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CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

June 17, 1970

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SUMMARY AND OUTLOOK

Nonfinancial

Industrial production and the labor market recently have weakened further. But indications are that real GNP will show little change this quarter, following an actual decline at an annual rate of 3.0 per cent in the first quarter. The shift in GNP is attributable to inventory investment which is projected to have changed little, compared with a substantial reduction in the rate of accumulation during the preceding quarter.

Recent developments. Industrial production declined appreciably in May and was more than 3 per cent below the high of last July. Significantly, output of business equipment declined substantially for the second consecutive month, although in both months shortages of component parts because of the trucking strike were apparently a contributing influence. Housing starts in May, as in April, were at an annual rate of about 1.2 million units. Retail sales edged down in May, following a large advance in April; for both months combined the average was appreciably above that of the first quarter. Unit sales of new domestic autos increased sharply in early June following some improvement in May. April book value data for manufacturing and trade seem broadly consistent with relatively little inventory change this quarter on a GNP basis; indeed, the April data suggest some increase that month, after allowance for price changes.

Weakening in the labor market was pronounced in May. The unemployment rate rose for the fifth consecutive month and at 5.0 per cent was at the highest rate in over five years. In contrast to experience of preceding months, the civilian labor force declined and nonfarm employment was down significantly, although strikes accounted for about one-third of the over-all employment decline. Reductions in manufacturing employment were sizable and widespread by industry, and the average workweek edged down further. By early June, however, initial unemployment claims had declined to about the March level and insured unemployment had leveled off, although at a relatively high level.

Wholesale prices increased at a modest pace from mid-April to mid-May as a further advance in industrial prices at about a 4 per cent annual rate was partly offset by a further decline in prices of farm products and processed foods. The average monthly increase in industrial prices from December to May was only a little smaller than the average from June to December 1969.

Outlook. GNP in current dollars is estimated to increase appreciably more in the second quarter than in the first, and real GNP is expected to change little following the preceding sizable decline. The big difference from the first quarter is in inventory investment, while private final purchases are showing about the same rise in the second quarter as in the first. Consumer spending on goods and services accounts for the bulk of this increase, and available data on retail sales suggest that the rise may be about the same as in the first quarter. The big bulge in disposable income arising out of the retroactive Federal pay increase and the retroactive increase in social security benefits was partly offset by much slower growth in private wages and salaries and, in addition, there appears to have been a sharp rise in the saving rate.

We expect a resumption of growth in real GNP in the second half of the year, but we have again lowered somewhat our projection--to an annual rate of expansion of around 2 to 2-1/2 per cent from the 2-1/2 to 3 per cent range of the preceding projection. We have shaded down our projections of final purchases--which, however, still increase appreciably more than in the first half--and inventory investment. With stocks high and growth in final sales of goods slow, we envisage only a very small inventory accumulation for the remainder of the year.

The latest Commerce-SEC survey of business intentions to spend on plant and equipment supports our earlier view of a likely significant shortfall from plans expressed in various surveys earlier in the year. We continue to anticipate shortfalls in this and subsequent quarters, even below the revised survey findings, with an outright decline likely in the fourth quarter. This prospect, in our view, follows from a variety of considerations, including recent declines in output of business equipment, prospective further declines in profits, the high cost and difficulty of external financing, and the continued relatively low rate of capacity utilization of manufacturing.

With a smaller expansion in real GNP--and one considerably below potential--more easing is in prospect in the labor market than we had earlier projected. Some further decline is likely for manufacturing employment, and increases in employment in nonmanufacturing activities are likely to be rather small. Students entering the labor force beginning this month may find job opportunities much more limited than last year, and the youth unemployment rate may rise this summer, at least temporarily. But with output turning up, the period of most rapid increase in the unemployment rate--1.5 percentage points from December to May--may be about over. We project the unemployment rate at 5.6 per cent in the fourth quarter.

On balance, we are somewhat more optimistic than earlier about the outlook for prices, allowing for the further easing now in prospect in both the labor market and in the rate of use of manufacturing capacity. The GNP deflator is now projected to slow to an annual rate of increase of 3.5 per cent in the fourth quarter. In manufacturing, unit labor costs have been fairly stable this year, with stepped-up gains in output per manhour about matching the continued rapid rise in compensation. With respect to prospects for industrial prices, it may also be noted that increased reports are heard of discounting from list and that prices of industrial raw materials recently have been moving downward. The rise in consumer prices should also slow appreciably. Prospective food supplies continue to suggest only a slight rise on balance in retail food prices to year-end.

Costs of services are likely to continue to rise rapidly, but much slower than the 11 per cent annual rate of increase of the first quarter, when mortgage interest rates and transportation services showed exceptionally large advances.

Financial

While the sharp deterioration of financial markets now appears to be over, confidence remains fragile. Moreover, as in recent weeks, the after-effects of the near-panic markets of last month will probably be reflected this summer in some re-channeling of credit flows. In May the rising cost of funds and market uncertainty produced a sharp increase in cancellations and postponements of long-term securities offerings, as well as a greatly reduced rate of increase in dealer-placed commercial paper of nonbank issuers. As a result, some credit demands last month were diverted to banks, where business loans (including loans sold to affiliates) increased at twice the pace of the January-April period. To help finance these loans, during a period of limited deposit growth, banks sharply expanded their issuance of commercial paper through their affiliates.

In evaluating the outlook, the staff believes that market factors will produce only modest declines in interest rates this summer, at best, and that rates could rise even further in the very near term. If GNP fails to pick up in the third quarter as we have projected, however, market sentiment could shift, with interest rates declining more significantly over the summer than now seems likely.

Long-term security markets. Most recently, long-term yields have again risen sharply, and the volume of postponements and cancellations of scheduled issues in the corporate market have again begun to mount. We expect the pace of offerings of corporate stocks and bonds to continue to decline this summer, as a result of record financing costs and continued stretch-outs and cut-backs in capital outlays. Nevertheless, new issue volume is still expected to be large by any standard other than recent months, and any easing of market conditions could bring forth some of the considerable volume of financing sidelined by high costs and market congestion.

Similarly, in the tax-exempt market very high interest rates are expected to keep third quarter volume at the low levels of May-June. Commercial bank demand for municipal bonds, particularly at large banks, has dropped off to quite low levels in reflection of liquidity pressures ond continuing uncertainty regarding the tax deductibility of borrowing costs. Without increased bank purchases, little decline in tax-exempt yields seems likely, despite the more moderate volume of new issues.

Short- and intermediate-term markets. The continued demand pressures in long-term markets are likely to spill over to short-term markets, at the same time that Treasury needs for funds will be substantial. However, as the result of lender concern about credit worthiness, some borrowers may find the commercial paper market less receptive.

Gross borrowing by the Treasury during the third quarter will be considerably higher than in the record deficit period of 1967. Net cash borrowing of about $6 billion--twice as much as in 1969--is expected to be financed in large part by issuance of tax bills, as well as continued additions to the weekly bill auction. Both should add to interest rate pressures in short-term markets, tending to maintain market rates above CD ceilings. However, Federal agency demands for new money are expected to decline to about $1.9 billion, or about one-half of the first quarter pace, largely in reflection of reduced borrowing by the FHLB System.

Bank credit. High cost and investor selectivity in short- and long-term markets could continue to divert substantial business loan demand to banks, and such demands should be buoyed by sizable corporate tax payments in June and September. Banks have been liquidating Government securities acquired in the May refunding, but the July and August Treasury issues should produce temporary bulges in bank portfolios, as banks underwrite the new issues. With business loan demands large, these new issues are unlikely to remain in portfolio very long.

Bank and nonbank interest-bearing deposit flows. If, as we expect, market rates do not decline significantly, growth in time and savings deposits at banks and thrift institutions is unlikely to accelerate. Large CD's probably will continue to decline moderately as slow growth at regional banks fails to offset attrition at banks in money market centers. But, as in recent weeks, sluggish growth of consumer-type deposits at large banks probably will be more than offset by fairly rapid growth at country banks. With total time deposit flows about maintained while loan demands are high, banks will probably continue to rely on increased use of nondeposit funds.

At the thrift institutions, there is a reasonable prospect that aggregate inflows over the third quarter will match the improved second quarter pace. Interest rate differentials are likely to be less probable to the institutions, but there seems to be some shift in public preference toward saving in these forms. The outlook for both banks and nonbanks for the June-July reinvestment period remains uncertain, but outflows are not expected to be substantial.

Mortgage market. The expected quarterly growth pattern in deposits at savings and loans and mutual savings banks implies room for some further build-up in liquidity positions as well as some pick-up in the depressed pace of mortgage lending. New commitments increased in April, and we expect that the higher volume will persist and perhaps improve in the months ahead.

Additional incentives to channel funds into residential mortgages may develop if pending emergency housing legislation is enacted that would subsidize FHL Bank advances by up to $250 million, give GNMA more flexible authority to purchase Government underwritten loans under its special assistance programs, and provide a new direct lending program for middle-income housing. Moreover, continued strong FNMA support should help to lay the basis for some improvement in the rate of housing starts during the second half of the year.

Balance of payments

Preliminary indications are that the over-all deficit in the balance of payments was extremely heavy in April and May, despite continuation of the trade balance--in April at least--at something like its first-quarter level. In April the potential impact of the deficit on U.S. official reserve assets and liabilities was damped by a rise in Euro-dollar borrowings of U.S. banks. In May, when such borrowings declined a little, U.S. official reserve assets fell sharply.

The April-May experience suggests that balance of payments results for the full year 1970 may be even less satisfactory than had previously been expected. But it is not likely that in coming months the adjusted over-all deficit will run as high as the roughly $10 billion annual rate of April-May. That heavy deficit was probably a result of a bunching of various capital outflows. These outflows included direct investment outflows to finance oil company taxes in North Africa. They may also have included speculative flows into the Canadian dollar and, as Euro-dollar rates rose in May, movements by U.S. investors into Euro-dollars.

The April-May experience will probably also prove unrepresentative as regards the means of financing the deficit. The United States made some drawings on the IMF in May, but the May drop in reserve assets was mainly in official holdings of foreign currencies (in consequence of Italian repayments of swap drawings on the Federal Reserve). The foreign currency holdings of the Federal Reserve and U.S.

Treasury, which stood at $2.8 billion at the end of 1969 and $2.0 billion on March 31, were down to $1.6 billion on April 30 and $1.0 billion on May 31. Later this year, to avoid undesirably large increases in liabilities to foreign central banks, it will probably be necessary for the United States to make sales of gold and SDR's as well as further IMF drawings.

June 16, 1970

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SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	1970				Per Cent Change* From		
	Feb.	Mar.	Apr.	May	1 mo. ago	3 mos. ago	Year ago
Civilian labor force (mil.)	82.2	82.8	82.9	82.6	-0.4	0.4	3.0
Unemployment rate (%)	4.2	4.4	4.8	5.0	--	--	[3.5] 4/
Insured unempl. rate (%)	2.6	2.7	3.2	3.6	--	--	[2.0] 4/
Nonfarm employment, payroll (mil.)	71.1	71.3	71.1	70.9	-0.4	-0.4	1.0
Manufacturing	19.9	19.9	19.8	19.6	-1.1	-1.9	-3.1
Nonmanufacturing	51.2	51.3	51.3	51.3	-0.1	0.2	2.6
Industrial production (57-59=100)	170.5	171.1	170.4	169.0	-0.8	-0.9	-2.0
Final products, total	169.9	170.0	168.7	167.7	-0.6	-1.3	-1.4
Consumer goods	162.4	162.6	162.9	163.4	0.3	0.6	1.7
Business equipment	196.9	197.1	192.7	188.5	-2.2	-4.3	-3.7
Materials	171.5	172.1	172.0	170.5	-0.9	-0.6	-2.3
Capacity util. rate, mfg.	79.8	79.7	79.0	n.a.	--	--	[84.5] 4/
Wholesale prices (57-59=100) 1/	116.4	116.6	116.6	116.8	0.2	0.3	3.5
Industrial commodities (FR)	114.4	114.7	115.1	115.5	0.3	1.0	3.9
Sensitive materials (FR)	115.9	115.7	116.6	116.9	0.3	0.9	2.5
Farm products, foods & feeds	118.7	118.8	117.6	117.0	-0.5	-1.4	2.5
Consumer prices (57-59=100) 1/ 5/	132.5	133.2	134.0	n.a.	0.6	1.7	6.0
Food	131.5	131.6	132.0	n.a.	0.3	1.0	7.1
Commodities except food	120.4	120.8	120.9	n.a.	0.1	0.7	3.2
Services	150.7	152.3	153.4	n.a.	0.7	2.5	8.0
Hourly earnings, pvt. nonfarm ($)	3.15	3.18	3.19	3.19	0.0	1.3	6.3
Hourly earnings, mfg. ($)	3.28	3.31	3.31	3.34	0.9	1.8	6.0
Weekly earnings, mfg. ($)	131.47	132.80	132.46	133.54	0.8	1.6	3.9
Net spend. weekly earnings, mfg. (3 dependents 57-59 $) 1/ 5/	85.80	86.22	85.35	n.a.	-1.0	-1.7	-1.9
Personal income ($ bil.) 2/ 5/	778.3	783.3	801.1	n.a.	2.3	3.5	8 9
Retail sales, total ($ bil.)	30.0	29.8	30.4	30.2	-0.6	0.8	2.8
Autos (million units) 2/	7.9	7.3	7.5	7.8	4.0	-1.8	-8.6
GAAF ($ bil.) 3/	8.3	8.0	8.5	8.4	-1.2	1.0	5.2
12 leaders, composite (1963=100) 5/	150.6	148.0	147.8	n.a.	-0.1	-1.2	-3.0
Selected leading indicators:							
Housing starts, pvt. (thous.) 2/	1,306	1,392	1,215	1,200	-1.2	-8.1	-21.7
Factory workweek (hours)	39.9	40.2	40.0	39.9	-0.3	0.0	-2.0
Unempl. claims, initial (thous.)	258	268	326	314	3.8 6/	-21.6 6/	-73.2 6/
New orders, dur. goods, ($ bil.) 5/	29.7	28.6	28.8	n.a.	0.5	-0.5	-7.0
Machinery & equipment	6.6	6.0	6.1	n.a.	1.5	-5.3	-14.5
Common stock prices (41-43=10)	87.16	88.65	85.95	76.06	-11.5	-12.7	-27.3

* 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 April 1970. 6/ Sign reversed.

SELECTED DOMESTIC FINANCIAL DATA

	Averages 1969 QIII	QIV	1970 QI	Apr.	May	1970 Week ended May 27
Interest rates, per cent						
Federal funds	8.98	8.94	8.56	8.10	7.94	7.64
3-mo. Treasury bills	7.02	7.36	7.21	6.51	6.84	6.94
3-mo. Federal agencies	7.63	7.92	7.72	6.88	7.23	7.28
3-mo. Euro-dollars	10.89	10.48	9.26	8.36	8.86	9.36
3-mo. finance co. paper	7.74	7.89	7.94	7.26	7.43	7.56
4-6 mo. commercial paper	8.49	8.63	8.55	8.06	8.23	8.13
Bond buyer municipals	6.00	6.40	6.35	6.49	7.00	7.12
Aaa corporate-new issues	7.75	8.32	8.45	8.60	9.10	9.20
20-year Treasury bonds	6.34	6.71	6.78	6.85	7.24	7.47
FHA mortgages, 30-year	8.38	8.53	9.25	9.10	9.11	--

	Change During Period 1969 QIII	QIV	1970 QI	April	May
Change in monetary aggregates (SAAR, per cent)					
Total reserves	- 9.3	1.4	- 2.9	21.3	14.1
Nonborrowed reserves	- 4.8	- 0.1	- 0.4	25.4	19.3
Credit proxy	- 9.4	0.1	0.6	16.8	- 4.1
Credit proxy + nondep. funds	- 4.0	2.0	0.5	13.7	- 0.4
Money supply	--	1.2	3.8	10.7	4.1
Time and savings deposits	-13.3	--	0.4	22.2	10.3
Deposits at S&L's and MSB's	2.1	1.4	1.9	8.1	6.6
Bank credit, end-of-month	- 0.8	2.1	- 0.2	6.0	6.0
Treasury securities	-11.4	-21.2	-15.4	50.6	23.1
Other securities	- 7.2	--	10.8	16.6	6.5
Total loans	3.1	7.2	--	- 4.3	2.6
Business	5.1	5.0	- 3.8	- 2.3	3.5

	1969 QIII	QIV	1970 QI	April	May
Change in millions of dollars					
Commercial paper (SA)	3,233	3,250	2,765	1,870	1,376
Bank related (NSA)	1,350	1,614	2,224	109	923

New security issues (NSA, $ mil.)	1968 Year	1969 Year	1969 QI	1969 May	1970 QI	1970 May
Total corp. issues	21,965	26,744	6,218	2,076	7,831e	3,500e
Public offerings	15,314	21,131	4,679	1,565	7,138e	3,000e
State and local government bond offerings	16,574	11,881	2,787	1,110	4,049e	1,000e
Fed. sponsored agency debt (change)	3,354	9,292	1,194	549	3,714	345e
Fed. gov't. debt (change)	15,301	-2,258	157	-1,485	1,981	1,664e

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

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U.S. Balance of Payments

In millions of dollars; seasonally adjusted

	1968 Year[r]	1969 Year[r]	1970[p] I	Feb.*	Mar.*	Apr.*
Goods and services, net 1/	2,499	1,950	885			
Trade balance 2/	624	638	515	375	140	185
Exports 2/	33,588	36,473	10,200	3,570	3,335	3,410
Imports 2/	-32,964	-35,835	-9,685	-3,195	-3,195	-3,225
Service balance	1,875	1,312	370			
Remittances and pensions	-1,122	-1,191	-330			
Govt. grants & capital, net	-3,975	-3,828	-837			
U.S. private capital	-5,412	-5,374	-1,557			
Direct investment	-3,208	-3,070	-1,304			
Foreign securities	-1,255	-1,494	-159	-131	-103	-66
Banking claims	253	-541	156	119	-183	-125
Other	-1,202	-269	-250			
Foreign capital	9,409	12,554	1,693			
Official foreign, nonliquid	2,321	-737	-491			
Official foreign, liquid	-3,101	-525	3,041	1,337	726	-352
Foreign commercial banks, liquid	3,387	9,434	-1,717	-822	-937	899
New direct investment issues 3/	2,144	1,029	155			
U.S. corporate stocks	2,096	1,565	-85	-15	-41	8
Other	2,562	1,788	817			
U.S. monetary reserves (inc. -)	-880	-1,187	481	-274	320	431
Gold stock	1,173	-967	-44	-24	3	1
Special drawing rights	-	-	-53	-20	-1	-6
IMF gold tranche	-870	-1,034	253	-186	-70	67
Convertible currencies	-1,183	814	831	-44	388	369
Errors and omissions	-514	-2,924	-337			
BALANCES (deficit -) 4/						
Official settlements, S.A.			-3,070			
" " , N.S.A. 5/	1,641	2,708	-2,808	-1,066	-1,304	-148
Liquidity, S.A.			-1,765			
" , N.S.A.	171	-7,221	-1,675	-153	-171	-951
Adjusted over-all, S.A.			-1,353			
" " , N.S.A. 6/	-1,746	-6,726	-1,271	-244	-367	-1,047
Financed by: 7/						
Liab. to comm. banks	3,387	9,434	-1,537	-822	-937	899
Official settlements	-1,641	-2,708	2,808	1,066	1,304	148

* 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.

Note: Data for 1 Q 1970 are confidential until released by U.S. Department of Commerce after June 25.

THE ECONOMIC PICTURE IN DETAIL

Domestic Nonfinancial Scene

Gross national product. Recent data suggest a GNP increase in the second quarter of about $10 billion -- moderately larger than the first quarter rise, and approximately equal to the gain projected last month. Although a much smaller rise appears in prospect for the deflator, this nevertheless implies a quarter of little or no real growth; in the first quarter, real GNP declined at a 3 per cent annual rate.

The largest change made in the second quarter projection is in consumer outlays, where available retail sales data suggest a downward revision of about $1-1/2 billion. Consumer spending now seems likely to just about match the first quarter rise; in view of the exceptionally large gain in disposable income, this means a sharp rise in the saving rate. In the April-May period, retail sales of nondurables other than general merchandise and apparel were significantly less expansive than in the first quarter. In contrast, sales of durable goods have shown more improvement than anticipated, but not enough to offset the more moderate gain in nondurables. In addition, State and local construction expenditures in April and May appear to have risen less than expected earlier, and we have lowered by $ .7 billion our projection for purchases of goods and services in this sector.

Small upward adjustments in other sectors largely offset these downward revisions in consumer outlays and State and local government purchases. Inventories are now expected to show no change from the first quarter level instead of a slight liquidation. Auto output exceeded sales in May and current production schedules and recent sales levels suggest little change in auto stocks in June.

Among other sectors, housing starts remain unchanged at a projected annual rate of 1.2 million units, but residential construction expenditures have been raised slightly, in part because of higher reported average unit costs. In addition, the net export projection has been raised to a $3.4 billion annual rate from the $3.0 billion in the last Greenbook. This modification reflects some weakening of imports in response to sluggishness of the overall economy, and slightly stronger exports reflecting continued strength in foreign industrial activity.

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

	First Quarter	Second Quarter: Previous Projection (5/20)	Second Quarter: Current Projection
	----------------(Billions of dollars)------		
GNP	7.4	10.4	9.9
Final demands	14.4	12.1	10.6
Consumer expenditures	10.9	12.3	10.7
Business fixed investment	1.5	1.0	1.0
Net exports	.3	.0	.4
Federal purchases	.0	-2.7	-2.7
State and local purchases	2.9	2.8	2.1
Inventory change	-6.9	-1.8	- .8
	------------------(Per Cent)-------------		
Real GNP	-3.0	- .2	- .4
GNP deflator	6.2 1/	4.5	4.5

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

The second half projection continues to call for recovery in real output, although the rate of growth appears likely to be somewhat less than we had formerly projected. We are now expecting an average increase of about $14.5 billion per quarter in second half GNP as opposed to $16 billion in our earlier projection; real GNP is now expected to increase at about a 2.2 per cent annual rate in contrast to the 2.7 per cent in the last projection. The current projection assumes expansion in the money supply at a 4 per cent annual rate, and in bank credit at about a 7 per cent annual rate in the second half of the year, and little change, on balance, from current interest rate levels.

The rate of inventory accumulation is expected to grow more slowly in the second half than earlier projected as desired stocks adjust quite gradually to relatively limited gains in final sales. It also appears that State and local capital spending programs may continue under somewhat greater constraint than we had formerly thought. With the prospective calendar of Federal and private borrowings very large and with no appreciable reduction in interest rates in sight, these governments are likely to experience continued difficulty in bond market financing, and we have reduced the projected rate of growth in outlays by this sector in the second half by half a billion dollars in each quarter.

Business fixed investment in the second half is now projected as slightly weaker than in the last Greenbook. We continue to anticipate successively smaller second and third quarter increases and now expect a moderate decline in the fourth quarter. However, our projected increase for the year as a whole is little changed. For a variety of reasons, it is below even the scaled-down increase (7.8 per cent) indicated by the Commerce-SEC survey. These reasons include low rates of capacity utilization, lagging new orders, and current and prospective financing difficulties.

Continued tight money markets and high interest rates also suggest that mortgage commitments will be somewhat less than expected earlier, and we have cut back slightly our projections of housing starts and residential construction spending. On the other hand, the recovery in net exports is expected to be somewhat stronger than in the last projection.

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

	Third Quarter		Fourth Quarter	
	Previous Projection (5/20)	Current Projection	Previous Projection (5/20)	Current Projection
	(Billions of dollars)			
GNP	16.5	14.0	16.0	15.0
Final demands	14.5	13.5	15.0	14.5
Consumer expenditures	9.5	9.6	9.5	9.9
Business fixed investment	1.0	1.0	.0	- .5
Net exports	1.0	.8	.0	.6
Federal purchases	- .7	- .9	- .9	-1.0
State and local purchases	3.5	3.0	3.5	3.0
Inventory change	2.0	.5	1.0	.5
	(Per Cent)			
Real GNP	2.6	1.8	2.8	2.6
GNP deflator	4.2	4.0	3.7	3.5

With a somewhat weaker overall demand situation, we now anticipate that the unemployment rate will rise more rapidly than earlier projected, although not as fast as in the second quarter. Employment gains during the second half are likely to be minimal, but labor force growth is also expected to slow, reflecting in part reduced employment opportunities. The unemployment rate by the fourth quarter is projected to average 5.6 per cent rather than the 5.2 per cent shown earlier.

But the second half outlook for prices seems a little more favorable than it did earlier. Increases in wholesale industrial prices this year have been slightly smaller than in the second half of 1969 and are expected to continue to ease in the second half of this year. The consumer price index is also expected to rise more slowly. Food prices recently have shown a tendency to stabilize and prospective supplies suggest only slight increases later this year. Prices of services -- especially transportation, medical care, and homeownership -- are likely to continue to increase at a rapid pace but not as rapidly as earlier this year. The projected rate of increase in the GNP deflator for the second half has been lowered slightly and it is now expected to average 3-1/2 per cent in the fourth quarter, compared with 5.2 per cent (adjusted to exclude the effect of the Federal pay raise) in the first quarter of this year.

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

			1970				1971	
		1970		Projected			Projected	
	1969	Proj.	I	II	III	IV	I	II
Gross National Product	932.1	977.8	959.6	969.5	983.5	998.5	1,013.5	1,028.5
Final purchases	924.1	977.2	958.9	969.5	983.0	997.5	1,012.0	1,026.5
Private	709.5	754.9	737.7	748.9	760.3	772.8	783.5	794.5
Excluding net exports	707.4	751.1	734.7	745.5	756.1	768.0	778.9	789.9
Personal consumption expenditures	576.0	615.7	600.4	611.1	620.7	630.6	640.6	651.8
Durable goods	89.8	91.8	89.4	91.5	92.7	93.7	94.5	95.5
Nondurable goods	243.6	260.5	255.4	258.5	262.0	265.9	270.1	275.0
Services	242.6	263.4	255.6	261.1	266.0	271.0	276.0	281.3
Gross private domestic investment	139.4	135.9	135.0	134.4	135.9	138.4	139.8	140.1
Residential construction	32.2	30.2	30.2	29.4	29.4	31.9	34.3	35.6
Business fixed investment	99.2	105.1	104.0	105.0	106.0	105.5	104.0	102.5
Change in business inventories	8.0	0.6	0.8	0.0	0.5	1.0	1.5	2.0
Nonfarm	7.8	0.5	0.4	0.0	0.5	1.0	1.5	2.0
Net exports of goods and services	2.1	3.9	3.0	3.4	4.2	4.8	4.6	4.6
Gov't. purchases of goods & services	214.6	222.3	221.2	220.6	222.7	224.7	228.5	232.0
Federal	101.9	99.6	102.3*	99.6	98.7	97.7	98.0	98.0
Defense	79.2	75.8	78.9*	76.6	74.8	72.9	72.2	71.3
Other	22.7	23.8	23.3*	23.0	23.9	24.8	25.8	26.7
State & local	112.7	122.7	118.9	121.0	124.0	127.0	130.5	134.0
Gross national product in constant (1958) dollars	727.5	726.5	724.3	723.5	726.7	731.4	736.5	742.2
GNP implicit deflator (1958 = 100)	128.1	134.6	132.5	134.0	135.3	136.5	137.6	138.6
Personal income	747.2	800.6	778.6	799.3	806.9	817.7	829.3	841.1
Wages and salaries	509.9	546.0	532.4	543.0	550.1	558.4	566.4	574.3
Disposable income	629.7	681.0	660.4	678.2	688.4	696.9	706.1	715.6
Personal saving	37.6	48.5	43.5	50.4	50.9	49.2	48.2	46.3
Saving rate (per cent)	6.0	7.1	6.6	7.4	7.4	7.1	6.8	6.5
Corporate profits before tax	93.8	82.7	85.6	83.0	80.5	81.5	81.5	83.0
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	201.5	199.5	198.7	200.7	197.7	200.8	207.4	210.7
Expenditures	192.0	205.7	198.4*	210.4	206.6	207.5	211.2	214.7
Surplus or deficit (-)	9.5	-6.2	0.3*	-9.7	-8.9	-6.7	-3.8	-4.0
High employment surplus or deficit (-)	5.3	3.1	4.5	-1.3	2.6	6.6	12.8	12.8
Total labor force (millions)	84.2	86.1	85.8	85.9	86.2	86.6	87.0	87.4
Armed forces "	3.4	3.2	3.3	3.3	3.2	3.1	3.1	3.0
Civilian labor force "	80.7	82.9	82.4	82.6	83.0	83.5	83.9	84.4
Unemployment rate (per cent)	3.5	5.0	4.1	5.0	5.3	5.6	5.8	6.0
Nonfarm payroll employment (millions)	70.3	71.2	71.1	71.0	71.1	71.4	71.6	72.0
Manufacturing	20.2	19.7	20.0	19.7	19.6	19.6	19.6	19.6
Industrial production (1957-59=100)	172.8	170.6	170.7	169.6	170.6	171.6	172.6	174.2
Capacity utilization, manufacturing (per cent)	83.7	78.4	79.9	78.4	77.8	77.3	77.0	76.9
Housing starts, private (millions A.R.)	1.47	1.31	1.25	1.20	1.33	1.45	1.55	1.60
Sales new domestic autos (millions, A.R.)	8.46	7.69	7.35	7.60	7.80	8.00	8.10	8.25

* Federal purchases of goods and services and GNP, in '70-I, include the retroactive part of the pay increase for Feder military and civil service personnel ($2.1 billion annual rate). By means of accrual adjustments, however, this retroactive part is excluded from total Federal expenditures and from the surplus or deficit in '70-I and included in these in '70-II. The retroactive part of the pay increase for postal employees ($.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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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1969	1970 Proj.	1970 I	1970 II	Projected 1970 III	Projected 1970 IV	Projected 1971 I	Projected 1971 II
	---Billions of Dollars---							
Gross National Product	66.4	45.7	7.4	9.9	14.0	15.0	15.0	15.0
Inventory change	0.7	-7.4	-6.9	-0.8	0.5	0.5	0.5	0.5
Final purchases	65.7	53.1	14.4	10.6	13.5	14.5	14.5	14.5
Private	51.4	45.4	11.5	11.2	11.4	12.5	10.7	11.0
Excluding net exports	51.8	43.7	11.2	10.8	10.6	11.9	10.9	11.0
Net exports	-0.4	1.8	0.3	0.4	0.8	0.6	-0.2	0.0
Government	14.3	7.7	2.9	-0.6	2.1	2.0	3.8	3.5
GNP in constant (1958) dollars	19.9	-1.0	-5.5	-0.8	3.2	4.7	5.1	5.7
Final purchases	19.6	5.5	0.5	0.2	2.5	4.3	4.9	5.4
Private	18.3	10.1	2.2	2.5	2.3	4.2	3.5	4.3
	---In Per Cent Per Year---							
Gross National Product	7.7	4.9	3.1	4.1	5.8	6.1	6.0	5.9
Final purchases	7.7	5.7	6.1	4.4	5.6	5.9	5.8	5.7
Private	7.8	6.4	6.3	6.1	6.1	6.6	5.5	5.6
Personal consumption expenditures	7.3	6.9	7.4	7.1	6.3	6.4	6.3	7.0
Durable goods	7.8	2.2	-4.4	9.4	5.2	4.3	3.4	4.2
Nondurable goods	5.6	6.9	10.8	4.9	5.4	6.0	6.3	7.3
Services	8.9	8.6	8.5	8.6	7.5	7.5	7.4	7.7
Gross private domestic investment	10.4	-2.5	-19.2	-1.8	4.5	7.4	4.0	0.9
Residential construction	6.6	-6.2	-17.7	-10.6	0.0	34.0	30.1	15.2
Business fixed investment	11.7	5.9	5.9	3.8	3.8	-1.9	-5.7	-5.8
Gov't. purchases of goods & services	7.1	3.6	5.3	-1.1	3.8	3.6	6.8	6.1
Federal	2.4	-2.3	0.0	-10.6	-3.6	-4.1	1.2	0.0
Defense	1.5	-4.3	-1.5	-11.7	-9.4	-10.2	-3.8	-5.0
Other	5.6	4.8	3.5	-5.1	15.7	15.1	16.1	14.0
State & local	11.9	8.9	10.0	7.1	9.9	9.7	11.0	10.7
GNP in constant (1958) dollars	2.8	-0.1	-3.0	-0.4	1.8	2.6	2.8	3.1
Final purchases	2.8	0.8	0.3	0.1	1.4	2.4	2.7	2.9
Private	3.3	1.8	1.5	1.8	1.6	2.8	2.4	2.9
GNP implicit deflator *	4.7	5.1	6.2 1/	4.5	4.0	3.5	3.2	2.8
Personal income	8.6	7.1	5.8	10.6	3.8	5.4	5.7	5.7
Wages and salaries	9.7	7.1	5.6	8.0	5.2	6.0	5.7	5.6
Disposable income	6.7	8.1	8.0	10.8	6.0	4.9	5.3	5.4
Corporate profits before tax	3.0	-12.4	-25.4	-12.1	-12.0	5.0	0.0	7.4
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.3	-1.0	-9.0	4.0	-6.0	6.3	13.1	6.4
Expenditures	5.8	7.1	3.5	24.2	-7.2	1.7	7.1	6.6
Nonfarm payroll employment	3.5	1.3	1.7	-0.6	0.6	1.7	1.1	2.2
Manufacturing	2.0	-2.5	-2.0	-6.0	-2.0	0.0	0.0	0.0
Industrial production	4.4	-1.3	-2.8	-2.6	2.4	2.3	2.4	3.7
Housing starts, private	-2.7	-10.9	-32.1	-16.0	43.3	36.1	27.6	12.9
Sales new domestic autos	-1.9	-9.2	-38.2	13.4	10.5	10.3	5.0	7.4

* Based on deflators calculated to three decimals.

1/ Excluding effects of Federal pay increase, 5.2 per cent per year in 70-I.

Industrial production. Industrial production declined .8 per cent in May and was 3.2 per cent below last summer's high. Output of consumer goods rose slightly, but production of business and defense equipment and of materials were curtailed. As in April, some of the decline in May must have reflected shortages of supplies and parts because of continued strikes in the trucking industry. Also, strikes in the rubber industry accounted for .3 of the 1.4 point decline in the May index.

One feature of the May decline was the second consecutive drop in output of business equipment, down 2 per cent -- the same decline as in April. Production of industrial and commercial equipment and aircraft was down in May, but output of trucks rose sharply. The increased output of trucks, as well as of autos, may reflect in part an attempt to maintain inventories against the possibility of strikes when labor contracts expire in mid-September.

Among consumer goods, auto assemblies rose 15 per cent and were at an annual rate of 8 million units compared to 7 million in April. Industry production schedules for June indicate an annual rate of about 8.3 million units. Output of household appliances increased further in May, but production of furniture and television sets was off again.

Curtailments in materials production were widespread with declines in steel, construction materials, parts for processing in the equipment industries and indicated declines in textiles, paper, and chemicals.

INDUSTRIAL PRODUCTION
Per cent changes

	April 1970 to May 1970	July 1969 to May 1970
Total index	- .8	- 3.2
Consumer goods	.3	- .6
Durables	1.8	- 5.8
Autos	15.0	-11.9
Home goods	.3	- 2.3
Nondurable	- .2	1.3
Business equipment	- 2.2	- 4.3
Defense equipment	- 2.4	-19.0
Materials	- .9	- 3.4
Construction	- 1.7	- 2.4
Metal goods	- 1.5	- 7.9
Nondurable	- .2	- .8

Retail sales. Retail sales, as well as consumer surveys, continue to suggest cautious consumer purchasing attitudes. April sales, however, were revised upward from the advance count and now show a gain of 2.0 per cent, the largest increase since March 1968. Sales in May, according to the advance (now unpublished) estimate, declined .6 per cent; even so, the April-May average was 1.7 per cent above the first quarter level.

Durable goods sales in May apparently declined 1.4 per cent from April, as sales of the automotive group (which have a history of upward revisions) were reported down despite a pick-up in unit auto sales. Sales at nondurable goods stores were little changed, as slight declines at department and apparel stores were offset by higher sales at food and drug stores and in the miscellaneous nondurable group.

RETAIL SALES
(Per cent change from previous period)

	IV Q 1969 to I Q 1970	I Q 1970 to April-May Average
All stores	1.0	1.7
Durable	- 2.5	2.0
Automotive	- 5.2	1.6
Furniture & appliances	5.1	1.8
Nondurable	2.5	1.7
Food	3.6	.6
Department stores	.6	6.2
Total, deflated by all commodity CPI	- .3	n.a.

Autos. Unit sales of new domestic autos increased further in the first 10 days of June and were at a seasonally adjusted annual rate of 8.7 million units. This was 12 per cent above the May rate of 7.8 million units, and only 1 per cent below the first 10 days of June 1969. Continued sales contests at GM dealers were apparently a factor in the early June results, as total GM sales were considerably above a year earlier while sales of other makes were lower.

Dealers' stocks of new domestic autos rose 1 per cent from the end of April to the end of May but were 3 per cent below a year earlier. With the improvement in new car sales from April to May, the supply of cars on hand decreased from 58.8 days to 57.2 days and was well below the January 1970 high of 69.0 days.

NEW AUTOS, SALES AND STOCKS
Millions - seasonally adjusted

	1969 Q I	1969 April	1969 May	1970 Q I	1970 April	1970 May
Sales 1/						
Total	9.2	9.3	9.7	8.6	8.7	9.0
Domestic	8.4	8.2	8.5	7.4	7.5	7.8
Foreign	.8	1.1	1.2	1.2	1.2e	1.2e
Stocks						
Domestic	1.60	1.58	1.49	1.41	1.43	1.45

e - estimated
1/ annual rates

Consumer credit. Consumer instalment credit outstanding rose $3.6 billion at a seasonally adjusted annual rate in April. The rise was somewhat larger than in March, but less than the $4.0 billion increase (annual rate) in the first quarter as a whole. Extensions in April were a little below the first quarter rate and repayments were slightly higher.

Auto credit and home improvement loans rose somewhat in April following no change in the first quarter, but increases in personal loans and other consumer goods credit did not match those of the winter months. The April advance in auto credit was the largest since last November and reflected a somewhat larger number of new and used cars financed and an increase in the average amount of contract per unit financed. Average contracts are still below earlier highs, however, even after the April increases. In part this may reflect stiffer contract terms. Almost 80 per cent of sales finance company contracts for new car purchases in

April showed dealer cost ratios of 100 per cent or less; in the first quarter the proportion was about 78 per cent and for the full year 1969 it was 76 per cent. The proportion of contracts with dealer cost ratios of 100 per cent or less for used cars has shown a similar pattern this year.

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

	Total	Automobile	Other Consumer goods	Personal Loans	Home repair and Modernization
1969 - Q I	$8.3	$2.7	$2.5	$3.0	$ .2
Q II	9.6	3.1	2.9	3.2	.4
Q III	7.7	1.9	2.6	3.1	.0
Q IV	6.8	2.0	2.4	2.6	- .2
1970 - Q I	4.0	.0	2.4	1.7	.0
April	3.6	.5	1.4	1.5	.1

Consumer surveys. The Michigan Survey Research Center and the National Industrial Conference Board in separate surveys taken in April and May found increased pessimism among consumers. The SRC index of sentiment (composed of five attitudinal questions on consumer market conditions, the economy, and personal finances) declined for the fifth consecutive quarter, leading the Center to suggest that this may be the longest consumer recession in the post-World War II period -- with no turn likely before the end of 1970. In both surveys, there were fewer favorable responses to questions on present business conditions and employment opportunities.

On the other hand, both Michigan and the NICB found continued basic optimism about past and future family income trends, and reported intentions to purchase cars were mixed. The NICB reported a rather sharp increase in the number of families planning to buy a new car within six months, but Michigan reported plans to buy cars within the next twelve months were off significantly. The six-month purchase plans should probably be given more weight since forecasts for shorter time horizons are usually more accurate.

The Michigan survey was completed before May 16 and thus did not reflect responses to the worst of the decline in the stock market. Nonetheless, most families were aware of the downward trend in stock prices and thought it bad for business. Concern about a recession and rising unemployment rather than the stock market, however, seemed to be the main cause of their pessimism, along with worry about the high level of prices.

Opinions about buying conditions for cars and large household goods have not changed much in the last three or four surveys according to Michigan, although evaluation of whether it is a good time to buy a house continued to become more unfavorable and the NICB reported lower home purchase plans. The NICB also reported lower purchase plans for major appliances and carpets.

SELECTED SRC SURVEY RESULTS

	Index of Consumer Sentiment (Feb. 1966 = 100)	New Auto Purchase Plans Next Twelve Months Per Cent of Families (Not seasonally adjusted)
1969:		
May-June	91.6	11.1
August-September	86.4	9.5
October-November	79.7	9.3
1970:		
February	78.1	9.6
April-May	75.4	8.1

SELECTED NICB SURVEY RESULTS

	Plans to buy within six months, seasonally adjusted (Per cent of families with purchase plans)	
	New Cars	Major Appliances
1969:		
March-April	4.8	39.6
May-June	5.2	42.0
July-August	5.1	37.2
September-October	5.2	37.7
November-December	4.6	36.2
1970:		
January-February	4.6	38.8
March-April	5.4	35.8

Construction and real estate. Seasonally adjusted value of new construction put in place, which was revised downward by 2 per cent for April, dipped further in May to an annual rate of $88.2 billion, 5 per cent below a year earlier. Allowing for increased construction costs, the year-to-year drop in real terms approximated 10 per cent, as estimated by the Census Bureau.

Within the private sector, residential outlays in current dollar declined further in May from an already reduced April rate, but expenditures for new nonresidential construction were maintained within 4 per cent of the peak of last September. Although there has been some downward adjustment in expenditures for industrial and commercial structures this spring, outlays for public utilities and some other types of nonresidential building have tended to rise, bolstered by an exceptionally high level of contract awards through April. Public construction outlays edged down in May, reflecting mainly a drop in expenditures for Federally-owned projects after an appreciable rise in April.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	May 1970 ($ billions)1/	Per cent change from	
		April 1970	May 1969
Total	88.2	- 1	- 5
Private	60.0	- 1	- 6
Residential	26.8	- 3	-19
Nonresidential	33.1	--	+ 8
Public	28.2	- 1	- 2
Federal	3.3	- 6	- 6
State and local	24.9	--	- 1

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

Seasonally adjusted private housing starts edged off slightly further in May to an annual rate of 1.20 million units. The May dip was associated with a 3 per cent upward revision in the rate originally reported for April, however, Moreover, it was concentrated entirely in multifamily units, and, regionally, only in the Northeast and North Central states.

Seasonally adjusted residential building permits advanced further in May to the highest rate in more than a year. In view of the improved overall level of permits in recent months and other factors, some upturn in starts is likely in June, possibly to at least a 1.25 million annual rate. If achieved, this would bring the average for the current quarter to 1.22 million, a little higher than we have been projecting but below the 1.25 million average rate in the first quarter.

PRIVATE HOUSING STARTS AND PERMITS

	May 1970 (Thousands of units)1/	Per cent change from	
		April 1970	May 1969
Starts 2/	1,200	- 1	- 22
1-family	715	+ 3	- 18
2-or-more-family	485	- 7	- 26
Northeast	194	-11	- 21
North Central	207	-18	- 42
South	544	+ 4	- 10
West	255	+13	- 22
Permits	1,352	+ 7	+ 2
1-family	607	+ 1	- 4
2-or-more-family	745	+13	+ 8

1/ Seasonally adjusted annual rates; preliminary.
2/ Apart from starts, mobile home shipments for domestic use in April--the latest month for which data are available--reached a record seasonally adjusted annual rate of 445,000. This was 13 per cent above a year earlier and nearly a fourth above the relatively low average in the first quarter of the year.

Residential vacancy rates turned upward in the first quarter from the low reached in the fourth quarter of 1969. However, the rise was moderate and, at 5 per cent of the dwelling units available and fit for use, the first quarter average for rental properties was no higher than the reduced rate in the first quarter of 1969. Moreover, among regions, rates in the Northeast and the West were below year earlier levels and the lowest for any quarter in the history of the series which began in 1956. While there was some increase in rental vacancy rates in large metropolitan areas taken as a whole, the comparable average in nonmetropolitan areas reached an historic low. Home-owner vacancy rates -- a much less sensitive series -- changed little in the first quarter at an average of 1.0 per cent. This compares with a high of 1.5 per cent in the first quarter of 1965 and a low for the series of .8 per cent in the first quarter of 1957.

RENTAL VACANCY RATES
(Per cent)

	Average for first quarter of						
	1957	1965	1966	1967	1968	1969	1970
All regions	4.8	7.7	7.5	6.6	5.5	5.0	5.0
Northeast	3.0	5.5	4.9	5.0	3.4	2.9	2.1
North Central	4.6	7.2	6.4	5.3	5.0	4.9	5.5
South	5.7	8.2	8.7	6.9	6.8	6.6	7.1
West	6.6	10.6	10.7	10.0	7.3	5.9	5.4

Planned spending on plant and equipment. According to the May Commerce-SEC survey, businessmen have trimmed their 1970 capital spending plans by about 2 percentage points ($1.4 billion) from those reported in the February survey. Current plans now indicate an increase in total dollar outlays of 7.8 per cent from 1969, rather than 9.8 per cent (revised).

Such downward revisions in spending plans are not unusual in periods of declining activity. Over the past sixteen years, the Commerce-SEC February survey has overestimated actual spending by an average of 2 percentage points. At economic downturns the overestimates have been even larger. This experience suggests that if markets remain weak and financing difficulties continue, there are likely to be further downward revisions in spending plans as the year progresses.

ANTICIPATED EXPENDITURES FOR NEW PLANT AND EQUIPMENT, 1970
(Comparison of Feb. and May Commerce-SEC Surveys)

	(Billions of dollars)			(Per cent change from 1969)	
	1969	1970			
	Actual	Feb. Survey	May Survey	Feb. Survey	May Survey
Total	75.56	82.94	81.45	9.8	7.8
Manufacturing	31.68	34.60	32.85	9.2	3.7
Durable goods	15.96	17.50	16.44	9.6	3.0
Nondurable goods	15.72	17.10	16.42	8.8	4.5
Nonmanufacturing	43.88	48.34	48.60	10.2	10.8

The downward revision for this year as a whole was centered in manufacturing and included both durable and nondurable industries. In the durable goods area, large reductions from earlier plans were reported by producers of primary metals, nonelectrical machinery, motor vehicles, and stone, clay, and glass. Within nondurables, textiles, chemical, and petroleum firms all reported large downward revisions. Most other industries showed relatively small changes, except for food and beverages which were scaled upward significantly.

A slight upward adjustment in nonmanufacturing resulted from sharp increases in the plans of air transportation and utilities companies which more than offset a decline in railroad plans.

As may be seen in the following table, the recent survey indicates rather large increases in spending for the second and third quarters and a slight decline in the fourth when spending by durable foods manufacturers shows a sharp decline.

QUARTERLY PATTERN OF ANTICIPATED EXPENDITURES
FOR NEW PLANT AND EQUIPMENT, 1970
(Billions of dollars, seasonally adjusted annual rates)

	1969				1970			
	I	II	III	IV	I	II	III	IV
	(Actual)				(Anticipated)			
Total	72.52	73.94	77.84	77.84	78.22	80.66	83.28	82.12
Manufacturing	29.99	31.16	33.05	32.39	32.44	32.88	33.25	32.80
Durable	15.47	15.98	16.53	15.88	16.40	16.69	16.89	15.81
Nondurable	14.52	15.18	16.52	16.50	16.05	16.18	16.36	17.00
Nonmanufacturing	42.53	42.78	44.80	45.46	45.78	47.78	50.02	50.31

Inventories. Book value of business inventories rose in April at about the March rate, and only slightly more than the modest first quarter average. A fairly large April increase at manufacturers was partly offset by inventory liquidation at trade establishments. Work stoppages in the trucking industry may not have had much effect on over-all inventory change but they do seem to have affected its distribution, with producers' stocks of materials and components piling up while users' and distributors' were drawn down.

When surveyed in May, manufacturers anticipated that the annual rate of inventory increase (book value) for the second quarter would be $5.6 billion -- greater than the average increase in the first quarter, but less than the April rate. A higher rate in the second quarter was expected by both durable and nondurable goods manufacturers, both of whom also anticipated declined in the rate of inventory accumulation in the third quarter.

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

	1970		
	Q I	March	April (Preliminary)
Manufacturing and trade, total	4.7	5.9	6.0
Manufacturing, total	4.1	3.8	8.3
Durable	2.9	3.6	4.9
Nondurable	1.2	.2	3.4
Trade, total	.6	2.1	- 2.3
Wholesale	1.9	- .1	- 1.9
Retail	- 1.3	2.2	- .4
Durable	- 2.3	1.0	- .7
Automotive	- 1.8	2.0	.2
Nonautomotive	- .5	- 1.0	- .9
Nondurable	1.0	1.2	.3

The business inventory-sales ratio rose further in April, owing both to the rise in inventories and a decline in business sales. The sales decline was at manufacturers and wholesalers, partly offset by an increase in retail sales, and may have reflected, at least in part, the effects of trucking strikes. The ratio of durable goods manufacturers' inventories to their unfilled orders, probably less disturbed by the strike than inventory-sales ratios, continued to rise rapidly to near-record levels in April.

INVENTORY RATIOS

	1967		1970	
	March	April	March	April (prel.)
Inventories to sales:				
Manufacturing and trade, total	1.60	1.59	1.59	1.60
Manufacturing, total	1.78	1.80	1.76	1.79
Durable	2.09	2.13	2.16	2.18
Nondurable	1.40	1.41	1.29	1.32
Trade, total	1.38	1.38	1.40	1.40
Wholesale	1.23	1.22	1.21	1.24
Retail	1.48	1.48	1.53	1.50
Durable	2.08	2.05	2.20	2.15
Automotive	1.61	1.54	1.76	1.74
Nonautomotive	2.74	2.77	2.80	2.72
Nondurable	1.20	1.21	1.23	1.21
Inventories to unfilled orders, durable goods manufacturing	.675	.681	.768	.781

Manufacturers' orders and shipments. New orders for durable goods increased .5 per cent in April. However, they remained 1 per cent below the first quarter average and 7-1/2 per cent below the fourth-quarter. The recent drop is greater than the decline over a comparable span from the peaks in general activity of 1966-IV or 1960-II, although nothing like the steep decline from 1957-III.

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

	1970		
	Q I	March	April (prel.)
Durable goods, total	29.1	28.6	28.8
Primary metals	4.6	4.5	4.9
Iron and steel	2.0	2.0	2.2
Other primary metals	2.6	2.5	2.7
Motor vehicles and parts	3.6	3.5	3.8
Household durable goods	2.0	2.0	1.9
Defense products	1.7	1.6	1.5
Capital equipment	8.5	8.4	8.2
Machinery and equipment	6.3	6.0	6.1
All other durable goods	8.7	8.6	8.5
Nondurable goods, total	25.1	25.2	24.9

Principal factors in the April rise in new orders were increases in the primary metals and motor vehicles industries. Partly offsetting these was a substantial decrease in aerospace orders, apparently reflecting declines in both defense and nondefense orders. The capital equipment group, which includes nondefense aircraft orders, declined in April in contrast to an increase in machinery and equipment. A decline in "all other durable goods" orders reflected reductions in construction materials.

Durable goods shipments dropped slightly further, with an increase for motor vehicles largely offset by strike-caused declines in steel shipments.

The durable goods order backlog declined another 1 per cent in April, the fourth successive monthly decline of that magnitude. The decline was mainly in the aerospace group, and occurred despite a jump in unfilled orders for iron and steel. The decline of 4.4 per cent in the total backlog since December is greater than the four-month declines from the peaks in general activity of December 1966 and May 1960.

MANUFACTURERS' UNFILLED ORDERS
Seasonally adjusted, end of month, billions of dollars

	1969		1970
	June	December	April (prel.)
Durable goods, total	85.9	86.7	82.8
Primary metals	7.1	7.7	7.2
Motor vehicles and parts	3.5	3.4	3.2
Household durable goods	1.7	1.6	1.6
Defense products	21.7	20.4	19.4
Capital equipment	34.2	35.1	33.7
Machinery and equipment	24.0	25.1	24.6
All other durable goods	17.7	18.5	17.7

Cyclical indicators. The Census composite leading indicator for March was revised down by nearly 2 per cent, and the preliminary April index is about unchanged from that level. The leading composite in April was 3.6 per cent below its September peak and 2.8 per cent below its November-December level. The latter decline is greater than had occurred four or five months after the May 1960 business cycle peak.

Available May data for leading indicators show materials prices, common stock prices, and the workweek down, while the initial unemployment claims (which have an inverted effect on the composite) fell back relatively little after their April jump.

COMPOSITE CYCLICAL INDICATORS
1963 = 100

		12 Leading Indicators	5 Coincident Indicators	6 Lagging Indicators
1969:	September	153.3 (H)	172.2	196.0
	October	153.1	173.1	198.8
	November	152.1	173.4	198.2
	December	152.1	173.4	200.9 (H)
1970:	January	149.6	172.8	200.4
	February	150.6	173.2	199.9
	March	148.0	173.1	199.2
	April (prel.)	147.8	173.7 (H)	199.5

(H) Current high.

The preliminary coincident composite rose to a new high in April, reflecting the sharp jump in personal income attributable to retroactive increases in Federal pay and in Social Security benefits. The lagging composite also rose slightly.

<u>Labor market</u>. The labor market eased further in May, as total nonfarm payroll employment recorded its first significant decline in the current slowdown. The unemployment rate rose to 5.0 per cent from 4.8 per cent in April--its fifth consecutive monthly rise and its highest level in more than five years. Declines in manufacturing employment were larger and more widespread in May than in other recent months and the workweek was reduced slightly further. Moreover, employment increases in the service industries were more sluggish and employment in trade declines for the second consecutive month.

Probably reflecting the tapering off of secondary layoffs arising from the teamster strike-lockout, initial claims for State unemployment insurance have declined sharply and more than seasonally since mid-April. However, insured unemployment has remained relatively high since mid-May, at a level nearly 85 per cent higher than a year earlier. The rate of insured unemployment jumped from 3.2 to 3.6 per cent from April to May, the latter its highest level since 1964. In early June, both initial claims and insured unemployment were moving down somewhat.

<u>Unemployment</u>. Increases in unemployment in May continued to reflect cutbacks in defense-oriented industries, aerospace, and consumer durable goods industries. Rates increased among adults who lost their jobs, particularly among white skilled workers in manufacturing and construction.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	December 1969	May 1970
Total	3.5	5.0
Males, 20 to 24 years	5.5	7.7
Males, 25 years or more	1.8	2.9
Females, 20 years or more	3.5	5.1
Both sexes, 16 to 19 years	11.8	14.3
White	3.2	4.6
Negro and other races	5.7	8.0
White collar	2.1	2.8
Blue collar	4.3	6.2

Since December, unemployment has risen by about 1.25 million--600,000 adult men, 425,000 adult women, and 225,000 teenagers. Of the increase, 60 per cent were job losers and 30 per cent were recent labor force entrants or reentrants.

After a substantial rise from December to April, the civilian labor force declined by 320,000 in May, with all of the decline among adult women; the labor force for adult men was still 650,000 above the December level. The total labor force, however, continued to show a very sharp rise from a year earlier--1.9 million as compared with a "normal" rise of 1.5 million.

Nonfarm employment. Nonfarm payroll employment declined by 270,000 in May to 70.9 million (new benchmark level), with about one-third of the drop accounted for by increased strike activity, mainly in construction, manufacturing, and trucking.[1/] Most of the overall decline in payroll employment in May reflected further curtailment in manufacturing, which was down 225,000 from April and 700,000 from its September 1969 high. Declines in May were widespread among nondurable and durable goods industries. Prior to May, employment in nondurable goods industries had declined relatively little.

Some of the May decline in durable goods industries--particularly primary metals--probably reflected the impact of the teamsters strike, but reductions in other industries mainly resulted from continued cuts in defense and aerospace spending and little real growth in consumer outlays. The latter factor was reflected in employment reductions of about 10,000 in furniture, textiles and apparel. On the other hand, employment in the transportation equipment industry was little changed and hours of work rose here as auto production picked up.

Reductions in the workweek were widespread in May with manufacturing hours off 0.1 hour to 39.9, and overtime work down to 2.9 hours, the lowest level since the end of 1964. Over the year, the manufacturing workweek has been shortened 0.8 hours, with

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1/ The benchmark revisions increased the level for March by about 200,000, or 0.4 per cent; upward revisions occurred in services, manufacturing, and retail trade; the level was reduced somewhat in State and local government and wholesale trade. The revision in the data to new benchmarks and the use of new seasonal factors did not significantly change the March to April movements in employment.

reductions of an hour or more recorded in 9 out of the 21 major industry groups. The average workweek for rank and file workers in private nonfarm industries as a whole inched down further to 37.2 hours. It has been gradually drifting downward since early fall for a total decline of 0.6 hour.

In contrast to the September-May decline in manufacturing, employment in the service industries increased 1.0 million during this period; but employment gains have been sluggish since March. Employment in the finance and service industries increased very little in May. Federal employment (aside from hiring of temporary Census takers) has declined by 107,000 since June 1969; but employment gains have continued large in State and local government. Construction employment has been relatively stable after allowance for increased strike activity, and in May was down about 40,000 from a year ago.

<u>Industrial relations</u>. First-year wage increases in settlements negotiated this year in manufacturing have averaged about 8 per cent. The recent 34-1/2-month agreement between Goodyear and 23,000 rubber workers, which has been submitted to the membership for ratification, provides an estimated average annual increase in wages and benefits of close to 8 per cent. Since the contract does not include cost-of-living increases at the end of the first and second years, the wage increases have been spread fairly evenly over the duration of the contract. This contract has already set the pattern for the Goodrich settlement and is likely to do so for the rest of the rubber industry. In apparel, settlements were reached in May for an additional 50,000 workers. First-year wage increases of 10 per cent are followed by 5 per cent increases in the second and third years. In construction, contract negotiations have provided first-year wage increases averaging about 18 per cent. About three times as many construction workers were on strike this May as a year ago and, in a number of large cities, construction activity is at a virtual standstill.

There is now hope that the trucking industry strike-lockout impasse in Chicago will soon end. Some teamster locals are now voting on a 45-month contract offering a total wage increase of $1.65. This agreement provides 55-cents in wage increases effective in the last 6 months of the 45-month contract, in addition to the $1.10 in the national agreement effective over a 39-month period. The $1.65 package would average out to about 9-1/2 per cent annually, as compared with 8 per cent for the $1.10 contract over 39-months. If the Chicago contract is accepted, the national agreement probably will be renegotiated to conform with it.

Wholesale prices. The wholesale price index rose 0.2 per cent from mid-April to mid-May as prices of industrial commodities increased at an annual rate of about 4 per cent--roughly the monthly average for the past six-months--and farm and food products registered a further decline.

WHOLESALE PRICES
(Percentage changes at annual rates)

	Dec. 1968 to June 1969	June 1969 to Dec. 1969	Dec. 1969 to Mar. 1970	Mar. 1970 to Apr. 1970	Apr. 1970 to May 1970
All commodities	6.2	3.4	5.2	0.0	2.1
Farm and food products	13.1	1.6	8.2	-12.1	- 6.1
Industrial commodities	3.6	4.3	4.2	4.1	4.1
Fuels and related products and power	5.5	2.1	.8	13.5	17.9
Metals and metal products	9.0	10.0	10.3	7.5	8.4
Machinery and equipment	3.3	5.6	3.9	2.9	2.9
Special groups					
Consumer nonfoods	2.6	3.3	2.2	1.1	5.3
Producer's equipment	2.7	6.1	3.9	1.9	2.9
Seasonally adjusted					
Farm products	14.0	2.0	5.7	-24.2	-24.7
Processed foods and feeds	10.1	3.5	9.4	4.8	-15.2

Increases for gasoline were a major influence in the increase in industrial commodities and helped maintain the upward push evident for fuels in recent months. Additional price increases for fuels can be expected in coming months, especially for coal as new Federal health and safety regulations and wage increases become effective in this industry. Metals and metal products continued to show substantial increases, as steel mill products advanced almost 1-1/2 per cent; however, this rise was below the rates of advance posted last year and early this year. Steel sheet prices were raised on June 1 for the second time this year; earlier increases had been made last February. The new increase will be reflected in the June index. Nonferrous metals showed a marginal net increase in the May index, with prices of some metals declining.

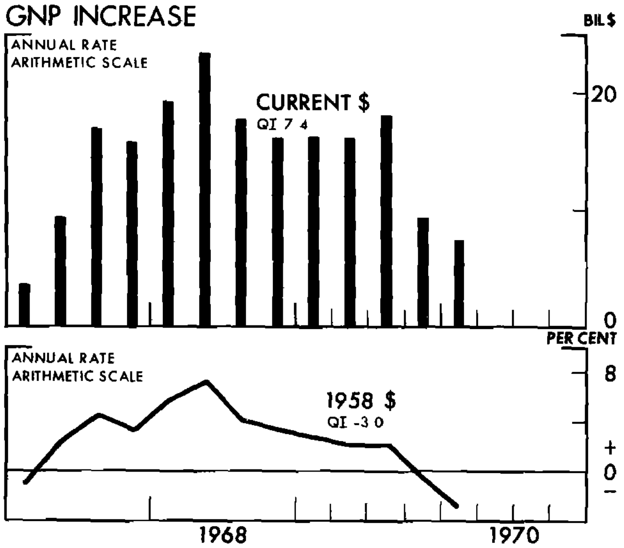
Increases in prices of metals and metal product are likely to be smaller in the second half of the year, partly because of the steel industry's current policy of not increasing prices of certain steel products more than once a year and partly because of the improved supply and demand situation for nonferrous metals. Price differentials between U.S. prices and those on the London Metal Exchange have narrowed recently for lead and zinc, and dramatically so for copper. Copper scrap prices in the U.S. have declined about one-fifth since mid-April, and this could also lead to reductions in brass mill products. A cut in the domestic price for zinc, and perhaps for lead, also may occur soon.

Among finished goods, machinery and equipment prices have been rising less rapidly in the last few months following an accelerated increase in the latter part of 1969.

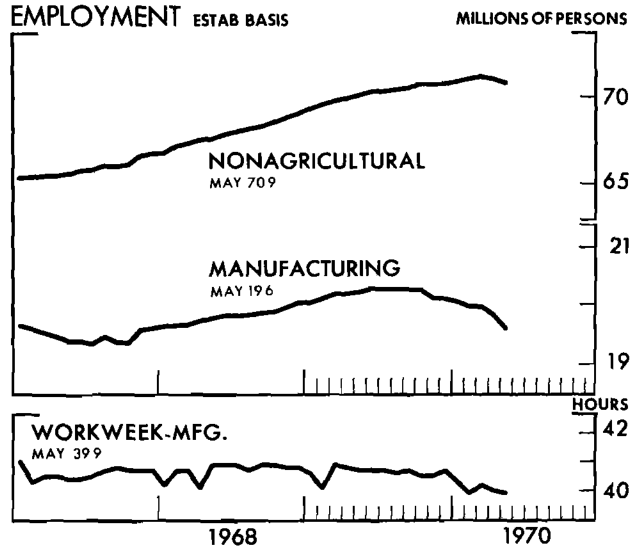
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED, RATIO SCALE

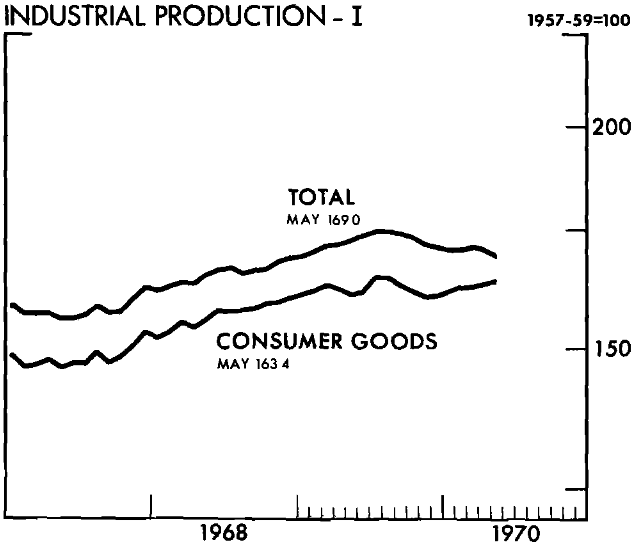
GNP INCREASE



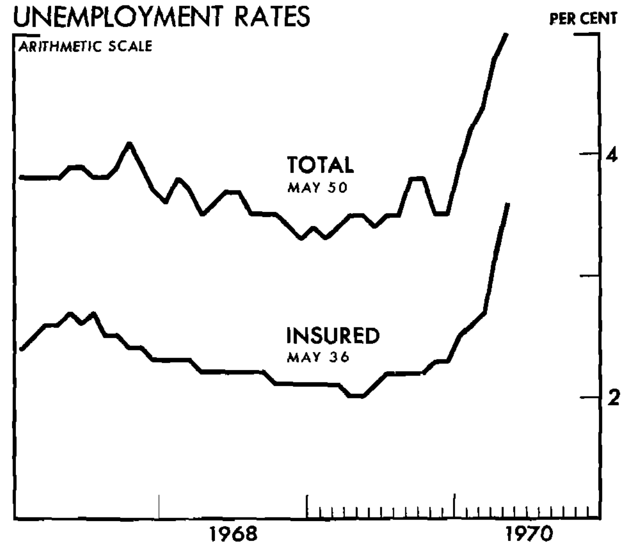
EMPLOYMENT ESTAB BASIS



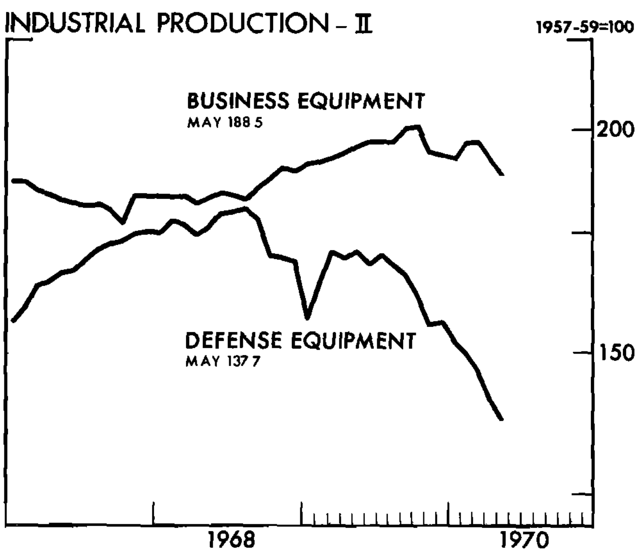
INDUSTRIAL PRODUCTION - I



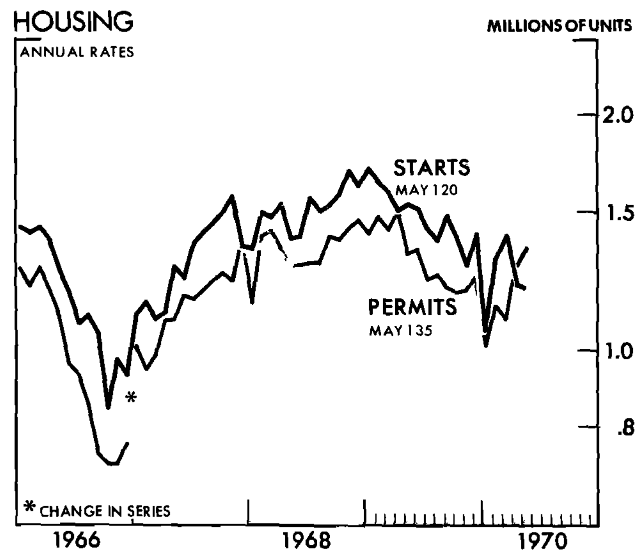
UNEMPLOYMENT RATES



INDUSTRIAL PRODUCTION - II



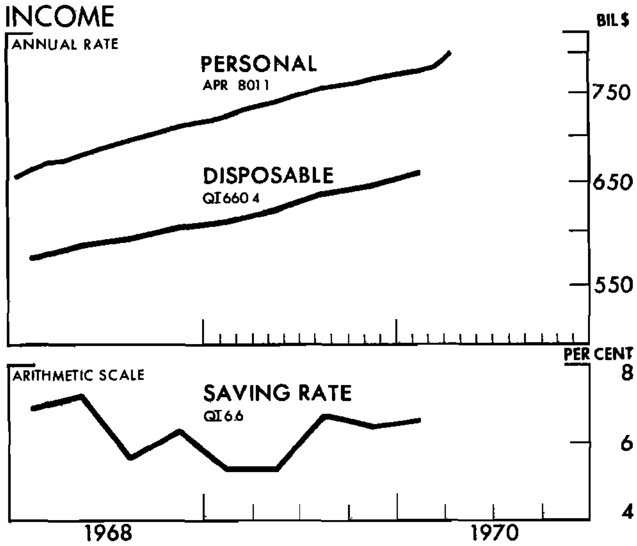
HOUSING



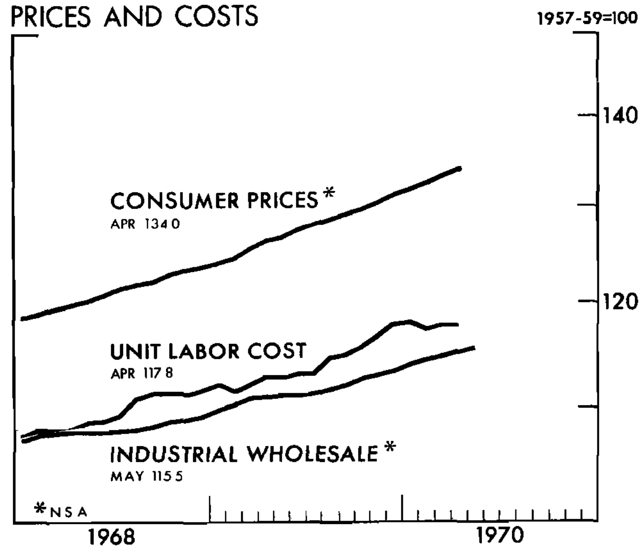
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED, RATIO SCALE

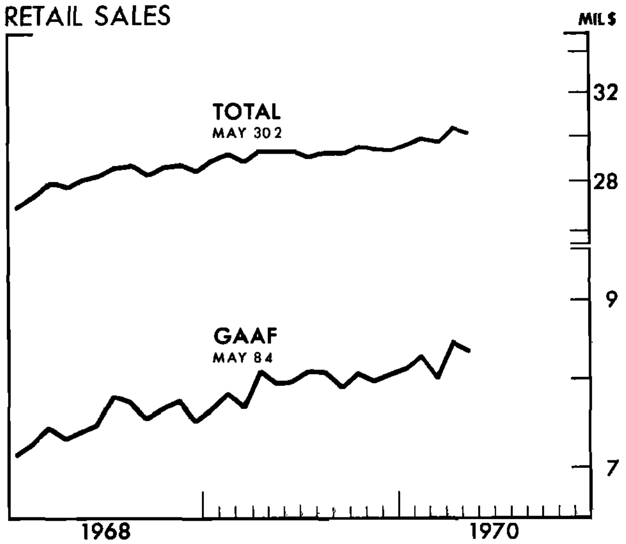
INCOME



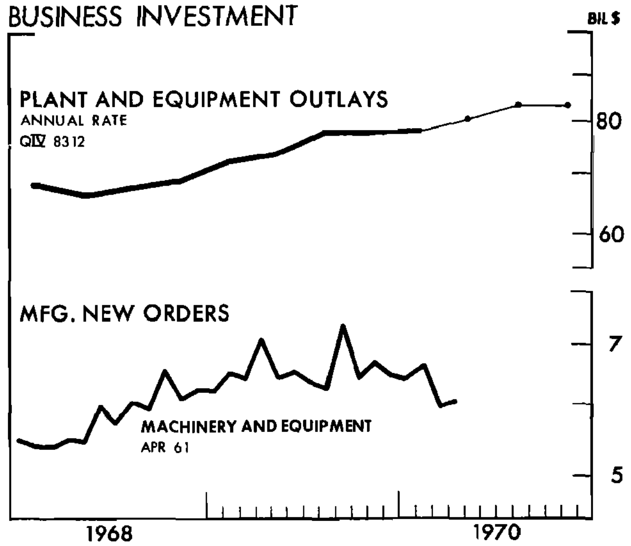
PRICES AND COSTS



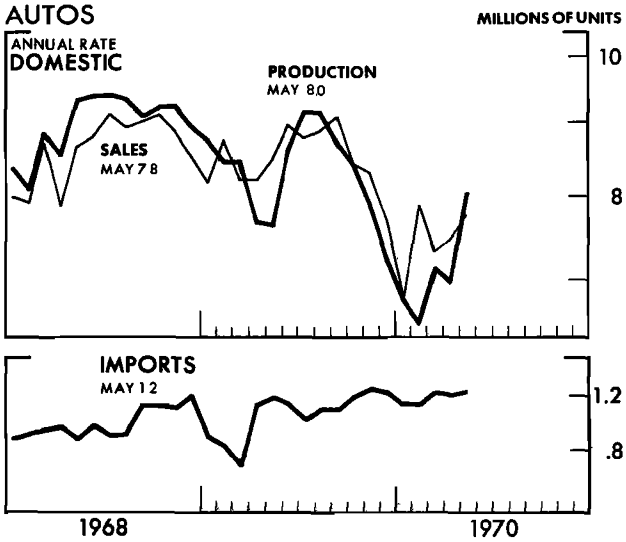
RETAIL SALES



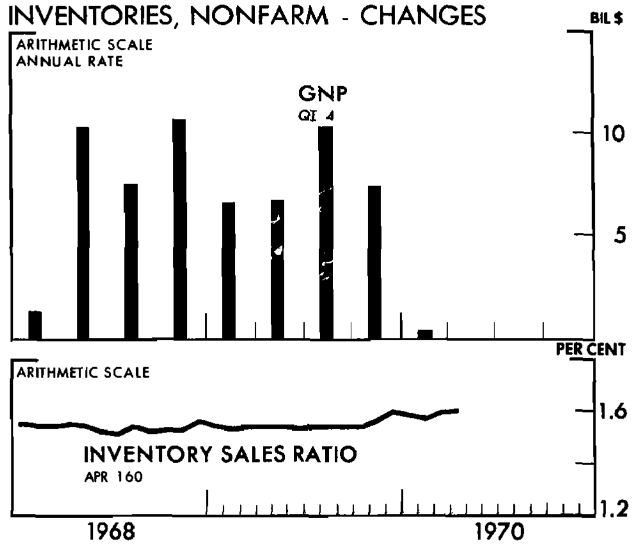
BUSINESS INVESTMENT



AUTOS



INVENTORIES, NONFARM - CHANGES



THE ECONOMIC PICTURE IN DETAIL

Domestic Financial Situation

Bank credit. Commercial bank credit, adjusted to include loans sold to affiliates, increased at an annual rate of 8-1/2 per cent in May--faster than in any month since November 1969. While net additions to investments were sizable, holdings of securities rose less than during March and April. But loans increased at about a 6-1/2 per cent annual rate in contrast to declines in the two preceding months.

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

	1969	1970		
	2nd Half	QI	April	May
Total loans & investments 2/	1.5	2.7	6.5	8.5
U.S. Govt. securities	-16.0	-15.4	50.6	23.1
Other securities	-3.6	10.8	16.6	6.5
Total loans 2/	6.4	4.1	-3.4	6.4
Business loans 3/	7.1	6.3	1.1	12.0

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.

The May pick-up in loan expansion reflected principally a spurt in business loan growth, following two months of sluggishness. Some part of this growth probably reflected special factors attributable to pressures in financial markets during late April and much of May that may have induced some potential open market borrowers to use bank lines instead. Rates on dealer-placed commercial paper rose appreciably above the prime rate, and some borrowers may have voluntarily shifted their demands to banks; in addition, dealers reported increasing difficulty in placing paper of lower-quality issuers who --to some degree--were probably forced into bank credit. The deterioration of equities markets generated a substantial volume of postponements in the new issue market and this may have led to some temporary bank financing.

The aggregate of loans other than commercial and industrial loans also rose in May at a rate above that in April, largely a result of an unchanged volume of security loans in contrast to a substantial decline of such loans in April. Consumer credit continued weak and growth in real estate loans was the same as the reduced April pace.

Although banks acquired a substantial volume of Treasury and other securities during May, growth in investments was substantially less than the unusually rapid rate in April. In large part, the May rise in Treasury securities reflected acquisitions of issues in the mid-May Treasury financing, although banks liquidated Governments between the financing and early June. Acquisition of municipal issues was cut back sharply--mainly at large banks--from the strong March-April pace, reflecting concern over the IRS position on the tax deductibility of interest, as well as pressure on the availability of funds.

Liquidity of commercial banks--as measured by the ratio of liquid assets to total liabilities at weekly reporting banks--declined slightly in May after advancing in the month earlier. The May decline was largely a result of banks selling off Treasury bills. Overall, bank liquidity positions remain relatively tight, which appears to be one factor behind continued bank restraint on lending terms and conditions.1/

Monetary aggregates. The money stock increased at a 4.1 per cent annual rate during May, following the sharp rise on average in the preceding two months. Within the month of May, the weekly average of private demand deposits showed sizable swings but with deposits at month-end about unchanged from those at the beginning of the month. Partly this may have reflected unusually large fluctuations in U.S. Government deposits, which declined more than $2 billion from the end of April to mid-May and then rebounded in the last week following inflows from the Treasury financing. Currency outside banks surged upward at an extraordinary 15 per cent rate of growth in May, nearly twice the rate in the earlier months of this year. However, much of this growth resulted from a rapid expansion of currency in late April and early May, and since mid-May currency growth has been moderate.

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

	1969	1970		
	2nd half	QI	April	May
Money stock	.6	3.8	10.7	4.1
Commercial bank time and savings deposits	-6.7	.4	22.2	10.3
Member bank deposits	-4.6	.6	16.8	-4.1
Member bank deposits plus nondeposit sources 2/	-1.2	.5	13.7	- .4

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.

Time and savings deposits at all commercial banks grew at a slower rate in May than the rapid rate in April. Data for early June indicate continuation of this reduced growth rate, with negotiable CD's declining slightly as in May. The limited ability of banks to attract and hold CD's in May principally accounted for the reduced rate of inflow of interest-bearing deposits. Inflows of time and savings deposits other than CD's continued strong as they have been since February, although part of the April-May growth might have reflected special factors related to the disbursement of retroactive social security benefits and Federal employee pay increases. Most of the recent growth has been at country (and nonmember) banks, where expansion of time certificates and open account deposits has accounted for over three-fourths of the increase. At weekly reporting banks, where growth in consumer-type deposits has been sluggish, savings deposits accounted for nearly two-thirds of the increase.

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

	March 25-April 29 1/			April 29-June 3 1/		
	1968	1969	1970	1968	1969	1970
Weekly Reporting Banks						
Total time and savings	-1.0	-1.5	1.9	-.1	-1.1	.1
Consumer-type	- .5	- .7	-.2	.5	.0	.3
CD's	- .8	-1.2	1.1	-.2	-1.0	-.1
IPC	- .8	- .8	.6	-.1	- .7	.0
Other	.0	- .4	.5	-.1	- .3	-.1
All other time	.3	.4	1.0	-.3	- .1	-.1
Country Banks						
Total time and savings	.5	.2	1.0	.5	.4	.9

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

Despite the sizable growth in interest-bearing deposits, total member bank deposits declined in May as U.S. Government deposits averaged about $2 billion less than a month earlier. Banks increased their reliance on nondeposit sources of funds, however, and the adjusted credit proxy was roughly unchanged for the month. Outstanding commercial paper of bank affiliates advanced more than $900 million in May following little rise in April.

Nonbank depositary intermediaries. During May, seasonally adjusted deposit growth at the nonbank thrift institutions is estimated to have slowed from the April pace, but nevertheless to have continued the high rates prevailing since March, rates well above those since early in 1969. It is difficult to discern just what impact the stock market gyrations during May had on savings patterns at the nonbank thrift institutions. The intra-month savings data that are available--for West Coast S&L's and New York City savings banks--suggest that the bulk of deposit inflows was received during the early part of May. In fact, New York City savings banks incurred a small net outflow during the last week of May, which was coincident with--but not necessarily related to--the dramatic stock market recovery. During the first week of June, the New York City savings banks received a net deposit inflow that was considerably smaller than in previous years.

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

	Mutual Savings Banks	Savings and Loan Associations	Both
1969 - QI	6.1	6.0	6.0
QII	4.3	3.7	3.9
QIII	2.0	2.1	2.1
QIV	3.3	.4	1.4
1970 - QI	2.6	1.5	1.9
March*	4.4	9.1	7.5
April p/*	6.4	8.9	8.1
May p/*	6.0	6.9	6.6
Memo:			
April and May p/	6.2	7.9	7.4

* Monthly patterns may not be significant because of seasonal adjustment difficulties.
p/ Preliminary. The May data are partially estimated.

Nonbank thrift institutions have been re-building their liquid asset holdings recently. This build-up probably reflects both their inability to acquire mortgages for immediate delivery and their remaining uncertainty about the outlook for deposit flows, particularly with regard to the reinvestment period that will begin at the end of June. It is estimated that a large share of the increase in liquid asset holdings has taken the form of Federal Agency issues.1/ The impact of these acquisitions can be seen by comparing the traditional liquidity ratios, which include only cash and Governments, with those that also include other liquid assets.

LIQUIDITY MEASURES - INSURED SAVINGS AND LOAN ASSOCIATIONS
(Percentages of total savings capital)

	Cash and Governments			Cash, Governments, and "Other Liquid Assets" 1/		
End of:	1968	1969	1970	1968	1969	1970
January	9.9	9.3	7.7	11.0	10.5	9.4
February	10.1	9.5	7.8	11.3	10.8	9.7
March	10.2	9.5	7.9	11.4	10.9	10.0
April	10.0	9.2	7.9	11.1	10.6	10.1
June	10.0	8.9		11.1	10.3	
September	9.3	8.1		10.6	9.7	
December	9.5	8.1		10.6	9.7	

1/ "Other liquid assets" include primarily Federal Agency issues and time CD's.

1/ Federal Agency issues have recently been providing a gross yield higher than the 8 per cent or less usury ceilings on conventional home mortgages currently prevailing in 16 states and the District of Columbia, and, of course, above Regulation Q ceilings for large CD's.

In addition, savings and loan associations have reduced sharply their net additions of borrowed funds and during March actually reduced their net borrowings. During May and early June, FHLB net advances continued very modest relative to a year earlier. S&L's have reacted to the FHLB's subsidy plan for advances by converting the bulk of outstanding eligible advances to the one-year minimum term (the most recent indication is that 90 per cent of eligible advances have been converted) but few have added to their borrowings under the subsidy program. This experience suggests that those associations not utilizing FHLB advances--some 2,000 in March 1970--have not been induced by the subsidy program to become borrowers.

Savings and loans' mortgage acquisitions have been extremely low. This reduced mortgage activity was probably as much a consequence of a low volume of mortgage commitments available for immediate take-down as it was an intentional build-up of liquid assets and reduction in borrowing volume.

INSURED SAVINGS AND LOAN ASSOCIATIONS
Sources and Uses of Funds during February, March, and April
(Millions of dollars, not seasonally adjusted)

	1967	1968	1969	1970
Sources				
Deposit accounts net 1/	2,667	1,530	1,411	2,025
Borrowed funds net	-1,671	93	391	- 140
Subtotal	996	1,623	1,802	1,885
Gross mortgage repayments	3,054	3,475	3,462	3,051
Other sources net 2/	770	875	972	368
Total	4,820	5,973	6,236	5,304
Uses				
Cash and Governments net	523	272	- 37	454
Other liquid assets net 3/	271	51	255	777
Gross mortgage acquisitions	4,026	5,650	6,018	4,073
Total	4,820	5,973	6,236	5,304
Memo: Net increase in mortgages	972	2,175	2,556	1,022

1/ Includes interest credited.
2/ Includes the net changes in loans in process, reserves and surplus, and accrual of dividends. Netted out from that totals are the net changes in other uses of funds.
3/ Reflects primarily Federal Agency issues, but also includes time CD's and State and local government securities.

Mortgage market. FNMA apparently continued to play a major role in the home mortgage market through mid-June, although there have been recent indications that private originators have reduced their reliance on FNMA support. Not only was there a further decline in the volume of bids received and accepted by FNMA in the latest auction, after allowance for the shift to a bi-weekly rather than a weekly bidding procedure, but FNMA in May and again in early June negotiated the sale of a few mortgages from its portfolio--the first sales in several years.

Although data are not yet available for the current quarter, FNMA's dominance of the home mortgage market reached a new high during the first quarter, when private lender groups sharply reduced their net loan takings. Under these circumstances, FNMA's net acquisitions of home mortgages accounted for four-fifths of the curtailed net formation of all 1- to 4-family mortgage debt on new and existing properties.[1/] Considering only the FHA and VA subsector of the home mortgage market, FNMA's net mortgage purchases amounted to more than 100 per cent of the net increase in outstanding debt of this type.

In May as in the previous 3 months, the record level of average yields on conventional home mortgages remained essentially unchanged. Combined with restrictive downpayments, credit costs apparently continued to act as a significant constraint on borrower demands in numerous areas. Meanwhile, as returns on new issues of high-grade

1/ Federally underwritten mortgages also accounted for four-fifths of total 1- to 4-family mortgage debt formation in the first quarter. This share far exceeded the share of FHA- and VA-financed units in total private housing starts, which was close to 30 per cent. Aside from other unusual features of the first-quarter debt developments--when life insurance company disinvestment reached a new high for the time of year--there are two reasons why the FHA-VA shares of total financing and total starts may differ: (a) permanent financing ordinarily occurs at a later stage of the construction process, usually after completion and occupancy; and (b) debt figures cover existing as well as new properties. In any case, the results suggest that FHA and VA financing virtually preempted the used-home market during the first quarter.

corporate bonds rose sharply, the relative investment attractiveness of home mortgages to diversified lenders deteriorated. On conventional loans, the net yield "advantage" dropped to a new postwar low of minus 55 basis points.

AVERAGE RATES AND YIELDS ON SELECTED NEW-HOME MORTGAGES

	Primary market: Conventional loans		Secondary market: FHA-insured loans		
	Level (per cent)	Yield spread (basis points)	Level (per cent)	Yield spread (basis points)	Discount (points)
1969					
Low	7.55 (Jan.)	-40 (Dec.)	7.85e (Jan.)	-13 (Dec.)	2.8e (Jan.)
High	8.35 (Nov., Dec.)	69 (Feb.)	8.62 (Dec.)	108 (Feb.)	8.7 (Dec.)
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
May	8.55	-55	9.11	1	4.7

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

Returns on home loans--especially conventional mortgages--remained limited in part by usury ceilings of 8 per cent or less which now prevail in 16 States and the District of Columbia. These areas accounted for about a third of all residential building permits issued last year. In the West where usury ceilings still pose no market restraint, interest rates on conventional home mortgages edged lower in May to 9.25 per cent.

In the latest FNMA auction, which has returned to a bi-weekly basis, yields on 6-month forward commitments increased further to within 6 basis points of the high reached early this year. The increase reflected a further drop in bid prices, which was apparently a factor that discouraged offerings to FNMA. Such offerings had remained fairly strong over the past few months, in part because some bidders sought to replace outstanding FNMA commitments obtained at lower prices with new commitments carrying higher prices.

FNMA AUCTION

	Amount of total offers		Implicit private market yield on 6-month commitments
	Received	Accepted	
	(Millions of dollars)		(Per cent)
Weekly Auction			
1969 High	$410 (6/16)	$152 (9/8)	8.87 (12/29)
1970 High	705 (1/5)	151 (1/12)	9.36 (1/12)
Bi-weekly Auction			
1970 High	581 (1/26)	298 (1/26)	9.30 (6/15)
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
25	290	145	9.18
June 1	224	114	9.24
Bi-weekly Auction			
June 15	250	128	9.30

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.

<u>Life insurance companies</u>. Funds available for investment in capital markets by life insurance companies continued to be limited during the first quarter, and at that time were projected by the industry to remain low during the second and third quarters. Policy loan increases continue to be the most dramatic drain on funds available for investment, but the diminution of other sources of funds has also persisted. Return flows from mortgage portfolios, for instance, were nearly $200 million lower during the first quarter of 1970 than they had been a year earlier.

FUNDS INVESTED IN THE CAPITAL MARKETS 1/
BY LIFE INSURANCE COMPANIES
(Billions of dollars, seasonally unadjusted)

	QI	QII	QIII	QIV
1968	3.3	3.1	3.0	4.2
1969	3.2	3.1	2.7	2.7
1970	2.8 p/	2.6 e/	2.3 e/	

1/ Funds invested, excluding the net increase in policy loans and excluding separate account investments, by a sample of companies representing 80 per cent of industry assets. The first quarter 1968 figure has been adjusted by FRB Staff because of an increase in the sample size at that time.
p/ Preliminary.
e/ Expected by the reporting companies as of 3/31/70.

The most recent information on the net flow of policy loans from a small sample of companies indicates that the volume of such loans remains high. During May, net extensions of policy loans conformed with usual seasonal patterns by receding from the bulge usually associated with income tax payments, but they nonetheless remained at the advanced pace of a year earlier.

NET CHANGE IN POLICY LOANS AT 15 LIFE INSURANCE COMPANIES*
(Millions of dollars, seasonally unadjusted)

	February	March	April	May
1965	25	35	37	31
1966	33	57	69	68
1967	56	64	60	51
1968	57	67	73	85
1969	82	106	139	124
1970	146	148	145	125

* These companies account for 65 per cent of policy loans held by the industry.

Reflecting both the modest projections for funds available for investment as well as the greater-than-usual uncertainty surrounding those estimates, new commitment activity by life insurance companies for future acquisitions of investments has remained extraordinarily low. During May, the volume of new commitments made to acquire corporate direct placements was about half of the already-reduced year-earlier volume, but the average coupon rate approached the record high reached in February.

STRICTLY CONFIDENTIAL
NEW COMMITMENTS FOR CORPORATE DIRECT PLACEMENTS
MADE BY LIFE INSURANCE COMPANIES*

	1966	1967	1968	1969	1970
Volume ($ millions)					
February	441	148	285	238	162
March	544	229	314	254	131
April	412	343	275	286	220
May	353	509	333	219	129
Average rate (%)					
February	5.79	6.47	7.15	7.70	9.98
March	5.84	6.47	7.44	7.96	9.70
April	6.03	6.39	7.28	8.13	9.68
May	6.08	6.37	7.34	8.17	9.96

* Sample of companies representing about two-thirds of industry assets. The average rate is the average, weighted by dollar amounts, of the coupon interest rates. The May 1970 data are preliminary.

Corporate and municipal securities markets. Postponements and cancellations slowed the pace of new issues in May as yields on both corporate and municipal bonds advanced to new postwar highs. Encouraged by their relatively comfortable inventories and the apparent easing of both current and forward supply after the pressures of an exceptionally heavy April volume, underwriters priced new issues aggressively early in June. However, the slightly lower yields met with buyer resistance that forced new issue yields to new or near record highs in the second week of June, which in turn led to additional postponements and cancellations.

BOND YIELDS

	New Corporate Bonds Aaa 1/	Long-term State and Local Bonds 2/
1969		
Low	6.90 (1/10)	4.82 (2/23)
High	8.85 (12/5)	6.90 (12/18)
1970		
Low	8.20 (2/27)	5.95 (3/12)
High	9.23 (6/12)	7.12 (5/28)
Week of:		
May 15	9.10	6.96
22	9.05	7.02
28	9.20	7.12
June 5	9.05	6.92
12	9.23	7.03

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

In the corporate bond market, institutional purchasers continued to buy sparingly, entering the market only when successive new highs were set on utility issues or when high-grade industrial bonds were offered. On the municipal side, large money market banks, which are a major support of that market, have been less active as buyers over the past month. Individuals are still a key factor in both markets. In general, an air of uncertainty and lack of confidence, re-enforced by reports of large corporations with serious financial problems, continued to exert upward pressure on long-term yields well into the month of June.

Even after borrower withdrawals, volume set a new record in the public bond market in May, but new stock offerings essentially disappeared in the last two weeks of the month. With stock volume abnormally low, private placements apparently continuing at a depressed level, and with cancellations of bond offerings in the public market, the volume of total corporate security offerings in May was about $600 million less than the staff originally projected.

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

	Bonds			
	Public Offerings	Private Placements	Stocks	Total
1969	1,061	468	700	2,229
1970				
QI	1,520e	390e	675e	2,600e
QII*	2,200e	365e	465e	3,035e
May*	3,000e	300e	200e	3,500e
June	1,600e	400e	600e	2,600e
July	1,500e	300e	500e	2,300e

1/ Data are gross of underwriting expenses.
e/ Estimated
* "Public bond" figure and "Total" include AT&T rights offering of $1.5 billion in May.

Because of the cancellations and postponements associated with the slump in bond prices in the second week of June, the staff now estimates that public bond issues will be approximately $1.6 billion for the month, only slightly higher than the first quarter average. New stock volume appears to have returned to a level just below the first quarter monthly average; the level of new equity issues in both June and July will be supported by an unusually large volume of stock issues by public utilities, many of which are under pressure to improve debt/equity ratios. Long-term debt issues of the utilities continue at a record pace and there is a large backlog of industrial bond issues in registration that were withdrawn because of market conditions in May and June. The staff estimates that the volume of public bond offerings in July will be about the same as June. The estimated June-July bond volume represents a decline from the peak reached in April but is still at least 10 per cent higher than <u>any</u> month in 1969 and 50 per cent higher than the 1969 average.

New long-term municipal issues dropped off sharply in May as the Bond Buyer index climbed past 7 per cent, the legal ceiling rate for a number of State and local governments. As expected, the California voters approved the increase in the State's ceiling early in June and the State immediately sold $100 million of long-term debt. But market conditions had caused cancellations of two of the largest scheduled issues by Eastern states, and the staff now projects June volume in the tax-exempt market at about $900 million. The July calendar is building slowly and may not exceed the $1 billion mark.

The inability of State and local governments to sell much of their backlog of authorized long-term debt in May and June contrasted significantly with their experience in the first quarter of 1970 when yields were declining dramatically. According to the Federal Reserve-Census Bureau survey of State and local government borrowing anticipations, an unusually large number of units were able to sell more long-term bonds in that quarter than they had earlier planned. These accelerated issues aggregated $1.8 billion, much of it representing sales of issues previously postponed in 1969. The revision of rate ceilings by many governments undoubtedly contributed to this ability to market previously postponed issues. The acceleration and rescheduling of debt sales which was made possible by the first quarter municipal market rally was offset, however, by shortfalls in other units, many of which were still hampered by restrictive debt ceilings. There was still a substantial dollar volume of cutbacks in construction outlays in the first quarter of 1970. However, the increased volume of borrowing made possible by the municipal bond market rally softened the impact of money market conditions on State and local construction expenditures, as compared with previous survey periods.

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

1969	990
1970	
QI	1,350e
QII	1,176e
May	1,000e
June	900e
July	1,000e

e/ Estimated.

Stock market. Stock prices dropped sharply during April and May, partly in reaction to declines in corporate earnings of greater than anticipated magnitude but largely influenced by deteriorating investor confidence in public statements regarding a near-term decline in the rate of inflation, reduction of monetary restraint, and resumption of economic growth. Investor uncertainty over the implications for future foreign and domestic policies of the recent involvement in Cambodia may also have had some depressing impact on stock prices. In the two months ended May 26, the AMEX and NYSE indices declined 22 and 25 per cent, respectively, and reached lows about 40 per cent below cyclical peaks of December 1968.

STOCK PRICES

	NYSE Index	Per cent change from previous	AMEX Index	Per cent change from previous
1968 - High	61.27 (11/29)		33.25 (12/20)	
1970				
April 1	50.10	-18.2	25.08	-24.6
May 26	37.69	-24.8	19.36	-22.8
June 4	42.36	12.4	21.24	9.7
June 12	40.54	- 4.3	20.72	- 2.4

A developing "crisis of confidence" in the stock market--which threatened further rapid declines in prices as well as the existence of a number of nearly insolvent brokerage firms--was at least temporarily averted by a strong price recovery between May 27 and June 4, when price indices on both major exchanges recovered about 30 per cent of their loss in the preceding two months. Both the initial turnaround in prices and the price and volume strength immediately following it were attributed almost entirely to the activities of individual investors; institutions--with the possible exception of pension funds--have stayed on the sidelines.

STOCK TRADING VOLUME*

	NYSE	AMEX
1968 - High	17,126 (7/12)	9,310 (1/19)
Average	12,971	6,318
1969 - Average	11,452	5,047
1970 - Average		
1st Quarter	10,894	3,701
April	9,632	3,150
May	12,276	3,908
June 1-5	14,392	5,473
June 8-12	7,798	2,054

* Daily volume in thousands of shares.

Sudden reversals of a bear market decline have not in the past been highly reliable indicators of a sustained turn in market prices, but rather have signalled the onset of a period of "consolidation" in which both price rises and declines--and perhaps new lows--occur. Indeed, the market has retreated somewhat in recent days from its June 4 interim peak, and volume has declined, on average, to about half the level reached during the price rally. Three factors, however, support the belief that a relatively sustained price rise albeit at a more gradual rate than in recent weeks--may develop. First, earnings declines appear already to have been heavily discounted. Second, investor confidence may have been substantially buttressed by the recent price recovery. Third, a rekindling of institutional buying interest may be in the offing, adding to what is largely now an individual demand; conversations of SEC staff with institutional brokerage firms suggest that institutional buying may emerge as soon as there is strong evidence that the market has reached its bottom.

Government securities market. Yields throughout most of the U.S. Government securities list moved somewhat lower following the last Committee meeting, as markets responded to the rebound in stock prices, the System's active purchases of both bills and coupon issues, and the lessening of the pressures that had threatened to disrupt all markets just prior to the meeting. In the market for Treasury notes and bonds, yields in all but the longest maturity category declined by 10-20 basis points on average in the week immediately following the May 26 meeting; since then, yields have tended to drift upward on balance, although they remain below recent highs. Treasury bill rates, which also tended to decline following the meeting, have continued to move lower.

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

	Late 1969 Highs	1970 Lows	Week ending May 26	June 2	June 9	June 16
Bills						
1-month	7.54 (12/31)	6.22 (3/24)	6.38	6.46	6.32	6.18
3-month	8.08 (12/29)	6.08 (3/24)	6.87	6.92	6.79	6.74
6-month	8.09 (12/29)	6.18 (3/23)	7.11	7.01	6.87	6.94
1-year	7.86 (11/24)	6.20 (4/13)	7.17	7.08	7.05	7.13
Coupons						
3-year	8.51 (12/29)	6.87 (3/25)	8.02	7.81	7.78	7.88
5-year	8.33 (12/29)	7.05 (3/25)	8.02	7.82	7.82	7.91
7-year	7.77 (12/29)	6.98 (3/25)	8.02	7.81	7.82	7.90
10-year	8.05 (12/29)	6.90 (2/27)	8.02	7.91	7.84	7.92
20-year	7.14 (12/29)	6.55 (2/27)	7.38	7.43	7.36	7.44
Agencies						
6-month	8.70 (12/30)	7.17 (4/15)	7.83	7.83	7.77	7.79
1-year	8.87 (12/11)	7.46 (4/14)	8.32	8.29	8.25	8.26
3-year	8.55 (12/31)	7.75 (3/25)	8.28	8.30	8.29	8.30
5-year	8.47 (12/31)	7.78 (3/25)	8.34	8.37	8.52	8.40

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

At the end of May, political developments, the sharp and prolonged decline in stock prices and the heavy calendar of new offerings, together with an apparent retreat of investors from bonds, had placed securities markets in a very fragile state. In order to restore more orderly conditions in the Treasury market and to prevent further price declines, the System purchased a total of around $300 million of coupon issues in the two weeks ending June 8, nearly one-third of total dealer holdings of such issues which, at the time of the meeting of the Committee, were still swollen by the awards in the May financing. As a result of these actions, prices of Treasury securities moved up, investor interest improved, and dealers were able to make further moderate sales of coupon issues to the market.

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

	May (daily average)	May 25	June 1	June 8	June 15
Treasury securities					
Total	2,631	2,304	2,489	2,203	1,516
Treasury bills (total)	1,682	1,329	1,699	1,638	985
Due in 92 days or less	145	227	133	156	64
93 days or over	1,537	1,101	1,566	1,481	921
Treasury notes and bonds (total)	949	975	790	566	531
Due within 1 year	205	194	168	184	218
1-5 years	425	453	324	136	106
over 5 years	319	329	297	245	208
Agency securities					
Total	658	605	693	586	524
Due within 1 year	498	471	495	407	373
over 1 year	160	133	198	179	151

With a steadier tone in the money market, and Federal funds trading consistently around the 8 per cent level, demand in the bill market picked up. At the same time dealers were somewhat less restive with their positions, and consequently rates declined. A further result of these developments was an increased interest by professionals and others as well in the weekly bill auctions and a much narrower spread between average and stop-out issuing rates. But, as in the note and bond sector of the market, the improvement in the bill market was also aided by outright System purchases of bills (which totaled nearly $1.0 billion in the three weeks ending June 15), by a large volume of repurchase agreements, and by sizable foreign official demands for bills.

In contrast to Treasury issues, yields on Federal agency securities have shown very little change since late May and have in some instances moved higher. These yield changes occurred despite a considerable reduction in agency borrowing in May and June, both from the standpoint of the level in earlier months and from earlier estimates of borrowing in May and June. In May, for example, actual new borrowing of the major agencies (excluding GNMA) was only $345 million, about half of earlier estimates. In June the amount of net new cash raised seems likely to be around $200 million, less than 20 per cent of that estimated at the beginning of the quarter. The major reason for this drop-off in agency borrowing is the sharp reduction in new money needs by the Home Loan Banks as advances to member institutions have tended to recede.

<u>Other short-term credit markets</u>. During late May and early June, interest rates on private short-term securities have shown mixed changes. Finance paper rates have remained unchanged and bankers' acceptances have declined 25 basis points. However, in the commercial paper market, where investors are said to be placing a greater stress on quality in the wake of the Penn Central Railroad difficulties, rates have risen. The increase in 3- and 6-month commercial paper rates by

1/8 of a per cent to a level of 8.25 per cent may also be attributable to the large increase in outstanding commercial paper--particularly bank-related paper. Outstanding bank-related paper (seasonally unadjusted) rose some $920 million, or 14 per cent, in the four weeks ending May 27, the largest monthly gain since January 1970. The latest data for commercial paper of other issuers is for April, when there was a substantial net increase. Preliminary weekly data for May suggest a considerable slowing in the growth of such other commercial and finance paper since April, primarily the result of the decline in the rate of issuance of directly placed paper.

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

	1970			
	March	April	May 4/	June 1/
Total commercial and finance paper 2/	36,406r	38,276p	39,168	NA
Placed through dealers	13,319r	13,249p	13,744	NA
Placed directly	23,087r	25,027p	25,424	NA
Note: Bank-related paper 3/ (seas. unadj.)	6,433r	6,542	7,465	7,499
Bankers' acceptances	5,352	5,614	NA	NA

r - Revised. p - Preliminary.

1/ Bank-related paper as of June 3, 1970.

2/ Data for commercial and finance paper are seasonally adjusted in contrast to similar data published in the Bulletin that are seasonally unadjusted.

3/ Bank-related paper is included in directly-placed, dealer-placed and total commercial paper.

4/ Total commercial and finance paper figures (including paper placed through dealers and placed directly) are based on rough seasonal adjustments of preliminary data through May 27.

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

	1969 Nov.-Dec. Highs 1/	May 22	June 5	June 12
1-month				
Finance paper	9.00 (12/31)	8.00	8.00	8.00
Bankers' acceptances	9.00 (12/31)	8.00	7.88	7.75
Treasury bill	7.54 (12/31)	6.35	6.39	6.19
3-month				
Commercial paper	9.25 (12/31)	8.13	8.25	8.25
Finance paper	8.25 (12/3) 3/	7.75	7.75	7.75
Bankers' acceptances	9.00 (12/31)	8.00	7.88	7.75
Treasury bill	8.08 (12/29)	6.86	6.80	6.75
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' acceptances	9.00 (12/31)	8.00	7.88	7.75
Treasury bill	8.09 (12/29)	7.16	6.86	6.92
12-month				
Prime municipals 2/	6.25 (12/12)	5.20	5.30	5.45
Treasury bill	7.86 (11/24)	7.22	7.05	7.08

1/ Dates of highs in parentheses; latest date used if high occurred on more than one date. Salomon Bros. highs used for private rates unless otherwise indicated.
2/ Bond yield basis.
3/ NYFRB reported high.
Sources: Salomon Brothers & Hutzler's Bond Market Roundup for Friday private rates; Treasury bill data from NYFRB.

Federal Finance. The Board staff is currently projecting a $3.4 billion deficit in the unified budget for fiscal 1970 compared to the $1.8 billion deficit forecast by the Administration in its May 19 budget revisions. The difference occurs entirely in estimates of receipts; the Administration's revised estimate of budget outlays for the current fiscal year, $198.2 billion, seems to be consistent with current developments and is accepted by the staff.

Turning to fiscal 1971, the staff now projects a budget deficit of $7.3 billion--about $6.0 billion higher than the deficit forecast by the Administration in May. Because of its lower income assumptions and because the staff assumes a later effective date for implementation of the proposed tax on lead in gasoline, the staff estimate of fiscal 1971 receipts is about $4.0 billion lower than the revised Administration estimate. Staff estimates of fiscal 1971 expenditures are about $2.0 billion higher than projected by the Administration mainly because the staff estimates include and the Administration estimates exclude a 5 per cent social security benefit hike in January and certain social security reform measures that have been approved by the House and that have received at least partial support by the Administration. No revisions have been made by the staff in the Budget Bureau's January estimate of defense outlays in fiscal 1971. Both staff and Administration estimates assume an early hike in postal rates during the coming year; there are, however, some indications that the rate increase may be postponed.

In terms of the NIA fiscal concepts, the staff continues to project a small surplus in fiscal 1970 ($1.2 billion) with the last half of the fiscal year showing a deficit at an annual rate of $4.7 billion. While the continuing quarterly shift toward deficit in the Federal Sector account is expected to be reversed, gradually, beginning in the third quarter of calendar 1970, for calendar 1970 and for fiscal 1971 the deficit in the Federal Sector is expected to be about $6.0 billion.

The staff forecast of the high employment surplus indicates that the shift toward deficit in the Federal Sector account is to a considerable extent the result of low levels of projected economic growth rather than discretionary changes in fiscal policy. The staff's estimate indicates that the high employment surplus will increase from $4.6 billion to $15.5 billion from the first to second half of fiscal 1971. Thus the budget is expected to become more restrictive as the fiscal year progresses despite the discretionary increases in spending included in the staff estimate. The move toward restriction during the January-June 1971 period only partially reflects the proposed tax on lead in gasoline (staff estimate of $1.2 billion) and the speed-up in estate and gift taxes ($1.5 billion); the remainder is largely the result of the scheduled hike in social security taxes, which will yield $5.8 billion at annual rates, and of the increased revenue throwoff normally expected to result from economic growth.

The Treasury's cash balance at the end-of-June is projected by the staff to be $7.8 billion. During the third quarter the Treasury is expected to raise about $8.0 to $9.0 billion of new money. The precise timing of this cash financing has not been specified, but around $1 billion of the need may be met through continuation of the $100 million additions to weekly bill auctions. The additional July need of $3.5 to $4.5 billion may be financed in one installment, payable in the third week, or in two smaller installments, one very early in the month and the other just prior to the August refinancing. Depending on the size of the July new money financing, cash borrowing in August may occur as a part of the refinancing or in a separate borrowing late in the month. Publicly held notes and bonds to be refinanced in August totaled $5.6 billion. Gross Treasury borrowing in the third quarter of 1970 is thus expected to be somewhat larger than in recent years.

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

	Fiscal Year 1970 F. R. Board	Calendar Year 1970 F. R. Board	Fiscal Year 1971 Revised Budget 1/	Fiscal Year 1971 F.R. Board	Calendar Quarters 1970 I	1970 IIe/	1970 IIIe/	1970 IVe/	1971 Ie/	1971 IIe/
Federal Budget										
(Quarterly data, unadjusted)										
Surplus/deficit	-3.4	-9.2	-1.3	-7.3	-3.5	8.2	-6.5	-7.4	-4.4	10.9
Receipts	194.8	194.5	204.3	200.3	44.3	59.6	47.9	42.7	46.9	62.7
Outlays	198.2	203.7	205.6	207.6	47.8	51.4	54.4	50.1	51.3	51
Means of financing:										
Net borrowing from the public 2/	3.6	7.9		7.5	2.0	-6.7	5.9	6.7	3.3	-8.4
Decreased in cash operating balance	-1.9	-.7		--	-1.6	- .9	.4	1.4	-.4	-1.4
Other 3/	1.7	2.0	n.a.	-.1	3.1	- .6	.2	-.7	1.5	-1.1
Cash operating balance, end of period	7.8	6.0		7.8	6.9	7.8	7.4	6.0	6.4	7.8
National Income Sector										
(Seasonally adjusted annual rate)										
Suprlus/deficit	1.2	-6.3	n.a.	-5.9	.3	-9.7	-8.9	-6.7	-3.8	-4.0
Receipts	201.0	199.5	n.a.	204.2	198.7	200.7	197.7	200.8	207.4	210.7
Expenditures	199.8	205.7	208.3	210.0	198.4	210.4	206.6	207.5	211.2	214.7
High employment budget surplus/ deficit 4/	3.2	3.1	n.a.	10.1	4.5	-1.3	2.6	6.6	15.5	15.5

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)

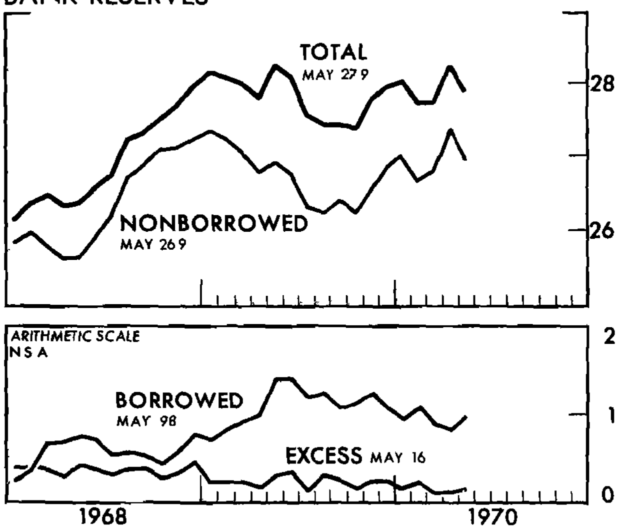
	May	June	July	Aug.
Borrowing operations				
New cash raised				
Unspecified new borrowing	--	--	4.3	3.7
Weekly and monthly bills	.4	.6	.5	.3
Tax bills	--	--	--	--
Coupon issues	2.1	--	--	--
Other (agency, debt repayment, etc.)	-.8	-4.3	-.1	-.9
Total net borrowing from public	1.7	-3.7	4.7	3.1
Plus: Other net financial sources[a/]	.2	-1.6	.3	-.3
Plus: Budget surplus or deficit (-)	-3.4	7.6	-6.4	-2.8
Equals: Change in cash balance	-1.5[b/]	2.3	-1.4	--
Memoranda: Level of cash balance end of period	5.5[b/]	7.8	6.4	6.4
Derivation of budget surplus or deficit				
Budget receipts	14.0	23.6	13.0	15.2
Budget outlays	17.4	16.0	19.4	18.0

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

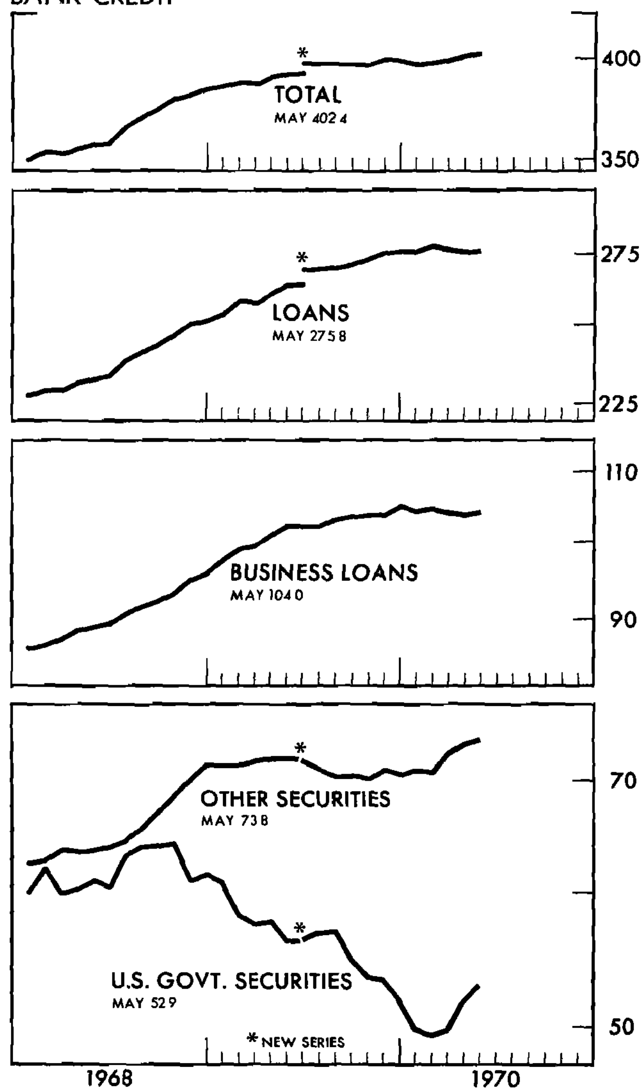
FINANCIAL DEVELOPMENTS - UNITED STATES

BILLIONS OF DOLLARS, SEASONALLY ADJUSTED, RATIO SCALE

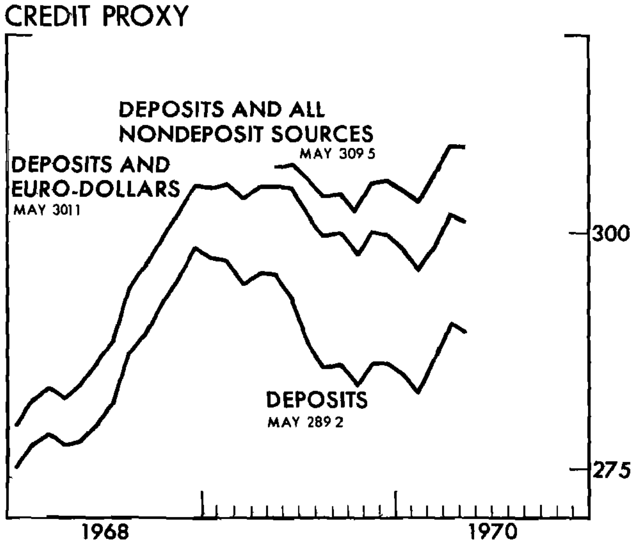
BANK RESERVES



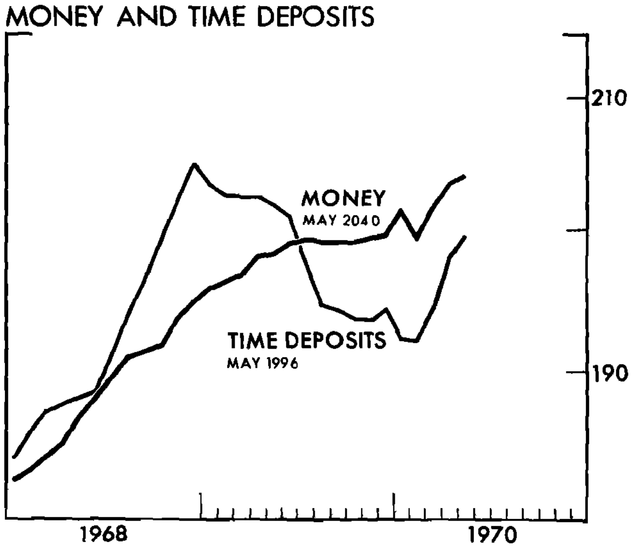
BANK CREDIT



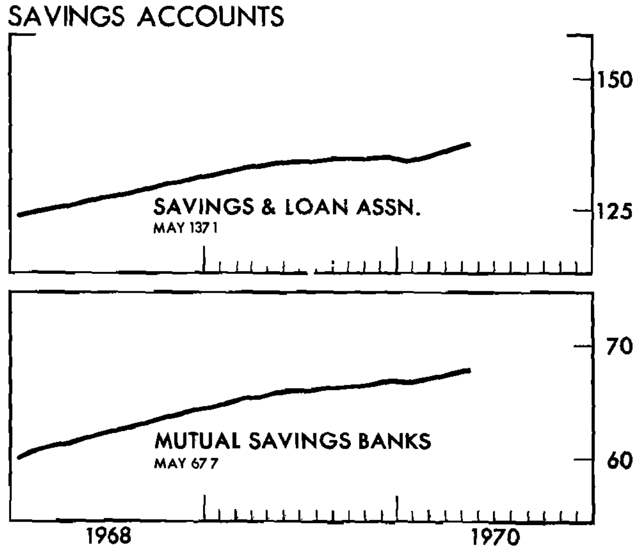
CREDIT PROXY



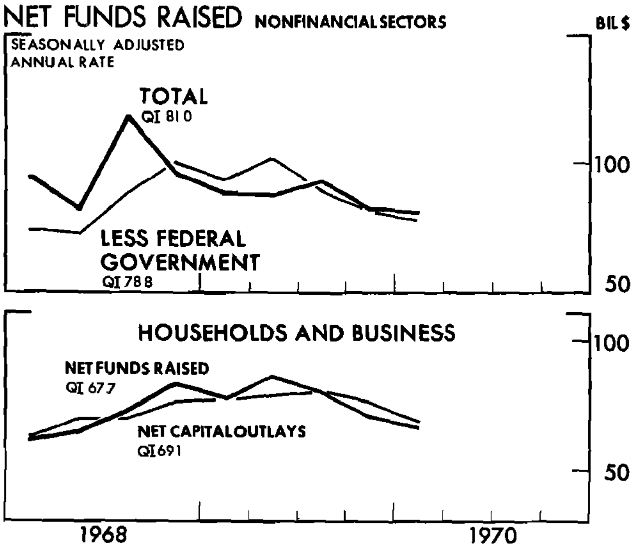
MONEY AND TIME DEPOSITS

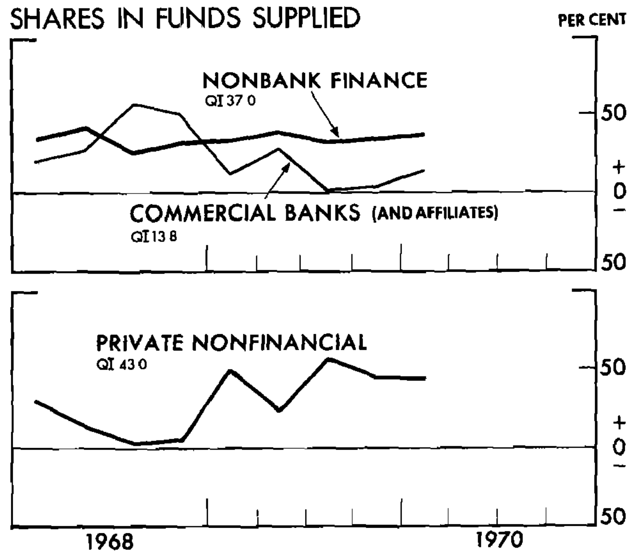


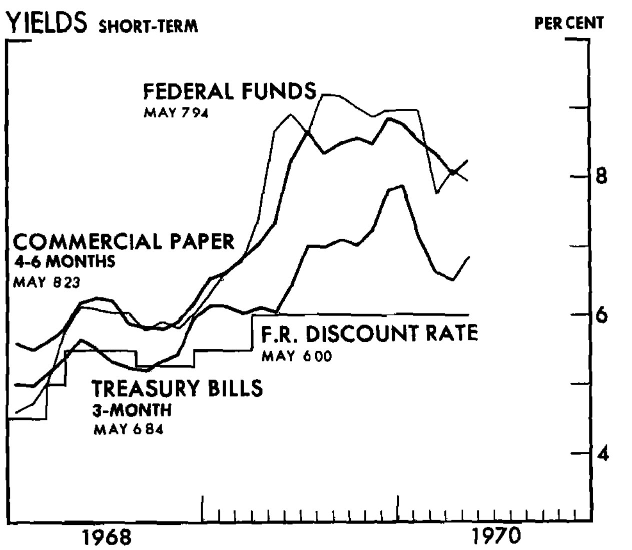
SAVINGS ACCOUNTS

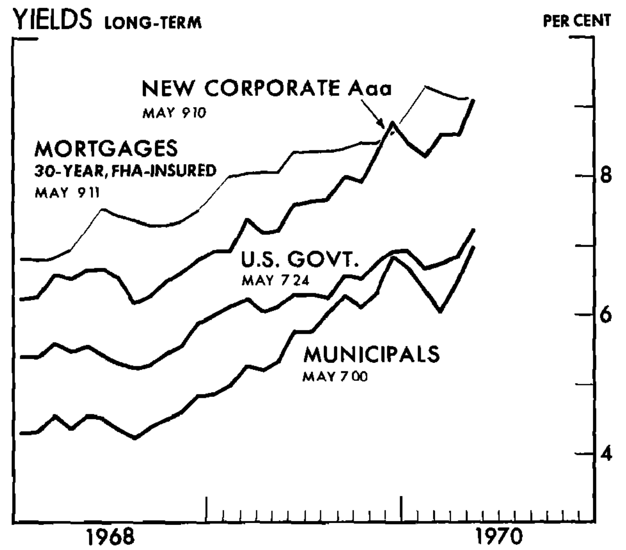


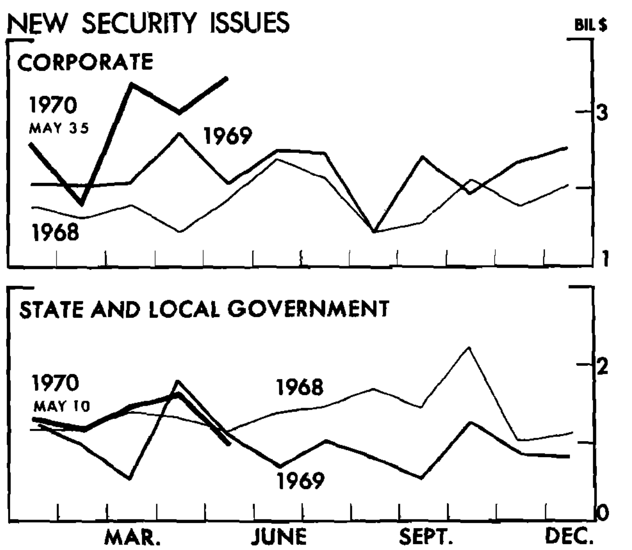
FINANCIAL DEVELOPMENTS - UNITED STATES

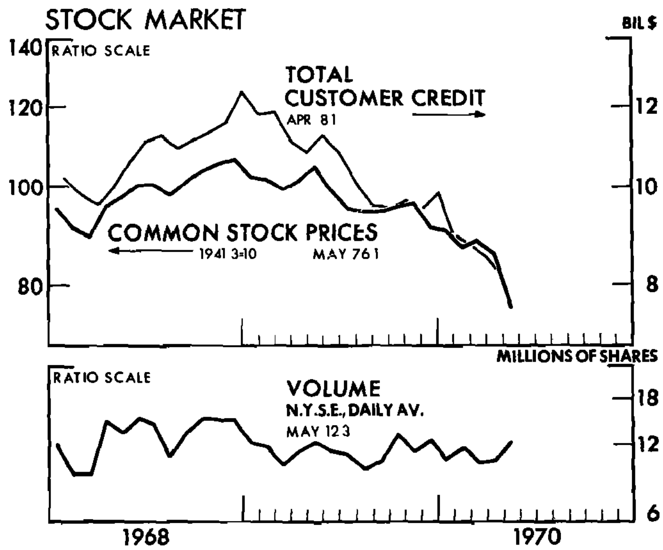












THE ECONOMIC PICTURE IN DETAIL

International Developments

U.S. balance of payments. Preliminary and partial data for April and May indicate very large liquidity deficits in those months -- between $3/4 and $1 billion in each month, roughly seasonally adjusted and before special transactions. In the first quarter, monthly deficits on this basis averaged about $500 million.

The deficit on the official settlements basis declined sharply in April and rose sharply again in May. The difference between this pattern and that of the liquidity balance reflected a swing in borrowings by U.S. banks from their foreign branches. In April U.S. banks increased their liabilities to their foreign branches by $700 million; in May such liabilities were reduced by about $200 million.

The worsening of the liquidity balance in April and May is not ascribable to changes in merchandise trade or in other payments or receipts for which monthly data or estimates exist. It seems likely that outflows of U.S. capital -- other than purchases of foreign securities or foreign lending by U.S. banks -- were unusually large in these months. Direct investment outflows to finance oil company tax payments to Libya were apparently much larger in April this year than in April 1969. In May there may have been speculative outflows of U.S. funds to Canada, in anticipation of some such changes in the Canadian dollar exchange rate as actually occurred at the beginning of June (see page IV - 8 below). Also, the renewed rise in Euro-dollar interest rates in May (page IV - 7) may have attracted U.S. private investment funds.

Monthly data on securities transactions do not help to explain the adverse shift in the deficit. U.S. purchases of foreign securities in April were smaller than in February and March, and May purchases are estimated to have been even smaller. There were net foreign purchases of U.S. stocks in April (only $8 million) for the first time this year, following net sales in each of the first three months. Probably there were again net sales by foreigners in the first part of May when the U.S. stock market dropped sharply, but data are not available. Foreign buying of new U.S. corporate issues in the Euro-bond market was already low in the first quarter and there does not seem to have been any appreciable further decline in April and May.

Additional information on the first-quarter balance of payments -- confidential until the June Survey of Current Business is released after June 25 -- indicates that the net outflow of U.S. corporate capital (net of U.S. corporate borrowing abroad) was unusually large in the January-March period. Seasonal adjustments have been revised to take some account of the tendency that has developed under the OFDI controls in the past two years toward year-end repatriations followed by large outflows early in the year. After the revised seasonal adjustments, the gross U.S. direct investment outflow will be reported as $1.3 billion in the first quarter of 1970, compared with $0.9 billion in the corresponding period a year ago and a 1969 quarterly average of $0.8 billion. A high level of direct investment outflow is to be expected this year in view of heavy programmed plant and equipment expenditures abroad; the latest interagency committee forecast for 1970 is in fact $3.8 billion, or a quarterly average of $850 million. But the underlying trend is clearly overstated by the first-quarter figure of $1.3 billion, which follows a revised fourth-quarter seasonally adjusted outflow of only $0.3 billion.

U.S. direct investors have been finding it more difficult to raise funds abroad this year. Euro-bond issues to finance direct investments had exceeded $2 billion in 1968 and were about $1 billion in 1969. In the first quarter of 1970 such issues were only about $150 million. (The inter-agency projection assumes a recovery later in the year, to give a $900 million total for 1970).

The detailed balance of payments data show that net unrecorded payments (errors and omissions) dropped to about $350 million in the first quarter, compared with $2.9 billion in the year 1970 (a $750 million quarterly average). The drop suggests that there was no very large flow of funds to the Euro-dollar market in the first three months.

There was a record inflow of foreign direct investment into the United States in the first quarter -- $462 million. The bulk of this inflow was the result of a single new investment by British Petroleum into SOHIO. However, its favorable impact on the balance of payments was offset in large part by an increase in related U.S. long-term corporate claims on foreigners.

U.S. foreign trade. The export surplus edged upward in April from its relatively low March level as exports rose more than imports. The surplus in the three months through April, including a large surplus in February, was at an annual rate of about $2-3/4 billion, balance of payments basis, compared with the $1-1/2 billion rate in November-January.

The April data further strengthen the impression that imports have been levelling off. The level of imports remains high, but month-to-month variations in the last three months have been small. Exports have displayed a more erratic monthly movement than imports, but on average they have shown a steady upward movement. The U.S. share of world exports, both for all commodities and for manufactured goods alone, was higher in the first quarter than the low strike-affected share in 1969 but still remains less than in the 1966-68 period.

Exports in February-April were at an annual rate of $41.3 billion (balance of payments basis), over 5 per cent higher than in the preceding three months, November-January.

Among agricultural commodities, larger shipments of wheat, cotton and soybeans more than offset a sizable decline in feed grains. The stabilization of world wheat prices and more competitive pricing of U.S. wheat have been cited as reasons for the pickup in wheat exports. The increase in cotton exports stems from greater shipments under Government programs -- P.L. 480, barter, and increased credits by the Export-Import Bank and the Commodity Credit Corporation. Exports of soybeans, which have been at record levels in the crop year beginning last September, are now expected to increase even further as the projected expansion in supplies of foreign competing oils has not been realized. Unfavorable weather conditions in Europe, the effects of the earthquake in Peru, and the restrictions on exports of sunflower-seed oil by Argentina to hold domestic prices down, have resulted in a world shortage of fats and oils. All in all, the chances that exports of agricultural commodities may continue at the present high level are considerably stronger than was previously thought.

Among nonagricultural exports, commercial aircraft and industrial materials (coal, steel, ferrous scrap, aluminum) continued to lead the expansion. Shipments of machinery in February-April were higher than in November-January; April shipments, however, fell from the high levels of the preceding two months.

By areas, the largest gains in February-April were recorded in shipments to Europe, Japan and Latin America.

Imports in this period were at annual rate of $38.5 billion, balance of payments basis -- 1-1/2 per cent higher than in November-January. Imports of foods, machinery, automobiles and other consumer goods increased. Except for petroleum and chemicals, imports of industrial materials declined slightly.

Heavy arrivals of meat and fish were the major items accounting for the increased value of food imports. Higher prices of coffee sustained the import value of that commodity. The gains in consumer goods were scattered, and included radio and TV sets, footwear and furniture. Particularly impressive was the one-third increase in imports of European and Japanese cars. Sales of these cars advanced sharply in May; for the first five months of the year sales averaged an annual rate of nearly 1.3 million units. This compares with 1.1 million units in calendar 1969. With sales of domestically-produced cars down, the share of European and Japanese cars in the U.S. automobile market is now nearly 13-1/2 per cent, up substantially from the 11 per cent of last year.

Euro-dollar market. Euro-dollar interest rates rose fairly sharply between mid-May and mid-June. Rate increases were smallest for very short maturities. The three-month deposit rate at mid-June was about 1 percentage point higher than a month earlier.

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) Differ- ential	(4) 3-month Euro-$ Deposit	(5) 3-month Treasury Bill	(6) =(4)-(5) Differ- ential
Apr. 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	8.40	7.96	-0.44	8.51	6.74	1.77
20	8.28	7.84	0.44	8.81	6.72	2.09
27	8.75	7.64	1.11	9.36	6.94	2.42
Jun. 3	8.58	7.84	0.74	9.25	6.87	2.38
10	8.45	7.98	0.47	9.45	6.78	2.67
17	8.83	7.84^p	0.93^p	9.60	6.72^p	2.88^p

Liabilities of U.S. banks to their own foreign branches have fluctuated considerably in the past three months. Between month-ends they rose about $700 million in April and declined about $200 in May. The Wednesday data, however, were at their lowest on April 22, and were again relatively low at May 13. From May 13 to June 10, they increased, net, by over $300 million, to $12.6 billion (including loan participations sold).

The sharp increase in Euro-dollar rates in the face of only a moderate change in U.S. banks' liabilities to branches is chiefly attributable to very tight financial markets in European countries. German banks and businesses were reported to be borrowing large amounts in international money markets during the period mid-May to mid-June. The inflow of short-term capital to Canada in May, preceding the floating of the Canadian dollar, may also have played some role in tightening international money markets.

Foreign exchange markets. The major development in foreign exchange markets since the last Green Book (May 20) was the build-up of strong demand for the Canadian dollar in late May, which culminated in the Canadian Government's decision to allow the exchange rate to float beginning June 1. This action tended to unsettle exchange markets and in particular stimulated demand for the German mark and Dutch guilder.

The Canadian dollar exchange rate -- which had been pressing against its upper limit of 93.24 U.S. cents all year -- was quoted in very early trading in London on June 1 as high as (U.S.) $1.00, apparently reflecting strong demand for Canadian dollars to cover short positions. The Bank of Canada purchased (U.S.) $30 million in the London market (sold Canadian dollars) to moderate the Canadian rate increase. Trading opened in New York at about 97.75 U.S. cents and the Bank of Canada entered the market at 96.50 cents, buying $116 million of U.S. dollars before moving its intervention rate to 97.50 cents, at which rate it made no purchases.

Since June 1, trading in the Canadian dollar has been generally quiet. The exchange rate stayed within a narrow range between 96.5 U.S. cents and 97.0 U.S. cents during the rest of the first week of June, and the Bank of Canada did not intervene on any significant scale. The rate dropped continuously during the second week, to 95.8 U.S. cents on June 12. The Bank of Canada -- following its announced policy of intervening to moderate movements of the rate in either direction -- sold (U.S.) $20 million net. So far during the current week the Canadian exchange rate has held within a range of about 95.55 to 95.70 U.S. cents, and the Bank of Canada has not been active in the market.

Demand for the German mark continued strong in late May. Following the Canadian decision to float, the mark rate was pushed to its upper limit. So far in June the Bundesbank has purchased $933 million in the exchange market ($640 million was purchased on one day, June 10). The mark's strength is generally attributed to inflows of funds partly in response to tight domestic credit markets and partly reflecting nervousness over the possibility of further departures from existing parities for strong currencies such as the German mark. On June 15 the Bundesbank began offering 3-month forward marks, at rates slightly below the market premium with the intention of reassuring the market of the stability of the current parity.

Sterling has come under moderate selling pressure from time to time since mid-May, and the exchange rate fell from about $2.405 on May 15 to its current level around 2.3965. The Government's May 18 announcement of elections to be held on June 18 produced moderate selling pressure. Greater selling pressure developed shortly thereafter as short-term funds moved out of sterling, apparently in response to the attractive yields in the Euro-dollar market. The sterling rate dropped below $2.40 on June 1 in the wake of the Canadian move and moved sharply lower on June 15 in response to announcement of a larger foreign trade deficit for May. During each of these selling episodes the Bank of England has kept its dollar sales at a minimum, allowing the exchange rate to take most of the pressure. It supplied $125 million in late May and came out about even in its market transactions for May as a whole, thus bringing to an end a four-month streak of continuous and exceptionally large reserve gains since the beginning of the year.

On May 15 the United States drew $150 million of Dutch guilders and Belgian francs from the IMF to help repay outstanding drawings on the Netherlands Bank and the National Bank of Belgium. So far in June, demand for the Dutch guilder has led the Netherlands Bank to intervene in the market to purchase about $35 million. On the other hand, labor strife and uncertainty over regional elections in Italy were the occasion for increased selling pressure on the Italian lira, and the Bank of Italy so far in June has sold $180 million. Heavy selling of forward lire has at times caused a very wide discount to develop. On June 11 the Bank of Italy drew $100 million on its swap line with the System, raising outstanding drawings to $300 million. Previously, Italian reserve gains in May had permitted the Bank of Italy to repay $600 million on its Federal Reserve swap drawings during May.

Inflationary pressures in major industrialized countries. Strong inflationary pressures prevail in all the industrialized countries. The severity of these pressures, however, and, more importantly, the nature of the inflation--whether cost-push or demand-pull--varies considerably. Demand pressures remain very strong in Germany, but may have begun to moderate under the influence of the restrictive credit policy and the lagged effects of the revaluation. Labor costs are rising sharply. Demand pressures are also strong in France, Belgium, the Netherlands, and Japan. Although they may ease somewhat in Belgium and perhaps also in Japan, they are likely to persist through this year. At the same time, costs have begun to reflect the high induced demand for labor, introducing a significant and increasing cost-push element in all these countries.

Cost-push factors have been predominant in the United Kingdom, and this is now the case in Italy as well. In spite of some unemployment, wages in the United Kingdom have accelerated sharply--far in excess of productivity gains. Labor costs also have risen extremely sharply in Italy--again, much faster than labor productivity. Strong internal demand and higher costs for imported materials contributed to price acceleration in Italy in 1969, but wage-push is now the over-riding factor.

In Canada, the excessive demand pressures--including those from outside--which initiated the inflationary process in that country seem to be moderating. But labor costs are advancing rapidly.

One consolation for policy-makers in each of the industrialized countries is that the impact of the inflation on its external balance is mitigated by the fact that inflation is also strong in its trade partners. In all these nations the authorities are nevertheless struggling to contain price increases. The policy problem is probably most acute in Britain, where unemployment has been high for that country and real income has been depressed since 1967. Some kind of an incomes policy seems required (and, in the longer run, policies to increase productivity), but the Labour Party has so far been reluctant. Chances for the implementation of such a policy may improve after the June 18 election, unless neither party wins a comfortable majority.

In other countries, where demand pressures still play a greater role, a continuation of fairly tight monetary and fiscal policy must be expected.

The rate of price inflation in Germany--which had been particularly sharp in the final quarter of 1969 and the early months of this year--has been lower in recent months, but some Germany officials believe that prices may again rise at a faster pace. Demand pressures after the revaluation have remained very strong, and the labor market continues extremely tight despite the fact that the number of foreign workers in Germany has risen from around 1.1 million at the beginning of 1969 to 1.7 million (7.6 per cent of the work force) in March 1970.

Unit labor costs, which had remained virtually stable from the end of 1967 through the middle of last year, rose sharply after large wage increases were negotiated in September--particularly in the coal and steel sectors; it is expected that they will continue to rise sharply for the rest of the year. It is not clear, however, that these higher costs will be reflected in prices quite so readily as in the recent past; profit margins are quite substantial and might absorb some of the cost increases if demand moderates.

There is a good deal of uncertainty as to where the German economy is going. Some observers--especially the Bundesbank--stress the level of new orders and order backlogs, the labor shortage, and the high rate of capacity utilization in industry, and conclude that demand pressures are essentially undiminished and additional deflationary fiscal measures are required. Others--especially the Economics Ministry--feel that the expansion is moderating and will continue to do so as the revaluation and the deflationary measures already taken begin to have an impact. They can cite as evidence the sluggishness of new orders in some sectors and the expectations of many German businessmen (as indicated in a recent survey) that demand and price pressures will be less severe in coming months.

The United Kingdom has been experiencing probably the purest cost-push inflation of any of the industrial countries. Prices have been accelerating in recent months. Retail prices rose at annual rates of 5.2 per cent in the fourth quarter of 1969, 7.6 per cent in the first quarter of this year, and 8.8 per cent in the three months ending in April. Wholesale prices of manufactured products for home sales rose 5.2 per cent, 8.0 per cent, and 8.4 per cent, respectively, in the same periods. Very little of this acceleration can be attributed to excessive demand pressures. Unemployment remained high throughout 1969 and the first five months of this year (although there are indications that a given rate of unemployment in Britain implies a tighter labor market than used to be the case). Excess capacity has been evident in most sectors, and profit margins seem to have been depressed.

The shift of resources involved in the improved balance of trade was the chief expansionary force operating in 1969. Private investment recovered somewhat in the second half, but none of the other components of domestic demand showed any significant strength.

Labor costs, on the other hand, have been accelerating. Hourly wage rates rose at annual rates of 4.4 per cent in the third quarter, 7.6 per cent in the fourth quarter, and 14.4 per cent in the first quarter of 1970. Similarly, average wage and salary earnings for all industries rose at an annual rate of 12 per cent from September-November to December-February.

The explanation for these large increases in wages is not entirely clear, but it certainly involves three factors: (1) expectations of further price rises, based on inflation in other countries and, especially, on a 5 per cent annual rise in British retail prices since 1967, which was, in turn, caused largely by sharply higher post-devaluation import costs and sharp increases in indirect taxation; (2) labor's desire to make up for the lack of any significant growth in real income since 1967; and (3) the abandonment by the Labour Government of any attempt to limit wage increases.

Real output is expected to increase this year by about 3-1/2 per cent--slightly more than the expected growth in productive potential. It is difficult to foresee any improvement in price and wage performance during the next several months, unless the authorities change their policies after the June 18 election, and, in particular, unless an effective incomes policy is implemented.

Inflationary pressures in the French economy continue to be strong and are likely to persist through the end of the year and probably during most of 1971.

The devaluation of the franc and the subsequent German parity change have been followed by a marked increase in economic activity in France. Industrial production is expanding at about a 6 per cent annual rate, and is expected to continue to do so through the end of this year. Moderately strong fiscal restraint and a very restrictive credit policy, introduced last September, did not affect activity in the export and investment sectors, but they did succeed in the major objective of halting the previously strong expansion in the consumer goods sector.

Hourly wage rates increased sharply last year--by about 10 per cent from year-end to year-end--and have continued to increase even more markedly this year. In the first quarter, hourly wage rates increased by 2.9 per cent--the largest quarterly increase for several years, with the exception of the second quarter of 1968 when, following the student and labor disturbances, the Grenelle agreements increased hourly rates by 10.3 per cent. Consequently, the official estimate for hourly wage increases during 1970 has been raised from 6.5 to 8.5 per cent, but even this estimate may not be realistic.

The situation in France is unlikely to change in the foreseeable future. Real GNP is now expected to expand by 6.1 per cent from 1969 to 1970, up from the 4.0 per cent previously expected. The flattening of consumer demand, now several months old, is unlikely to persist, as the large wage increases during the first quarter of this year will probably be reflected in consumer demand. With post-devaluation demand in the export and investment sectors showing few signs of slackening, price tensions may remain strong as the year goes on. Finance Minister Giscard d'Estaing's target of a 4 per cent rise in consumer prices in 1970 will almost certainly be exceeded--consumer prices rose 2.2 per cent in the first four months alone.

The first quarter of 1970 saw a further acceleration of increases in both wholesale and consumer prices in <u>Italy</u>. From December to March, wholesale prices rose at a 10 per cent annual rate, and consumer prices at a 6-1/2 per cent rate, up significantly from increases of 7.3 per cent and 4.2 per cent, respectively, from the end of 1968 to the end of 1969.

Prices began to accelerate in 1969 as a result of higher unit labor costs in many branches of industry, but two other factors also bore responsibility. Strong demand pressures were present in some cases; in particular, a construction boom was the main reason for soaring steel prices. In addition, some industries--especially those using non-ferrous metals--experienced sharp increases in the prices of imported materials.

In 1970, unit labor costs will be much higher, and in all sectors of the economy higher prices will be mainly ascribable to cost-push influences. New labor contracts, following lengthy strikes, called for very large wage increases effective in the early part of this year. Minimum contractual wage rates in industry as a whole rose 13.2 per cent from December to February. The Bank of Italy cites a recent estimate that in 1970 hourly earnings of wage earners will exceed last year's by 16-17 per cent for the economy as a whole and by more in industry. The Bank says that the rise in wages will outstrip productivity gains by a 2-to-1 ratio in the industries where productivity gains are most rapid, and by a higher ratio in other industries.

Prices are expected to continue to rise rapidly. In some sectors new wage contracts are still to be negotiated, and in October national wage levels will be boosted by a further elimination of regional wage differentials. In all sectors except residential construction, demand is likely to be sufficiently strong in 1970 for producers to pass on a substantial part of the higher labor costs into prices.

Inflation in Belgium intensified during the fourth quarter of 1969 and the first quarter of this year. From September to March, wholesale prices of manufactured goods rose at an annual rate of 8.4 per cent and consumer prices at an annual rate of 5.1 per cent--substantially in excess of the increases in the 12 months prior to September.

Until now, Belgium's inflation has seemed to be essentially of a demand-pull nature, stemming from buoyant spending in most sectors of activity, particularly exports and plant and equipment expenditures. Increasing demand for labor and declining unemployment produced a 9 per cent rise in hourly earnings in mining, manufacturing, and transportation over the course of 1969, compared with 6 per cent the year before.

Some slowing in aggregate demand appears to have set in this year, reflecting less vigorous demand for exports, housing, and durable consumer goods. Later in the year, the introduction of the value-added tax scheduled for the beginning of 1971 should make inventory policy very cautious. However, the rise in wage rates may accelerate further because of tight labor market conditions. As productivity gains are expected to be smaller in 1970, unit labor costs will put upward pressure on prices and a squeeze on profits.

Upward price pressures remain strong in the Netherlands. A high level of demand has resulted in a generally full employment of Dutch resources--especially labor. Exports have been a particularly important element of growing aggregate demand; in the first four months of this year, exports were 22 per cent greater in value than a year earlier. The Dutch Central Planning Bureau now forecasts a continuation of strong demand pressures for the remainder of 1970 and into 1971.

Moreover, Dutch authorities are deeply concerned with the possibility of a renewed wage-price explosion, especially in view of the inclusion in recent wage contracts of escalator clauses based on changes in the consumer price index. In the trend-setting wage settlement negotiated in the heavy metals sector, for example, wages were increased 4.75 per cent effective January 1--which is reasonable given an expected overall increase this year of 4 per cent in industrial labor productivity. But the contract's escalator clause provides for semi-annual wage adjustments linked to the cost-of-living index. Since that index had already risen 2.7 per cent from mid-December through mid-April, the metal workers will receive an additional 2.5 per cent wage increase on July 1. The strength of demand makes it likely that consumer prices will continue to rise, and that wages will be adjusted up accordingly.

Also contributing to the inflation is the mark revaluation, which has caused the prices of goods imported from Germany to rise. In 1969, imports from Germany accounted for 27 per cent of total Dutch imports and equaled in value about 11 per cent of Dutch GNP.

The rate of inflation in Japan is the highest in over a decade. In April, consumer prices were 8.0 per cent higher than a year earlier, while wholesale prices were up 5.1 per cent. In recent years, the average annual increase in the index of consumer prices has been slightly over 5 per cent per year, while wholesale prices have risen only 1 or 2 per cent per year.

Most of this acceleration is attributable to strong domestic consumer and investment demand, but exports were 23 per cent higher in the first quarter of 1970 than a year earlier. Unemployment has declined slightly, and there has been an increased shortage of workers, especially high school graduates.

Another factor has been cost-push from import prices, which were 5.2 per cent higher in March than a year earlier, compared with a decline of 0.6 per cent in the previous twelve months. Although imports equal less than 10 per cent of Japanese GNP, some particularly sharp increases in import prices (e.g., non-ferrous metals) may have been important.

Rising unit labor costs have also been a factor, but only to a limited extent. Workers in major industries were granted a 17.5 per cent wage hike this spring, in contrast to a 15.6 per cent increase in the spring of 1969; but productivity increased 14.8 per cent in 1969.

Although the Government is attempting to reduce inflationary pressures--primarily through monetary policy and import liberalization--the outlook is for continued pressure. If the Bank of Japan's rather stringent program of restricting bank credit expansion has its intended impact, some abatement is possible before the end of the year.

In Canada, there are some indications of easing of inflationary pressures. GNP in real terms increased at a 6.8 per cent annual rate in the first quarter, as exports showed a very sharp rise, mainly to Europe and Japan. Industrial production rose at a 16 per cent annual rate from October to February as a result of catching up after widespread strikes in the second and third quarters last year; in March, however, it declined by 1.9 per cent. Industrial production is now expected to decline at least through the second quarter.

Lessening demand pressures also show up in retail sales and unfilled orders in manufacturing, both of which declined for three consecutive months through March. The unemployment rate has increased sharply in recent months and in April was 5.6 per cent compared to 4.5 per cent in January.

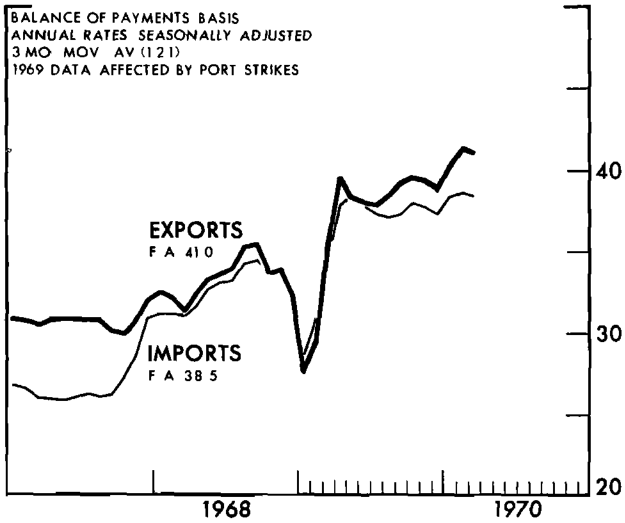
Wholesale prices of manufactured goods have increased very little since the spring of 1969, rising only 1.3 per cent in the twelve months to April 1970. Raw materials prices, however, rose 5.6 per cent. Consumer prices have yet to show any real moderation; the average year-to-year increase in the CPI was 4.6 per cent in the first four months of this year.

While demand pressures on balance seem to be abating, cost pressures are intensifying. Wage settlements in the first quarter were running at over 9 per cent, somewhat higher than in the fourth quarter. As industrial output declines, productivity will probably worsen and unit labor costs increase at an accelerating rate. On the other hand, the higher exchange rate which has existed since the Canadian Government allowed the rate to float on June 1 will tend to reduce cost pressures in the economy by lowering the Canadian dollar cost of imports. The revaluation should also help to dampen demand pressures as and when it leads to a reduction in Canada's unusually large trade surplus.

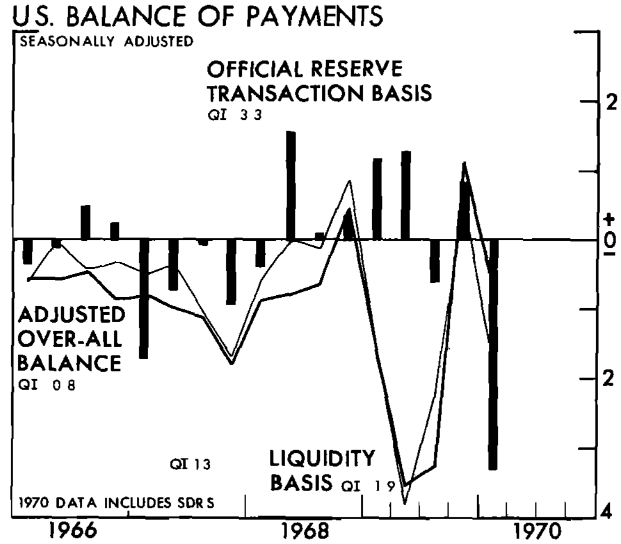
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

BILLIONS OF DOLLARS

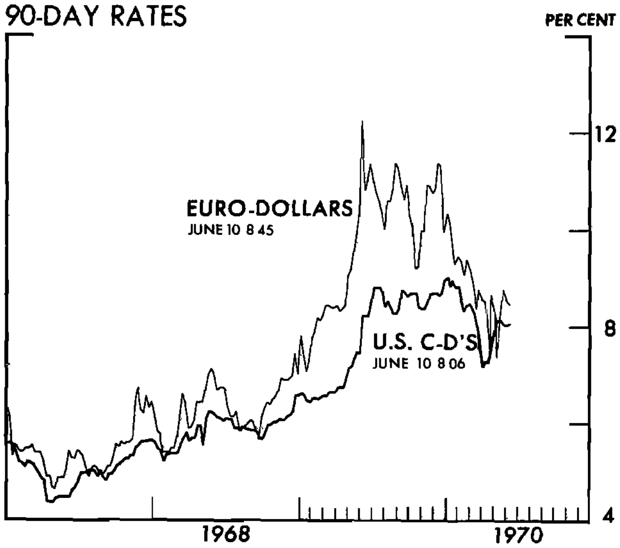
U.S MERCHANDISE TRADE



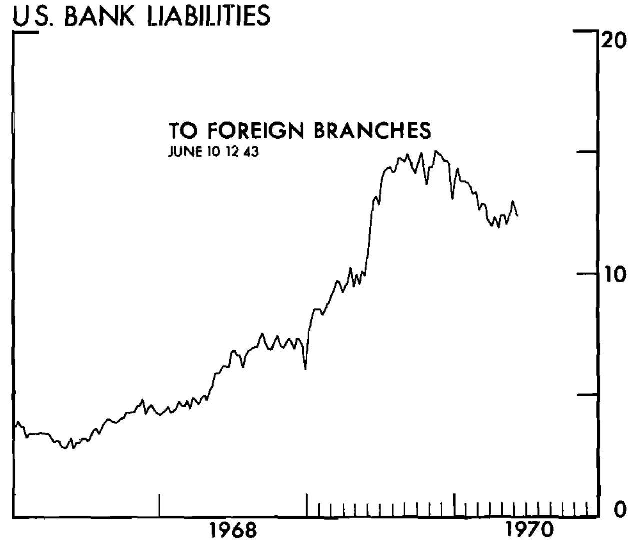
U.S. BALANCE OF PAYMENTS



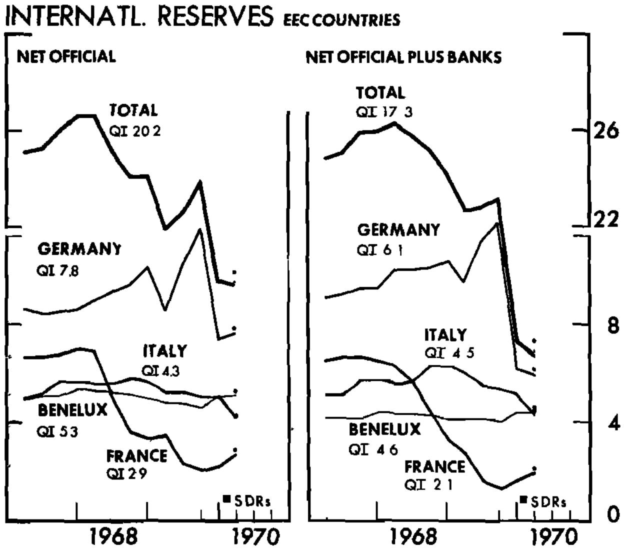
90-DAY RATES



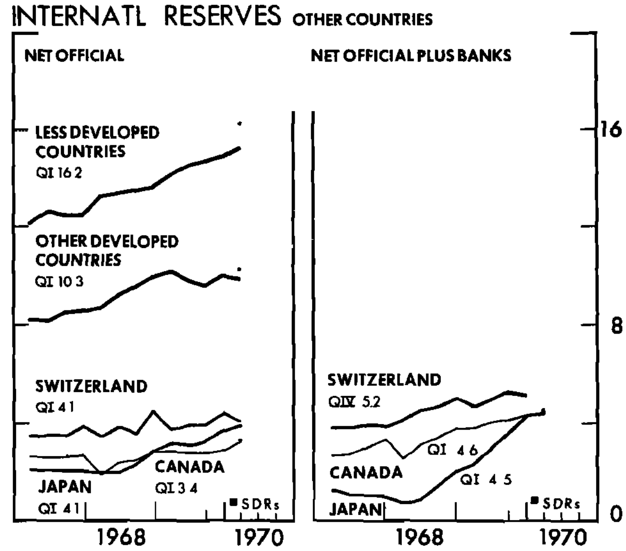
U.S. BANK LIABILITIES



INTERNATL. RESERVES EEC COUNTRIES



INTERNATL RESERVES OTHER COUNTRIES



APPENDIX B: SURVEY OF BANK LENDING PRACTICES, MAY 1970*

The results of the May 15 Bank Lending Practices Survey indicate that demand for commercial and industrial loans had increased somewhat during the preceding three months. Nearly a fourth of the respondents reported stronger loan demand while only about 10 per cent had made such a response in the previous survey. Moreover, with respect to their expectations of future loan demand, in the May survey, the number of respondents expecting stronger demand was about double the number expecting weaker demand, whereas in the February survey, the reverse had been the case.

Terms and conditions of lending to nonfinancial business

Notwithstanding the reduction in the prime rate from 8-1/2 to 8 per cent on March 25, over three-fifths of the respondents reported that their policies with respect to interest rates had remained unchanged over the 3 months ending in mid-May and one-eighth of them had firmed further their interest rate policies. Only one-fourth of the respondents had eased those policies. Usually following a prime rate change, a preponderance of companies report that their policies had changed in the direction of the rate change.

About one-fifth of the sample had firmed requirements regarding compensating balances and standards of credit worthiness and had placed increased emphasis on the value of the borrower as a depositor in considering applications for credit. In addition, almost one-fourth had become more restrictive in extending credit to new or nonlocal customers. Nearly all the remaining respondents continued to maintain the restrictive policies already reported in prior surveys.

Lending to "noncaptive" finance companies

One-fifth of the banks had eased policies on interest rates charged finance companies. However, about one-fifth had become more restrictive in establishing or enlarging credit lines. The overall trend toward more restrictive non-rate terms and conditions on lending to finance companies also was evidenced by the tighter enforcement of

* Prepared by Marilyn Connors, Research Assistant, Banking Section.

compensating balance requirements, as well as by the increase in supporting balances required by a few banks.

Willingness to make other types of loans

With respect to bank willingness to make selected types of loans, the responses were mixed. There was a small net balance of banks indicating greater willingness to grant consumer instalment and single-family mortgage loans, while with respect to all other categories, particularly term loans to business, broker loans, and nonresidential mortgages, a small net balance of respondents indicated less willingness.

Size of bank variation

The responses of both large banks (with deposits of $1 billion or more) and smaller banks (with deposits less than $1 billion) regarding the strength of current and future loan demand were not significantly different. However, firming of lending policies during the recent period was more prevalent among the smaller than among the large banks, especially on standards of credit worthiness, in reviewing credit lines for new and nonlocal customers, and making term loans. On the other hand, increased willingness to make mortgage loans was more prevalent among the large banks.

Most banks cited declining liquidity positions and strong loan demand as the major causes of their restrictive credit policies. Those banks that had eased their lending practices had generally done so for special purposes only--especially for loans to support the residential housing market, promote higher education, or encourage pollution control.

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S. 1/
(STATUS OF POLICY ON MAY 15, 1970 COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS & PERCENT OF TOTAL BANKS REPORTING)

	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	124	100.0	3	2.4	26	21.0	81	65.3	13	10.5	1	0.8
ANTICIPATED DEMAND IN NEXT 3 MONTHS	125	100.0	0	0.0	25	20.0	89	71.2	11	8.8	0	0.0

	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	125	100.0	2	1.6	14	11.2	77	61.6	32	25.6	0	0.0
COMPENSATING OR SUPPORTING BALANCES	125	100.0	3	2.4	22	17.6	98	78.4	2	1.6	0	0.0
STANDARDS OF CREDIT WORTHINESS	125	100.0	5	4.0	21	16.8	99	79.2	0	0.0	0	0.0
MATURITY OF TERM LOANS	125	100.0	4	3.2	11	8.8	108	86.4	2	1.6	0	0.0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	125	100.0	2	1.6	10	8.0	108	86.4	5	4.0	0	0.0
NEW CUSTOMERS	125	100.0	8	6.4	23	18.4	85	68.0	9	7.2	0	0.0
LOCAL SERVICE AREA CUSTOMERS	125	100.0	2	1.6	11	8.8	106	84.8	6	4.8	0	0.0
NONLOCAL SERVICE AREA CUSTOMERS	124	100.0	9	7.3	21	16.9	92	74.2	2	1.6	0	0.0

1/ SURVEY OF LENDING PRACTICES AT 125 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF MAY 15, 1970.

	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	124	100.0	4	3.2	21	16.9	97	78.3	2	1.6	0	0.0
INTENDED USE OF THE LOAN	125	100.0	5	4.0	10	8.0	110	88.0	0	0.0	0	0.0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	125	100.0	2	1.6	3	2.4	95	76.0	25	20.0	0	0.0
COMPENSATING OR SUPPORTING BALANCES	125	100.0	3	2.4	5	4.0	117	93.6	0	0.0	0	0.0
ENFORCEMENT OF BALANCE REQUIREMENTS	125	100.0	4	3.2	16	12.8	105	84.0	0	0.0	0	0.0
ESTABLISHING NEW OR LARGER CREDIT LINES	125	100.0	11	8.8	17	13.6	96	76.8	1	0.8	0	0.0

	ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	125	100.0	4	3.2	15	12.0	103	82.4	3	2.4	0	0.0
CONSUMER INSTALMENT LOANS	124	100.0	0	0.0	7	5.6	105	84.7	11	8.9	1	0.8
SINGLE FAMILY MORTGAGE LOANS	122	100.0	5	4.1	5	4.1	92	75.4	18	14.8	2	1.6
MULTI-FAMILY MORTGAGE LOANS	119	100.0	4	3.4	8	6.7	99	83.2	6	5.0	2	1.7
ALL OTHER MORTGAGE LOANS	122	100.0	3	2.5	13	10.7	102	83.5	4	3.3	0	0.0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	124	100.0	2	1.6	7	5.6	113	91.2	2	1.6	0	0.0
LOANS TO BROKERS	123	100.0	6	4.9	19	15.4	98	79.7	0	0.0	0	0.0

2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

COMPARISON OF QUARTERLY CHANGES IN BANK LENDING PRACTICES AT BANKS GROUPED BY SIZE OF TOTAL DEPOSITS 1/
(STATUS OF POLICY ON MAY 15, 1970, COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS IN EACH COLUMN AS PER CENT OF TOTAL BANKS ANSWERING QUESTION)

SIZE OF BANK -- TOTAL DEPOSITS IN BILLIONS

	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	100	100	2	3	21	21	68	63	9	12	0	1
ANTICIPATED DEMAND IN NEXT 3 MONTHS	100	100	0	0	17	22	79	66	4	12	0	0

	TOTAL		MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	0	3	6	14	73	55	21	28-	0	0
COMPENSATING OR SUPPORTING BALANCES	100	100	0	4	19	17	77	79	4	0	0	0
STANDARDS OF CREDIT WORTHINESS	100	100	0	6	15	18	85	76	0	0	0	0
MATURITY OF TERM LOANS	100	100	0	5	9	9	89	85	2	1	0	0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	100	100	0	3	9	8	89	84	2	5	0	0
NEW CUSTOMERS	100	100	6	6	13	22	70	67	11	5	0	0
LOCAL SERVICE AREA CUSTOMERS	100	100	0	3	11	8	85	84	4	5	0	0
NONLOCAL SERVICE AREA CUSTOMERS	100	100	2	10	13	19	85	68	0	3	0	0

1/ SURVEY OF LENDING PRACTICES AT 47 LARGE BANKS (DEPOSITS OF $1 BILLION OR MORE) AND 78 SMALL BANKS (DEPOSITS OF LESS THAN $1 BILLION) REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF MAY 15, 1970.

SIZE OF BANK — TOTAL DEPOSITS IN BILLIONS

	NUMBER ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	100	100	0	5	13	19	85	75	2	1	0	0
INTENDED USE OF THE LOAN	100	100	2	5	4	10	94	85	0	0	0	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	0	3	2	3	79	73	19	21	0	0
COMPENSATING OR SUPPORTING BALANCES	100	100	0	4	6	3	94	93	0	0	0	0
ENFORCEMENT OF BALANCE REQUIREMENTS	100	100	0	5	13	13	87	82	0	0	0	0
ESTABLISHING NEW OR LARGER CREDIT LINES	100	100	2	13	11	15	85	72	2	0	0	0

	NUMBER ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	100	100	0	5	6	15	92	77	2	3	0	0
CONSUMER INSTALMENT LOANS	100	100	0	0	4	6	87	84	9	9	0	1
SINGLE FAMILY MORTGAGE LOANS	100	100	0	6	0	6	82	73	16	14	2	1
MULTI-FAMILY MORTGAGE LOANS	100	100	0	5	0	11	89	80	9	3	2	1
ALL OTHER MORTGAGE LOANS	100	100	0	4	2	16	91	79	7	1	0	0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	100	100	0	3	2	8	98	86	0	3	0	0
LOANS TO BROKERS	100	100	9	3	9	20	82	77	0	0	0	0

2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

TABLE 2A

NET RESPONSES OF BANKS IN LENDING PRACTICES SURVEYS
(In per cent)

	May 1968	Aug. 1968	Nov. 1968	Feb. 1969	May 1969	Aug. 1969	Nov. 1969	Feb. 1970	May 1970
Strength of loan demand1/ (compared to 3 months ago)	64.8	-2.4	25.6	54.4	60.0	30.6	28.0	-1.6	12.1
Anticipated demand in next 3 months	66.4	--	20.8	49.2	41.8	5.7	8.9	-8.0	11.2
LENDING TO NONFINANCIAL BUSINESSES2/									
Terms and Conditions									
Interest rates charged	93.6	0.8	-27.2	86.2	91.0	78.3	49.6	34.4	-12.8
Compensating or supporting balances	56.8	4.8	10.4	64.3	75.6	68.3	57.6	38.4	18.4
Standards of credit worthiness	32.8	4.8	4.8	32.8	41.4	40.6	36.0	22.4	20.8
Maturity of term loans	32.8	1.6	1.6	30.3	42.3	42.2	35.2	17.6	10.4
Reviewing Credit Lines									
Established customers	28.0	-5.6	-1.6	32.5	47.2	51.6	36.8	18.4	5.6
New customers	64.8	-5.6	6.4	61.7	80.2	81.4	60.8	34.4	17.6
Local service area customers	30.0	-5.6	-4.1	30.9	46.7	48.8	32.0	14.4	5.6
Nonlocal service area customers	56.9	10.6	15.4	49.5	71.3	68.8	56.5	31.4	22.6
Factors Relating to Applicant (Net percentage indicating more important)									
Value of depositor as source of business	54.4	12.8	16.0	58.6	67.2	65.0	46.0	29.9	18.5
Intended use of loan	44.4	8.1	6.4	54.5	71.6	68.5	39.2	21.6	12.0
LENDING TO NONCAPTIVE FINANCE COMPANIES2/									
Terms and Conditions									
Interest rates charged	60.5	2.4	-26.4	53.3	50.8	48.0	19.3	14.5	-16.0
Compensating or supporting balances	25.0	2.4	2.4	22.9	27.9	35.0	26.7	21.7	6.4
Enforcement of balance requirements	32.3	8.1	3.2	29.5	42.6	42.3	34.7	30.7	16.0
Establishing new or larger credit lines	53.2	15.3	4.8	54.9	62.4	62.0	48.4	32.2	21.6
WILLINGNESS TO MAKE OTHER LOANS3/									
Term loans to businesses	49.6	4.8	-0.8	48.8	64.3	65.9	48.0	21.6	12.8
Consumer instalment loans	-0.8	-11.3	-15.3	4.2	17.2	26.9	24.2	17.7	-4.1
Single-family mortgage loans	32.0	-14.1	-3.3	30.8	45.5	49.7	30.4	19.7	-8.2
Multi-family mortgage loans	36.4	8.2	4.1	40.1	57.5	58.3	36.3	21.8	3.4
All other mortgage loans	43.4	3.4	1.7	42.5	62.0	62.5	42.3	22.2	9.9
Participation loans with correspondent banks	16.0	1.6	--	18.7	38.4	48.4	31.5	10.6	5.6
Loans to brokers	23.4	6.5	1.6	34.2	40.0	59.3	36.1	20.5	20.3

1/ Per cent of banks reporting stronger loan demand minus per cent of banks reporting weaker loan demand. Positive number indicates net stronger loan demand, negative number indicates net weaker loan demand.

2/ Per cent of banks reporting firmer lending policies minus per cent of banks reporting weaker lending policies. Positive number indicates net firmer lending policies, negative indicates net easier lending policies.

3/ Per cent of banks reporting less willingness to make loans minus per cent of banks more willing to make loans. Positive number indicates less willingness, negative number indicates more willingness.