their net foreign liabilities in the early months of this year.

Domestic demand pressures seem to be easing slightly. Expectation of further interest rate declines (including a possible reduction in the Belgian National Bank discount rate) probably account for the downward movement of bond yields.

In Japan, most interest rates have advanced since the adoption of restrictive monetary measures in September 1969. The unconditional call loan rate did decline slightly in the beginning of April, mainly owing to a seasonal easing in money markets, but it has remained steady at the new level through early May.

The upward movement in interest rates is attributable primarily to internal conditions. In addition to the increase in the basic discount rate last September, the Bank also has curbed bank credit expansion by various actions restraining the commercial banks' reserve base. Both banks and businesses have experienced a moderate tightening in their liquidity positions in recent months.

The Japanese economy has continued to advance rapidly, and inflationary pressures have remained strong. Since there seems little prospect of an easing of internal demand pressures this year, the

Bank of Japan can be expected to maintain its restrictive monetary posture. Hence, interest rates are likely to remain firm or increase slightly in the coming months. The May 15 increase in the Bank of Japan's official rates on export-related loans and discounts will reinforce the upward pressures on interest rates.

Interest rates in Canada peaked in January of this year and have since fallen, the most pronounced decline being in short-term rates. The May 12 reduction in the Bank of Canada's discount rate, from 8 to 7-1/2 per cent, brings the discount rate into line with short-term money rates.

The principal factor behind the decline in interest rates has been a moderate easing of Canada's monetary policy which for internal stabilization reasons had been extremely restrictive. Owing to an unexpectedly strong trade performance as well as a reduction in the traditional short-term capital outflow from Canada because of the decline in U.S. and Euro-dollar short-term interest rates relative to Canadian rates, Canada's external reserves have risen by about $850 million since the start of this year. Until recently, the authorities have not fully offset the expansionary effect of the increase in foreign exchange reserves. On May 12, however, the Bank of Canada announced that effective July 1, 1970, the secondary reserve requirement of the chartered banks would be increased from 8 to 9 per cent of their deposit liabilities, thereby freezing an estimated C$250 million of liquid assets in the banks' portfolios.

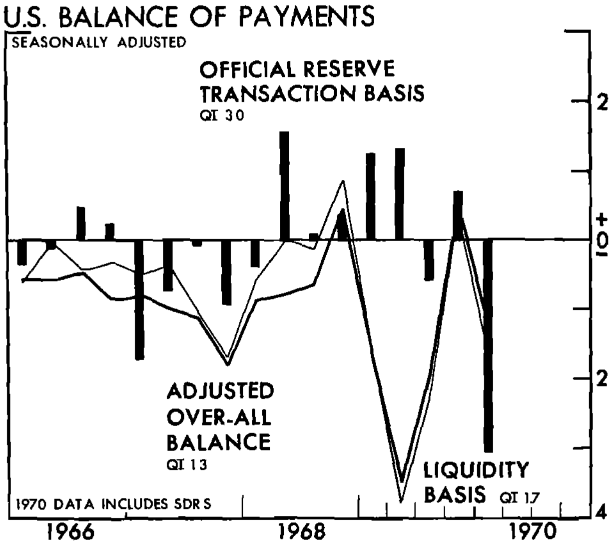
The easing of conditions in financial markets would probably not have occurred on the basis of domestic economic developments. Economic activity has not slowed nearly to the same extent as in the United States. The Canadian authorities are not attempting to offset completely the expansionary liquidity effects of the increase in official foreign exchange reserves because a widening of the interest spread above U.S. rates would lead to further reserve increases. Unwillingness to accumulate larger reserves can be traced, in part, to the understandings between Canada and the United States on Canadian reserve policy.

Canadian interest rate policy in the months ahead will remain strongly influenced by U.S. interest rate developments. Domestic demand conditions, however, continue to call for fairly tight credit conditions.

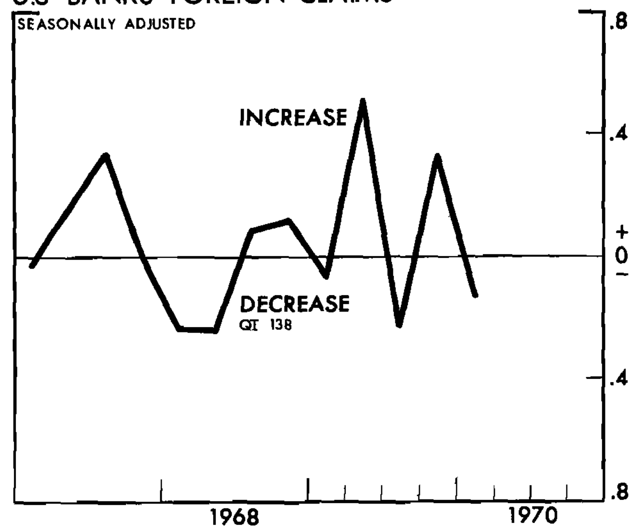
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

BILLIONS OF DOLLARS

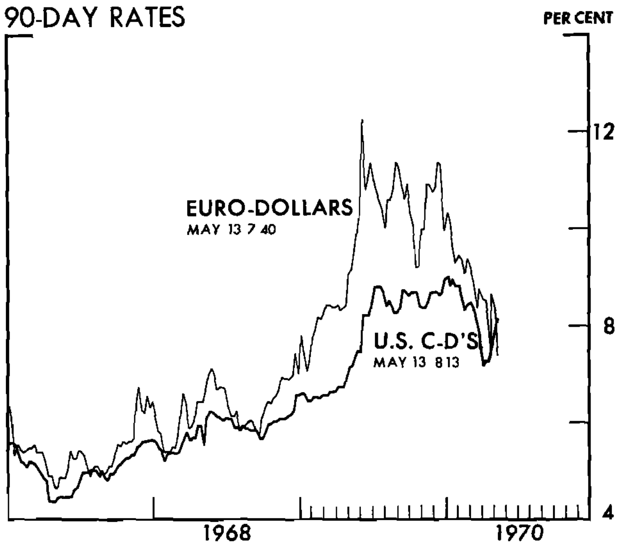
U.S. BALANCE OF PAYMENTS



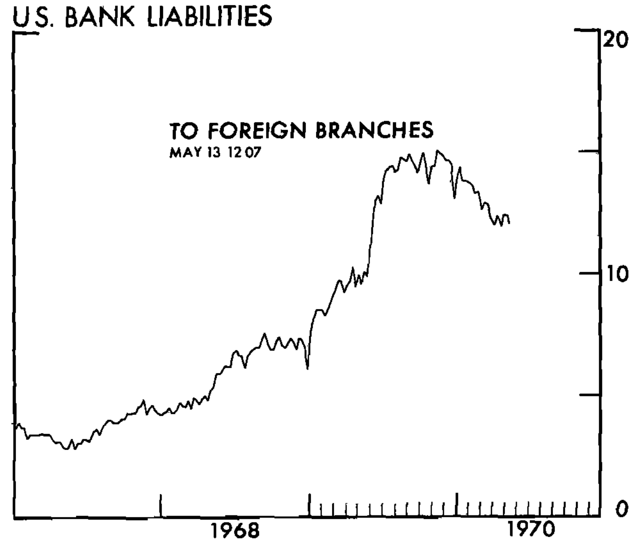
U.S. BANKS' FOREIGN CLAIMS



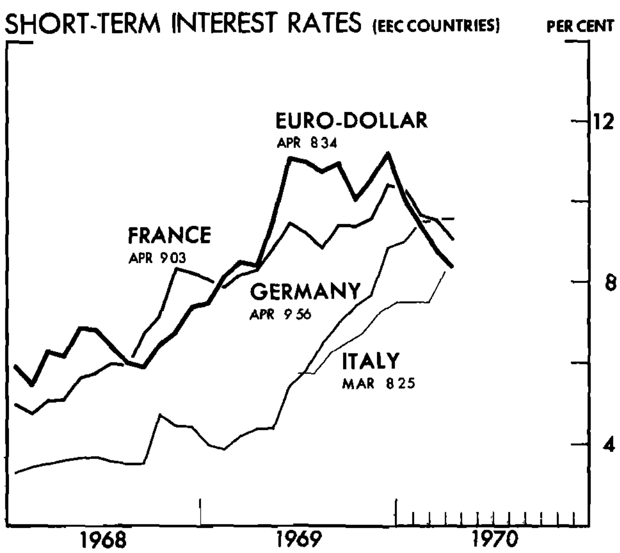
90-DAY RATES



U.S. BANK LIABILITIES



SHORT-TERM INTEREST RATES (EEC COUNTRIES)



SHORT-TERM INTEREST RATES (OTHER COUNTRIES)