Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

CONFIDENTIAL (FR)

CURRENT ECONOMIC and FINANCIAL CONDITIONS

Prepared for the Federal Open Market Committee

By the Staff

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

April 23, 1969

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

April 23, 1969

SUMMARY AND OUTLOOK

Outlook for economic activity

Spending by businesses and consumers continued strong in the first quarter, but more than half the $16 billion increase in GNP reflected more rapid price increases while real GNP growth continued to moderate. The monetary restraint in process along with the proposed curtailment of Federal Government expenditures and repeal of the investment tax credit are expected to contribute to a further slowing of GNP growth to about $12 billion by the fourth quarter of this year. Since only modest easing of price pressures is anticipated, the increase in real growth would drop further, to about a 1-1/2 per cent rate by the end of this year.

An important source of strength in the outlook for the remainder of 1969 has been the bouyant capital spending plans of businessmen. The large gains in capital spending indicated for 1969 in the Commerce-SEC survey were more recently confirmed by McGraw-Hill data. But, as of now, it seems probable that the increased scarcity and cost of investment funds and repeal of the investment tax credit, as recommended by the President, should have some dampening effect on business spending plans. Therefore, increases in investment outlays in the last half of the year should be somewhat smaller than implied in recent surveys.

Other sectors of demand also seem likely to show some waning of strength as the year progresses. Construction activity appears to have turned the corner, with housing starts expected to continue down from the extremely high rate of early this year. Defense expenditures, excluding the pay increase, are now estimated to decline instead of holding steady. With growth of Federal expenditures likely to be curtailed and some additional tax revenues coming in as a result of the cancellation of the investment tax credit, the Federal budget can be expected to be more restrictive than we had anticipated.

Consumer spending, although up from the sluggish pace of late last year, has shown only modest growth in real terms. With the saving rate already at the lowest level in 4 years, and with hours of work expected to be curtailed further and employment gains likely to slow, growth in consumer spending is expected to be moderate in coming months.

Outlook for resource use and prices

In the current and ensuing quarters the rise in industrial production is expected to slow down from the 5.5 per cent growth rate in the first quarter--coming more in line with the reduced rate of rise in real GNP. Roughly half the first quarter increase in industrial production came from a sharp recovery spurt in steel, output of which will rise very much more slowly from now on, or level off. Moreover, the sharp first quarter rise in production of home goods had occurred by January; since then output has changed little. Auto schedules appear to have stabilized following a decline from the fourth quarter. The production rise for manufacturing in the first quarter was about in line with expansion of capacity, but the rate of capacity utilization is expected to drift downward for the remainder of the year.

Although employment in the first quarter of 1969 registered the largest quarterly gain since early 1966, there was evidence of somewhat slower growth in March. Further slowing of employment growth is expected in coming months, and the unemployment rate is likely to move up from the recent 3.3-3.4 per cent rate. While pressure on wages is expected to continue strong, with continuing emphasis on larger first-year wage increases in contract settlements, some dampening of upward pressure is in sight as a large number of workers begin receiving the smaller deferred wage increases (in the 4 to 5 per cent range as compared with first-year increases which averaged about 7-1/2 per cent in 1968), and as, later this year, slackening aggregate demand pressures diminish over-all demands for labor.

Prices of industrial commodities at wholesale have been increasing at an exceptionally rapid rate, with especially large increases for lumber and metals. Strong foreign demands have been supplementing large domestic demands--particularly from the construction and business equipment sectors--and lumber supplies have been limited. Some improvement in supplies and uncertainty about the housing outlook are now causing the price rise for lumber and plywood to falter. The industrial price rise should slow as construction activity drifts down from the high first quarter rate, expansion in other demands generally slows, and upward wage pressures begin to diminish.

The consumer price rise accelerated sharply as the first quarter progressed, mainly because of exceptional spurts in used car prices and in mortgage interest charges and various other home ownership costs--which are reflected to only a minor extent in the GNP deflator. For the quarter as a whole the CPI increased at a somewhat higher average rate than in the fourth quarter, but the rise in the GNP consumption deflator apparently decreased. The outlook for consumer prices is for a gradual abatement of the rise through the remainder of this year.

Outlook for credit demands

Demands on credit and equity markets are likely to be on the strong side between now and mid-year, given reduced corporate liquidity, continued financing needs of State and local governments, and strong housing demands. There was a sharp spurt in offerings of corporate and State and local government bond offerings in April as the market atmosphere improved. The pace of offerings in May and June may be somewhat below the advanced April rate, though probably remaining above the pace of late winter.

In the Government securities market, the Treasury will announce its mid-May refunding by around the end of April. There are almost $6 billion of publicly held issues maturing in May and June. While the terms of the refunding will not be set for a week, the market is discussing the possibility that an intermediate-term note will be one option offered in the exchange.

Demands for shorter-term financing, particularly from banks, may continue at close to the high average first quarter rate. While such demands may taper over the near-term with the passing of the April tax period, corporate tax payments in June are about 25 per cent above year-ago levels, and should require an enhanced flow of credit at that time.

Mortgage borrowing demand at banks, and at financial institutions more generally, is likely to remain strong, although supply limitations may cut back actual borrowing. And unless there is an unforeseen burst of buying of consumer durables, consumer loan growth should be quite moderate. On the other hand, security loan demand at banks could expand if expectations of declining interest rates over the longer-term become more pervasive and dealers take large positions in the forthcoming Treasury refunding and if underwriters or other temporary holders begin speculating more actively in new corporate and municipal issues.

Outlook for interest rates and supply of funds

The marketing of any sizable volume of intermediate- and longer-term debt issues probably cannot be accomplished without an upward movement of interest rates from current levels, since banks are not likely to be active buyers of either State and local or U.S. Government securities. A decline of interest rates from current levels is unlikely unless either offerings are held back from the market or investors are eager buyers of intermediate- and longer-term debt in anticipation of lower interest rates later. The latter development would help somewhat to limit seasonal downward pressure on short-term rates, as investors diverted funds from liquidity instruments.

Mortgage markets are likely to remain under pressure over the next few months, though the pressure probably will not intensify markedly. Net outflows of savings from thrift institutions were probably enlarged at mid-month, but, if experience in the first quarter is a guide, net inflows in coming months are expected to return to their modest earlier pace. Continued pressure on banks and increased demands for policy loans at life insurance companies should also limit funds available for mortgages. Given recent mortgage commitments, and allowing for some tapering of commitments in the future, borrowing by savings and loan associations from Federal Home Loan Banks may increase some, and support of Government-underwritten mortgages by FNMA may remain quite heavy.

The availability of bank credit is likely to remain limited by very small net deposit inflows, with consequent inability of banks to provide much support to securities markets and to finance dealers at anything other than penalty interest rates. Growth in private demand deposits, after spurting in April, is expected to show only a minor, if any, increase over the next few months, a period when U.S. Government deposits are expected to fluctuate at a relatively advanced level. Attrition in outstanding negotiable CD's is likely to continue at an appreciable rate through mid-year. The somewhat smaller maturities in the months ahead may temper the amount of attrition, and if Treasury bill rates decline as substantial Treasury debt repayment becomes a reality, this could provide some additional room for new issues of CD's. Outstanding consumer-type time deposits, which appeared to be affected by April individual income tax payments, are expected to resume a modest rate of growth.

Balance of payments outlook

During the second quarter net exports of goods and services should be markedly larger than in the first quarter, as export shipments belatedly make up for the earlier delays occasioned by the port strike. This anticipated improvement in the current account may not, however, be fully reflected in the over-all balance of payments until well along in the quarter, if--as is thought to be the case--cash settlements for U.S. exports lag behind shipments longer than import cash payments do behind arrivals.

The continued large over-all deficit on the liquidity basis in the first half of April, while consistent with the foregoing view of trade settlement prospects, could also have other explanations. The chances are that sooner or later some capital inflows that were unusually large early in the year will diminish. In fact, foreign buying of equities was already sharply down in March from the very high January-February rate and the large bank credit reflow of January was followed by outflows in February and March. Thus, despite the expected rise in exports, the near-term outlook for the liquidity balance remains cloudy.

The current relationships between money market conditions here and abroad seem to promise a continuing inflow of liquid funds through commercial banks abroad. This will hold down the deficit to be covered by official settlements. However, continuation of a surplus in the accounts on this basis, while the liquidity balance remains in deficit, looks increasingly unlikely. Whether U.S. demand for Euro-dollars will be as intense as in the first quarter will depend in part on loan demands in the United States and the course of domestic interest rates. On the supply side, the tendency of many countries in Europe to move their domestic interest rates up as their economies become more fully employed may limit the flow into Euro-dollars. Moreover, in the countries with large current account surpluses--Germany and Italy--even though interest rates stay relatively low, actions have been taken to cause their commercial banks to repatriate liquid assets from abroad to meet domestic liquidity needs.

SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	Latest Period	Amount: Latest Period	Amount: Preced'g Period	Amount: Year Ago	Per Cent Change: Year Ago*	Per Cent Change: 2 Yrs. Ago*
Civilian labor force (mil.)	Mar'69	80.5	80.4	78.6	2.4	5.0
Unemployment (mil.)	"	2.7	2.6	2.9	-5.3	-5.0
Unemployment (per cent)	"	3.4	3.3	3.7	--	--
Nonfarm employment, payroll (mil.)	"	70.1	70.0	67.7	3.6	6.7
Manufacturing	"	20.1	20.1	19.6	2.6	3.1
Other industrial	"	8.5	8.6	8.3	3.0	5.1
Nonindustrial	"	41.5	41.3	39.8	4.2	9.0
Industrial production (57-59=100)	"	170.5	169.5	163.0	4.6	8.9
Final products	"	170.2	169.3	163.5	4.1	8.3
Materials	"	171.0	169.3	162.8	5.0	10.0
Wholesale prices (57-59=100)1/	"	111.7	111.1	108.2	3.2	5.7
Industrial commodities (FR)	"	111.0	110.4	107.8	3.0	5.6
Sensitive materials (FR)	"	115.7	114.4	108.2	6.9	14.2
Farm products, foods & feeds	"	110.7	110.0	106.9	3.6	5.8
Consumer prices (57-59=100)1/	Feb'69	124.6	124.1	119.0	4.7	8.5
Commodities except food	"	115.7	115.0	111.5	3.8	7.5
Food	"	121.9	122.0	117.4	3.8	6.7
Services	"	139.7	139.0	131.3	6.4	11.0
Hourly earnings, mfg. ($)	Mar'69	3.13	3.11	2.96	5.7	12.2
Weekly earnings, mfg. ($)	"	127.15	124.99	120.54	5.5	12.8
Personal income ($ bil.)2/	"	726.7	721.4	670.0	8.5	17.7
Corporate profits before tax ($ bil.)2/	QIV'68	95.7	92.7	85.4	12.1	12.6
Retail sales, total ($ bil.)	Mar'69	29.6	29.4	28.0	5.7	14.9
Autos (million units)2/	"	8.2	8.7	8.7	-5.8	12.1
GAF ($ bil.)	"	7.8	7.8	7.4	4.4	15.5
Selected leading indicators:						
Housing starts, pvt. (thous.)2/	"	1,539	1,673	1,511	1.9	40.7
Factory workweek (hours)	"	40.6	40.1	40.7	-0.2	0.5
New orders, dur. goods ($ bil.)	"	29.2	30.5	28.0	4.4	24.2
New orders, nonel. mach. ($ bil.)	"	5.5	5.6	4.5	23.5	35.1
Common stock prices (1941-43=10)	"	99.30	101.46	89.09	11.5	11.0
Manufacturers' inventories, book val. ($ bil.)	Feb'69	89.6	88.9	83.4	7.4	12.3
Gross national product ($ bil.)2/	QI'69	903.4	887.4	831.2	8.7	17.0
Real GNP ($ bil., 1958 prices)2/	"	723.6	718.4	692.7	4.5	8.7

* Based on unrounded data. 1/ Not seasonally adjusted. 2/ Annual rates.

SELECTED DOMESTIC FINANCIAL DATA

	Week ended April 19, 1969	4-week average	Last 6 months High	Last 6 months Low
Money Market 1/ (N.S.A.)				
Federal funds rate (per cent) 9/	7.79	7.17	7.79	5.27
U.S. Treas. bills, 3-mo., yield (per cent)	6.19	6.08	6.20	5.21
U.S. Treas. bills, 1-yr., yield (per cent)	6.03	6.09	6.38	5.21
Net free reserves 2/ ($ millions)	-655	-769	- 52	-938
Member bank borrowings 2/ ($ millions)	760	966	1,320	337
Capital Market (N.S.A.)				
Market yields (per cent)				
5-year U.S. Treas. bonds 1/	6.25	6.32	6.44	5.48
20-year U.S. Treas. bonds 1/	5.97	6.12	6.27	5.34
Corporate new bond issues, Aaa adj. 8/	7.02	7.24	7.57	6.43
Corporate seasoned bonds, Aaa 1/	6.88	6.96	6.99	6.13
Municipal seasoned bonds, Aaa 1/	5.00	5.03	5.08	4.21
FHA home mortgages, 30-year 3/	--	7.99	7.99	7.28
Common stocks, S&P composite series 4/				
Prices, closing (1941-43=10)	101.24	101.27	108.37	98.00
Dividend yield (per cent)	3.11	3.11	3.21	2.86

	Latest month	Amount	3-month average	Change from year earlier: Latest month	Change from year earlier: 3-month average
New Security Issues (N.S.A., $ millions)					
Corporate public offerings 5/	May '69 e/	1,000	978	- 46	-630
State & local gov't. offerings	"	900	1,000	-243	-288
Comm. & fin. co. paper (net change in outstandings) 6/	March '69	+ 816	+1,061	+142	+816

	Latest month	Outstandings Latest month	Change Latest month	Change 3-month average	Annual rate of change from Preceding month	Annual rate of change from 3 months ago	Annual rate of change from 12 months ago
Banking (S.A.)		($ billions)			(per cent)		
Total reserves 1/	Mar. '69	27.04	-0.17	0.02	- 7.5	0.9	4.8
Credit proxy 1/ 10/	"	292.5	- 2.3	· 1.4	- 9.4	- 5.7	5.2
Bank credit, total 6/	"	385.9	- 0.8	0.5	- 2.5	1.5	9.5
Business loans	"	98.1	0.4	1.1	4.9	14.4	11.7
Other loans	"	159.2	- 1.0	0.5	- 7.5	4.1	12.7
U.S. Govt. sec.	"	57.1	- 0.7	- 1.5	-14.5	-29.8	- 4.7
Other securities	"	71.5	0.5	0.3	8.5	5.7	12.4
Total liquid assets 1/ 6/	"	710.4	5.4	2.2	9.2	3.8	6.6
Demand dep. & currency 1/	"	194.2	0.4	0.4	2.5	2.3	5.9
Time & sav. dep., comm. banks 1/	"	200.9	- 0.1	- 1.1	- 0.6	- 6.7	7.6
Savings, other thrift instit. 6/	"	198.7	1.5	1.1	9.1	6.8	6.1
Other 6/ 7/	"	116.6	3.6	1.9	38.2	20.2	7.2

N.S.A.--Not seasonally adjusted. S.A.--Seasonally adjusted e - Estimated
1/ Average of daily figures. 2/ Average for statement week ending April 16. 3/ Latest figure is monthly average for Feb. 4/ End of week closing prices; yields are for Friday. 5/ Corporate security offerings include both bonds and stocks. 6/ Month-end data. 7/ U.S. savings bonds and U.S. Government securities maturing within 1 year. 8/ Adjusted to Aaa basis. 9/ Federal funds data are 7-day averages for week ending Sunday: latest figure is for week ending April 20. 10/ Reflects $400 million reduction in member bank deposits resulting from withdrawal of a large country bank from System membership in January 1969. Percentage annual rates are adjusted to eliminate this break in series.

U.S. BALANCE OF PAYMENTS
(In millions of dollars)

	1968					1969		
	Year[p]	I	II	III	IV[p]	I[p]	Feb.[p]	Mar.[p]
				Seasonally adjusted				
Goods and services, net 1/	1,965	298	622	854	193			
Trade balance 2/	103	35	44	243	-219		-427	
Exports 2/	33,376	7,914	8,379	8,835	8,248		2,253	
Imports 2/	-33,273	-7,879	-8,335	-8,592	-8,467		-2,679	
Service balance	1,864	263	578	611	412			
Remittances and pensions	-1,159	-266	-286	-315	-293			
Govt. grants & capital 3/	-3,977	-1,164	-1,072	-938	-803			
U.S. private capital	-4,860	-707	-1,448	-1,798	-908			
Direct investment	-2,743	-374	-1,035	-1,168	-167			
Foreign securities	-1,288	-385	-83	-323	-497			
Banking claims	254	303	196	-200	-45		*-64	
Other	-1,083	-251	-526	-107	-199			
Foreign capital, nonliquid	8,384	1,410	2,485	1,833	2,656			
Official foreign accounts	2,448	334	928	437	749			
Long-term deposits	524	122	148	129	125		*-27	
U.S. Govt. liabilities	1,924	212	780	308	624			
International and regional organizations 4/	159	-98	-19	56	220	217	*17	*115
Other 5/	5,777	1,174	1,576	1,340	1,687			
Errors and omissions	-195	-276	-483	419	145			
		Balances, with and without seasonal adjustment (- deficit)						
Liquidity balance, S.A.		-705	-182	55	990	-1,707		
Seasonal component		443	255	-488	-210	400[e]		
Balance, N.S.A.	158	-262	73	-433	780	-1,307	-686	-314
Official settlements bal., S.A.		-571	1,509	423	256			
Seasonal component		661	54	-350	-365			
Balance, N.S.A. 6/	1,617	90	1,563	73	-109		24	
			Reserve changes, N.S.A. (decrease -)					
Total monetary reserves	880	-904	137	571	1,076	48	45	259
Gold stock	-1,173	-1,362	-22	74	137	-56	-27	35
Convertible currencies	1,183	401	-267	474	575	73	61	202
IMF gold tranche	870	57	426	23	364	31	11	22

1/ Equals "net exports" in the GNP, except for latest revisions.
2/ Balance of payments basis which differs a little from Census basis.
3/ Net of scheduled and non-scheduled repayments.
4/ Long-term deposits and Agency securities.
5/ Includes some foreign official transactions in securities.
6/ 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.
* Not seasonally adjusted.
Note. Details may not add to totals because of rounding.

THE ECONOMIC PICTURE IN DETAIL

The Nonfinancial Scene

Gross national product. The $16 billion increase in GNP in the first quarter almost matched the fourth quarter rise. But continued rapid price increases -- at over a 4 per cent annual rate -- accounted for nearly three fifths of this rise and real growth dropped slightly, to about 3 per cent in the past quarter from 3-1/2 per cent in the fourth quarter and 5 per cent last summer. For the current quarter, GNP growth is likely to be close to the first quarter rate. But a smaller increase in final demand is now projected for this quarter, with slower growth in business capital outlays and less strength in consumer spending. However, maintenance of inventory accumulation at close to the first quarter rate, after a sharp drop in the first quarter, and a very sharp rebound of exports following the end of the dock strike are likely to sustain overall GNP growth.

The further tightening of monetary policy along with the recently announced curtailment of the earlier estimated growth of Federal government expenditures should act to restrict economic activity further in the latter part of the year. Moreover, the proposed repeal of the 7 per cent investment tax credit if enacted may be having some impact before year end. Accordingly, we have adjusted downward our projection for the second half of 1969, and now anticipate that the rise in GNP will average about $13 billion and real growth will decline to about a 1-1/2 per cent annual rate. However, only a moderate easing of price pressures is expected by year end, with the GNP price deflator slowing from the first quarter rate of increase of 4-1/4 per cent to about 3-1/2 per cent.

The most important element of strength in the first quarter was the continued rapid rise in business fixed investment. Such outlays have now jumped sharply for three consecutive quarters. But the increase, estimated by the Commerce Department at $5.5 billion in the quarter, was the largest in nearly two decades, in both current dollars and in real terms. This strong increase has already brought the level of capital spending to a level almost 11 per cent above the 1968 average and it would not take a large further rise to attain the 14 per cent year-to-year gain indicated for 1969 in the recent Commerce-SEC survey.1/

Although the Commerce-SEC survey calls for a small dip in capital spending in the second quarter followed by moderate gains for the remainder of the year, the momentum of the very sharp rise since the second quarter of last year suggests a continued increase in capital spending in the current quarter, albeit a small one. Beyond the second quarter, however, the moderate further gains in capital

1/ A more recent McGraw-Hill survey (confidential until released April 25) confirms the continued strength in plant and equipment investment plans. According to this survey, capital spending in 1969 is expected to be about 13 per cent above the 1968 level. The survey also indicates that plans for investment spending continue to rise for the years 1970-72. This is the first time this survey has found long-term investment plans showing such upward momentum so far into the future.

spending projected by the survey for the remainder of the year seem likely to be trimmed somewhat in the light of recent monetary actions raising the cost and restricting further the availability of funds. The Administration's recommendation to eliminate the investment tax credit, if enacted, may also have an impact on investment spending decisions before year's end, although the substantial unused carry-over of credits could operate to maintain investment spending for some time. Nevertheless, the dampened tax incentive and the increased cost and difficulty of obtaining credit have led us to cut the projected increases in capital spending $1 billion a quarter below our previous estimates for the second half of this year. Our projections call for an increase of about 12 per cent for 1969 as a whole as compared with the 14 per cent rise indicated in the February Commerce-SEC survey.

Residential construction activity also continued to show substantial strength in the first quarter. But housing starts dropped substantially from their earlier extremely high rate as the quarter progressed. High interest rates and the further pressure expected on the availability of mortgage funds are expected to reduce housing starts from a 1.7 million rate in the first quarter to about 1.5 million in the current quarter, and an average of about 1.4 million in the second half of the year. Most or all of this decline is likely to be in single family housing, where interest rates and availability effects are most pronounced.

Growth in final sales in the first quarter was also enhanced by a sharp rebound in consumer expenditures after the lackluster performance of late last year. About half of the $11.6 billion increase in consumption in the first quarter was financed by a dip of a full point in the saving rate. At 5.8 per cent, the saving rate had fallen to its lowest level since early 1965.

Despite the relatively large first quarter increase, the consumption picture in general has not been particularly strong. Much of the expansion in the past few quarters has reflected rapid price increases. In real terms, personal consumption expenditures this past quarter were about 2 per cent, annual rate, above the level in the third quarter of last year. Unit sales of domestic autos have continued to edge down, averaging 8.4 million for the quarter, as compared with 8.8 million in the fourth quarter and a 9 million rate in the third quarter of last year. Sales for the first 20 days of April appear to have been at a 8.3 million rate.

Growth in disposable income will continue to be curtailed in the present quarter by large income tax payments on 1968 surcharge liabilities. A spurt in incomes is expected in the third quarter as Federal civilian and military pay raises take effect. But employment and wage gains are expected to moderate thereafter as activity slackens With the saving rate already at a relatively low level, there seems little room for consumer spending to rise faster than incomes. Accordingly, only moderate further gains in consumer spending seem likely over the next three quarters.

In contrast to the strength in most sectors of final demand, a distinctly slower rate of inventory accumulation was reported early in the first quarter. However, the adjustment appears to have been largely concentrated in January since the book value of inventories rose briskly again in February. Inventory accumulation may be held down somewhat in the current quarter by the outflow of goods following the dock strike, but more rapid accumulation is likely again later in the year, particularly, if our estimate of only moderate gains in personal consumption expenditures is realized.

With the dock strike now over, a very sharp recovery is anticipated in exports, with net exports adding perhaps $6 billion to GNP in the current quarter. This is in contrast to a zero increase in net exports of goods and services shown for the first quarter. However, as noted, some of the increase in exports is expected to come out of inventories, where goods have been accumulating because of lack of shipping, and the impact on output is likely to be somewhat less than would normally be suggested by a rise in exports of this magnitude.

Among the most significant new factors affecting the outlook for activity levels in the second half of 1969 are the reductions recently proposed in Federal outlays from the levels in the January budget. The rate of increase in Federal purchases of goods and services has already shown signs of leveling off.

We have incorporated the new expenditure figures in our projections. As a result, our projection of Federal purchases of goods and services in the fourth quarter has been reduced by $1.3 billion. Lower expenditures and the repeal of the investment tax credit should make the Federal budget more restrictive in the second half of this year than we had previously expected. We currently are estimating a surplus of about $4 billion in the third quarter and $6 billion in the fourth, instead of the $1.5-2.0 billion projected in our last Greenbook.

CONFIDENTIAL - FR

April 23, 1969

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

	1967	1968	1969 Proj.	1968 III	1968 IV	1969 Ip	1969 Projected II	1969 Projected III	1969 Projected IV
Gross National Product	**789.7**	**860.6**	**925.4**	**871.0**	**887.4**	**903.4**	**919.0**	**933.5**	**945.5**
Final sales	**783.6**	**852.9**	**918.7**	**863.5**	**876.8**	**897.0**	**914.0**	**926.5**	**937.0**
Private domestic	**600.4**	**653.7**	**703.9**	**660.6**	**672.8**	**690.8**	**698.7**	**708.6**	**717.3**
Net exports	**4.8**	**2.0**	**3.2**	**3.3**	**1.0**	**0.0**	**6.0**	**3.3**	**3.3**
Personal consumption expenditures	492.2	533.8	571.6	541.1	546.8	558.4	566.7	576.6	584.8
Durable goods	72.6	82.5	87.7	85.1	85.1	86.9	87.0	88.0	88.7
Nondurable goods	215.8	230.3	245.3	232.7	233.7	239.1	243.1	247.8	251.0
Services	203.8	221.0	238.7	223.4	228.0	232.4	236.6	240.8	245.1
Gross private domestic investment	114.3	127.7	139.0	127.1	136.6	138.9	137.0	139.0	141.0
Residential construction	24.6	29.9	31.2	29.5	31.6	32.7	31.7	30.5	30.0
Business fixed investment	83.6	90.0	101.0	90.1	94.3	99.8	100.3	101.5	102.5
Change in business inventories	6.1	7.7	6.7	7.5	10.6	6.4	5.0	7.0	8.5
Nonfarm	5.6	7.3	6.5	7.3	9.7	5.6	5.0	7.0	8.5
Net Exports	4.8	2.0	3.2	3.3	1.0	0.0	6.0	3.3	3.3
Gov't. purchases of goods & services	178.4	197.2	211.6	199.6	203.0	206.2	209.3	214.6	216.4
Federal	90.6	100.0	103.8	101.2	101.7	102.3	102.7	105.4	104.7
Defense	72.4	78.9	81.0	79.6	80.0	80.3	80.0	82.2	81.5
Other	18.2	21.1	22.8	21.5	21.7	22.0	22.7	23.2	23.2
State & local	87.8	97.2	107.8	98.4	101.2	103.9	106.6	109.2	111.7
Gross national product in constant (1958) dollars	673.1	706.7	729.8	712.3	718.4	723.6	729.0	731.7	734.7
GNP implicit deflator (1958=100)	117.3	121.8	126.8	122.3	123.5	124.8	126.1	127.6	128.7
Personal income	628.8	685.8	740.1	694.3	708.2	721.4	734.4	747.5	757.0
Wages and salaries	423.4	463.5	504.9	469.0	479.0	490.5	500.8	510.9	517.4
Disposable income	546.3	589.0	624.4	592.7	602.4	608.6	618.3	631.8	638.9
Personal saving	40.2	40.7	37.6	37.1	40.9	35.3	36.5	40.0	38.6
Saving rate (per cent)	7.4	6.9	6.0	6.3	6.8	5.8	5.9	6.3	6.0
Corporate profits before tax	81.6	92.3	93.7	92.7	95.7	95.2	94.7	93.2	91.7
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	151.2	176.9	199.8	182.1	187.0	197.1	200.5	199.7	201.8
Expenditures	163.6	182.2	193.2	184.9	186.9	189.5	192.1	195.6	195.6
Surplus or deficit (-)	-12.4	-5.4	6.6	-2.8	0.2	7.6	8.4	4.1	6.2
Total labor force (millions)	80.8	82.3	84.0	82.4	82.6	83.7	83.9	84.1	84.3
Armed forces "	3.4	3.5	3.5	3.6	3.5	3.5	3.5	3.5	3.5
Civilian labor force "	77.3	78.7	80.5	78.8	79.1	80.2	80.4	80.6	80.8
Unemployment rate (per cent)	3.8	3.6	3.5	3.6	3.4	3.3	3.4	3.6	3.8
Nonfarm payroll employment (millions)	66.0	68.1	70.3	68.3	69.0	69.9	70.1	70.4	70.6
Manufacturing	19.4	19.7	20.0	19.8	19.9	20.1	20.0	19.9	19.8
Industrial production (1957-59=100)	158.1	164.7	172.0	165.2	167.4	169.7	172.0	172.6	173.5
Capacity utilization, manufacturing (per cent)	85.3	84.5	83.7	84.0	84.2	84.1	84.0	83.5	83.0
Housing starts, private (millions A.R.)	1.29	1.51	1.53	1.55	1.60	1.70	1.53	1.40	1.40
Sales new domestic autos (millions, A.R.)	7.57	8.62	8.55	9.01	8.82	8.37	8.50	8.60	8.75

CONFIDENTIAL - FR

April 23, 1969

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1967	1968	1969 Proj.	1968		1969			
							Projected		
				III	IV	Ip	II	III	IV
	------	------	------	---In Billions	of Dollars---	------	------	------	------
Gross National Product	42.1	70.9	64.8	18.1	16.4	16.0	15.6	14.5	12.0
Inventory change	-8.6	1.6	-1.0	-3.2	3.1	-4.2	-1.4	2.0	1.5
Final sales	50.8	69.3	65.8	21.4	13.3	20.2	17.0	12.5	10.5
Private domestic	28.8	53.3	50.2	16.2	12.2	18.0	7.9	9.9	8.7
Net exports	-.3	-2.8	1.2	1.3	-2.3	-1.0	6.0	-2.7	0.0
Government	22.2	18.8	14.4	3.9	3.4	3.2	3.1	5.3	1.8
GNP in constant (1958) dollars	16.0	33.6	23.1	8.9	6.1	5.2	5.4	2.7	3.0
Final sales	24.0	32.4	24.4	12.0	3.2	9.2	7.1	0.7	1.8
Private	9.8	23.9	20.6	11.1	2.1	8.4	6.3	-0.1	1.8
	------	------	------	---In Per Cent	Per Year---	------	------	------	------
Gross National Product	5.6	9.0	7.5	8.5	7.5	7.2	6.9	6.3	5.1
Final sales	6.9	8.8	7.7	10.2	6.2	9.2	7.6	5.5	4.5
Private	5.0	8.3	7.8	10.8	6.0	10.1	8.0	4.1	4.9
Personal consumption expenditures	5.7	8.5	7.1	10.0	4.2	8.5	5.9	7.0	5.7
Durable goods	3.0	13.6	6.3	20.2	0.0	8.5	0.5	4.6	3.2
Nondurable goods	4.4	6.7	6.5	7.9	1.7	9.2	6.7	7.7	5.2
Services	8.2	8.4	8.0	8.6	8.2	7.7	7.2	7.1	7.1
Gross private domestic investment	-5.4	11.7	8.8	-0.6	29.9	6.7	-5.5	5.8	5.8
Residential construction	-0.8	21.5	4.3	0.0	28.5	13.9	-12.2	-15.1	-6.6
Business fixed investment	2.8	7.7	12.2	14.3	18.6	23.3	2.0	4.8	3.9
Gov't. purchases of goods & services	14.2	10.5	7.3	8.0	6.8	6.3	6.0	10.1	3.4
Federal	17.1	10.4	3.8	4.8	2.0	2.4	1.6	10.5	-2.7
Defense	19.5	9.0	2.7	3.0	2.0	1.5	-1.5	11.0	-3.4
Other	8.3	15.9	8.1	9.5	3.7	5.5	12.7	8.8	0.0
State & local	11.4	10.7	10.9	11.7	11.4	10.7	10.4	9.8	9.2
GNP in constant (1958) dollars	2.4	5.0	3.3	5.0	3.4	2.9	3.0	1.5	1.6
Final sales	3.7	4.9	3.5	6.9	1.8	5.2	4.0	0.4	1.0
Private	1.9	4.5	3.7	8.2	1.5	6.0	4.5	-0.1	1.3
GNP implicit deflator	3.1	3.8	4.1	3.4 1/	4.1	4.2	3.9	4.8 2/	3.5
Personal income	7.2	9.1	7.9	9.6	8.0	7.5	7.2	7.1	5.1
Wages and salaries	7.3	9.5	8.9	10.0	8.5	9.6	8.4	8.1	5.1
Disposable income	6.8	7.8	6.0	4.4	6.5	4.1	6.4	8.7	4.5
Corporate profits before tax	-4.7	13.1	1.5	1.7	12.9	-2.1	-2.1	-6.3	-6.4
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	5.7	17.0	12.9	23.5	10.8	21.6	6.9	-1.6	4.2
Expenditures	14.9	11.4	6.0	6.6	4.3	5.6	5.5	7.3	0.0
Nonfarm payroll employment	3.1	3.2	3.2	2.9	4.1	5.2	1.1	1.7	1.1
Manufacturing	1.0	1.5	1.3	2.0	2.0	4.0	-2.0	-2.0	-2.0
Industrial production	1.2	4.2	4.4	2.4	5.3	5.5	5.4	1.4	2.1
Housing starts, private	10.9	16.7	1.5	29.7	14.5	23.5	-40.5	-32.8	0.0
Sales new domestic autos	-9.7	14.0	-0.8	27.1	-8.5	-20.4	6.3	4.7	7.0

1/ Excluding Federal pay increase, 2.8 per cent per year.
2/ Excluding Federal pay increase, 3.7 per cent per year.

Industrial production. Industrial production in March rose further to 170.5 per cent of the 1957-59 average--up 0.6 per cent from February and 1.1 per cent from December. Gains in output were widespread for final products and materials.

The total index rose at an annual rate of 5.5 per cent from the average of the fourth quarter of 1968 to the first quarter of 1969--about the same rate of increase as from the third to the fourth quarter of 1968 (See table).

INDUSTRIAL PRODUCTION
Per cent change at annual rates

	QIII 1968 to QIV 1968	QIV 1968 to QI 1969
Total index	5.3	5.5
Consumer goods	7.1	4.8
Autos	- 6.0	-26.0
Home goods	9.9	13.2
Apparel & staples	7.2	5.2
Business equipment	13.0	7.2
Defense equipment	-21.2	-13.4
Durable materials	5.4	9.4
Steel	-20.0	52.8
Nondurable materials	4.1	2.9

Large declines in output of autos and defense equipment in the first quarter of 1969 were more than offset by the sharp recovery in steel production. Steel production is expected to rise further in the second quarter of the year, but at a substantially slower rate. Auto assemblies are scheduled at an annual rate of 8.4 million units in the second quarter, compared with output at a rate of 8.5 million units in the first quarter, and 9.1 million units in the fourth quarter. So far in April, however, output is running well below the projected rate, mainly because of strikes at Chrysler.

Sales of new domestic autos also declined in the first quarter, to an annual rate of 8.4 million units from 8.8 million units in the fourth quarter of 1968. In the first 20 days of April, sales were at an annual rate of 8.3 million units. Dealer's stocks were about unchanged from a month ago, and on April 10 were nearly a fifth above a year earlier.

The sharp rise in output of home goods that began in mid-1968 may be tapering off. While overall production of these goods was considerably higher in the first quarter of 1969 than in the last quarter of 1968, output changed little from January to March. In that period, production of television sets continued to increase, household appliances leveled off, and furniture declined.

The slowing of the rate of increase in production of business equipment in the first quarter of 1969 was due mainly to the sharp cutback in production of farm tractors, in an effort to reduce excessive inventories, and to a leveling off in output of freight and passenger equipment. While the increase in total output of business equipment is expected to be larger this quarter as production of farm tractors recovers, it probably will not equal the rate of growth in the expansion period from mid-1963 to the end of 1966. In the three years 1964-1966, production of commercial aircraft rose at an annual average rate of over 30 per cent. Because of capacity limitations in the aircraft industry, output changed little in the last half of 1968 and then rose only moderately in the first quarter of this year.

The slower rate of growth in output of nondurable materials in the first quarter of 1969 as compared to the previous quarter resulted from a decline in production of textile mill products and a leveling off in output of industrial chemicals and rubber products.

Capacity utilization. The March rate of manufacturing capacity utilization was estimated at 84.1 per cent, up slightly from the previous month. As has increasingly been the case recently, the operating rate for primary processing industries (those industries which for the most part produce materials) was above the rate for all manufacturing.

Some materials-producing industries are now operating at high levels. Seasonally unadjusted output of paper, primary aluminum, and rubber products is close to capacity. Operating rates in the aircraft and motor vehicle industries remain above normal. Producers of most other manufacturing products apparently have appreciable amounts of unused capacity.

UTILIZATION RATES
(Per cent)

Industry	1968				1969			
	QI	QII	QIII	QIV	QI	Jan.	Feb.	March
Manufacturing	84.9	84.8	84.0	84.2	84.1	84.3	84.0	84.1
Primary processing industries	85.5	86.5	84.6	85.6	86.5	86.4	86.4	86.6
Advanced processing industries	84.4	83.6	83.5	83.2	82.4	82.8	82.3	82.3

Retail sales. Retail sales in the first quarter were at an annual rate of 5.7 per cent above the second half of 1968. Durable and nondurable goods stores shared equally in the gains. Within the durable category, most of the rise was attributable to strong increases in building material and hardware sales and higher furniture and appliance sales, which picked up in January after declining earlier. In contrast to the decline in unit sales of autos, the automotive group of retail stores increased slightly. Among the nondurable groupings, food stores and gasoline stations accounted for most of the rise. The important general merchandise group showed no increase over the average of the second half of 1968.

The January sales increase from the weak December level accounted for much of the first quarter jump in sales, but the February gain was also substantial, and sales in March were 0.8 per cent higher than February according to the advance release. March sales of durable goods stores were up somewhat less than those of nondurable stores, as the furniture and appliances, and building material and hardware stores, which were major elements of strength earlier in the quarter, declined. However, higher dollar sales for the automotive group and the farm equipment stores more than made up these losses.

Sales in the nondurable goods categories in March continued to be bolstered by large gains for the food group and gasoline stations. The general merchandise and apparel groups were off somewhat from February.

RETAIL SALES

	HII 1968 to QI 1969	1969 Jan.	Feb.	March
	(at annual rate)	(per cent change from previous month)		
Total	5.7	2.3	1.3	0.8
Total, less autos	6.7	2.2	1.5	0.7
Durable goods stores	5.7	2.3	1.9	0.6
Durables, less autos	12.2	2.1	3.8	-0.3
Nondurable	5.7	2.3	1.0	0.9
Total in constant prices*	2.6	2.1	0.9	0.5

* Deflated by retail prices for all commodities.

Consumer credit. The rate of advance in consumer instalment credit extensions has slowed considerably since last summer. During the first quarter of 1969, new credit extensions are estimated to have risen approximately $1 billion further at a seasonally adjusted annual rate--about equaling last year's fourth quarter rise, but much below the $3.9 billion average rate of increase during the first three quarters of 1968.

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

	Total	Automobile	Other Consumer Goods	Personal Loans
1968				
QI	92.8	30.2	29.3	31.2
QII	95.6	30.7	30.7	32.0
QIII	99.4	32.6	30.7	33.9
QIV	100.4	32.2	31.8	34.1
1969				
Jan.	100.5	31.9	31.8	34.5
Feb.	101.0	32.6	31.2	34.8
QI (est.)	101.1	32.2	31.7	34.9

The major components of the total have behaved quite differently. Extensions for auto purchases rose sharply last summer when domestic new cars spurted and used car sales were running at a high level. While both unit sales and credit extensions slackened in the fourth quarter, a further decline in sales so far this year has not been reflected in a comparable slowdown in credit extensions--mainly because a larger proportion of new car sales are being financed.

Since mid-1968, credit extensions for other consumer goods have not moved with retail sales of GAF merchandise. Extensions were unchanged in the third quarter of last year despite a substantial increase in GAF sales, and rose more than $1 billion in the fourth quarter when sales declined. It appears that the rate of extensions was down slightly in the first quarter of 1969, although GAF sales were at a new peak.

The volume of personal loans has risen erratically over this period. In the first quarter of this year personal loan extensions increased by about $3/4 billion, as compared with an average quarterly increase of slightly less than $1 billion in 1968. However, quarterly gains last year ranged from a high of nearly $2 billion in the third quarter--when consumers stepped up their spending and borrowing after imposition of the surtax--down to about $1/4 billion in the fourth.

With repayments more stable than extensions, the slower growth in extensions has produced a similar slowdown in the rate of growth of instalment credit outstanding. During the first quarter of 1969 outstandings are estimated to have grown at an annual rate of about $8-1/2 billion (seasonally adjusted), compared to a rate of over $10 billion in both the third and fourth quarters of last year.

On balance, it appears that consumers have become less aggressive users of instalment credit in recent months. Increases in interest rates on auto and personal loans earlier this year, and the numerous media references to "tight money" conditions, have probably had some limiting effect. On the other hand, there are few indications that commercial banks and other lenders have become reluctant to extend consumer loans to "credit-worthy" borrowers.

Durable goods new orders. The value of new orders for durable goods dropped 4 per cent in March from February's record high, according to the advance report. The March rate was a little below the November and December levels. A drop in defense ordering--large even for this volatile series--was the principal element in the decline. Motor vehicle "orders" were also down as shipments declined. Orders for fabricated metal products increased but were still below the fourth-quarter rate. Machinery and equipment orders, though down somewhat, remained at advanced levels, as did other major industry and market groups.

NEW ORDERS FOR DURABLE GOODS
(Seasonally adjusted, billions of dollars)

	1968	1969		
	QIV Average	Q I Average	February	March
Total durable manufacturers	29.7	29.8	30.5	29.2
Iron & steel	2.0	2.1	2.1	2.1
Motor vehicles & parts	4.2	4.1	4.2	4.0
Consumer durables (exc. autos)	2.0	2.2	2.2	2.2
Machinery and equipment	6.3	6.3	6.5	6.3
Defense products industries (old series)	4.2	3.9	4.4	3.4
All other durable manufacturers	11.0	11.2	11.1	11.2
Defense products (new series)	2.2	1.9	2.3	1.7
Fabricated metal products	3.2	2.9	2.8	3.0

Durable goods shipments were off less than new orders, with the principal decline in the motor vehicle industry.

Unfilled orders declined slightly, mainly because of a 2 per cent drop in the aircraft industry. Backlogs for other industry groups showed increases or only small declines.

Inventories. Total business inventory accumulation dropped from a $10.6 billion annual rate in the fourth quarter to $6.4 billion in the first quarter, according to the preliminary GNP estimate. After a relatively small increase in January, the book value of manufacturing and trade inventories rose over $1 billion in February as nondurable goods stocks jumped.

INVENTORY CHANGE (BOOK VALUE)
(Seasonally adjusted, millions of dollars)

	1968 Q IV Average	1969 Jan.-Feb. Average	1969 January	1969 February
Manufacturing and trade, total	1,045	740	325	1,155
Durable goods	731	440	534	346
Manufacturing	321	429	457	401
Wholesale	130	- 2	- 84	80
Retail	280	13	161	-135
Nondurable goods	314	300	-219	819
Manufacturing	169	60	-131	250
Wholesale	14	75	- 10	160
Retail	131	166	- 78	409

Growth in the book value of durable inventories slowed in January and February, as auto production was reduced to about the level of sales and durable inventories were cut at other retail and wholesale establishments. Durable manufacturers were building inventories at a somewhat faster rate than in the fourth quarter. Continued additions to durable inventories seem likely in view of declines in ratios of inventories to sales and backlogs and also in view of plans of durable manufacturers surveyed by Commerce in February to increase their stocks relative to sales. Furthermore, the value of durable materials inventories is low and declining relative to durable goods sales and backlogs, in particular, steel held by consumers and producers in February was a relatively low 5.2 months' supply at current rates of use. The defense industries might prove to be an exception to this general outlook; inventory-backlog ratios were already quite high in February, and the backlog declined in March.

The average monthly increase in nondurable goods inventories in January and February was about the same as the fourth quarter average. The stock-sales ratio has been increasing since September, particularly at wholesalers and manufacturers of nondurable goods where sales in January and February were below fourth quarter levels. At nondurables factories, inventories of finished and in-process goods were rising relative to shipments, while materials holdings continued low. Nondurable industries with rising inventory-shipments ratios include textiles, chemicals, and "other" (apparel, printing, and leather). Decreases in the rate of nondurable inventory accumulation seem likely, either through further pick-ups in consumer buying, or failing that, through curtailments in production.

<u>Construction and real estate</u>. Seasonally adjusted outlays for new construction, which were revised upward by 2 per cent to a new peak for February, apparently rose further in March to an annual rate of $91.2 billion. While the year to year increase in March was substantial--9 per cent, nearly all of it reflected higher construction costs.

Within the private sector, residential construction expenditures, still riding the crest of an exceptional starts performance earlier this year, rose again in March. Outlays for nonresidential construction were apparently little changed in March, but remained near the record high reached in January when expenditures for both industrial and commercial structures surged upward and other types of nonresidential construction outlays also increased. By contrast, public construction expenditures, though estimated higher in March, were running well below the peak of last November. Given the large number of State and local bond-issue cancellations reported during the first quarter and Federal construction budget cuts planned for fiscal 1970, further downward pressures on most types of public construction are indicated.

NEW CONSTRUCTION PUT IN PLACE
(Confidential FRB)

	March 1969 ($ billions) 1/	Per cent change from February 1969	Per cent change from March 1968
Total	91.2	+ 1	+ 9
Private	62.8	+ 1	+12
Residential	31.6	+ 2	+14
Nonresidential	31.2	--	+10
Public	28.4	+ 1	+ 3

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

Seasonally adjusted private housing starts declined further in March, to an annual rate of 1.54 million. The drop, which was somewhat greater than projected, left the first quarter average at a level of 1.70 million--6 per cent above the advanced fourth quarter of last year and just above the recent high in the first quarter of 1964. While both single-family and multifamily starts rose in the first quarter, the reduction in the single-family starts rate since January has been particularly marked. As a result, multifamily starts accounted for a record 44 per cent of total starts in the first quarter, compared with a 40 per cent share in 1968 as a whole.

Underscoring a trend which may continue through most of the year, all of the decline in starts in March was concentrated in single-family units. Moreover, the rise in multifamily starts was entirely in the 5-or-more category. Regionally, total starts in the North Central states and the South, which had led the recent advance, were down sharply in March, but in the Northeast and West--where winter rains had limited activity earlier in the year--starts showed substantial gains.

PRIVATE HOUSING STARTS AND PERMITS

	March 1969 (Thousands of units)1/	Per cent change from	
		February 1969	March 1968
Starts	1,539	- 8	+ 2
1-family	825	-15	-10
2-or-more-family	714	+ 2	+21
Northeast	258	+20	+48
North Central	403	-30	- 6
South	546	-17	-13
West	332	+47	+16
Permits	1,370	- 7	- 3
1-family	678	- 1	- 7
2-or-more-family	692	-13	+ 1

1/ Seasonally adjusted annual rates; preliminary.

Thus far, permits have fluctuated at a relatively high level and mortgage commitments outstanding at thrift institutions have remained exceptionally large not only in current dollar terms but also after allowance for increased construction, land and other costs. However, a number of factors continue to point to maintenance of the downtrend initially projected for the spring quarter, a period when seasonally unadjusted starts normally are expected to advance about three-fifths in any case. Apart from further rises in interest rates and other costs, these factors include (1) the unsustainably high rate of starts actually averaged in the first quarter, (2) the intensified further pressure on funds available from commercial banks, which provide important support to builders in their drive to achieve the high first quarter schedules, and (3) lumber and other materials limitations which still remain a problem. Even so, total starts in April will most likely hold at or somewhat above the reduced March rate for technical and other reasons, and the level for the second quarter as a whole may exceed the advanced 1.51 million rate averaged in the year 1968.

While builders are reported to have lowered their sights for 1969 in the face of financial and other uncertainties, effective demands for shelter apparently continue strong. Reflecting this situation, stocks of homes available from merchant builders in February, the latest month for which data are available were at the lowest level in relation to sales since September. Median prices of homes sold in February, at $25,300, were nearly a tenth above a year earlier. In the market for existing homes, despite continuing reports of limited selection, sales in February were running 10 per cent above a year earlier, at year-to-year average price increases of 6 per cent.

Business plant and equipment spending plans. According to the results of the McGraw-Hill March survey of business fixed capital investment plans (confidential until release April 25), new plant and equipment expenditures this year will be 13.0 per cent larger than in 1968 and higher in each of the next three years than in 1969. The Administration's proposal to repeal the 7 per cent investment tax credit no doubt will result in review of present investment plans and probably a scaling down of some of them, particularly those for future years.

The 13.0 per cent increase indicated by this survey is not much different from the 13.9 per cent rise reported in the Commerce-SEC survey taken in February. Because of differences in the sample coverage of the two surveys the small difference in the findings probably is not significant.

This is the first McGraw-Hill survey in which plans for investment outlays in future years have not fallen off from plans for the current year. The sustained high level of in vestment being planned in March for 1970, 1971, and 1972, even though present plans may be revised down, probably reflects the continuing need to modernize production facilities so as to reduce production costs, as well as the desire to expand capacity, which increased by 6 per cent last year. At the end of last December, manufacturers were operating at 85 per cent of capacity, according to this survey. Fixed capital outlays planned in March would increase manufacturing capacity by 7 per cent this year and an average of 6 per cent in each of the following three years.

Personal income. Personal income increased $5.3 billion in March, matching the February rise. Continuing strength was registered in wage and salary disbursements, which accounted for 80 per cent of the total increase.

Manufacturing payrolls recovered sharply in March from a slight decline the previous month. The $2.3 billion March increase, the largest since May a year ago, was attributed by the Commerce Department to higher employment, hours and hourly earnings. Part of the increase reflected return of strikers in the transportation equipment and petroleum industries, and a large portion was due to a rebound in the workweek, which had dropped sharply in February because of heavy snows in the North East. The first quarter increase in manufacturing payrolls was $2.7 billion, half a billion dollars below the preceding quarter's rise, largely because hours of work declined and the rate of increase of hourly earnings slowed somewhat. Nonmanufacturing payrolls rose by $8.8 billion, reflecting continued large increases in employment and wage rates.

CHANGES IN PERSONAL INCOME FROM PRECEDING QUARTER
(In billions of dollars, seasonally adjusted)

	1968			1969
	II	III	IV	I
Personal income	15.4	16.2	13.9	13.2
Wage and salary disbursement	9.3	11.4	10.0	11.5
Manufacturing	2.6	2.9	3.2	2.7
Nonmanufacturing	6.7	8.5	6.8	8.8

Despite the large rise in current dollar personal income, the growth in real disposable personal income dropped further in the first quarter. Retroactive tax payments, the boost in social security taxes and the rapid rise in prices all figured prominently in slowing the rise to an annual rate of less than one-half of one per cent. The last time that growth in such income was as low as in the past 3 quarters was during the 1960-61 recession. Between mid-1961 and mid-1968, the annual rate of increase in real disposable income averaged slightly more than 5 per cent.

CHANGES IN DISPOSABLE PERSONAL INCOME
(In billions of dollars, seasonally adjusted)

	1968			1969
	II	III	IV	I
Personal income	15.4	16.2	13.9	13.2
Disposable income	11.9	6.4	9.7	6.2
Disposable income in 1958 $	5.3	2.1	2.5	0.5
Addendum:				
Per cent increase, (annual rate)	4.3	1.7	2.0	0.4

Labor market. The labor market continued tight through March and into April. Working hours have been cut back somewhat in the consumer goods industries and employment has been reduced in some of the defense industries, but there have been only moderate layoffs, and insured unemployment and initial claims for benefits remained below low year-earlier levels in early April.

Largely because of a seasonal adjustment problem with construction employment, the March advance in nonfarm payroll employment was only half as large as the average monthly increase from September though February. Exclusive of construction, the employment advance was slightly smaller than in other recent months and included the return to work of about 28,000 workers who had been on strike in February. The unemployment rate edged up to 3.4 per cent in March, reflecting a rise in teenage unemployment. Adult joblessness continued near frictional levels. Despite the continued tightness of the labor market, the average rate of increase of wages has eased slightly in recent months.

CHANGES IN NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted)

	Sept. 1968 to Jan. 1969 average	February 1969	March 1969
Nonfarm total	310,000	335,000	147,000
Construction	32,000	111,000	- 63,000
Total excluding construction	278,000	224,000	210,000

Employment. Nonfarm payroll employment rose 147,000 in March, with all industry groups except construction reporting higher job levels. The only decline occurred in construction, which had not shown the normal seasonal employment contraction during the winter months. In February, construction employment had risen by 110,000, seasonally adjusted, because layoffs were lower than usual. As a result, many of the workers who would normally be rehired in March, when activity expands seasonally, were already working and the hiring rate fell below normal seasonal levels. Over the next few months construction hiring would normally increase seasonally; with the supply of skilled workers very slim, costs rising rapidly, and mortgage funds limited, gains this year appear likely to be below normal.

Manufacturing employment rose 65,000 in March, but nearly one-third of the advance was attributable to the return to payrolls of striking workers in the petroleum and aircraft industries. The bulk of the remaining increase consisted of moderate gains in primary and fabricated metals, electrical equipment, and apparel. Over the past 6 months, labor demand has continued strong in the capital goods sector, but has eased somewhat in both the defense group and in consumer goods manufacturing.

Compared with a year earlier, manufacturing employment was up half a million with about one-fourth of the advance occurring among managerial and administrative personnel. Production work employment was up sharply over the year, with the bulk of the advance occurring over the past 6 months. Over that same period, however, the average workweek of factory production workers was cut by half an hour and the growth rate of total production worker manhours declined. Sizable cuts in hours occurred in such consumer-goods industries as apparel, autos, textiles, rubber, leather, and miscellaneous manufacturing. Growth in production worker employment in these industries was very modest. In the defense group, average hours fell sharply in ordnance and employment declined in the aircraft industry. Easier labor demand in the consumer goods and defense industries has been offset by hiring in the capital goods industries, where manhours have risen strongly over the past 6 months.

PER CENT INCREASES IN WEEKLY MANHOURS*
(Seasonally adjusted)

	March to Sept. 1968	Sept. 1968 to March 1969
Manufacturing	1.3	1.1
Durable goods	1.1	1.9
Primary metals	-3.6	6.7
Fabricated metals	2.6	3.5
Machinery	-0.4	3.0
Electrical equipment	1.9	1.4
Transportation equipment	1.2	-3.7
Nondurable goods	1.5	.0
Textiles	0.9	-2.0
Apparel	1.7	-2.3
Leather	-1.4	-4.7

* (Production workers) X (average weekly hours).

Labor force and unemployment. The strong first quarter rise in employment was drawn mainly from labor force growth, although the unemployment rate edged down from 3.4 per cent in the fourth quarter to 3.3 per cent in the first quarter. In the first quarter of 1969, the civilian labor force increase from a year earlier amounted to 1.9 million, up sharply from much smaller year-over-year advances during the last 2 quarters of 1968 and much greater than the anticipated "normal" growth of about 1.4 million.

CIVILIAN LABOR FORCE AND UNEMPLOYMENT
Changes From A Year Earlier
(In thousands, seasonally adjusted)

	1968				1969
	I	II	III	IV	I
Civilian labor force	1,543	1,856	1,197	919	1,876
Unemployment	5	- 136	- 186	- 377	- 202
Total employment	1,538	1,992	1,383	1,296	2,078

Historically, labor force growth has tended to fluctuate around the expected normal growth, with sharp spurts followed by slower growth and vice versa, depending on both economic developments and work attitudes among marginal groups. To some extent, the first quarter surge probably represents a catch-up from the slower growth pattern of the last half of 1968.

Despite the acceleration in labor force growth, unemployment has continued low. In March, joblessness among adult men continued at its lowest point since World War II, while the rate for adult women continued at a post-Korean low. The volatile teenage rate rose somewhat. About three-fourths of the unemployed teenagers were just entering the labor force and approximately half of them wanted part-time work.

Earnings. The rate of growth in hourly earnings in the private economy eased somewhat in early 1969 from the accelerated rates of 1968. At an annual rate of about 6 per cent in the first quarter, growth in production and nonsupervisory workers hourly earnings was sharply lower than in the first quarter of 1968 when there was a large increase in the minimum wage. Despite the easing, earnings were still increasing at an exceptionally rapid rate.

Easing of earnings growth was particularly pronounced in manufacturing where the quarterly growth rate in early 1969 fell below 5 per cent for the first time since late 1967. Factors in the slowing include a temporary let-up in collective bargaining activity and a slight cutback in overtime hours at premium pay.

PER CENT INCREASES IN HOURLY EARNINGS*
(Seasonally adjusted, annual rates)

		Private economy	Manufacturing
Increases from preceding quarter			
1968:	I	8.1	8.8
	II	6.6	5.6
	III	6.5	6.2
	IV	7.5	7.1
1969:	I	6.1	4.5

* For production and nonsupervisory workers.

The slower growth in manufacturing earnings has developed since December. Between December and March average hourly earnings rose only 2-cents, compared with a 5-cent rise in the December-March period of 1967-68 when the large minimum wage boost took effect.

In the first quarter of 1969, earnings continued to grow steadily at high rates in nonmanufacturing industries. Continuance of a very tight labor market and rapidly rising consumer prices have sustained strong upward pressures on wages and salaries in these sectors.

Industrial relations. A number of major contracts involving workers in paper, retail food chains and airlines have resulted in settlements generally providing first-year wage increases of 6 per cent or more. The settlements reached so far, however, have involved only part of the workers covered by contract expirations in these industries.

In the Pacific Coast pulp and paper industry the settlements reached covered fewer than 1,000 of 45,000 workers. The two-year Crown Zellerbach contract provides for a 6 per cent immediate wage increase, 6-1/4 per cent the second year and 6-1/2 per cent the third year. In the rest of the industry, negotiations were continuing on a mill-by-mill basis for 44 mills. The companies have refused to negotiate a uniform contract because of union demands for local bargaining on some issues.

Further progress has been made toward contract settlements with the 8 major airlines and the transport and mechanic unions. Pan-Am has settled with the transport workers and Eastern with the machinists; 27,000 workers in all are involved. The terms of the agreement have not been revealed until ratification by the union membership which is expected to take place in the near future. The earlier settlement with American, which provided for an average annual wage increase of 8-1/2 per cent, may have set the pattern for the Pan-Am and Eastern contracts.

Almost 23,000 out of 45,000 retail clerks bargaining with the Food Employers Council of Southern California have reached agreement on a new three-year contract providing for a 20-cent increase each year of the contract; the first-year increase amounts to 6 per cent for an experienced clerk.

The nature of the industries involved in negotiations in the current quarter suggests that there could be considerable strike activity in coming months. Negotiations in the construction industry are now under way and have already led to some strike activity, which usually reaches a peak in May and June. The expiration of maritime contracts in June has often resulted in strikes in the past. Large profits in the West Coast lumber industry could lead to above average union demands for wage increases and result in some strike activity. In the Southern lumber industry, three-year agreements involving 2,650 workers reportedly led to a 6 per cent immediate increase. Nearly 70,000 more lumber workers await contract negotiations on the West Coast.

Wholesale prices. Wholesale prices of industrial commodities increased 0.5 per cent in March (confidential until April 25)--0.1 point more than indicated by the BLS preliminary estimate--to 112.0 per cent of the 1957-59 average. Further large increases in prices of softwood lumber and boosts for gasoline and crude petroleum were major factors in the rise. In addition, there was a wide array of increases for rubber paper, metals, machinery, furniture, and nonmetallic minerals, although the over-all diffusion of increases was less than in January and February. A rise of 0.6 per cent in prices of farm and food products in March was attributable largely to substantial increases for livestock and fresh and dried vegetables. The combined effect of the increases in agricultural and industrial prices was to raise the overall WPI by 0.5 per cent to

111.7 per cent of the 1957-59 average--3.2 per cent above a year earlier, and up at an annual rate of 6.2 per cent from the fourth quarter.

Of special interest was a slight decline in prices of softwood plywood between mid-February and mid-March, the first monthly decrease in nearly a year. Further declines in plywood prices (and for some types of lumber also) have been reported in the press in recent weeks, suggesting that perhaps a reversal of the recent sharp upward trend in these prices is developing. The recent lowering of prices reportedly reflects buyer resistance to earlier sky-high prices, owing in part to uncertainty about the outlook for housing, and some favorable supply developments. Logging operations are expanding with better weather; movement of lumber by water from the West is increasing as a result of settlement of the Eastern U.S. dock strike; and Federal actions are being taken to improve rail freight car supplies, reduce government purchases, and make more timber available.

Despite the possible turning-point for lumber and plywood prices, average industrial prices have apparently continued to rise appreciably since mid-March. Increases have been posted for lead, copper, aluminum and copper mill products, additional steel mill products, and some paper and chemical items. Hide prices have shown a sharp increase as cattle slaughter has been curtailed as a result of adverse weather conditions in the mid-West at the same time that foreign demands have strengthened considerably.

The increase in the industrial price average from December to March was at an annual rate of 6-1/2 per cent--more than twice as fast as during the last half of 1968. The sharp rise reflected to a major degree the continued rise in prices of lumber and plywood and of metals. As indicated in the table below each of these major groups accounted for close to a third of the total increase from December to March. The large contribution of the lumber-plywood rise to the total increase is especially significant, since this group has a base period weight of only 3.3 per cent in the BLS industrial average. (The metals group has a weight of almost 18 per cent.)

MAJOR CONTRIBUTORS TO THE INCREASE IN THE BLS
Industrial Commodity Index,
December 1968 to March 1969

BLS commodity groups	Per cent of the total increase
Lumber and wood products	31
Metals and metal products	29
Fuels and related products and power	12
Machinery and equipment	10
Pulp, paper and allied products	9
Nonmetallic mineral products	6

The Federal Reserve sensitive materials index has been particularly affected by the recent large increases in prices of lumber and plywood and nonferrous metals. As noted in the last Greenbook the sensitive index in March was at an 18-year high. The table below shows the sensitive materials index and the other special Federal Reserve industrial commodity groupings for July 1968 and the months from December 1968 to March 1969.

WHOLESALE PRICES OF INDUSTRIAL COMMODITIES
(FR groupings of BLS data; 1957-59=100)

	1968		1969			Per cent change at annual rates
	July	Dec.	Jan.	Feb.	March	7/68 to 3/69
Total	108.0	109.3	109.9	110.4	111.0	4.2
Materials	106.5	107.9	108.8	109.5	110.2	5.2
Sensitive	106.3	110.1	112.4	114.4	115.7	13.3
Other	106.8	107.5	108.0	108.3	108.9	2.9
Products	110.0	111.1	111.4	111.6	111.9	2.6
Consumer nonfoods	107.5	108.3	108.4	108.7	109.0	2.1
Producers' equipment	115.2	117.1	117.6	117.8	118.0	3.6

Consumer prices. The consumer price index rose 0.8 per cent in March to 125.6 per cent of the 1957-59 average. (Strictly Confidential until release 11:00 a.m., April 24) This was the largest monthly increase since February 1951. The rise represented a sharp step-up from increases in other recent months: 0.4 per cent in February and 0.3 per cent in January. The first quarter average rose at an annual rate of 4.9 per cent from the fourth quarter, a little more than the fourth quarter increase of 4.6 per cent and about equal to the 5.0 per cent rate in the third quarter last year.

Major factors in the March rise were sharp increases in homeownership costs (including mortgage interest, taxes, insurance and repair costs) and in prices of used cars, apparel, akd gasoline. These four items together accounted for about two-thirds of the month's total increase.

The recent upsurge in homeownership costs, which began in February and appears to be continuing in April, is similar to the burst last summer when mortgage interest charges in particular also rose sharply. Largely because of this development, the service component of the CPI rose at an annual rate of 7.3 per cent in the first quarter of this year, equal to the rise in the third quarter 1968 and well above the 5 to 5-1/2 per cent rate prevailing during the remainder of 1968. Mortgage interest charges and home taxes and insurance are not directly represented in the GNP implicit deflator for consumer services, and the latter was increasing at an annual rate of less than 5 per cent in late 1968 and early 1969.

In both March and February the increase in the CPI was also augmented by sharp advances in prices of used cars (6.1 per cent in February and 6.4 per cent in March). Apart from questions about the accuracy of this price series, gross sales prices of used cars do not enter into the GNP estimates of durable consumption expenditures and their implicit deflator. The rise in used car prices accounted for roughly half of the sharp increase in the CPI durable commodity component in February and March. After excluding used cars, average prices of durable commodities rose less from the fourth to the first quarter than from the third to fourth quarter of 1968.

The March increase in prices of nondurable commodities was sizable, with foods up contraseasonally, apparel up more than seasonally and gasoline prices rising sharply. After allowance for seasonal changes, however, average prices of nondurable commodities appear to have increased somewhat less in the first than in the fourth quarter.

Among services, in addition to the sharp step-up in homeownership costs, charges for medical care continued to rise at the accelerated pace of the preceding 2 months (an annual rate of nearly 11 per cent, compared with 7.3 per cent during 1968). Costs of transportation services also showed a sizable increase.

Farm exports. Exports of agricultural commodities were relatively stable during 1968 after falling sharply in 1967 from the peak reached in 1966 when world food supplies were short. Volume of commodities exported in 1968 was actually a little larger than in 1967 but average prices were 3 per cent lower, as shown in the table. Sharply increased shipments of corn, soybeans, oil cake and meal, and moderately larger volume of rice, animal products, and tobacco more than offset declines in wheat, vegetable oils, cotton, and fresh and processed fruits. Prices of oilseeds and products and all the major grains except rice drifted lower during 1968 under pressure of increasing supplies throughout the world. About one-fourth of the value of exports in 1968 was government-financed, the same proportion as a year earlier.

Undoubtedly, farm exports during 1969 will continue to feel the effects of foreign competition and growing agricultural protectionism that characterized the past year. Value of exports will do well to reach $6.0 billion, about 4 per cent below calendar 1968. Much will depend on how harvests in competitive areas turn out in the second half of the year. Export stoppages at the Atlantic and Gulf ports have already dampened prospects. In January and February, volume was down 60 per cent from a year earlier and losses in farm export business are estimated to have amounted to about $300 million.

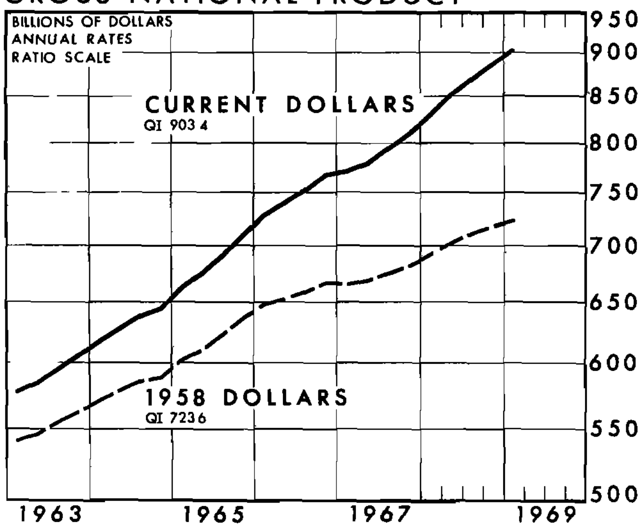
AGRICULTURAL EXPORTS, CALENDAR 1968
Percentage changes in value, quantity, and price

	Value ($ million)	Percentage change from a year earlier		
		Value	Quantity	Price (derived)
Total	6,228	-2	1	-3
Grains and preparations	2,460	-8	0	-8
Vegetable oils and oilseeds	1,270	2	8	-6
Animal products	677	0	5	-5
Tobacco, unmanufactured	524	5	5	0
Cotton	460	-1	- 2	1
Fruits and vegetables	450	-5	-10	6

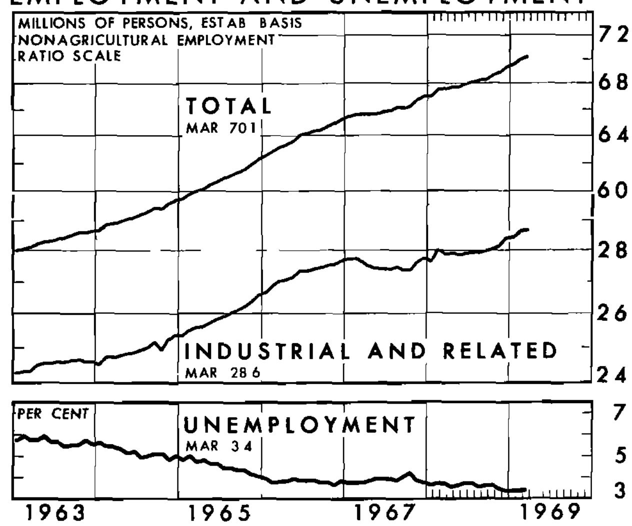
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

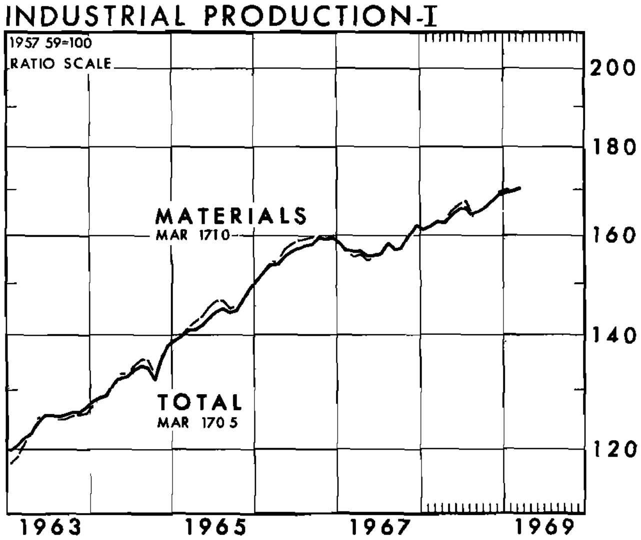
GROSS NATIONAL PRODUCT



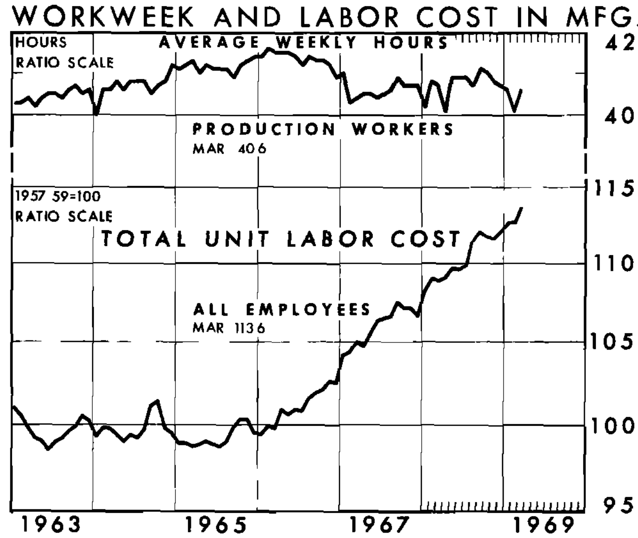
EMPLOYMENT AND UNEMPLOYMENT



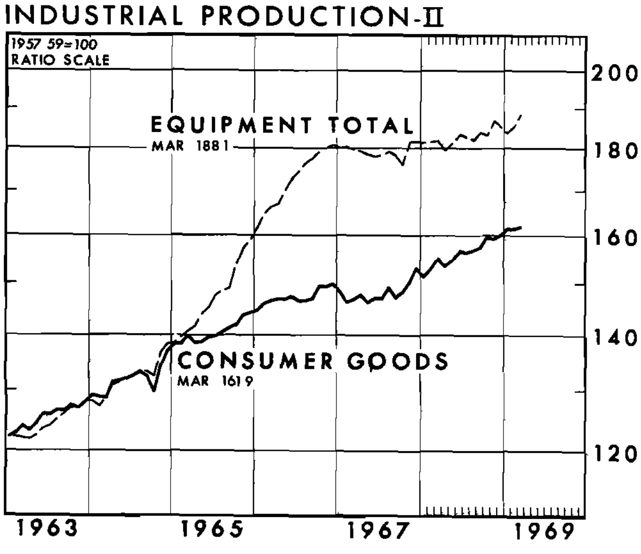
INDUSTRIAL PRODUCTION-I



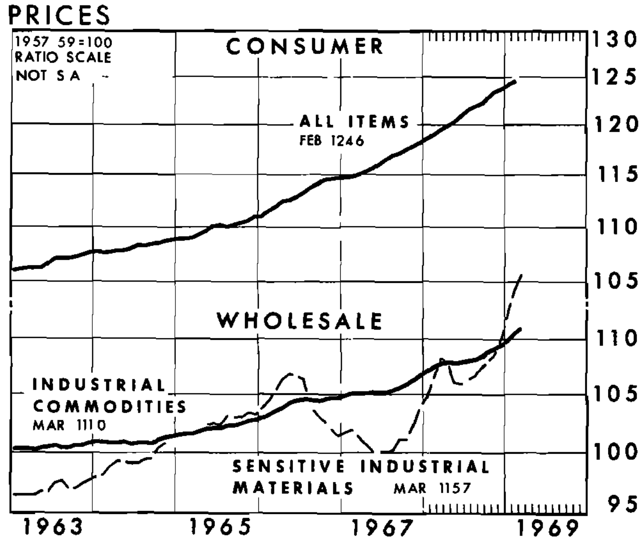
WORKWEEK AND LABOR COST IN MFG.



INDUSTRIAL PRODUCTION-II



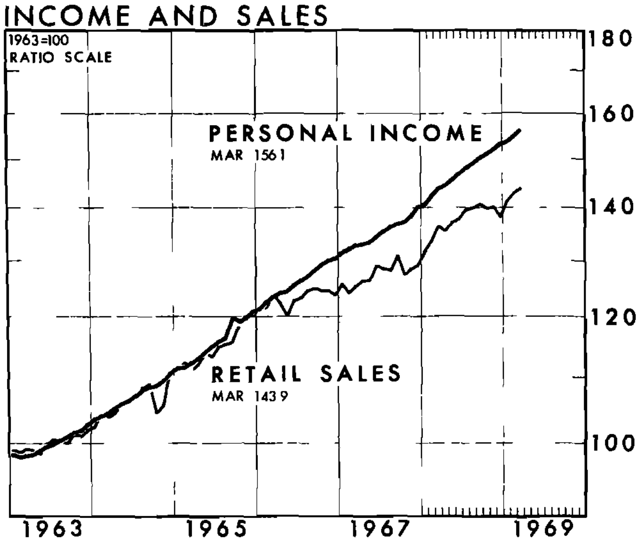
PRICES



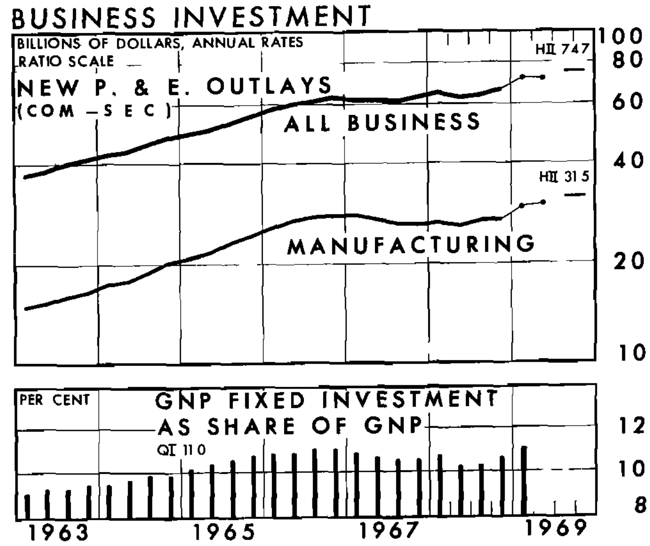
ECONOMIC DEVELOPMENTS - UNITED STATES

SEASONALLY ADJUSTED

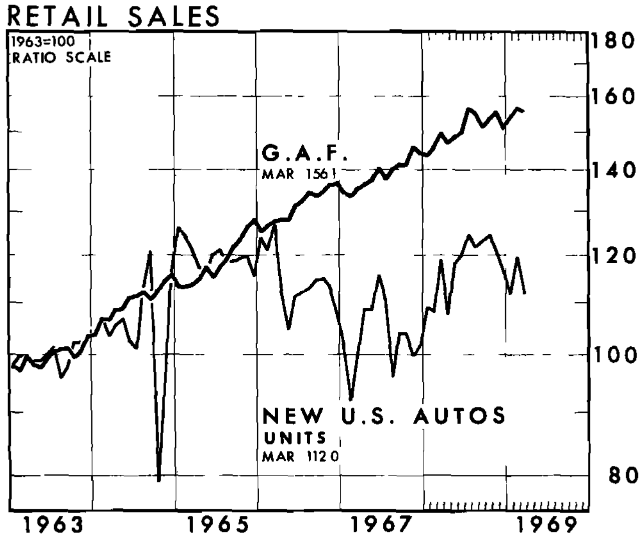
INCOME AND SALES



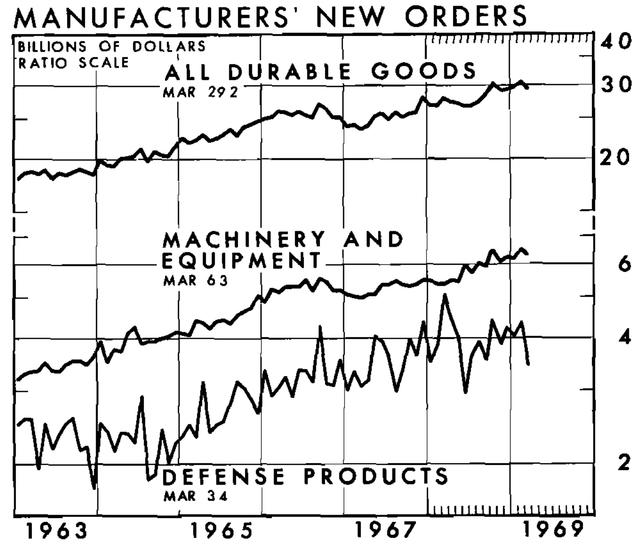
BUSINESS INVESTMENT



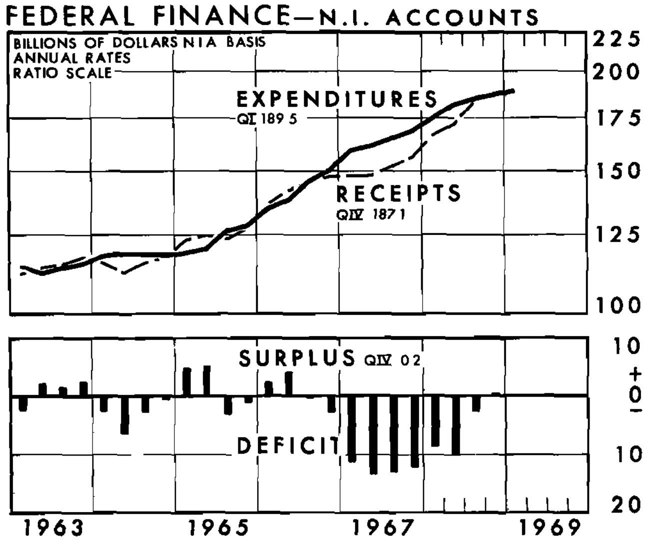
RETAIL SALES



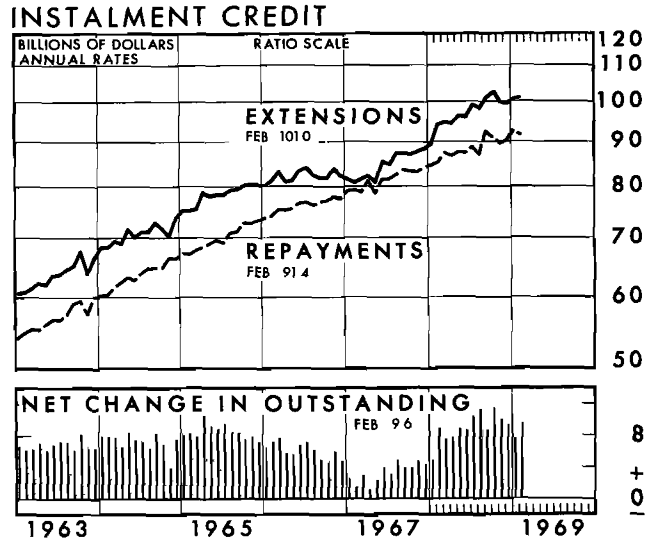
MANUFACTURERS' NEW ORDERS



FEDERAL FINANCE—N.I. ACCOUNTS



INSTALMENT CREDIT



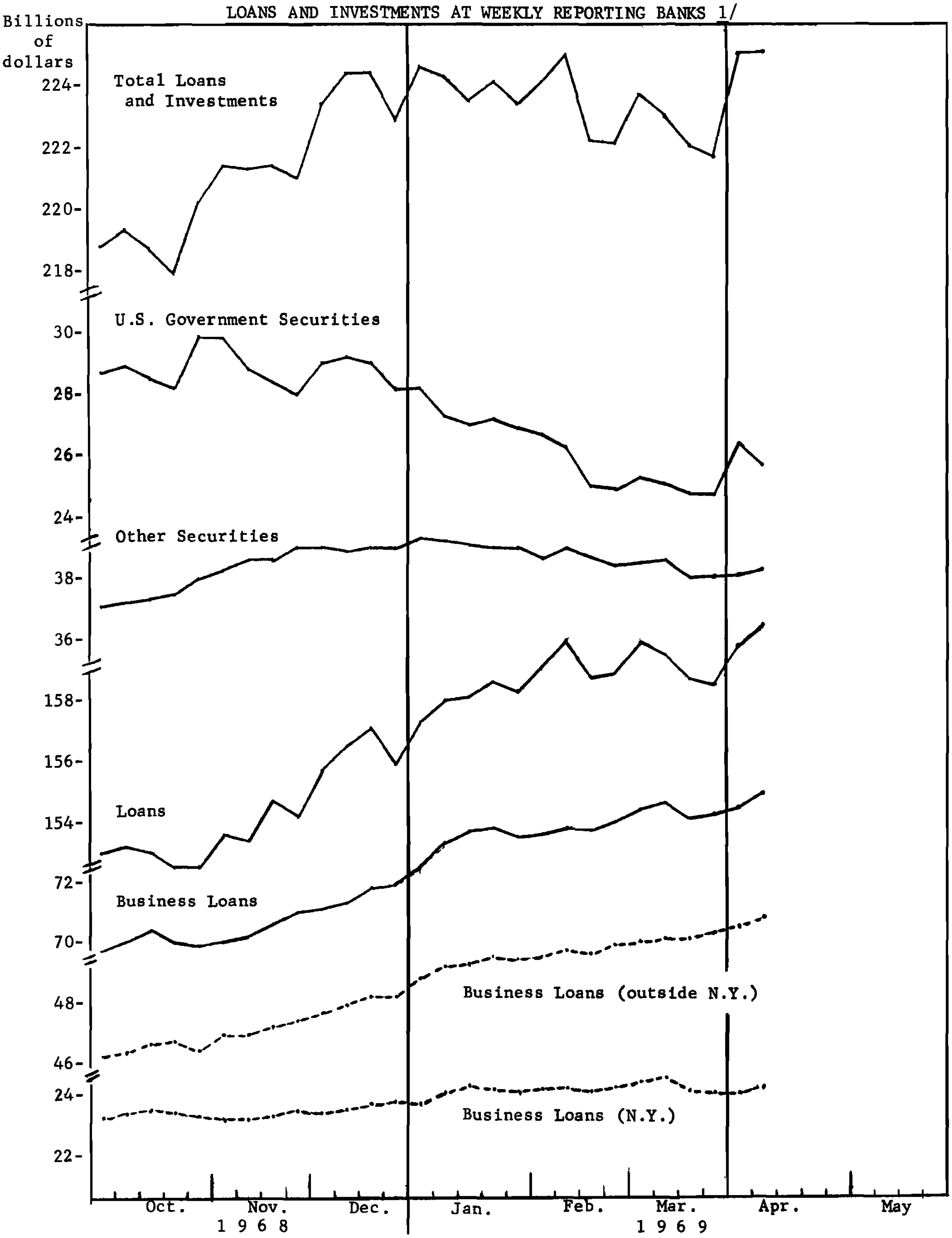
DOMESTIC FINANCIAL SITUATION

Bank credit. After declining at an annual rate of about 2 per cent over the first quarter, bank credit--as measured by the daily average credit proxy adjusted to include Euro-dollar borrowings--is projected to rise somewhat in April in response to increases in both private and U.S. Government demand deposits at banks early in the month. Total loans and investments at weekly reporting banks--indicated by the chart on the following page--also rose sharply in early April. This increase was associated mainly with the recent Treasury financing, reflecting in large part bank acquisitions of U.S. Government securities and a sizable increase in dealer loans as these securities were sold out to dealers. However, further advances in business loans and moderate bank takings of other securities also contributed to the early April rise.

During the first quarter, weekly reporting banks liquidated over $4.5 billion in holdings of U.S. Government securities--about two-thirds of which were Treasury bills--in order to accommodate loan demands during this period of heavy CD attrition. Banks increased substantially their holdings of bills in the first week of April, however, as they underwrote nearly all of the $1.8 billion Treasury bill strip with full tax and loan credit. But in the following week, sales of bills by banks outside New York City were quite large, although bill holdings of New York banks remained virtually unchanged.

III - 2

LOANS AND INVESTMENTS AT WEEKLY REPORTING BANKS 1/



1/ Seasonally adjusted levels; experimental series based on preliminary seasonal factors.

Weekly reporting banks also reduced their holdings of other securities over the first quarter, particularly both long- and short-term municipals, although liquidation of participation certificates and agency issues also were sizable. However, holdings of short-term municipals did rise in early April, probably reflecting acquisitions of a large New York State issue of tax warrants on April 8. Holdings of municipal issues at banks in the New York District usually show a marked rise in early April followed by sizable declines in the ensuing weeks.

Total loans outstanding at large banks, which appeared to decline, on balance, from around mid-February through the end of March, rose sharply in early April. In large part this recent surge reflects a substantial rise in broker-dealer loans, although business loans also displayed a sizable increase in early April. Expansion of real estate loans seems to have moderated slightly from the advanced pace of recent months while growth in consumer instalment loans picked up from the reduced pace of the first quarter.

The increase in business loans during early April--as in the past 6 months--took place primarily at banks outside New York. Moreover, the increase in business loans since year end, like that in the fourth quarter of 1968, reflected in large part borrowing by services and construction firms, although wholesale trade conerns, machinery producers and petroleum refiners also have borrowed substantially at banks so far this year.

Business borrowing at New York City banks during the April tax week was about in line with that in the past two years even though tax payments were estimated about $1 billion higher than in those years. Probably because of the present high cost and reduced availability of bank loans, corporations apparently relied more heavily on other sources to meet current tax liabilities, including the liquidation of finance company paper and Treasury bills--even though the volume of maturing tax bills was significantly less than in other recent years. The run-off of CD's at New York banks during the tax week was also comparable to that in other recent years, in spite of increased tax liabilities, probably due to the relatively small volume of maturing issues.

At nonweekly reporting banks, total loans and investments have risen somewhat less than usual since year-end, due to large liquidations of holdings of U.S. Government securities. However, loan expansion at these banks has been unusually large, and may reflect in part purchases of loans and loan participations from city banks where most of the CD attrition has taken place. Acquisitions of other securities at nonweekly reporting banks also have been well above those in comparable periods of other recent years.

Bank deposits. Total time and savings deposits at large banks continued to decline during the first two weeks in April, reflecting further CD attrition and outflows of consumer-type time and savings deposits, although both were less than in the comparable period of 1968 when market yields also were very high relative to Regulation Q ceilings.

NET CHANGE IN TIME AND SAVINGS DEPOSITS
Weekly Reporting Banks
(Millions of dollars, not seasonally adjusted)

	1st Quarter 1/			1st two weeks in April 2/		
	1967	1968	1969	1967	1968	1969
Total time & savings deps.	6,494	2,142	-3,695	250	-636	-323
Consumer-type deposits	2,719	1,825	855	210	-141	- 91
Savings deposits	-115	339	-494	-133	-340	-330
Time deposits, IPC (Other than CD's, IPC)	2,834	1,486	1,349	343	199	239
Negotiable CD's	3,657	224	-4,028	-153	-358	-298
All other time deps. 3/	118	93	-522	193	-137	66
MEMO:						
Euro-dollar borrowings 4/	-624	679	2,933	-348	-314	-128

1/ Last-Wednesday in December to last Wednesday in March.
2/ Ending on April 9, 1969.
3/ Consists primarily of time deposits held by State and local governments and by foreign institutions.
4/ Liabilities of major U.S. banks to their foreign branches, Wednesday figures. These banks increased their Euro-dollar borrowings by $215 million in the week ending April 16.
n.a. - Not available.

Outstanding CD's at weekly reporting banks fell by an additional $300 million during the first two weeks in April, with New York and Chicago banks losing another $285 million in the week ending April 16, bringing the total decline in CD's from December 11 to over $6 billion. The volume of CD's maturing in April is comparable to that in February and March, and attrition so far in April is proceeding at about the pace prevailing in those months. With this continued pressure, banks with foreign branches reduced their Euro-dollar borrowings during the first two weeks in April by only about one-third of the amounts in comparable periods in other recent years. And in the following week, head office liabilities to foreign branches rose substantially--resulting in an increase in outstandings of about $90 million for the first three weeks in April combined--to a level in excess of $10 billion.

While net inflows of consumer-type time and savings deposits at large banks accelerated substantially in March, growth in outstandings over the first quarter as a whole was far below that of comparable periods in other recent years because of large outflows shortly after year-end. There was a further outflow of these deposits in early April--following the quarterly interest-crediting period--but the decline was somewhat less than during that period last year, largely due to continued sizable inflows of time certificates and open accounts. Regular savings deposit outflows were about the same as in early April of 1968. However, data for New York banks for the week ending April 16 show a decline in consumer-type deposits of 2 to 3 times the usual amount, reflecting sizable withdrawals of both regular savings deposits and time certificates and open accounts presumably for payment of personal income taxes. Outflows of savings deposits at country banks in early April were also somewhat larger than usual, although expansion of other time deposits--and consequently total time and savings deposits at these banks--was well sustained.

With interest rates high and credit availability reduced, businesses and individuals were under increased pressure to economize on their holdings of cash balances over the first quarter. The money stock rose at only slightly more than a 2 per cent annual rate in the first quarter, or about one-third the rate of growth in the previous quarter. The money stock is expected to increase more rapidly, on balance, in April, largely in response to a sharp and probably temporary one-week increase in demand deposits around the Easter holiday. U.S. Government deposits are also expected to increase further in April, after showing a moderate rise during the first quarter.

Nonbank depositary intermediaries. Savings growth at nonbank depositary institutions during the first quarter of 1969 averaged a fairly modest 6 per cent, similar to the pace of all of last year but somewhat below the fourth quarter of 1968.

SAVINGS GROWTH AND MARKET YIELDS
NONBANK DEPOSITARY INTERMEDIARIES
(Seasonally adjusted annual rate in per cent)

	MSB's	S&L's	Both	Yield Differential 1/
1967 - III	8.8	9.7	9.4	42
IV	6.9	6.2	6.4	- 1
1968 - I	7.1	5.6	6.1	1
II	6.7	5.7	6.0	-40
III	6.5	5.9	6.1	- 5
IV	7.1	6.2	6.5	-43
1969 - I p/	6.2	5.9	6.0	-100
Monthly: 1969				
January	4.1	4.8	4.6	-103
February	7.2	5.4	6.0	-105
March p/	7.2	7.6	7.5	- 91

p/ Preliminary.
1/ In basis points, the S&L ceiling rate on special accounts (5.25%) minus the average 6-month Treasury bill yield.
Note: Because of seasonal adjustment difficulties, quarterly patterns are more reliable than monthly.

The experience during the recently-concluded reinvestment period was generally similar to that of last year, but appears to have been the result of dissimilar forces. Although market yields were much higher than in the same period of 1968, as shown in the table above, it appears that savers remaining at the thrift institutions are considerably less interest sensitive than earlier. There is evidence, however, that in the current reinvestment period and the week immediately following, need for funds for income tax payments produced accumulated outflows that may reduce the growth of savings for the month of April. As shown in the table below, New York savings banks incurred unusually heavy withdrawals from April 8 to 15--reportedly concentrated on the 14th and 15th. In addition to the general insufficiency of 1968 Federal income tax withholding, California does not withhold at all for its (now substantial) state income tax. As a result, California S&L's accounted for an increased share of reinvestment period outflows, and reportedly incurred unusually heavy withdrawals on April 14 and 15. Their situation was reported to have reversed itself on April 16 and 17, however, when net flows dwindled to near zero or small inflows.

MARCH-APRIL REINVESTMENT PERIOD
SAVINGS FLOWS EXCLUDING INTEREST CREDITED
($ millions)

	S&Ls 1/		MSBs 2/	
	U.S.	San Francisco	In dollars	As per cent of deposits
1966	n.a.	n.a.	-243.2	-1.57
1967	71	- 10	- 43.7	- .27
1968	-539	-291	-126.2	- .70
1969	-564	-351	-180.4	- .96
		Memo: MSBs April 8-15 2/		
1966		-37.5		
1967		11.3		
1968		-19.2		
1969		-65.8		

1/ Universe estimates based upon a sample. Covers the period March 27 through April 11.
2/ 15 largest New York City savings banks, which represent about 30 per cent of industry deposits. Where applicable, figures also are adjusted for repayment of passbook loans made earlier to save interest. Reinvestment period includes March 27 through April 7.

Despite the apparent lack of response of recent savings patterns to further increases in market yields, the latest development in the corporate bond market--the very successful marketing of new corporate issues with only a 5 year maturity--may have an impact on a segment of depositary claims. These securities may be better substitutes for deposits than longer-term bonds, and offer a higher yield than short-term bills which generally are the instruments most comparable to intermediary claims. The impact may be greatest at West Coast savings and loan associations, which generally are restricted to a minimum 3-year term on their special bonus accounts.1/

Savings and loan liquidity ratios during March were basically unchanged from February. During March, borrowings increased by less than $50 million in contrast to modest repayments typical for the month. Similarly, through the first half of April there were indications that FHLB advances were running only slightly larger than last year. As in the previous two months, commitments were large relative to cash flows.

LIQUIDITY RATIOS
SAVINGS AND LOAN ASSOCIATIONS

	Legal1/			Net2/		
	January	February	March	January	February	March
1966	10.0	10.1	9.9	4.3	4.6	4.5
1967	9.7	10.0	10.0	3.8	4.6	5.3
1968	9.9	10.1	10.2	6.1	6.4	6.6
19693/	9.3	9.6	9.5	5.0	5.3	5.3

1/ Cash plus U.S. Governments to share capital.
2/ Cash plus U.S. Governments minus total borrowed funds to share capital.
3/ Minimum required legal liquidity ratio was reduced from 7 per cent to 6.5 per cent as of July 1968.

1/ California S&Ls had exercised their option of offering 5 per cent on regular accounts, which thereby restricted them to the 3-year minimum term on special accounts. But with the new 90-day notice 5 per cent ceiling account permitted as of April 1, at least one California S&L has reduced its regular account rate to 4.75 per cent, offers the 90-day notice account at 5 per cent, and thus may offer a special account with only a 6-month minimum term at 5.25 per cent.

Mortgage market. Bolstered by continued, although moderate, net savings inflows to thrift institutions strong support from other types of lenders, and substantial commitment backlogs, the mortgage market entered the spring building season with considerable momentum. Indeed, during the first quarter, total net mortgage lending increased slightly above the previous high reached in the fourth quarter, according to tentative estimates shown in the table. The record first-quarter rate of net debt expansion--about 12 per cent above a year earlier when average real estate prices and loan amounts were lower--reflected a further rise in growth of residential mortgage debt. That, in turn, helped to finance the highest quarterly rate of private housing starts in 5 years, along with an advanced level of existing-house transactions.

NET CHANGE IN MORTGAGE DEBT OUTSTANDING
(In billions of dollars at seasonally adjusted annual rates)

	1968				1969
	I	II	III	IVp	Ie
Total	27.2	26.0	26.0	30.0	30.6
Residential	18.4	18.4	18.0	20.8	21.5
All other	8.8	7.6	8.0	9.2	9.1

p/ Preliminary. e/ Estimate.

The record rate of total net mortgage debt expansion during the first quarter was apparently buoyed by further large net lending by commercial banks, but nearly all major private lenders recorded some year-over-year gains. FNMA holdings rose sharply, with heavy future support from this source assured by FNMA's increased build-up of new commitment approvals. During February, for example, FNMA approved more new mortgage commitments on residential properties than either all New York State savings banks or all life insurance companies appear to have done.

As the second quarter began, some mortgage lenders were reportedly waiting on the sidelines to assess their savings flow experience through the income tax payment deadline. Even so, average secondary-market yields on Federally-underwritten mortgages remained close to their late-March levels and then edged down slightly after mid-April, according to the FNMA weekly auction results which partly reflect a decline in demand for FNMA commitments relative to the increased supply.

FNMA WEEKLY AUCTION
(Dollar amounts in millions)

	Amount of total offers		Implicit private market yield 6-month commitments (per cent)
	Received	Accepted	
1968 highs	$232(6/3)	$ 89(7/1)	7.71(6/10)
March 17	133	89	8.08
24	221	84	8.09
April 1	183	93	8.11
7	176	102	8.13
14	145	101	8.10
21	128	101	8.05

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. The first auction date was May 6, 1968.

Meanwhile, FNMA field reports and other sources have again stressed the strength of shelter demand in most areas, despite high mortgage interest rates on new loans, somewhat restrictive discounts on FHA and VA mortgages, and substantial downpayments associated with conventional first mortgages. Under these conditions, buyers of existing houses have apparently continued wherever possible to assume lower-rate mortgages already outstanding on such dwellings rather than finance their purchases with new first mortgages.

Corporate and municipal bond markets. Despite a sharp increase in offerings in April, yields on corporate and municipal bonds have declined substantially from the peaks reached late in March. At mid-April, yields on new corporate bonds were more than 50 basis points below their earlier highs and municipal bond yields were down about 15 basis points. Even at lower yields new issues in both markets generally received an enthusiastic respone from investors.

BOND YIELDS
(Weekly averages, per cent per annum)

	Corporate Aaa With call protection	Corporate Aaa Seasoned	State and local Government S&P High Grade	State and local Government Bond Buyers (mixed qualities)
1968				
Low	6.13(8/30)	5.95(9/13)	4.15(8/9)	4.07(8/9)
High	6.92(12/13)	6.53(12/27)	4.93(12/27)	4.85(12/27)
1969				
Low	6.90(1/10)	6.55(1/3)	4.93(1/24)	4.82(1/24)
High	7.57(3/21)	6.99(3/28)	5.40(3/28)	5.30(3/28)
Week ending:				
March 7	--	6.72	5.26	5.19
14	7.23	6.75	5.30	5.26
21	7.57	6.93	5.39	5.29
28	7.36	6.99	5.40	5.30
April 4	7.28	6.99	5.36	5.25
11	7.30*	6.97	5.38	5.29
18	7.02	6.91	5.26	5.13

* Includes some issues with 10-year call protection.

The hallmark of bond markets since March has been a noticeable shift in the expectations of market participants to the view that bond yields might have already reached their highs. While the increases in the discount rate and reserve requirements announced early in April appear to have been partly discounted, when coupled with peace rumors and revised 1970 Budget estimates showing a larger surplus than earlier, the monetary policy actions evoked interpretations that stabilization policies would, in fact, adequately restrain excessive economic activity. (This attitude apparently was reinforced by the President's tax proposals asking for removal of the investment tax credit.) While these factors contributed to increased investor demand, the relatively light dealer inventories also tended to spur aggressive bidding. In addition, speculators reportedly were beginning to appear and some dealers--particularly in the municipal market--were said to be building inventory in the hopes of sales at higher prices in the future. The recent increase in bank loans to dealers on non-Treasury securities may reflect, in part, the activity of municipal dealers.

The smaller decline in municipal yields must be interpreted in light of the continued limited bank interest and the surprisingly large increase in new issue volume. The probable volume of State and local government bond issues in April has changed dramatically over the last two weeks, with offerings likely to aggregate nearly $1.6 billion this month, three times that of March and the largest monthly volume since October 1968.

Improved market conditions account for nearly all of the rise in bond offerings. With the decline in yield--and lifting of statutory ceiling rates in several states--postponements of issues dropped precipitously from the March level and are estimated at only about $100 million for the month.[1/] Furthermore, $250 million of issues postponed or canceled earlier in the year were successfully reoffered in the first half of April and several have been rescheduled for the latter part of the month. Finally, some issues have been added to the calendar with

1/ See Appendix A for a further discussion of municipal bond postponements.

only two or three days notice, indicative of borrowers on the sideline waiting for an improvement in the market to float their bonds; many of these had not even previously advertised since rate ceilings would not have permitted their sale at the market yields prevailing earlier.

STATE AND LOCAL GOVERNMENT BOND OFFERINGS AND POSTPONEMENTS
(Millions of dollars) 1/

			Postponements
	1967	1968	1968
Year - monthly average	1,230	1,381	86
	1968	1969	1969
QI - monthly average	1,246	913	280
January	1,178	1,239	181
February	1,155	975	275
March	1,404	525	385
April	1,318	1,575e	100e
May	1,143	900e	--

e/ Estimated.
1/ Data are for principal amounts of new issues.

The volume of tax-exempt offerings estimated for May--at $900 million--is substantially below April. However, this estimate is highly tentative and assumes continued constraint on bank purchases and some rise in yields which will produce an increase in the pace of postponements and make dealers reluctant to acquire much larger inventories. But a continuation of the trend toward raising statutory ceiling rates should act to somewhat dampen the impact of an increase in market rates.

The return of previously postponed issues has also been evident in the corporate bond market. A $75 million utility offering indefinitely postponed in March was offered in April, and a $100 million finance company issue similarly postponed is now scheduled to be offered this week, both with a maturity of only five years. The success of the first issue--reportedly purchased primarily by individuals, mutual funds, and mutual savings banks--has generated interest in intermediate term maturities and, in addition to the finance offering noted above, other such issues are now planned. Public bond offerings for April, including issues previously postponed, are now estimated at $1.2 billion, fifty per cent larger than in March. As in the first quarter, only a small proportion of the total is made up of large non-convertible industrial offerings. Total bond and stock offerings in April are likely to aggregate about $2.3 billion, above the average pace during the first quarter.

CORPORATE SECURITY OFFERINGS 1/
(Millions of dollars)

	Bonds				Stocks		Total bonds and stocks	
	Public Offerings 2/		Private Placements					
	1967	1968	1967	1968	1967	1968	1967	1968
Year - monthly average	1,249	894	580	554	237	382	2,066	1,830
	1968	1969	1968	1969	1968	1969	1968	1969
QI - monthly average	821	876e	574	541e	333e	600e	1,726	2,016e
January	903	980	546	591	332	453	1,771	2,024
February	796	842	585	382	226	796	1,607	2,020
March	766	805e	593	650e	441	550e	1,799	2,005e
April	719	1,200e	438	550e	271	550e	1,428	2,300e
May	1,046	1,000e	521	550e	300	550e	1,867	2,050e

e/ Estimated.
1/ Data are gross proceeds.
2/ Includes refundings.

With business financing needs likely to remain high, corporate security issues in May will probably remain large, although somewhat below the advanced April volume. Public bond issues now scheduled amount to $600 million and will likely build up to $1 billion. While most of the issues on the calendar are utilities, a significant volume of convertible bonds by small to medium size firms has been added recently. Stock offerings are expected to remain substantial, as new issues filed with the SEC continue large, with a substantial backlog awaiting SEC clearance.

Stock market. Stock prices since late March have generally fluctuated in very narrow band, but have been particularly sensitive to announced changes in public policies. The market declined sharply in the first trading days after the increase in the discount rate and reserve requirements in early April, and again early this week after the details were announced of the Administration's fiscal program. After each of these declines, however, prices recovered rapidly. Over a broader time horizon, stock prices are still 7 to 10 per cent below their December highs and 4 to 9 per cent below their February peaks. High quality stocks have shown the smallest decline, but their prices had risen less than those of low quality stocks during 1968.

STOCK PRICE INDICES

	Dow-Jones Industrials	New York Stock Exchange Index	American Stock Exchange Index
1968			
December high	985.21 (12/3)	61.14 (12/2)	33.25 (12/20)
1969			
High	952.70 (2/13)	58.70 (2/17)	32.69 (2/4)
Low	903.03 (2/27)	54.93 (3/14)	29.48 (3/14)
March 25	917.08	55.84	30.11
April 22	918.59	56.25	29.80
Per cent change:			
December high to April 22	-6.8	-8.0	-10.4
February high to April 22	-3.6	-4.2	- 8.8
March 25 to April 22	+1.6	+0.7	- 1.0

Trading volume declined significantly further in March. As a result, member firms of the New York Stock Exchange--despite some technical difficulties associated with the computerized Central Certificate Service--were again able to reduce the volume of stocks remaining undelivered after the normal settlement date; these "fails" were the lowest in the one-year history of the series. Some modest pick up in volume in the most recent weeks, however, may tend to limit further reductions in "fails" in April.

With lower trading volume apparently tending to reduce the profits of some brokers, there was an attempt to increase the trading day next month from the reduced four hours to a still less than normal four and one half hours. However, with some pressure from the SEC, and with continued difficulties with the Central Certificate Service, an industry committee has recommended the continuance of the four hours trading day for the "immediate future."

AVERAGE WEEKLY TRADING VOLUME

	New York Stock Exchange (Millions of shares)	American Stock Exchange (Millions of shares)	Memo: Fails to deliver by members of the New York Stock Exchange (billions of dollars)
1968			
November	58.7	26.4	$3.3
December	60.6	32.7	4.1
1969			
January	58.4	32.8	3.3
February	52.6	26.1	3.0
March	49.8	22.0	2.5
Week ending:			
March 28	53.3	25.0	
April 4 1/	32.8 1/	12.9 1/	--
11	54.2	25.2	--
18	48.5	23.2	

1/ Four day trading week due to Good Friday.

Margin customers have apparently continued to liquidate stocks. Very preliminary indications suggest that margin debt extended by broker/dealers on the New York Stock Exchange declined again in March, this time by $80 million, and margin credit extended by large banks also declined by about $40 million. Even though security credit extended by banks to other than brokers and dealers, a statistic that includes more than just stock market credit, has generally increased in the last 9 months, total stock market credit (from brokers and banks) is estimated to have declined by 7 per cent since mid-1968; in the same period margin credit extended by brokers has dropped 15 per cent.

Policy loans at life insurance companies. In line with usual seasonal patterns, policy loan activity at life companies increased during March. The amount involved (not seasonally adjusted) was large; only in August, September and October 1966 did the increases exceed the current pace. A further increase in April would be seasonally typical.

NET CHANGE IN POLICY LOANS
15 LIFE INSURANCE COMPANIES 1/
($ millions)

	January	February	March
1965	20	25	35
1966	36	33	57
1967	70	56	64
1968	57	57	67
1969	81	82	106

1/ These companies account for nearly two-thirds of industry policy loans.

The volume of policy loan activity during the first quarter (approximately $260 million) had been fully anticipated by the industry; as far back as the third quarter of 1968, life companies' cash flow projections for the first quarter allowed for policy loan drains of this magnitude. The accuracy of these projections, coupled with the general caution employed in scheduling commitment disbursements relative to expected loanable funds, suggests that these loans have not disrupted planned investment activity.

Reports indicate that policy loans this year, unlike 1966, consist primarily of small loans taken out by individuals. Many companies that had been relatively unaffected during 1966--companies with a concentration of small, individual policies--now are reporting considerable increases in policy loans.

U.S. Government securities market. After an initial increase of only 8 basis points immediately following the System's April 3 announcement of increases in the Discount Rate and reserve requirements, yields on Treasury bills due within six months moved irregularly higher and are now roughly 10 to 40 basis points above their April 1 levels. Yields on the longest bill maturities, however, as well as on intermediate and long-term coupon issues declined on balance following the System's action, reflecting expectations of an easing in inflationary pressures and of some progress towards peace in Vietnam. The Administration's most recent fiscal request, for repeal of the investment tax credit, has been generally interpreted as further confirmation that anti-inflation policy will become increasingly effective.

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

	1969		1969		
	Lows	Highs	April 1	April 15	April 22
Bills					
1-month	5.30 (3/25)	6.52 (4/20)	6.00	6.42	6.38
3-month	5.91 (3/24)	6.25 (1/7)	5.99	6.23	6.17
6-month	6.04 (3/25)	6.42 (1/7)	6.06	6.22	6.15
1-year	5.86 (1/16)	6.39 (2/27)	6.14	6.05	6.00
Coupons					
3-year	6.02 (1/20)	6.51 (3/3)	6.22	6.24	6.21
5-year	6.11 (1/20)	6.45 (3/11)	6.35	6.26	6.27
10-year	5.95 (1/20)	6.35 (3/18)	6.24	6.11	6.10
20-year	5.92 (1/2)	6.32 (3/18)	6.16	5.97	5.92

N.B. - Latest dates of high or low rates in parentheses.

Following the end of the quarter, the market supply of short-term bills expanded somewhat, and dealer positions in such issues rose accordingly (see table on Dealer Positions, below). Banks sold off a sizable portion of their awards of "strip" bills which had been held over the quarter-end for balance sheet and Cook County tax-date positioning, and corporations and other liquidated bills in order to meet mid-month tax liabilities. In addition, a fair amount of foreign account selling of bills in connection with reversal of quarterly window-dressing flows augmented supplies; and tightness in the money market sharply increased the penalty cost of carrying dealer positions.

On the other side of the market, seasonal demands for bills from public funds, as well as demands from corporations experiencing unexpected cash flows, did allow dealers to move a considerable volume of bills, so that yield increases remained quite moderate. After the mid-month tax date, bill rates moved down from their highs as funds released through the pay-off of maturing tax bills began to be reinvested and market participants looked ahead to potential demands for bills on swaps out of "rights" to the Treasury's May refunding.

Anticipation of the Treasury refinancing is also reflected in the dealer position data on coupon issues. Holdings of issues due within one year have expanded significantly, presumably reflecting acquisitions of "rights"; whereas short-positions in intermediate-term issues most likely to be affected by any debt lengthening in the financing, have deepened.

DEALER POSITIONS IN GOVERNMENT SECURITIES
(Millions of dollars)

	April 1	April 15	April 21
Total	2,150	3,826	2,824
Treasury bills (total)	1,717	3,286	2,295
Due in 92 days or less	801	1,425	760
93 days and over	916	1,861	1,535
Treasury notes and bonds (total)	434	540	529
Due within 1 year	284	420	425
1-5 years	-43	-62	-43
over 5 years	192	181	148

While some finance companies have posted increases in rates in order to recoup seasonal tax-date reductions of sales finance paper, the majority have left rates at the levels prevailing earlier in the month. Other short-term rates, however, have responded to higher bill yields and, with few exceptions, have moved up from April 1 levels.

SHORT-TERM INTEREST RATES

	1969[1/] Lows	1969[1/] Highs	1969 April 1	1969 April 15	1969 April 21
1-month					
CD's (prime NYC)					
Highest quoted new issue	5.50	5.50 (4/16)	5.50	5.50	5.50
Secondary market	6.45 (3/14)	6.70 (4/18)	6.60 (4/2)	6.70 (4/16)	6.70 (4/16)
3-month					
Bankers' acceptances	6.38 (2/17)	7.00 (4/18)	6.63	6.75	7.00
Federal agencies	6.13 (4/4)	6.59 (4/18)	6.08	6.13	6.59
Finance paper	6.13 (1/24)	6.50 (4/18)	6.50	6.50	6.50
CD's (prime NYC)					
Highest quoted new issue	6.00	6.00 (4/18)	6.00	6.00	6.00
Secondary market	6.40 (1/30)	6.75 (4/16)	6.75 (4/2)	6.85 (4/16)	6.85 (4/16)
6-month					
Bankers' acceptances	6.50 (2/17)	7.12 (4/18)	6.76	6.87	7.12
Commercial paper	6.25 (1/6)	7.13 (4/18)	6.88	7.00 (4/13)	7.13
Federal agencies	6.32 (1/17)	6.64 (2/28)	6.41	6.44	6.58
CD's (prime NYC)					
Highest quoted new issue	6.25	6.25 (4/16)	6.25	6.25	6.25
Secondary market	6.50 (1/30)	6.85 (4/16)	6.80 (4/2)	6.85 (4/16)	6.85 (4/16)
1-year					
Prime municipals	3.90 (1/2)	4.55 (3/21)	4.50 (3/26)	4.15 (4/16)	4.15 (4/16)

1/ Latest dates on which rates occurred are indicated in parentheses.

Federal finance. The Administration's recent budget review has raised the estimate of Federal cash outlays in fiscal 1969 to $184.9 billion, $1.2 billion more than was indicated in the January Budget Document. While no official revision has yet been made in the estimate of Federal receipts for fiscal 1969, the Board staff is projecting them at $187.3 billion, $1.2 billion higher than estimated in the January document. This estimate assumes that neither the surtax extension nor the new Administration tax reform proposals will be enacted soon enough to affect receipts in the current fiscal year. When the staff projection is combined with the Administration's new expenditure total, it provides a fiscal year surplus of $2.4 billion, the same as in the January document.

UNIFIED BUDGET TOTALS
Fiscal year 1969

	Johnson budget	Nixon budget	F.R. estimate
Outlays	183.7	184.9	(184.9) 2/
Receipts	186.1	(186.1) 1/	187.3
Surplus	2.4	1.2	2.4

1/ Assumes Johnson budget figure.
2/ Assumes Nixon budget figure.

The Administration's upward adjustment of outlays reflects larger CCC price support payments, higher interest costs, lower royalties from offshore oil drilling, and the effect of prior commitments on highway outlays. While these spending adjustments agree substantially with staff expectations, any further deviations from estimates are also likely to be upward. For example, to meet present budget estimates the Farmers' Home Administration must still make net sales to the public of another $500 million of its loans by the end of June. Credit market conditions and the small size of individual loans are likely to make this goal very difficult to achieve.

The higher staff estimate of fiscal 1969 receipts reflects larger corporate profits and a generally stronger economy than was anticipated by the Johnson budget team. But the accuracy of the staff forecast will be strongly affected by the results of the April tax inflow. Thus far in April the inflow has fallen a little short of projections. Since the largest receipts of the year occur in the current two-week period, and receipts in June will also be very large, the fiscal year estimate must still be considered as quite tentative.

Looking ahead to fiscal 1970, the Administration's recent review raised the January budget estimate of outlays by $1.6 billion to allow for unforeseen contingencies. From this higher figure, it then cut $4.0 billion to reflect planned program changes, reducing total anticipated outlays to $192.9 billion as shown in the table.

REVISED ESTIMATES OF UNIFIED BUDGET OUTLAYS, FISCAL 1970
(In billions of dollars)

January budget outlays		$195.3
Corrections		+1.6
Interest payments	.5	
Offshore oil royalties (decrease)	.4	
CCC certificates	.5	
Other net	.2	
		196.9
Program revisions		-4.0
Defense	-1.1	
Social security	-1.0	
Other	-1.9	
Revised budget outlays		192.9

Lacking a new projection of receipts, the Administration review combines the estimate from the January budget with its new expenditure projection and comes up with an anticipated fiscal 1970 surplus of $5.8 billion. While no revised Board staff estimate is yet available for the full fiscal year either, for the calendar year (1969) the staff is now projecting a unified budget surplus of $5.2 billion. This estimate assumes extension of the surtax and repeal of the investment tax credit as requested. For the balance of calendar 1969, however, the tax credit repeal may add only a few hundred million dollars to Treasury cash receipts, since corporations have a large backlog of accumulated tax credits that can be carried over and used in the period after repeal. Moreover, the preponderance of equipment orders made after repeal will probably not be completed, with equipment in operation, until at least 1970. Hence much of the equipment put in place during calendar 1969 will still be eligible for tax credits.[1/] On a national income accounts basis, the staff projection shows the Federal sector surplus dropping from $8.4 billion in the second quarter, to $4.1 billion in the third quarter, and then rising to $5.8 billion in the fourth.

The unusually large upsurge of tax receipts anticipated during the remaining weeks of the current fiscal year will permit the Treasury to redeem the $8.8 billion of maturing tax anticipation bills

1/ A more complete review of the Administration's latest tax proposals will be carried in the Greenbook Supplement.

that fall due in April and June, and still maintain a large average cash balance over the period. To reduce the size of this balance somewhat, the Treasury has announced that it will redeem, rather than rollover, the $200 million added to the monthly April bill maturity by the late February bill-strip financing. No announcement has been made whether similar redemptions will be made when the other four monthly bills involved in the February strip financing reach maturity. Nor is it clear whether the Treasury plans to redeem any of the $300 million increments added (by the late March bill-strip financing) to each of the six weekly bills maturing between May 8 and June 12.

On April 30 the Treasury is expected to announce plans for refinancing $4.3 billion of notes that mature May 15, $3.8 billion of which are held by the public. It may also indicate at that time what its plans are for refinancing $2.5 billion of bonds that mature June 15, $2.1 billion of which are held by the public. If the Treasury should elect to refinance these two issues with a single "rights" exchange, as it did when similar issues fell due last November and December, cash redemptions in the operation might amount to about $1.5 billion. If the Treasury then elected to redeem only the strip additions to monthly bills--total debt repayment in the second quarter would amount to $11 billion and, according to the staff estimate, would still leave a cash balance of about $7.8 billion at the end of the fiscal year.

This sizable end-of-June balance would permit the Treasury to defer cash financing in the new fiscal year until late July. For the full July-December period, the staff projects an essentially seasonal deficit of $7.5 billion (unified budget), substantially below the previous two years.

UNIFIED BUDGET DEFICIT
July-December Period
(Billions of dollars)

Year	Deficit
1967	19.4
1968	10.3
1969	7.5

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	March[a/]	April	May	June
<u>Borrowing operations</u>				
New cash raised				
Weekly and monthly bills	2.8	--	--	--
Tax bills	--	--	--	--
Coupon issues	--	--	--	--
Other (agency, debt repayment, etc.)	-2.1	-2.3	- .4	-8.2
Total net borrowing from public	.7	-2.3	- .4	-8.2
Plus: Other net financial sources[b/]	.6	- .4	- .4	.5
Plus: <u>Budget surplus or deficit</u> (-)	-1.4	6.5	-1.4	9.1
Equals: <u>Change in cash balance</u>	- .1	3.8	-2.2	1.4
Memorandum: Level of cash balance end of period	4.8	8.6	6.4	7.8

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

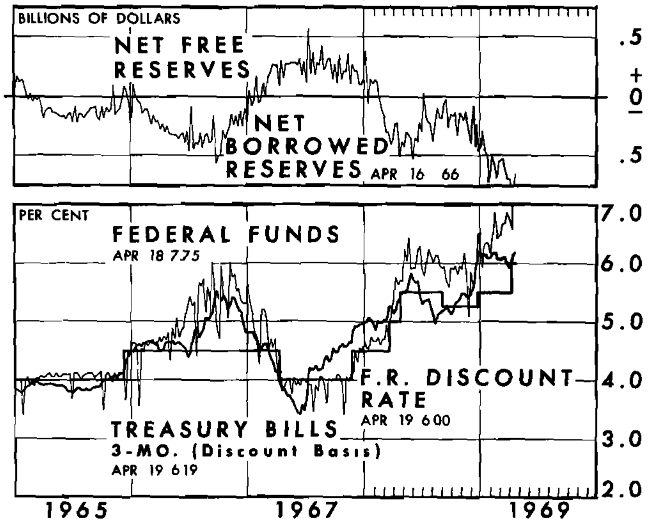
NEW BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS
(In billions of dollars)

	FY 1968 Actual	Fiscal 1969 Jan. Budget	Fiscal 1969 4-15-69 Revision	Fiscal 1969 F.R. Bd	Calendar quarter 1968 III	Calendar quarter 1968 IV	Calendar quarter 1969e/ I	Calendar quarter 1969e/ II	Calendar quarter 1969e/ III	Calendar quarter 1969e/ IV	Calendar year 1969
Quarterly data, unadjusted											
New budget:											
Surplus/deficit	-25.2	2.4	1.2	2.4	-3.2	-7.1	-1.5	14.2	-3.2	-4.3	5.2
Receipts	153.7	186.1	186.1	187.3	43.6	39.3	44.1	60.3	47.8	43.0	195.2
Total expenditures and net lending	178.9	183.7	184.9	184.9	46.9	46.3	45.6	46.1	51.0	47.3	190.0
Means of financing:											
Total borrowing from the public	23.1	-3.1	n.a.	.6	7.7	3.4	.4	-10.9	n.e.		
Decrease in cash operating balance	.4	n.a.		-2.5	-3.3	3.9	-.1	-2.9			
Other 1/	1.7			-.5	-1.1	-.2	1.1	-.3			
Cash operating balance, end of period	5.3			7.8	8.6	4.7	4.8	7.8			
Seasonally adjusted annual rate											
Federal surplus/deficit in national income accounts	-11.3	2.7	1.7	3.4	-2.8	.2	7.6	8.4	4.1	5.8	6.5
Receipts 2/	161.1	190.0	190.0	191.7	182.1	187.1	197.1	200.5	199.7	201.4	199.7
Expenditures	172.4	187.3	188.3	188.4	184.9	186.9	189.5	192.1	195.6	195.6	193.2

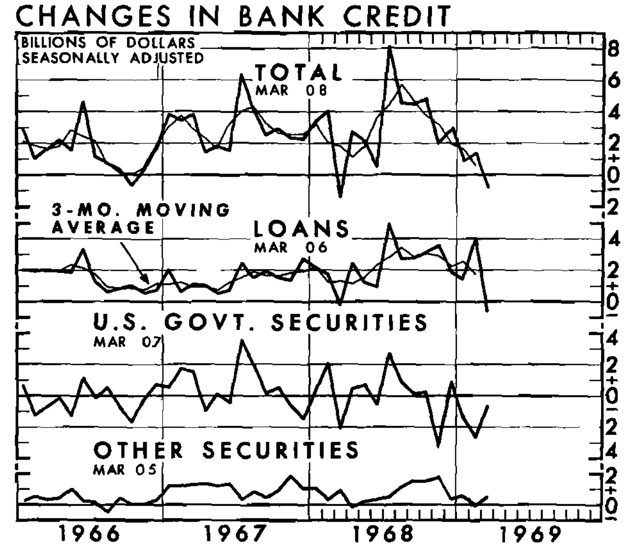
e--Projected.
p--Preliminary.
1/ Includes various accrual items, such as deposit fund accounts and clearing accounts.
2/ Corporate tax accruals in 1969 assume extension of surtax through calendar 1969.

FINANCIAL DEVELOPMENTS - UNITED STATES

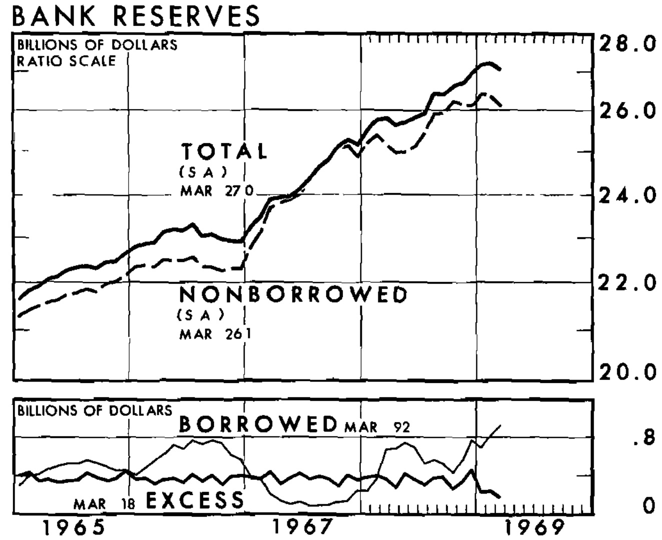
FREE RESERVES AND COSTS



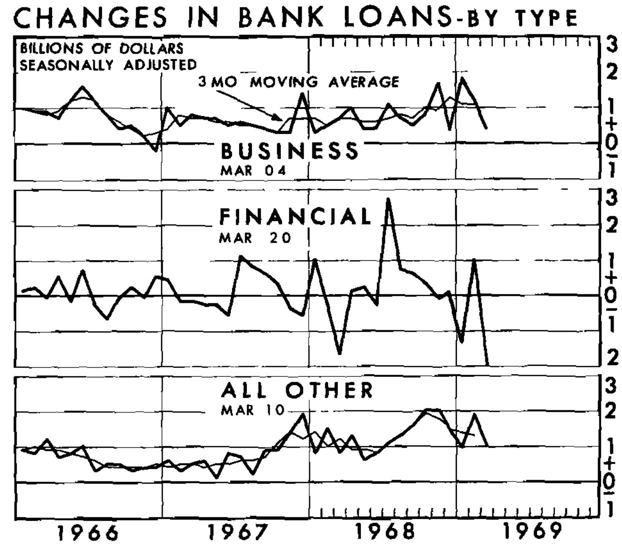
CHANGES IN BANK CREDIT



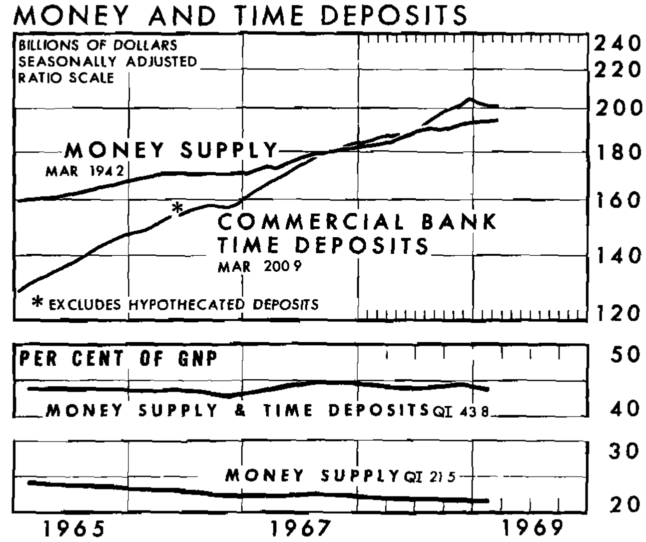
BANK RESERVES



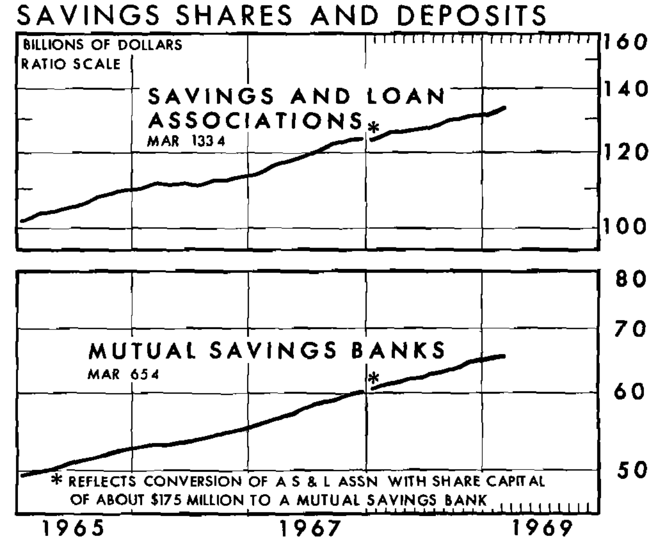
CHANGES IN BANK LOANS-BY TYPE



MONEY AND TIME DEPOSITS

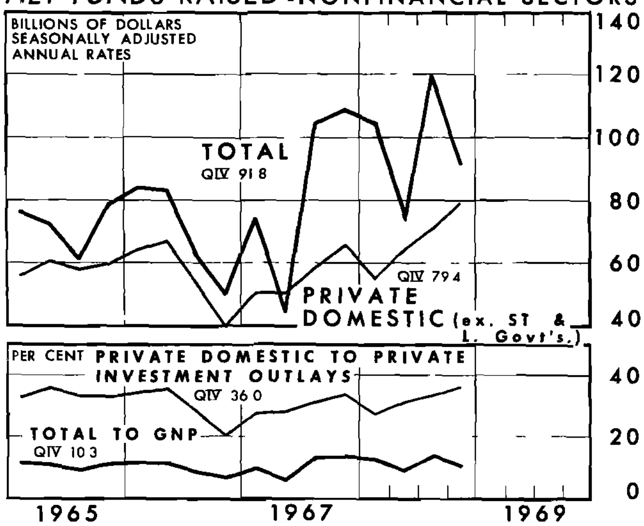


SAVINGS SHARES AND DEPOSITS

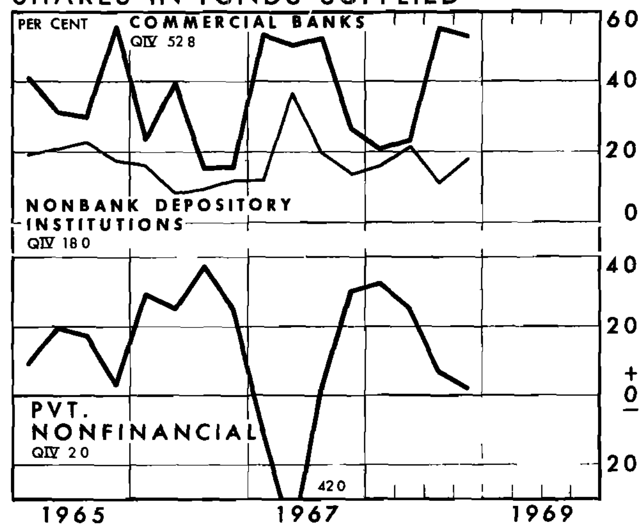


FINANCIAL DEVELOPMENTS - UNITED STATES

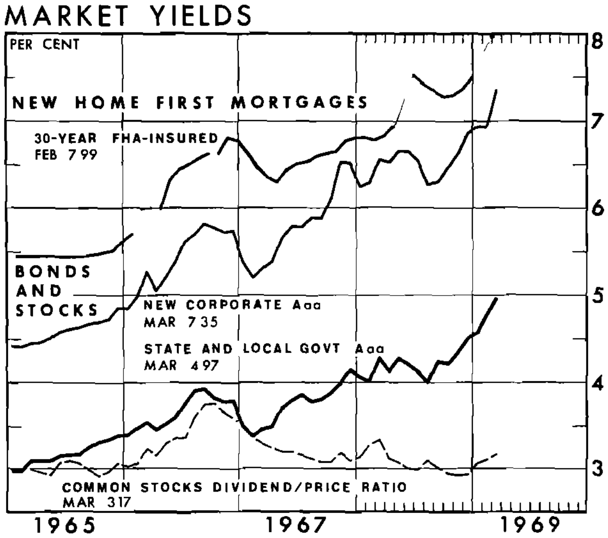
NET FUNDS RAISED-NONFINANCIAL SECTORS



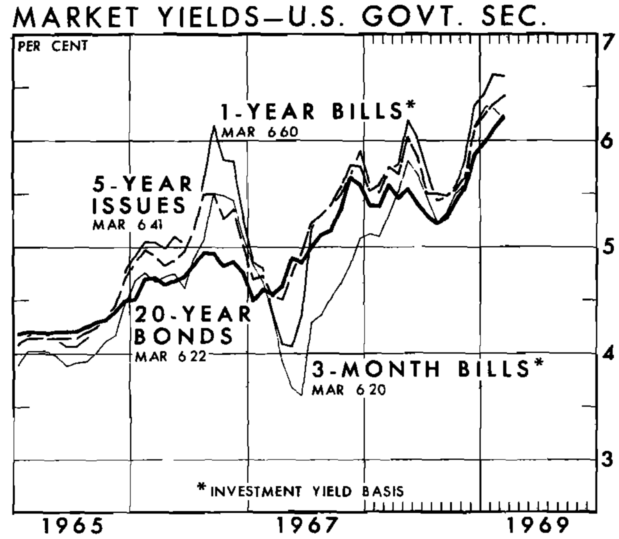
SHARES IN FUNDS SUPPLIED



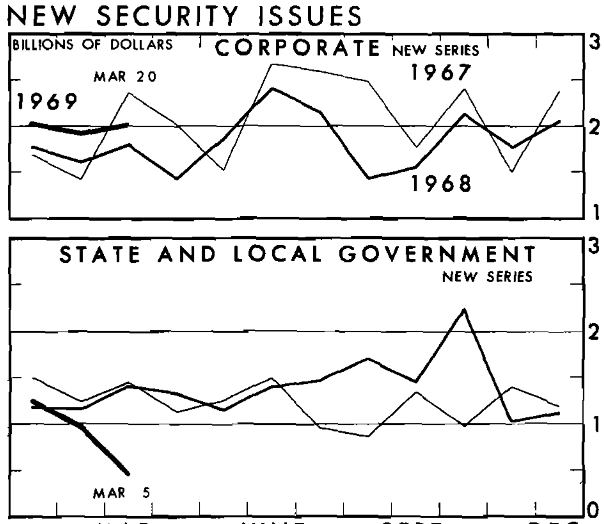
MARKET YIELDS



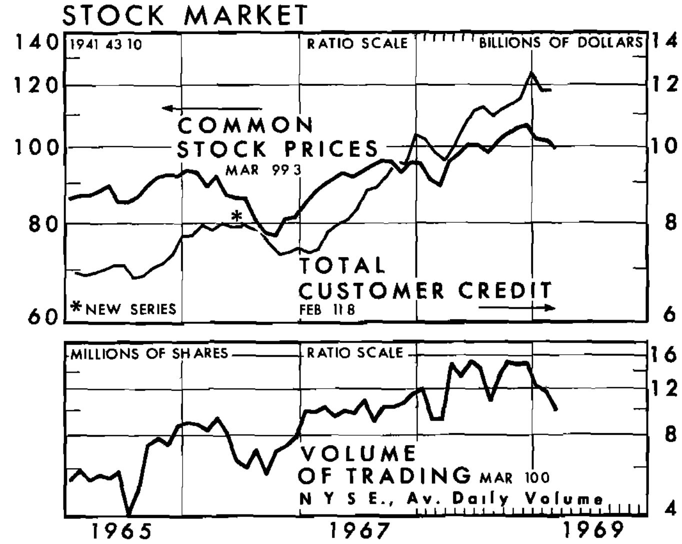
MARKET YIELDS—U.S. GOVT. SEC.



NEW SECURITY ISSUES



STOCK MARKET



INTERNATIONAL DEVELOPMENTS

Contents | Page

U.S. balance of payments. The over-all balance measured on the liquidity basis has continued in heavy deficit. For the first quarter, the deficit totalled $1.3 billion before seasonal adjustment, and about $1-3/4 billion seasonally adjusted. For April, through the 16th, there was a further large deficit of roughly $1/2 billion.

The merchandise trade balance registered a large deficit in the first quarter, but should swing into a substantial surplus in the second quarter as the backlog of exports is worked off. However, the effect on the over-all deficit of this shift will depend on relative lags in payments for imports and receipts for exports. There are some grounds for thinking that the lags tend to be greater for exports. Thus export receipts may continue for a time to be adversely affected by the very low level of shipments in January and February while import payments may be at a peak in April and May.

Among the various kinds of capital movements, some showed sizable inflows in the first quarter but on a diminishing scale. The inflow of foreign capital to purchase equity securities in the U.S. market apparently continued into March, but the very partial reports available suggest that the rate of inflow was reduced from the very high $300 million a month average of January-February. For the first quarter as a whole the inflow may have matched the fourth-quarter record of three-quarters of a billion dollars. Bank-reported claims on foreigners appear to have increased by roughly $75 million in March--based on very incomplete reporting. There was an outflow of similar size in February, after an inflow of $400 million in January. For the quarter as a whole, with a small allowance for seasonality, it appears that there was a net inflow on the order of $200 million.

U.S. corporations probably raised their first-quarter outflows for direct investment substantially above the $700 million quarterly average of last year. Sizable outflows to replenish the working capital of foreign affiliates were probably necessary after the large withdrawals at the end of last year. In addition, there were some acquisitions of foreign firms--though perhaps not an unusual amount--and somewhat higher payments of taxes and royalties by petroleum companies for account of their foreign affiliates. Such payments are also scheduled to continue relatively large in the second quarter.

U.S. corporations apparently increased their short-term assets abroad by about $150 million in January and February. But as this was nearly equal to the proceeds of net offshore sales of securities, there does not seem to have been a large outflow of U.S. funds directly to the Euro-dollar market by these corporations.

Borrowing abroad by U.S. corporations slowed down considerably after February, and the first-quarter total of new issues by U.S.-based financial subsidiaries is estimated at $250 million, about half the quarterly rate in 1968. Meanwhile, sales by foreign-incorporated financing affiliates were higher than they had been in 1968; they totalled about $200 million in the first quarter, though they were apparently negligible after February.

New issues of foreign bonds in the U.S. market were over $1/2 billion in the first quarter, above last year's quarterly average and probably above the average to be expected this year. The issues included about $350 million for Canada and $115 million for the World Bank. The IBRD invested most of the proceeds from these issues, as well as about $90 million derived from the sale of a new issue abroad, in nonliquid issues of U.S. Government Agencies.

To sum up, the first-quarter deficit was enlarged by the strike-induced trade deficit (though "leads and lags" may postpone some of the adverse effects to the second quarter), and probably also by corporate capital outflows and purchases of new foreign bonds. On the other hand, the very sizable foreign purchases of U.S. equity securities and the net reduction in banking claims on foreigners served to keep the deficit from being even larger than it was.

The balance as measured by official reserve transactions was a surplus of $1.4 billion (not seasonally adjusted) in January-February. In March the surplus on this basis was probably under $300 million. Adjusted for seasonality, the surplus for the quarter may have reached about $1 billion. The major factor producing this surplus was, of course, the huge increase in U.S. liabilities to commercial banks abroad. Including an estimate for March, this increase may have exceeded $3 billion for the quarter--nearly as much as the $3.4 billion for all of 1968. Liabilities to foreign branches accounted for most of these inflows; they increased by about $2.5 billion in the first quarter this year and $2.3 billion during 1968. The rise this year would have been even larger if not for the transfer of $250 million of domestic loans from head office to branch books--which has the effect of reducing head office liabilities to branches. (Total short-term liabilities to commercial banks abroad will not have been affected by this transfer, since the loans in question will now be reported as foreign banks' claims on U.S. borrowers "held in custody" at U.S. banks.)

One aspect of the financing of the over-all balance this year, and also in 1968, has been a reduction in U.S. liabilities to foreign monetary authorities. In the first half of last year they were reduced by $2.4 billion. They increased by $1.7 billion in the second half of 1968, and then in January-February this year were reduced by $1.6 billion. Much of this reduction has been focussed on the EEC countries, whose official reserve claims on the United States at the end of February were $2.9 billion smaller than at the beginning of 1968. Only a few countries have increased their official claims on the United States since the end of 1967--notably Canada and Japan.

Special transactions with foreign governments that affect the liquidity balance have been very much smaller than in 1968. In the first quarter of 1969 the only large receipt was the quarterly $125 million military offset from German; other transactions were negative on balance so that the total of these transactions with foreign governments for the quarter was a net receipt of only $24 million. The World Bank acquired over $200 million of nonliquid assets during the quarter.

A somewhat better perspective on recent over-all results in the balance of payments can be obtained by reviewing the trends in the liquidity balance before special transactions with foreign governments. On that basis (in terms of seasonally adjusted annual rates) the first half of 1968 registered a deficit of $4 billion; the second half of 1968 deficit rate was $1.3 billion; and the rate for the half year since the end of September 1968 was probably on the order of $3-1/2 billion.

Merchandise trade. The effects of the dock strike on our trade balance--adverse at first and subsequently favorable when exports catch up--may be greater and more extended than previously anticipated. In the first quarter (including an estimate for March), the trade deficit may have been $2-1/2 billion at an annual rate (balance of payments basis). The strike ended at most ports between February 15 and 28; West Gulf ports, however, did not reopen until the first part of April. The unusually long time required to clear import cargoes away from piers and port areas limited exports in February, March and early April, whereas imports by March may already have been above "normal".

The congestion in the New York customs area was so great that the railroads reimposed a "selective embargo" on shipments to that port on April 3. The greater weight of exports than of imports at the West Gulf ports--8 per cent versus 3 per cent respectively--contributed to the first-quarter trade deficit.

It is estimated that as a result of the dock strike the trade balance in the first quarter was about $3 billion (annual rate) less favorable than it would otherwise have been. In the second quarter the balance should be correspondingly better than "normal". In fact, because exports were already adversely affected in the latter part of December 1968, whereas December imports were swollen in anticipation of the strike, the catching-up process should push the trade balance considerably more than $3 billion (annual rate) above normal. These timing distortions are making it very difficult to assess the underlying trends of either exports or imports.

The Euro-dollar market. Euro-dollar interest rates have not changed much in the past four weeks. Three- and six-month deposits are now bid at about 8-3/8 per cent per annum, compared with an average level in late March of 8-1/2 per cent; one-year deposit rates have been virtually unchanged during the past four weeks at about 8-3/8 per cent. One-month rates dropped as low as 7-5/8 per cent in mid-April, but have averaged about 8-3/16 per cent over the past four weeks. Call deposit rates ranged between 7-7/16 and 8-1/16 per cent and are now near the high end of that range.

Liabilities of U.S. banks to their foreign branches declined very sharply in the last few days of March (falling by more than $1.0 billion between March 26 and 31) but have increased steadily during the past three weeks--more than offsetting the quarter-end decline. The total of such liabilities was $9.75 billion as of April 16, compared to $9.66 billion on March 26. During the last two weeks of March one bank sold off $256 million of domestic loan participations to a foreign branch; the total of such participations has not changed since that time.

The initial tendency for Euro-dollar rates to ease after quarter-end pressures passed has apparently been offset by a continuation of rather large takings of funds by American banks and some further tightening in European money markets. The Bundesbank's announcement of a full percentage point discount rate increase (to 4 per cent) on April 17 increased the probability that German banks will not significantly increase their net claims in the Euro-dollar market in coming months. The Bundesbank has done no new swap business with the market since mid-March and Bundesbank swaps outstanding have now run down to about $1/2 billion, compared to about $1.1 billion outstanding as of the end of March. During the second week of April the Netherlands Bank raised its discount rate by 1/2 per cent to 5-1/2 per cent, as did the Belgian National Bank. The Belgian authorities are requiring Belgian banks to adjust their net foreign position and return some funds on balance, though the amount of funds involved is relatively small.

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

Average for week ending	(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
Mar. 26	7.82	6.88	0.94	8.48	5.94	2.54
Apr. 2	7.88	6.66	1.22	8.49	5.99	2.50
9	7.94	7.04	0.90	8.44	6.13	2.31
16	7.69	7.63	0.06	8.38	6.19	2.19
23	7.94	7.45p	0.49	8.38		

p/ Preliminary

Foreign exchange market developments. During the first three weeks of April foreign exchange markets were relatively steady. Demand for sterling was firm and the Bank of England was able to purchase about $200 million in the market, while allowing the sterling rate to move to a recent peak of $2.3970. The Bundesbank sold about $430 million in the market, but in the same period maturing swaps amounted to $700 million. The French franc continued under persistent selling pressure and the Bank of France gave up about $340 million. The Swiss franc rate dropped sharply at the beginning of the month, reflecting the lifting of end-of-month liquidity pressures on Swiss commercial banks. On the other hand, the Italian lira began to show strength following announcement of regulations requiring Italian commercial banks to repatriate foreign currency assets, and by April 21 it had reached par.

On April 22 a generally speculative atmosphere returned to exchange markets. Growing concern that De Gaulle's referendum might be defeated in next Sunday's vote increased doubts about the viability of the present franc parity. Selling pressure increased against the French franc and soon spread to the pound. The Bank of England lost $55 million on April 22 and 23 and the Bank of France $40 million. Demand for the mark increased sharply as talk of a mark revaluation revived, and the Bundesbank purchased about $200 million in the market during the same period.

The price of gold in European markets moved in a range between $43.00 and $43.40 an ounce during the first three weeks of April, not much changed from March.

Economic activity in industrial countries. Economic activity expanded rapidly in most major industrial countries during the fourth quarter of 1968 and maintained a strong, if less dramatic, pace of expansion in the opening months of 1969. The unusually sharp advance of activity in OECD Europe in the fourth quarter--in the entire latter half of 1968, in fact--was influenced by effects of the May disturbances in France and by Germany's institution of border tax measures after the November currency crisis. These events had the effect of concentrating in the second half of last year industrial production that otherwise might have occurred earlier (in the second quarter of 1968) or later (in the first quarter of 1969). As a result, OECD Europe's industrial output rose at a seasonally adjusted annual rate of 14 per cent from the first half to the second half of 1968, in comparison with rates of 4 per cent in the preceding period and of 6 per cent between the two halves of 1967.

In the first few months of 1969 underlying demand trends have remained strong and are continuing to strengthen in most countries. A major exception is the United Kingdom, where there have been recent indications of a leveling off or decline in activity in response to earlier policy actions. In Japan, there was a pause near the end of 1968 in the previously very rapid advance in economic activity.

An important feature of the current demand situation in many of the major industrial countries is the increasing importance of internal demand relative to external demand as a leading expansionary force. This development can be observed in Germany, France, the Netherlands, Belgium, Canada, and less clearly in Sweden. In 1967 and early 1968, import demand in the United States and Britain, and later in Germany, had provided a major stimulus to economic activity in other industrial countries, at a time when their own internal demand was depressed or expanding only slowly. Foreign demand has continued to expand. By the beginning of this year, however, the stimulus originally provided by exports--in tandem with expansionary government policies in many cases--had worked its way through the economies to generate rapidly increasing private internal demand.

The United Kingdom, Italy and Japan have been exceptions to the general acceleration of private internal demand. Domestic demand in Italy remained relatively sluggish until late last year. The Italian authorities are continuing to take stimulative measures; to hold down Italian interest rates, they have taken action to restrict and reverse the outflow of funds to the Euro-dollar market. In Japan internal demand has recently showed some signs of advancing more slowly, after rising strongly for some time. The U.K. government has had some success in curbing domestic demand in an effort to promote exports, and policy continues to be directed at this objective. However, Britain's export performance in the first quarter was disappointing.

In a number of countries the rapid growth in output and the continuing strong flows of orders have led authorities to introduce restrictive measures to damp down reappearing inflationary pressures.

The German authorities announced some measures in March and April, the most recent of which was a full percentage point increase in the discount rate to 4 per cent effective April 18. Since the beginning of the year, discount rates have been raised also by the United Kingdom, Canada, the Netherlands, Belgium, Sweden and Denmark. For two of the smaller countries, Belgium and Denmark, recent discount actions were largely a reaction to rising interest levels abroad and were taken to protect official foreign exchange reserves. In the other instances this motive contributed to the discount rate actions, but a desire to curb demand pressure provided an equally important reason for the increase in most cases.

INDUSTRIAL PRODUCTION, s.a.
(1967 = 100)

	1968				1969
	I	II	III	IV	January-February
OECD Europe	104	103	108	113	n.a.
Germany	104	111	114	119	122
France	105	88	107	114	115
Italy	104	105	106	109	112 a/
Netherlands	106	109	112	116	116 a/
Belgium	104	105	107	109	n.a.
United Kingdom	104	104	105	107	106
Sweden	102	104	106	110	109 a/
Japan	109	115	120	125	125
Canada	102	105	106	108	109

a/ January only.
n.a. - Not available.

Business activity in Germany continued to advance at a strong pace in the first quarter of this year. Announcement of the border tax measures had caused a bulge in exports and a sharp burst of activity in November and December. A temporary slowdown had been expected to follow, but this has been milder than anticipated. Industrial production in January-February rose further by 3 per cent (at a quarterly rate) after advancing 4-1/2 per cent from the third to the fourth quarter. Capacity utilization in industry remained at the very high rate of 88 per cent in January, rather than seasonally retreating a few points between October and January, and currently appears to be only slightly below the high level reached at the peak of the 1963-1965 boom. The labor market has also tightened significantly. Registered job vacancies in March were as high as at the end of 1965 and three times as large as the number of unemployed. Domestic labor continues to be supplemented through the employment of foreigners. The number of foreign workers employed in Germany is expanding again and, at 1.1 million, is now at first-half-of-1965 levels, although not yet at the peak reached before the 1966 downturn.

Order inflows from both domestic and foreign sources are continuing to show substantial growth. New industrial orders rose at seasonally adjusted quarterly rates of 6 and 5-1/2 per cent in the last two quarters of 1968 and rose a further 7-1/2 per cent (at a quarterly rate) in January-February. Orders for capital goods have risen particularly vigorously; private fixed capital investment will provide a major stimulus to expansion this year. Consumer demand is expected to gain increasing strength over the course of the year.

Given the strong demand situation, the narrowing capacity margins, and recent wage settlements somewhat higher than authorities would like to see, the German authorities have recently taken a number of steps in the direction of demand restriction. Following modest government and central bank measures in March, which were reported in the previous Greenbook, the Bundesbank took further action on April 18 and raised its discount rate by a full percentage point to 4 per cent.

The Bundesbank stated that it did not believe that long-term capital exports would be impaired in any major way by this action, because the further upward movement of rates in most other major financial centers over the previous few weeks had widened the differentials between German and (higher) foreign interest rates.

In the United Kingdom policy remains restrictive and directed toward curbing personal consumption in order to encourage a transfer of resources into the export sector and into capital investment. On April 15, the Labour Government presented a restrictive budget for the fiscal year that began April 1. The budget surplus in fiscal 1970 is scheduled to be somewhat more than £800 million, by comparison with last year's surplus of £281 million. The surplus planned for 1970 is therefore £520 million greater than in 1969, an important change but not nearly as big as the swing of £1.6 billion (from large deficit to a surplus) achieved in 1969. Most of the increase in revenue is to come from higher taxes on business and from an increase in the selective employment tax.

Recent data provide some indication--far from clear-cut--that economic activity in Britain has leveled off in recent months and may even have declined. Seasonally adjusted industrial production, which was on an uptrend during 1968, fell sharply from December to January and remained lower in February. Seasonally adjusted unemployment was steady from December through March after falling during August-December. Retail sales (roughly half of total consumer expenditures) in January-February were substantially below the fourth-quarter average, but in December, consumers had rushed to buy goods in retail stocks which were not affected by the end-of-November increase in purchase taxes. The amount of installment credit extended, after rising from spring 1968 through October, dropped steadily from October through February.

Bank lending has been slow to respond to government policy. Therefore, in a major move to force the clearing banks to reduce loans to the private sector, as previously directed, to 98 per cent of the November 1967 level, the Bank of England raised its discount rate on February 27 to 8 per cent. The resulting automatic increase in bank lending rates should ease the credit rationing task of the clearing banks. Loans did fall a little from February to March after rising steadily from November.

According to official estimates, the outlook for the remainder of 1969 is for moderate real GNP growth at a rate of about 3 per cent. It is hoped that exports and capital spending by business will provide the principal expansionary forces.

The current business situation in France and the outlook for the remainder of the year continue to be heavily influenced by speculative unease regarding the present parity of the franc. (See page IV - 9.)

Following the recovery in the third quarter from the May-June strikes, economic activity in France expanded very sharply during the last quarter of 1968. Activity was stimulated by the strong growth of private domestic and foreign demand, a large budget deficit, and the psychological effect of the expansionary budget for 1969 announced in September (since then revised and made much less expansionary than originally planned). Industrial production rose 7 per cent from the third to the fourth quarter, and then advanced further by about 1 per cent (quarterly rate) in January-February.

Overall demand is high and is continuing to expand strongly, especially on the domestic side. Capacity limitations have begun to appear. Recent surveys indicate that industry has been operating near or at capacity in a few sectors during recent months. Further expansion of production is hampered also by shortages of skilled labor, although unemployment remains at a relatively high level.

In marked contrast to the first half of last year when exports provided the major growth stimulus, activity since last autumn has been led by consumer demand, strengthened by the large 1968 wage increases and rising employment and accentuated by a lack of confidence in the parity of the franc and in future price stability. The demand for consumer durables has risen well above normal and capacity limitations are being felt particularly in this sector. Partly for this reason, imports remain uncomfortably high.

Continuing official reserve losses, unavoidable in the face of the persistent current account deficit and the lack of confidence in the franc, may force the authorities to restrict domestic demand further. So far this year, however, wage and price increases--critical elements in the effort to maintain the exchange rate--have been no larger than expected. Special factors account for most of the price increase in January-February. The few wage increases negotiated this year have been within the 6 per cent limit considered tolerable. However, there is no certainty that similarly successful country-wide agreements will be achieved in the large number of contracts which must still be negotiated before the June deadline.

In contrast to the situation in most other industrial countries, the objective of authorities in Italy continues to be the encouragement of a more rapid growth of domestic demand. There is some evidence, although far from conclusive, that the pace of activity may have accelerated in the closing months of 1968. In September-October, the index of industrial production rose sharply to a level 6 per cent above the average of the first six months. Strikes and bad weather caused production to fall in November but by January it seems to have regained the October level. Further evidence of expanding demand is provided by imports, which have risen quite sharply since August. Labor market indicators lag considerably, but recent surveys indicate some acceleration in the rate of growth of employment in manufacturing and no further year-to-year increase in unemployment.

Exports have continued to be the most dynamic sector of the economy and their advance continued to be very rapid into January. However, domestic expenditures on equipment accelerated somewhat in the fourth quarter and construction activity rose sharply.

Conditions exist under which GNP growth could accelerate in future months. A large increase in pensions will boost consumer spending, and the construction outlook is buoyant. Investment expenditures in general will be helped by the monetary authorities' determination to prevent a rise in interest rates. To this end, Italian commercial banks have been requested to reduce and, by the end of June, to balance their net foreign asset positions.

Another measure which may make it easier for Italian companies to raise equity capital, was announced early in April: banks and other credit institutions are prohibited from underwriting or guaranteeing securities issued outside Italy, with a few exceptions. Presumably, this will reduce the flow of non-bank capital into Euro-bonds and may divert funds to the Italian stock market.

In the Netherlands, strongly rising internal demand and continuing high foreign demand have led to a rapid growth of output and to renewed tightness in the labor market. Industrial production accelerated from a seasonally-adjusted quarterly increase of about 3 per cent in the third quarter to over 3-1/2 per cent in the fourth quarter of 1968. Increasing pressure on resources has contributed, along with the introduction of the value-added tax system in January, to a sharp price rise. Consumer prices rose 5-1/2 per cent between mid-December and mid-March. Since December the authorities have announced a number of counter-inflationary measures including the reimposition of bank credit ceilings, a general price freeze and an increase in the central bank's discount rate (in two steps) to 5-1/2 per cent.

In Sweden, the quickening economic pace already discernible a few months ago has continued, stimulated by foreign demand and recently also by accelerating domestic demand. Domestic car sales have improved noticeably. Seasonally adjusted unemployment fell in the fourth quarter of 1968 and the beginning of 1969 after rising since mid-1966. Fixed capital investment (excluding housing) is expected to increase by about 5 per cent in 1969, following a prolonged period of relative stagnation.

The Swedish discount rate increase in February was motivated primarily by a desire to reduce losses in foreign exchange reserves. Since then measures have been taken with the aim of restraining the growth of domestic demand. These include the imposition of a 2 per cent cash reserve requirement for commercial banks, higher bank liquidity ratios, and tighter rules on commercial bank borrowing from the central bank.

The expansion of economic activity in Belgium continued in the fourth quarter of 1968, with indications that it became more broadly based. Export demand was very strong, and inventory accumulation provided another expansionary force. Expenditures for plant and equipment and for housing began to increase again late in the year, and consumer expenditures rose somewhat more rapidly than earlier.

The Belgian discount rate has been raised three times since December, by a total of 1-3/4 percentage points, to 5-1/2 per cent. Although the central bank has explained these actions as partly motivated by rising credit demands, the main objective was apparently to slow the outflow of funds to the Euro-dollar market from Belgium.

In Canada scattered data available for 1969 indicate that restrictive policies have had little effect on the pace of economic activity so far. Industrial production, after rising almost 3 per cent from the third to the fourth quarter, changed little in January-February. Manufactures' new orders in the four months ending in January were 2.6 per cent above those of the preceding four months. Housing starts (seasonally adjusted) were up 14 per cent from the fourth to the first quarter.

Current expectations are that Canadian GNP in 1969 will approach the 1968 rate of growth--8.5 per cent nominal, 4.7 per cent real--with little slowing before late in the year. The growth in GNP is expected to be fairly evenly balanced among expenditure categories, with fixed investment expenditures compensating for the expected slowing of export growth.

The Bank of Canada raised its discount rate from 6-1/2 to 7 per cent on March 3. On April 11 it announced an increase in banks' secondary reserve ratios from 7 to 8 per cent, effective June. This step is designed to reduce the ability of the banks to expand business loans by running off their liquid assets.

In Japan there was a pause at the year end in the growth of economic activity. After rising vigorously since the spring of 1968--to a level about 65 per cent higher than at the end of 1965--industrial production fell 1-1/2 per cent in December. In January-February there was a partial recovery. Renewed advances on the Tokyo stock market and increases in wholesale and retail prices suggest that demands in the Japanese economy are still strong.

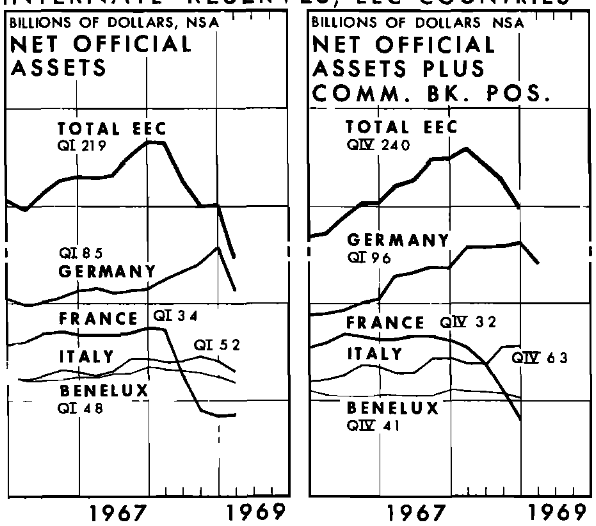
The recent pause was associated with a slowing of new orders for machinery, after very rapid earlier advances. Private consumer demand appears to continue strong. As a result of sharp increases in personal disposable income, consumption expenditures are expected (by a leading research center) to be about 15 per cent greater in the 1969-70 fiscal year (April to March) than in 1968-69. This would be about the same rate of rise as for the year just ended. Inventory investment is expected to continue substantial. Japan's over-all GNP is expected to increase about 12 per cent in real terms as compared to 15 per cent from 1967-68 to 1968-69.

Commercial bank lending rates tended to ease slightly through February. The authorities have announced that banks will be permitted to repay some of their short-term foreign debts in view of present interest rate relationships between the United States and Japan.

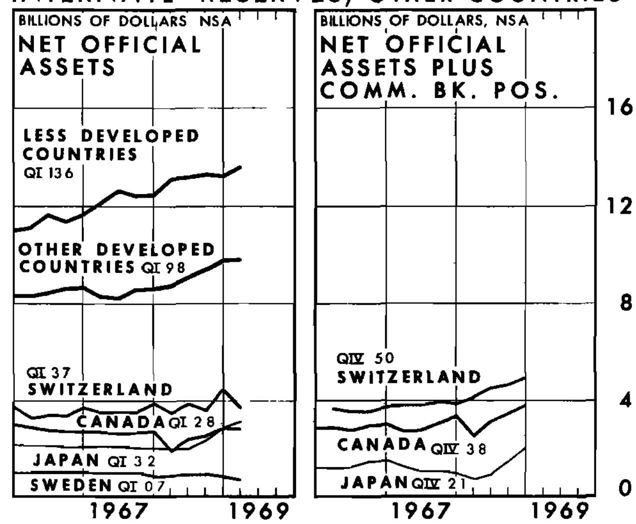
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

SEASONALLY ADJUSTED

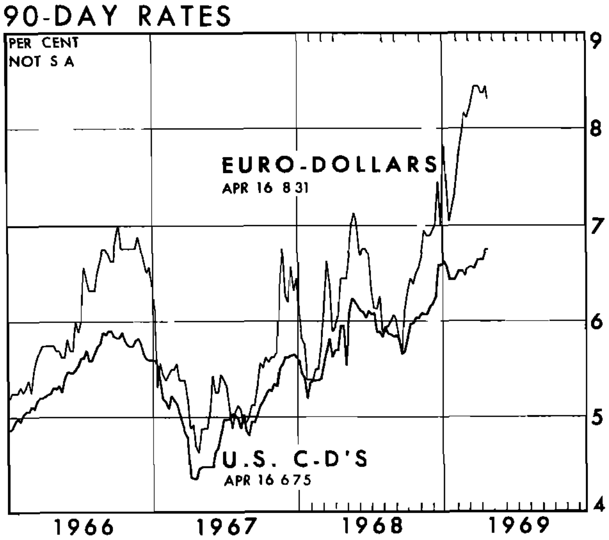
INTERNATL RESERVES, EEC COUNTRIES



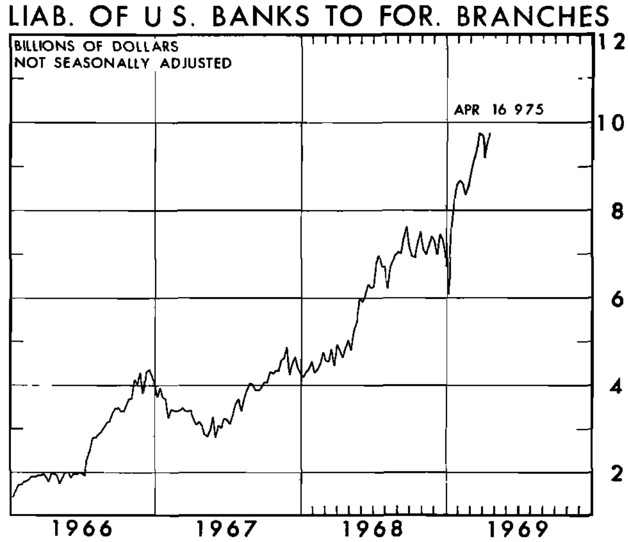
INTERNATL RESERVES, OTHER COUNTRIES



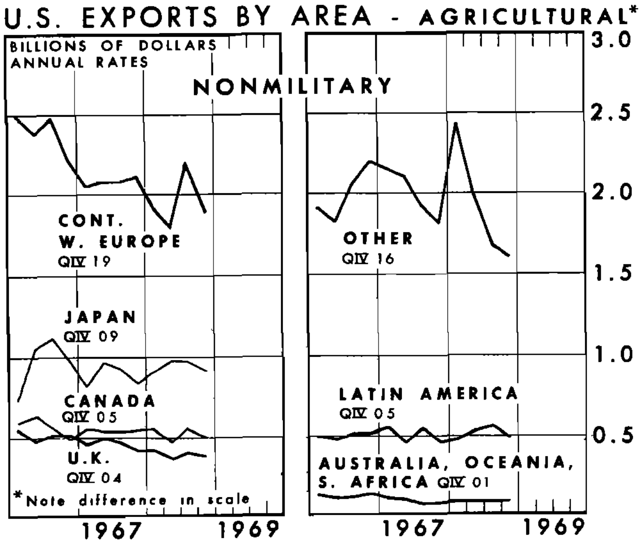
90-DAY RATES



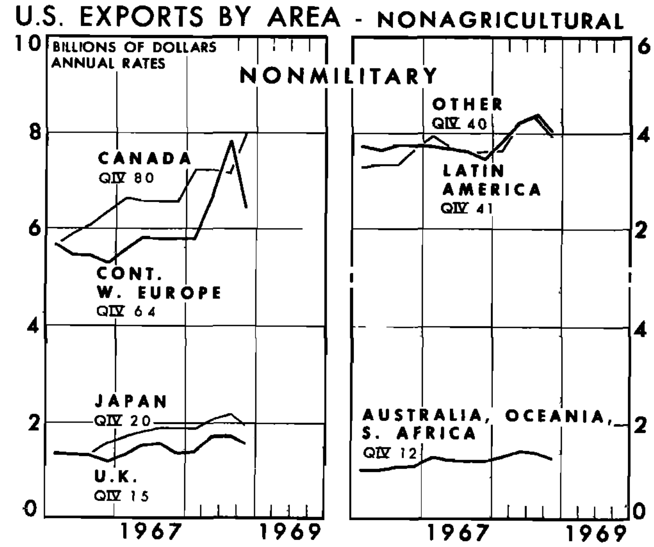
LIAB. OF U S. BANKS TO FOR. BRANCHES



U.S. EXPORTS BY AREA - AGRICULTURAL*



U.S. EXPORTS BY AREA - NONAGRICULTURAL



APPENDIX A: RECENT STATE AND LOCAL BOND POSTPONEMENTS AND EXPENDITURE IMPACTS *

Since December 1 of last year, postponements and abandonments of State and local long-term bond issues reported in the financial press have amounted to $1.1 billion. The first half of April brought a sharp reversal in both the level of new postponements and in new offerings as several governmental units reacted to improved market conditions and revised interest rate limitations. Nevertheless, if allowance is made for additional issues which did not reach the stage of advertising for bids, it is quite likely that the total amount of State and local borrowing postponed during this period approached $2.0 billion, the bulk of which has not yet been reoffered.

On the basis of numerous reports gathered from a recent telephone survey of State and local fiscal officers and advisors, the consequences of these financing difficulties for expenditures should be more severe than those found in the 1966 State and local borrowing survey. It is estimated that recent shortfalls in long-term borrowing eventually will generate $400 to $600 million in construction spending delays and cutbacks. At current levels, this implies that 2 to 4 per cent of scheduled State and local government construction expenditure is being canceled or at least retarded. The final dollar magnitude of projects affected--and the duration of these cutbacks and deferrals--depends principally on the future course of interest rates and on changes in legal interest rate ceilings.

By far the leading immediate cause of recent borrowing postponements has been the existence in most states of interest rate ceilings. While at the present time, several of these limitations are being raised or suspended, a search of recent bond advertisements indicated that 44 states had ceilings on the maximum allowable net interest cost generally ranging from 5 to 6 per cent. With the Bond Buyer Index hovering between 5.15 and 5.30 per cent for investment-grade, seasoned, 20-year general obligation bonds, it recently has been impossible for all except short-term, high-grade issues to go to market in those states with ceilings. A secondary cause of postponements--but one of declining importance given the inflationary expectations of many finance offices--is voluntary speculation on the part of prospective borrowers that long-term rates will decline.

Wherever possible, borrowers attempt to tailor their issues to meet the demand of the market; but for lower or nonrated communities with one-shot, long-term projects to fund, extensive size and maturity adjustments are not practical. Moreover, because of various limitations

---

* Prepared by John E. Petersen, Economist, Capital Markets Section.

on short-term borrowing in several states, many smaller borrowers have been effectively frozen out of the credit market altogether,

Total spending impacts of borrowing shortfalls are extremely difficult to gauge since they are seldom reported and lag well behind changes in borrowing plans and, hence, will depend ultimately in large part on future developments. All reports indicate, however, that spending effects will be more severe than those experienced in 1966 when each dollar of borrowing delay or cutback generated approximately 15 to 20 cents in expenditures temporarily or permanently curtailed. Although estimates vary greatly from region to region, the general impression is that for the smaller units construction project deferrals are running at roughly twice the rate they were in 1966 or roughly 50 cents on the dollar of long-term borrowing delayed or abandoned. But with many states in the process of revising both short- and long-term borrowing restrictions, both the volume of postponements and the induced expenditure effects should moderate, unless market conditions deteriorate sharply.

Large governmental units, while also bumping into interest rate ceilings, are generally more successful in buffering current expenditure plans from disruptions in long-term borrowing plans. So far most large units are succeeding either in getting interest rate limitations raised or removed, as in the case of certain State of California authorities and municipalities in New York, or in borrowing short-term, as in the case of the Illinois Building Authority. However, there is evidence that many units have been cutting back on planned expenditures more severely than they did in 1966, especially in the area of revenue-supported projects.

Overall, it appears that unless the market for long-term funds improves very radically in the near term and allows a extremely rapid makeup of postponed offerings, ultimate spending impacts should range from 20 to 30 per cent of the total borrowing short-fall which has occurred since last December. With an estimated $2.0 billion in such abandonments and delays over the past 4-1/2 months, this would amount to $400 to $600 million in spending reductions and postponements stretching throughout this year and into 1970. Continued stringency in the capital markets and additional postponements during the remainder of 1969, of course, would swell this figure to a larger total for the year as a whole.