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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

March 3, 1971

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SUMMARY AND OUTLOOK

Nonfinancial

We are now projecting an increase of close to $30 billion in current dollar GNP in the first quarter. This is larger than our previous projection, mainly because we have raised the levels of both inventory investment and nonresidential construction. Real GNP is now projected to rise at an annual rate of about 7 per cent, compared with a fourth quarter decline now reported at 3.9 per cent.

The major expansive thrust this quarter is coming from the recovery in auto production, but residential construction is also rising sharply, and stockpiling of steel is making an appreciable contribution. In other major demand sectors, the recent performance has generally been lackluster.

The index of industrial production is tentatively estimated to have changed little in February, with further increases in output of autos and steel about offsetting declines in business and defense equipment. Assuming only a small increase in March, the index would be up about 7 per cent (annual rate) from the fourth quarter of 1970 to the first quarter of 1971, but the level would still be below the third quarter of last year. Domestic auto sales continue to be disappointing, and production schedules have been cut back somewhat for both February and March.

New orders for manufacturers' durable goods rose moderately further in January but, as in December, the increase was concentrated in

autos and steel. Orders for capital equipment remained at the fourth quarter level, which was up moderately from the third quarter. On the basis of the weekly data, retail sales in February apparently were up somewhat. Apart from the automotive group the January-February level of sales was little changed from the fourth quarter average.

The sharp rise in the wholesale price index in February was attributable to severe weather which curtailed livestock shipments, and was not typical of the underlying situation. Industrial prices showed a quite small increase after seasonal adjustment, but revisions in the preliminary estimates have been frequent in recent years and have generally been up. The January advance in the consumer price index was relatively moderate, following a sharp December increase.

In the second quarter, following the first quarter bulge, we are projecting expansion in current dollar GNP to fall back to $19 billion and in real GNP to an annual rate of about 3.5 per cent. An exceptionally large increase, however, is in prospect for disposable income as a result of a sizable increase in social security benefits assumed to be retroactive to the beginning of the year and to be paid out late in the quarter. This development should help to sustain consumer spending, which is projected to increase at an annual rate of 8 per cent in current dollars even though auto purchases provide little further impetus. But the bulge in social security benefits will contribute to an expected sharp, temporary increase in the saving rate. In other key sectors, residential construction activity is likely to

rise further in the spring, but business fixed investment probably will change little following the first quarter catchup in car, truck and bus deliveries. The higher rate of inventory accumulation in part reflects a stepped-up pace of steel buildup; on the other hand, auto stocks are expected to level off.

In the second half of the year, we continue to assume a steel strike which will make for an uneven pattern of inventory investment and GNP growth. Final sales are expected to strengthen, mainly because of the resumption of increases in business fixed investment and Federal purchases. Real GNP for the two quarters combined is projected to increase at an annual rate of 3.7 per cent.

The economy, on balance, is thus expected to expand at less than our rising growth potential, suggesting some further increase in the unemployment rate and a continued low rate of capacity utilization in manufacturing. Recent wage patterns suggest a continuation of strong cost pressures, but with larger productivity gains than we have experienced over the past two years, the rise in unit labor costs is expected to slow. Thus, with supplies remaining generally ample, we also project a slowing of the rise in the GNP deflator, to an annual rate of about 3.5 per cent in the fourth quarter.

Financial

In February, short-term rates continued to decline; bank credit maintained its more rapid rate of expansion--with business loan growth accelerating; and the money stock grew much faster than

expected. However, long-term yields--with the exception of those in the mortgage market--reversed their downward trend. The rise in yields was most pronounced in the corporate bond market.

The sharp increase in corporate bond yields apparently reflected a shift in interest rate expectations of both borrowers and lenders, as the announcement of the Administration's GNP target contributed to a growing belief that interest rates may be near their cyclical lows. Consequently, investors became more hesitant and a number of corporations accelerated planned security issues.

Outlook. The forthcoming heavy supply of new corporate and tax-exempt securities issues will tend to limit long-term rate declines in coming weeks, although, with market expectations unusually sensitive, unfolding economic news could cause abrupt yield movements in either direction. On balance over the second quarter, however, corporate bond rates could decline from present levels, if, as expected, the flow of internal funds to businesses increases and corporate bond offerings drop off, and if economic growth proves relatively modest.

Over the more immediate future, the exceptionally large volume of business financing in capital markets is likely to be reflected in an acceleration of bank loan repayments. The staff thus expects business loan growth to moderate in March from the rapid February pace. If this moderation occurs, and if strong deposit growth continues, further cuts in bank time deposit and possibly lending rates can be expected.

Bank purchases of tax-exempt securities may remain sizable over the near term, but such acquisitions are not likely to return to the record pace of late 1970 and early 1971. As a result, it may be more difficult for the expected near-record volume of new tax-exempt issues to be absorbed at yields much below the levels of recent weeks.

Inflows of consumer time and savings deposits at banks and thrift institutions are expected to remain large, although below recent rates, into the spring, given the relatively low short-term market yields that have developed. With thrift institutions unable to place all of their funds in mortgages, the staff expects mortgage rates to decline further and deposit rates to be cut--perhaps during the next reinvestment period at the end of March. The rate of decline in mortgage rates may be slowed, however, by the coming seasonal pickup in home buying, the large expected S&L repayments to the FHLB, and a sharp increase in planned mortgage sales by FNMA.

Balance of Payments

U. S. imports rose sharply further in January. Despite a good pick-up in exports of auto components following the ending of the GM strike, the trade surplus virtually disappeared.

For December and January combined, the trade surplus was at an annual rate of only $0.5 billion. Imports in these two months, at an average rate of over $42 billion, were up 11 per cent in value from a year earlier--while GNP was up about 5 per cent. This strength of

demand for imports exerts an appreciable drag on the U. S. economy, offsetting some of the force of expansionary factors. Our projection of first-quarter net exports of goods and services has been lowered once more.

In the over-all balance of payments, the deficit on the liquidity basis appears to have been extremely large in January and February, and the official settlements deficit was even larger. A substantial part of the deterioration is unexplained by the data on trade and capital flows available so far. The implication is that there may have been large corporate capital outflows (which are reported with a lag) and perhaps also large unidentifiable outflows. The continuing gap between interest rates here and abroad, which in some cases (U.K. and Germany) has widened since December, has no doubt stimulated these outflows. For the same reason, there have been further sizable declines in the total liabilities to U.S. bank branches of U. S. banks plus those of the Export-Import Bank.

German and British reserve gains have been very large. These gains have been due in great part to short-term capital flows (including those arising from changing leads and lags in commercial payments) responding to the gap between interest rates in those countries and rates in the Eurodollar market or in the United States.

March 2, 1971

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SELECTED DOMESTIC NONFINANCIAL DATA

(Seasonally adjusted)

	1970 Oct.	1970 Nov.	1970 Dec.	1971 Jan.	Per Cent Change* From 1 mo. ago	3 mos. ago	Year ago
Civilian labor force (mil.)	83.3	83.5	83.6	83.9	0.3	0.7	2.1
Unemployment rate (%)	5.5	5.9	6.2	6.0	--	--	[3.9] 4/
Insured unempl. rate (%)	4.4	4.4	4.0	3.7	--	--	[2.5] 4/
Nonfarm employment, payroll (mil.)	70.2	70.1	70.3	70.5	0.3	0.4	-0.7
Manufacturing	18.7	18.5	18.8	18.8	0.0	0.6	-6.1
Nonmanufacturing	51.5	51.5	51.5	51.7	0.5	0.4	1.4
Industrial production (57-59=100)	162.3	161.5	164.0	165.1	0.7	1.7	-3.1
Final products, total	159.8	159.2	162.0	163.4	0.9	2.3	-3.0
Consumer goods	157.0	156.3	159.9	163.3	2.1	4.0	1.1
Business equipment	178.9	179.1	178.2	177.5	-0.4	-0.8	-7.9
Materials	164.8	163.7	166.0	166.9	0.5	1.3	-3.2
Capacity util. rate, mfg.	72.3	71.8	72.7	72.6	--	--	[80.1] 4/
Wholesale prices (1967=100) 1/ 5/	111.0	110.9	111.0	111.8	0.8	1.6	2.7
Industrial commodities (FR)	111.1	111.1	111.4	111.9	0.4	0.7	3.5
Sensitive materials (FR) 6/	111.7	110.0	109.3	108.8	1.2	0.1	-3.8
Farm products, food & feeds 7/	110.3	109.9	109.3	110.7	2.5	3.3	0.6
Consumer prices (1967=100) 1/	118.1	118.5	119.1	119.2	0.1	0.9	5.2
Food	115.5	114.9	115.3	115.5	0.2	0.0	1.8
Commodities except food	114.5	115.1	115.5	115.2	-0.3	0.6	4.7
Services	124.1	124.9	125.6	126.3	0.6	1.8	7.9
Hourly earnings, pvt. nonfarm ($)	3.27	3.28	3.31	3.33	0.6	1.8	6.4
Hourly earnings, mfg. ($)	3.37	3.39	3.44	3.48	1.2	3.3	6.1
Weekly earnings, mfg. ($)	132.92	134.04	135.88	138.55	2.0	4.2	4.5
Net spend. weekly earnings, mfg. (3 dependents 1967 $) 1/	97.95	98.93	100.20	100.64	0.4	2.7	-0.4
Personal income ($ bil.) 2/	809.9	812.6	817.5	825.4	1.0	1.9	6.1
Retail sales, total ($ bil.)	30.5	30.2	30.4	30.8	1.1	0.7	4.0
Autos (million units) 2/	6.1	5.0	5.0	8.1	60.9	31.5	12.9
GAAF ($ bil.) 3/	8.5	8.6	8.5	8.5	0.7	0.6	4.8
12 leaders, composite (1967=100)	114.1	114.8	116.9	118.1	1.0	3.5	1.6
Selected leading indicators:							
Housing starts, pvt. (thous.) 2/	1,583	1,693	2,028	1,701	-16.1	7.5	60.6
Factory workweek (hours)	39.4	39.6	39.6	39.7	0.3	0.8	-1.5
Unempl. claims, initial (thous.)	340	334	292	283	3.0 8/	16.6 8/	-20.9 8/
New orders, dur. goods, ($ bil.)	28.5	29.0	30.6	31.8	3.9	11.6	9.5
Capital equipment	8.4	8.9	8.7	8.8	1.6	5.3	6.5
Common stock prices (41-43=10)	84.37	84.28	90.05	93.49	3.8	10.8	3.5

* Based on unrounded data. 1/ Not seasonally adjusted. 2/ Annual rates.
3/ Gen'l. merchandise, apparel, and furniture and appliances. 4/ Actual figures.
5/ February p. 112.7. Per cents indicated are to February.
6/ February p. 110.1. Per cents indicated are to February.
7/ February p. 113.5. Per cents indicated are to February. 8/ Sign reversed.

SELECTED DOMESTIC FINANCIAL DATA

	1970 Averages			1971		
	QII	QIII	QIV	Jan.	Feb.	Week ended Feb. 24
Interest rates, per cent						
Federal funds	7.88	6.71	5.57	4.14	3.72	3.46
3-mo. Treasury bills	6.67	6.33	5.35	4.44	3.70	3.48
3-mo. Federal agencies	7.09	6.67	5.50	4.37	3.60	3.27
3-mo. Euro-dollars	8.87	8.34	7.46	5.92	5.25	5.29
3-mo. finance co. paper	7.41	7.31	6.12	5.07	4.37	4.15
4-6 mo. commercial paper	8.16	7.73	6.28	5.11	4.47	4.30
Bond buyer municipals	6.81	6.33	5.92	5.36	5.23	5.27
Aaa corporate-new issues	8.94	8.51	8.26	7.24	7.28	7.11
20-year Treasury bonds	7.14	6.96	6.57	6.18	6.14	6.19
FHA mortgages, 30-year	9.12	9.06	8.77	--	n.a.	n.a.

	1970			1971	
	QII	QIII	QIV	Jan.	Feb. p
Change in monetary aggregates (SAAR, per cent)					
Total reserves	2.6	19.1	6.6	12.2	12.0
Nonborrowed reserves	4 1	24.4	9.4	8.8	15.9
Credit proxy	6.0	24.1	15.1	16.1	18.9
Credit proxy + nondep. funds	6.5	17.2	8.3	10.5	13.0
Money supply	5.8	6.1	3.4	1.1	15.0
Time and savings deposits	14.1	32.2	21.8	25.5	27.0
Deposits at S&L's and MSB's	6.9	10.0	11.4	22.4	n.a.
Bank credit, end-of-month 1/	6.6	13.9	6.1	14.9	14.4
Treasury securities	30.2	25.9	2.8	8.3	22.6
Other securities	11.0	20.3	34.5	39.3	20.4
Total loans 1/	1.4	9.8	-1.0	9.1	11.0
Business 1/	9.8	1.8	-9.2	5.4	12.9

	1970				1971
	QI	QII	QIII	QIV	Jan.
Change in commercial paper ($ millions)					
Total (SA)	3,515	1,652	-4,232	- 760	-552
Bank-related (NSA)	2,184	1,126	-2,985	-2,269	-319

	1969		1970			1971
	Jan.	QIV	Jan.	QIV	Dec.	Jan.
New security issues (NSA, $ millions)						
Total corp. issues	2,075	6,840	2,636	11,939	3,980	2,750 e
Public offerings	1,439	5,786	2,120	10,516	3,145	2,450 e
State and local government bond offerings	1,262	2,998	1,340	5,862	2,190	2,600 e
Fed. sponsored agency debt (change)	307	2,889	682	1,464	568	-34 e
Fed. govt. debt (change)	1,624	5,070	-194	8,891	3.024	800 e

n.a. - Not available. e - Estimated. p - Preliminary.
SAAR - Seasonally adjusted annual rate. NSA - Not seasonally adjusted.
1/ Adjusted for loans sold to bank affiliates.

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

	1970P					1971
	Year	I	II	III	IV	Jan.
Goods and services, net 1/		850	1,032	1,014		
Trade balance 2/	2,187	523	757	713	194	
Exports 2/	42,043	10,252	10,586	10,700	10,505	3,65
Imports 2/	-39,856	-9,729	-9,829	-9,987	-10,311	-3,64
Service balance		327	275	301		
Remittances and pensions		-328	-360	-360		
Govt. grants & capital, net		-855	-725	-759		
U.S. private capital		-1,688	-1,870	-1,339		
Direct investment		-1,411	-1,434	-759		
Foreign securities	-858	-133	66	-549	-242	-36
Banking claims	-883	132	-477	142	-680	50
Other		-276	-32	-173		
Foreign capital		1,738	1,749	1,065		
Official foreign, liquid	7,615	3,050	466	1,509	2,590	42
Official reserve holders, nonliq.	-273	-421	506	-249	-109	-4
Other official foreign, nonliq.		-32	-198	-1		
Foreign commercial banks, liquid	-6,492	-1,865	-102	-1,414	-3,111	
New direct investment issues 3/	840	155	267	170	248	
U.S. corporate stocks	675	-85	-87	387	460	15
Other		936	897	663		
U.S. monetary reserves (inc.-)	3,344	481	1,022	801	1,040	50
Gold stock	787	-44	14	395	422	3
Special drawing rights 4/	16	-53	-37	-34	140	10
IMF gold tranche	389	-253	227	406	9	23
Convertible currencies	2,152	831	818	34	469	13
Errors and omissions		-182	-920	-428		
BALANCES (deficit -) 4/						
Official settlements, S.A.		-3,110	-1,994	-2,061	-3,521	
" " , N.S.A.	-10,686	-2,830	-2,061	-2,625	-3,170	-88
Liquidity, S.A.		-1,656	-1,451	-837	-797	
" , N.S.A.	-4,741	-1,548	-1,426	-1,643	-124	-94
Adjusted over-all, S.A.		-1,245	-1,892	-647	-410	
" " , N.S.A.	-4,194	-1,145	-1,874	-1,461	286	
Financed by: 5/						
Liab. to comm. banks	-6,492	-1,685	-187	-1,164	-3,456	
Official settlements	10,686	2,830	2,061	2,625	3,170	

* Only exports and imports are seasonally adjusted.
1/ Equals "net exports" in the GNP, except for latest revisions.
2/ Balance of payments basis which differs a little from Census basis.
3/ New issues sold abroad by U.S. direct investors.
4/ Excludes allocations of SDRs; $867 million on Jan. 1, 1970, and $717 million on Jan. 1, 1971.
5/ Minus sign indicates decrease in net liabilities. Data not seasonally adjusted.
Note: Includes new seasonal adjustments for trade.

THE ECONOMIC PICTURE IN DETAIL

Domestic Nonfinancial Scene

Gross national product. While there is still a good deal of uncertainty with respect to the strength of consumer expenditures and inventory accumulation, the first quarter rise in GNP now seems likely to total about $29 billion, as compared to the $26-1/2 billion we projected last month. In real terms, the current projection implies an annual rate increase in GNP in excess of 7 per cent; real GNP declined by almost 4 per cent, annual rate, in the fourth quarter of 1970.

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

	First Quarter		Second Quarter	
	Projection of 2/3/71	Current Projection	Projection of 2/3/71	Current Projection
	Billions of dollars			
GNP	26.4	29.1	19.4	19.0
Final sales	29.7	30.4	14.7	16.3
Personal consumption	18.7	17.8	12.8	12.9
Residential construction	4.4	4.4	1.8	1.8
Business fixed investment	2.1	4.2	- .5	.0
Net exports	1.8	1.1	-1.0	- .2
Federal purchases	- .1	.2	-2.1	-1.9
State and local purchases	2.7	2.7	3.7	3.7
Inventory change	-3.3	-1.3	4.7	2.7
	Per cent per year			
Real GNP	6.1	7.2	3.7	3.6
GNP deflator	4.5 1/	4.5 1/	3.9	3.9

1/ Excluding effects of Federal pay increase, 3.6 per cent per year.

As expected, this rebound represents largely a post-strike recovery in production and sales of motor vehicles. Although sales of domestic cars, and consumer outlays generally, are falling somewhat short of our expectations, we now anticipate a larger rise in business fixed investment and a higher rate of inventory investment than projected last month.

Unit sales of domestic autos have been somewhat disappointing so far this quarter, averaging under 8 million, annual rate, for January and the first 20 days of February, and we have trimmed our projected rate of unit sales for the quarter from 8.3 to 8.1 million. But this annual rate of sales is still about 2-3/4 million above that of the strike-depressed fourth quarter. Moreover, sales of foreign autos have surged upward and in January were well above the fourth quarter rate. With prices of both foreign and domestic models rising, consumer outlays for autos appear likely to be about $10 billion larger in the first quarter than in the fourth.

Other categories of retail sales have been sluggish so far this quarter; furniture and appliance sales apparently are running below their fourth quarter level, and sales of nondurables as a whole are only fractionally higher. Consequently, we have cut back our estimate of consumer outlays by about $1 billion from the preceding Greenbook, and we are now projecting an increase of $17.8 billion for the quarter. Our estimate of net exports has also been revised down somewhat, reflecting larger imports than expected in January--possibly of autos--and the failure of exports to rise as much as projected.

In other major demand sectors, however, our present projections either equal or exceed those of last month. Revised estimates for December and new figures for January suggest that private nonresidential construction outlays--instead of declining--may rise slightly in the firstquarter. In addition, outlays for producers durable equipment now appear to be somewhat larger than expected, and altogether we have revised our projections of business fixed investment up by about $2 billion. Residential construction activity still appears likely to show a gain of about $4-1/2 billion for the quarter, and we continue to expect an accelerated rate of growth in State and local government outlays--although we have no hard evidence of this as yet. Defense purchases are apparently holding at the fourth quarter level, rather than dropping slightly as we had anticipated earlier. On balance, therefore, it now appears that final sales should increase about $30 billion this quarter, about the same as projected last month.

We continue to expect a drop in inventory investment this quarter, but by less than anticipated in the previous Greenbook. Further inventory reductions are expected in industries producing capital goods and defense products, and efforts to reduce high inventory sales ratios in some other lines appear likely. But even given the reduced auto production schedules for March, the disappointing rate of sales of domestic autos should result in greater additions to stocks, and recent orders figures suggest that steel stockpiling this quarter may be somewhat larger than we had anticipated. In total, we are estimating inventory accumulation of about $23 billion, rather than the $.8 billion projected last month.

Our projections for the remainder of the year remain essentially unchanged from the last Greenbook, assuming financial conditions consistent with an increase in the money supply at about a 6 per cent annual rate. GNP growth in the second quarter is projected to drop back to $19 billion, as the current quarter's post-strike rebound in motor vehicles production is unlikely to be repeated. If so, the increase in GNP in real terms would recede to about a 3-1/2 per cent rate.

If our assumption of a steel strike of about 60 days beginning August 1 materializes, expansion in GNP should be quite limited in the third quarter, dropping back to about $14 billion. But then there should be a rebound--much as in the current period--with fourth quarter GNP rising by perhaps $25 billion. These figures are essentially unchanged from our last projection, and imply real GNP growth at around a 3-1/2 per cent annual rate in the last half of the year.

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

	Third Quarter		Fourth Quarter	
	Projection of 2/3/71	Current Projection	Projection of 2/3/71	Current Projection
	Billions of dollars			
GNP	13.8	14.0	25.0	25.0
Final sales	18.3	18.0	20.0	20.0
Personal consumption	11.9	12.2	12.0	12.0
Residential construction	.7	.7	.5	.5
Business fixed investment	.7	.7	1.3	1.3
Net exports	- .5	- .5	.5	.5
Federal purchases	1.3	.7	1.7	1.7
State & local purchases	4.2	4.2	4.0	4.0
Inventory change	-4.5	-4.0	5.0	5.0
	Per cent per year			
Real GNP	1.5	1.6	5.9	5.9
GNP deflator	3.8	3.8	3.6	3.6

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March 3, 1971

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

	1970	1971 Proj.	1970 III	1970 IV	1971 Projection I	1971 Projection II	1971 Projection III	1971 Projection IV
Gross National Product	976.5	1046.5	985.5	989.9	1019.0	1038.0	1052.0	1077.0
Final purchases	973.1	1042.9	980.0	986.3	1016.7	1033.0	1051.0	1071.0
Private	752.6	811.6	759.0	763.1	790.6	805.1	818.2	832.5
Excluding net exports	749.0	808.2	754.8	760.5	786.9	801.6	815.2	829.0
Personal consumption expenditures	616.7	663.6	622.1	627.0	644.8	657.7	669.9	681.9
Durable goods	89.4	96.7	91.2	85.3	94.3	96.0	97.5	99.0
Nondurable goods	264.7	282.2	265.8	271.5	274.8	280.0	284.7	289.2
Services	262.6	284.7	265.1	270.3	275.7	281.7	287.7	293.7
Gross private domestic investment	135.7	148.2	138.3	137.1	144.4	148.9	146.3	153.1
Residential construction	29.7	38.4	29.2	32.2	36.6	38.4	39.1	39.6
Business fixed investment	102.6	106.2	103.6	101.3	105.5	105.5	106.2	107.5
Change in business inventories	3.5	3.6	5.5	3.6	2.3	5.0	1.0	6.0
Nonfarm	2.9	3.5	5.0	3.0	2.0	5.0	1.0	6.0
Net exports of goods and services	3.6	3.4	4.2	2.6	3.7	3.5	3.0	3.5
Gov't. purchases of goods & services	220.5	231.3	221.0	223.2	226.1	227.9	232.8	238.5
Federal	99.7	97.7	98.6	98.2	98.4	96.5	97.2	98.9
Defense	76.6	72.6	75.8	74.6	74.6	72.4	71.7	71.8
Other	23.1	25.1	22.9	23.5	23.8	24.1	25.5	27.1
State & local	120.9	133.6	122.4	125.0	127.7	131.4	135.6	139.6
Gross national product in constant (1958) dollars	724.1	742.4	727.4	720.3	733.2	739.8	742.8	753.7
GNP implicit deflator (1958 = 100)	134.9	141.0	135.5	137.4	139.0	140.3	141.6	142.9
Personal income	801.0	856.6	807.2	813.3	829.0	855.0	862.5	880.0
Wage and salary disbursements	540.1	575.2	543.8	545.2	560.5	570.9	578.2	591.2
Disposable income	684.8	734.5	693.0	697.2	712.6	735.1	739.7	750.6
Personal saving	50.2	51.7	52.7	51.8	49.1	58.3	50.4	49.0
Saving rate (per cent)	7.3	7.0	7.6	7.4	6.9	7.9	6.8	6.5
Corporate profits before tax	82.1e	82.6	84.4	79.5e	80.0	82.5	81.8	86.0
Corporate cash flow, net of dividends	69.3e	77.7	70.7	69.8e	75.1	77.3	77.8	80.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	195.2	207.6	194.9	193.3e	200.8	205.3	207.9	216.5
Expenditures	206.3	225.7	206.7	209.9	216.4	227.9	225.1	233.4
Surplus or deficit (-)	-11.1	-18.1	-11.8	-16.6e	-15.6	-22.6	-17.2	-16.9
High employment surplus or deficit (-)	-0.8	0.6	-1.7	1.3	1.6	-4.4	3.8	1.3
Total labor force (millions)	85.9	87.3	86.0	86.5	86.9	87.2	87.5	87.8
Armed forces "	3.2	2.9	3.1	3.0	3.0	2.9	2.8	2.7
Civilian labor force "	82.7	84.4	82.8	83.5	83.9	84.3	84.7	85.1
Unemployment rate (per cent)	4.9	6.3	5.2	5.9	6.0	6.2	6.5	6.5
Nonfarm payroll employment (millions)	70.7	70.9	70.5	70.2	70.6	70.9	70.9	71.2
Manufacturing	19.4	18.9	19.3	18.7	18.9	19.0	18.8	19.0
Industrial production (1957-59=100)	168.2	167.9	167.9	162.6	165.5	167.6	167.8	170.8
Capacity utilization, manufacturing (per cent)	76.6	73.0	76.2	72.3	73.0	73.2	72.7	73.2
Housing starts, private (millions A. R.)	1.43	1.86	1.51	1.77	1.80	1.85	1.90	1.90
Sales new domestic autos (millions, A.R.)	7.12	8.30	7.99	5.38	8.10	8.30	8.30	8.50

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

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March 3, 1971

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1970	1971 Proj.	1970 III	1970 IV	1971 Projection I	1971 Projection II	1971 Projection III	1971 Projection IV
	Billions of dollars							
Gross National Product	45.1	70.0	14.4	4.4	29.1	19.0	14.0	25.0
Inventory change	-5.0	0.1	2.4	-1.9	-1.3	2.7	-4.0	5.0
Final purchases	50.2	69.8	11.9	6.3	30.4	16.3	18.0	20.0
Private	41.9	59.0	9.3	4.1	27.5	14.5	13.1	14.3
Excluding net exports	40.2	59.2	9.2	5.7	26.4	14.7	13.6	13.8
Net exports	1.7	-0.2	0.1	-1.6	1.1	-0.2	-0.5	0.5
Government	8.3	10.8	2.6	2.2	2.9	1.8	4.9	5.7
GNP in constant (1958) dollars	-3.0	18.3	2.5	-7.1	13.0	6.5	3.0	11.0
Final purchases	1.2	18.2	0.9	-5.7	14.1	4.4	6.4	6.8
Private	7.2	19.9	1.6	-5.4	15.3	4.8	4.6	4.7
	In Per Cent Per Year							
Gross National Product	4.8	7.2	5.9	1.8	11.8	7.5	5.4	9.5
Final purchases	5.4	7.2	4.9	2.6	12.3	6.4	7.0	7.0
Private	5.9	7.8	5.0	2.2	14.4	7.3	6.5	6.8
Personal consumption expenditures	6.8	7.6	5.0	3.1	11.4	8.0	7.4	7.2
Durable goods	-0.7	8.2	-3.0	-25.9	42.2	7.2	6.2	6.2
Nondurable goods	7.7	6.6	4.9	8.6	4.9	7.6	6.7	6.3
Services	8.7	8.4	8.0	7.8	8.0	8.7	8.5	8:3
Gross private domestic investment	-2.9	9.2	11.9	-3.5	21.3	12.5	-7.0	18.6
Residential construction	-7.2	29.3	11.3	41.1	54.7	19.7	7.3	5.1
Business fixed investment	3.3	3.5	3.1	-8.9	16.6	0.0	2.7	4.9
Gov't. purchases of goods & services	3.9	4.9	4.8	4.0	5.2	3.2	8.6	9.8
Federal	-1.6	-2.0	-4.4	-1.6	0.8	-7.7	2.9	7.0
Defense	-2.8	-5.2	-5.2	-6.3	0.0	-11.8	-3.9	0.6
Other	2.2	8.7	0.0	10.5	5.1	5.0	23.2	25.1
State & local	9.1	10.5	12.5	8.5	8.6	11.6	12.8	11.8
GNP in constnat (1958) dollars	-0.4	2.5	1.4	-3.9	7.2	3.6	1.6	5.9
Final purchases	0.2	2.5	0.5	-3.2	7.9	2.4	3.5	3.7
Private	1.3	3.4	1.1	-3.7	10.6	3.2	3.1	3.1
GNP implicit deflator	5.3	4.5	4.6	5.9	4.5*	3.9	3.8	3.6
Personal income	7.0	6.9	2.9	3.0	7.7	12.5	3.5	8.1
Wage and salary disbursements	6.1	6.5	3.2	1.0	11.2	7.4	5.1	9.0
Disposable income	8.4	7.3	5.5	2.4	8.8	12.6	2.5	5.9
Corporate profits before tax	-10.0	0.6	14.6	-23.2	2.5	12.5	-3.4	20.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	-2.7	6.4	-2.4	-3.3	15.5	9.0	5.1	16.5
Expenditures	7.8	9.4	11.5	6.2	12.4	21.3	-4.9	14.7
Nonfarm payroll employment	0.6	0.3	-2.0	-1.9	2.4	1.7	0.0	1.7
Manufacturing	-3.9	-2.6	-6.0	-13.3	4.7	2.1	-4.2	4.2
Industrial production	-2.7	-0.2	-3.3	-12.7	7.2	5.0	0.5	7.2
Housing starts, private	-2.6	30.1	70.0	67.7	7.2	11.1	10.8	0.0
Sales new domestic autos	-15.8	16.6	2.0	-130.5	202.1	9.9	0.0	9.6

* Excluding effects of Federal pay increase, 3.6 per cent.

Industrial production. On the basis of very limited information, industrial production is tentatively estimated to have changed little in February as increases in output of autos and steel appears to have been about offset by further declines in other industries, mainly business and defense equipment. The total index at about 165 per cent in January and February would be 3 per cent below a year earlier and 1.5 per cent above the fourth quarter of 1970.

Auto assemblies in February were at an annual rate of about 9.0 million units (preliminary) compared with 8.3 million units in January. Production schedules for March have been cut back from a 9.6 million unit rate estimated earlier and are now indicated to be at about the February output level. (The February rise in autos and trucks is equivalent to .3 of a point in the total industrial production index.) Output of home radios and television sets in the first 3 weeks of February was reduced appreciably further. Production of furniture and of consumer staples, which has increased in the past several months, probably rose again in February.

Production of industrial and commercial equipment, which has declined steadily since March 1970, probably was down further in February. The small rise in truck production will be more than offset by heavy cutbacks in the aircraft industry, especially by Lockheed. Output of farm equipment recovered from the strike-reduced low in January.

Available weekly output data for a few materials indicate a further rise in steel production as stockpiling continued in anticipation

of a possible strike. (A 4 per cent rise in the iron and steel index is equivalent to a rise of about .4 of one point in the total index.) Output of crude petroleum, however, was cut back and paperboard production remained below year ago levels. A strike in the metal can industry, which began February 15, may have chipped off about .1 of one point in the total index.

INDUSTRIAL PRODUCTION
1957-59=100, seasonally adjusted

	1970					1971	Per cent change January 1970 to January 1971
	Jan.	Sept.	Oct.	Nov.	Dec.	Jan.	
Total index	170.4	165.8	162.3	161.5	164.0	165.1	- 3.1
Consumer goods	161.5	160.1	157.0	156.3	159.9	163.3	1.1
Autos	132.9	108.5	76.5	78.1	131.9	155.1	16.7
Home goods	169.6	179.0	180.2	180.0	171.8	170.4	.5
Apparel & staples	160.8	160.1	158.9	157.6	160.8	161.7	.6
Business equipment	192.8	182.3	178.9	179.1	178.2	177.5	- 7.9
Defense equipment	152.2	126.3	121.7	118.5	117.7	116.5	-23.5
Materials, total	172.5	168.9	164.8	163.7	166.0	166.9	- 3.2
Durable	160.1	151.9	144.3	141.9	146.0	148.3	- 7.4
Steel	135.2	129.5	121.5	117.2	121.0	125.6	- 7.1
Nondurable	185.3	186.4	186.0	186.2	186.8	186.3	.5

Retail sales. Reports for the first three weeks of February tentatively suggest that sales for the month may have been about half a per cent higher than in January. As in January, sales of the automotive group were largely responsible for the rise. Excluding the automotive and the building materials, farm equipment, and hardware categories, average January and February sales are no higher than in the fourth quarter.

RETAIL SALES
Percentage Change

	From Previous Quarter		
	1970		Jan.-Feb.
	III	IV	average
All stores	.9	-1.3	1.5
Durable	1.7	-9.2	4.4
Auto	2.6	-15.8	9.1
Furniture & appliance	-3.8	- .9	-2.0
Nondurable	.6	2.2	.3
Food	.5	1.2	.6
General merchandise	.7	2.8	1.2
Total less auto, bldg. materials, farm equip., hardware	.4	1.9	.0

Consumer credit. Personal bankruptcies, which had declined in 1968 and 1969 after increasing in most other postwar years, rose sharply during 1970. For the full year, approximately 190,000 personal bankruptcy cases were filed, up 12 per cent from 1969 and just barely below the record high in 1967. While 1970 reversed the downturn of the two previous years, the rise in filings was substantially below the percentage increases of earlier recession years. During 1961, for example, the number of personal bankruptcies rose 34 per cent, and the increases in 1958 and 1954 were 26 and 33 per cent, respectively.

Seasonally adjusted quarterly figures indicate that personal bankruptcies did not advance noticeably until the second quarter of last year. By the fourth quarter, however, filings rose above the 1967 high quarter. In the second half of 1970, estimated filings were 14 per cent higher than in the second half of 1969.

NON-BUSINESS BANKRUPTCIES
(Thousands of cases filed, seasonally adjusted)

	1967	1968	1969	1970
QI	48.3	45.5	40.8	43.9
QII	49.2	42.8	44.2	48.7
QIII	46.5	42.0	41.3	47.6
QIV	46.7	42.5	44.2	49.9e
Year 1/	190.7	173.0	170.4	190.3e

1/ Based on unadjusted figures.
Source: Administrative Office, U.S. Courts; Seasonal adjustment and QIV 1970 estimate by Consumer Credit Section.

Personal income. Personal income advanced by $8 billion to an annual rate of $825 billion in January. Wages and salaries rose by $6.6 billion, reflecting payroll increases of about $2 billion each in trade, government, and services. The rise in trade mainly reflected a large seasonally adjusted increase in employment in January, following declines in November and December, while the rise in government payrolls was primarily a result of the Federal pay raise. The advance in personal income included large increases in dividends ($1.8 billion after a decline of about the same amount in December) and transfer payments ($1 billion largely reflecting increased unemployment insurance payments). On the other side of the ledger, there was an increase of $2.1 billion in personal social insurance taxes.

Despite the large January increase, which partly reflected normal growth and partly reflected the auto-strike recovery, personal income advanced only 5.5 per cent (annual rate) over the past six months and in real terms there was very little improvement. Aggregate wages and salaries rose at about the same rate, with the entire rise attributable to higher average hourly wages; payroll employment and hours worked declined. Manufacturing payrolls in January were unchanged from July 1970 and still somewhat smaller in January than a year earlier. Private nonmanufacturing payrolls continued to expand, but at a slower rate than last year.

PERSONAL INCOME
(Per cent change, seasonally adjusted annual rates)

	Jan. 1969-July 1969	July 1969-Jan. 1970	Jan. 1970-July 1970	July 1970-Jan. 1971
Personal income	9.0	6.7	6.6	5.5
Real*	3.0	.4	1.1	.6
Wages and salaries	10.0	6.7	4.5	5.6
Government	11.4	6.6	8.4	10.0
Private	9.7	6.7	3.5	4.4
Manufacturing	8.4	2.6	- .9	.0
Nonmanufacturing	10.5	9.3	6.2	7.0

* Adjusted for changes in the consumer price index.

Construction and real estate. Seasonally adjusted value of new construction put in place continued to edge higher in February, following an upward revision of 2 per cent for January. At $97.7 billion, the February rate was 6 per cent above a year earlier.

Bolstered by a sharply higher rate of housing starts in recent months, outlays for private residential construction have continued to provide most of the basis for month-to-month increases in total private outlays. However, private nonresidential outlays,which had been exhibiting little strength, have been revised sharply upward and now show a sizable increase for January. In current dollars, both nonresidential and total public construction were about the same as in February 1970, but were down substantially after adjustment for rising costs. A major factor contributing to higher costs has been sharply rising construction wage rates. In an effort to dampen further cost advances, President Nixon suspended the provisions of the Davis-Bacon Act, which required contractors on Federally-funded projects to pay "prevailing" wage rates, as determined by the Department of Labor.

NEW CONSTRUCTION PUT IN PLACE

	All	Private			Public
		Total	Residential	Non-residential	
		Billions of dollars			
Annual					
1970	91.0	62.8	29.0	33.8	28.2
Quarterly (SAAR)					
1970					
III	90.1	61.6	27.8	33.9	28.4
IV (r)	92.4	64.3	30.8	33.4	28.2
Monthly (SAAR)					
1970					
December (r)	94.3	65.7	32.1	33.6	28.5
1971					
January (r)	96.7	68.2	33.3	34.9	28.5
February (p) 1/	97.7	69.5	34.4	35.1	28.2
		Per cent change in February from year earlier			
In current dollars	+6	+10	+20	+1	-1
In 1957-59 dollars	-2	+2	+15	-8	-12

1/ Data for most recent month (February) are confidential Census Bureau extrapolations. In no case should public reference be made to them.

The sharp drop in the seasonally adjusted annual rate of private housing starts in January essentially reflected a reversal from the unusually high number of FHA-insured subsidized housing starts in December. The staff does not believe that the January drop signals a turnabout in residential construction. On the contrary, with the inflow of savings to the intermediaries continuing strong, with the volume of commitments rising, and with mortgagesinterest rates falling sharply, seasonally adjusted starts are on average expected to advance for some months to come.

PRIVATE HOUSING STARTS AND PERMITS
(Units in Thousands)

	Starts			Permits
	Total	Per Cent Single-family (Census-Bureau)	Per Cent FHA-underwritten 1/ (FHA Series)	Total
Annual				
1969	1,467	55	16	1,322
1970	1,432	57	29	1,324
Quarterly (SAAR)				
1970				
I	1,252	54	23	1,083
II	1,286	58	28	1,297
III	1,512	56	28	1,324
IV	1,768	57	35	1,592
Monthly (SAAR)				
1970 - November	1,693	55	27	1,487
December	2,028	61	53	1,768
1971 - January	1,701	55	30	1,595

1/ Based on unadjusted totals for all periods. FHA underwritten starts include non-subsidized as well as subsidized units.

Sales of homes are also expected to pick up more than seasonally, sparked by the abundance of mortgage funds and the recent lowering of the Government-underwritten home mortgage ceiling rate to 7 per cent. Prior to the ceiling rate change, a number of trade sources had reported that some prospective home-buyers were reluctant to close sales because they anticipated a further drop in the FHA and VA ceiling rate.

Although starts and sales are expected to rise at least through the end of summer, housing activity throughout 1971 is likely to be concentrated in lower priced units. The latest data available from merchant builders indicate that the trend toward the purchase of lower cost units continued in December. The average price of all new single-family homes sold in December (with all types of financing) was 4 per cent below a year earlier.

Plant and equipment spending plans. Private surveys recently taken by the Rinfret-Boston and Lionel D. Edie companies report dramatically different spending plans by business for new plant and equipment in 1971: the Rinfret-Boston survey indicates a 9 per cent gain while Edie shows only a 3 per cent increase. In both surveys all of the planned increase is in nonmanufacturing (specifically in the utilities, communications and commercial sectors) with manufacturers planning a slight reduction from last year.

PLANT AND EQUIPMENT SPENDING
Per cent changes from preceding year

	Rinfret-Boston (March Plans)	Edie (March Plans)	Comm.-SEC
1968			
Total	8	8	4 1/
1969			
Total	5	8	12 1/
1970			
Total	13	10	7 2/
Manufacturing	7	9	2 2/
Nonmanufacturing	17	11	10 2/
1971			
Total	9	3	1 3/
Manufacturing	-1	-1	-3 3/
Nonmanufacturing	16	5	4 3/

1/ Actual.
2/ Based on October-November survey.
3/ Based on December survey.

Cyclical indicators. The preliminary Census composite leading indicator increased 1 per cent in January, after rising 1.8 per cent in December and 0.6 per cent in November. This index has surpassed its pre-auto-strike high of July 1970 and is within half a per cent of the September 1969 peak, in large part because of the trend adjustment. Of the individual leading series, only three--common stock prices, housing permits, and contracts and orders for plant and equipment--were above their July 1970 levels, and none of the indicators directly affected by the auto industry had recovered to the July 1970 levels.

The coincident composite rose 1.4 per cent and the lagging composite was unchanged in January.

COMPOSITE CYCLICAL INDICATORS
(1967 = 100)

	12 Leading Trend Adjusted	5 Coincident	6 Lagging
1970:			
April	114.9	122.2	130.6
May	113.8	121.3	130.7
June	114.4	121.2	130.7
July	116.2	121.4	131.5
August	115.4	121.1	132.0
September	114.9	120.6	133.2(H)
October	114.1	118.8	132.5
November	114.8	117.9	131.1
December	116.9	118.8	131.0
1971:			
January (Prel.)	118.1	120.5	131.0

(H) Current high value. The high for the leading composite was September 1969; for the coincident, December 1969.

Of the eight series included in the preliminary leading composite, only housing permits and industrial materials prices declined in January, and the drop in housing permits was from a record December level. In February, according to preliminary data, common stock prices rose further and the industrial materials price index rose for the first time in a year.

Manufacturers' orders and shipments. New orders for durable goods rose 4 per cent in January, according to preliminary data. Orders increased not only in the motor vehicle industry and at iron and steel plants, but also in a number of other industries.

The increase in new orders for iron and steel between September 1970 and January 1971 was substantially larger than in the comparable pre-negotiations period of 1967-68, but not as large as the $1.3 billion increase from September 1958 to February 1959. These orders may increase further in February.

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

	1970			1971
	QIII	QIV	December	January (prel.)
Durable goods, total	30.6	29.4	30.6	31.8
Excluding autos	26.5	26.2	26.7	27.5
Excluding autos & steel	24.2	24.0	24.1	24.6
Primary metals	4.8	4.6	5.0	5.4
Iron and steel	2.3	2.2	2.6	2.9
Other primary metals	2.5	2.4	2.4	2.5
Motor vehicles and parts	4.1	3.2	3.9	4.3
Household durable goods	2.1	2.1	2.2	2.1
Defense products	2.3	2.1	2.1	2.2
Capital equipment	8.3	8.7	8.7	8.8
All other durable goods	9.0	8.8	8.8	8.9

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

New orders in December were revised upward by over $0.5 billion and are now reported to have increased 5.5 per cent from November. Capital equipment orders accounted for the bulk of the upward revision. After a strong November increase these orders fell back relatively little in December and edged up in January. The January rate of capital equipment orders was 8 per cent above the second quarter 1970 low. The announcement in January of liberalized depreciation allowances had little immediate effect on equipment ordering.

Durable goods shipments increased in January and unfilled orders rose 1 per cent. Nondurable goods shipments and orders also increased.

Inventories. The book value of manufacturing inventories declined at a $5.4 billion annual rate in January, following a $3.9 billion drop in December. The declines since November were mainly, though not entirely, in durable goods, and occurred in the face of some accumulation at steel mills in anticipation of stockpiling by steel users.

In December, despite the decline in manufacturing stocks, the total book value of business inventories rose at a $3.8 billion annual rate, partly as a result of restocking by auto dealers following the GM strike, and partly because of increases elsewhere in retail and wholesale trade which may have been involuntary, at least in part.

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

	1970				1971
	Q III	Q IV (prel.)	Nov.	Dec.	Jan. (prel.)
Manufacturing and trade, total	10.7	4.6	6.3	3.8	n.a.
Manufacturing, total	3.8	4.2	6.8	-3.9	-5.4
Durable	3.7	1.6	3.5	-3.3	-4.4
Nondurable	.1	2.6	3.3	- .6	- .9
Trade, total	6.8	.4	- .5	7.7	n.a.
Wholesale	2.2	3.5	4.0	2.7	n.a.
Retail	4.7	-3.1	-4.5	4.9	n.a.
Durable	2.9	-4.9	-9.0	6.0	n.a.
Automotive	2.8	-6.2	-9.5	2.9	n.a.
Nonautomotive	.1	1.3	.5	3.1	n.a.
Nondurable	1.8	1.8	4.5	-1.0	n.a.

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

Manufacturing inventory shipments ratios were reduced further in January, as inventories declined and shipments increased. The durable goods inventory backlog ratio also declined further.

In December the cuts in manufacturing inventories and the beginning of the strike-end recovery of auto sales effected some reduction in the over-all business inventory-sales ratio. But in wholesale trade and the nonautomotive durable retail sector--where accumulation continued high--inventory-sales ratios rose and the over-all trade ratio reached the highest point since November 1960. In January, auto dealers continued to build their stocks of new cars, but with the recovery of sales, their aggregate new car stock-sales ratio fell to a level near the average for the late sixties.

INVENTORY RATIOS

	1969		1970			1971
	Nov.	Dec.	Jan.	Nov.	Dec.	Jan. (Prel.)
Inventories to sales:						
Manufacturing and trade, total	1.55	1.57	1.57	1.63	1.60	n.a.
Manufacturing, total	1.71	1.73	1.75	1.85	1.79	1.74
Durable	2.03	2.08	2.14	2.29	2.19	2.12
Nondurable	1.30	1.30	1.28	1.35	1.32	1.30
Trade, total	1.37	1.39	1.37	1.39	1.40	n.a.
Wholesale	1.19	1.21	1.21	1.28	1.29	n.a.
Retail	1.50	1.52	1.49	1.47	1.48	n.a.
Durable	2.15	2.15	2.18	2.21	2.21	n.a.
Automotive	1.72	1.75	1.77	1.87	1.83	n.a.
Nonautomotive	2.80	2.73	2.72	2.60	2.67	n.a.
Nondurable	1.21	1.22	1.19	1.19	1.19	n.a.
Inventories to unfilled orders:						
Durable manufacturing	.729	.737	.749	.836	.826	.812

Labor market. The labor market apparently continued slack, with both insured unemployment and initial claims for benefits little changed between mid-January and mid-February, after dropping in both December and January. In part, recent declines in the rate of insured unemployment have been due to exhaustion of benefits; over 120,000 persons exhausted their benefits in January and this probably was a significant factor again in February.

INSURED UNEMPLOYMENT RATE
(Seasonally adjusted)

	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
Regular programs	4.1	4.4	4.4	4.0	3.7	3.7*

* Staff estimate.

Over the last several months, extended unemployment benefits programs have been introduced in a number of States, as provided in the Employment Security Amendments of 1970. These amendments provide up to 13 weeks of additional benefits when unemployment has risen sharply in an individual State or is above a certain rate for the nation as a whole. All States must provide extended benefits programs in 1972; until then individual States have the option of joining the program if they will share costs with the Federal government.

Currently, about 250,000 workers in 11 States and Puerto Rico are drawing extended benefits. This compares with about 80,000 workers in five States and Puerto Rico drawing extended benefits in

mid-December and only about 30,000 in mid-October. Additional workers are likely to be added in the months ahead as State legislatures provide the necessary funding to enter the program, and as additional workers exhaust benefits under regular coverage.

INSURED UNEMPLOYMENT, ALL PROGRAMS
(Not seasonally adjusted; in thousands)

	Week ending				Change Feb. 1971 from a Year earlier
	Feb. 14 1970	Oct. 17 1970	Dec. 19 1970	Feb. 13 1971	
Total, all programs	2,037	1,878	2,502	3,185	1,148
State programs	1,922	1,714	2,254	2,754	832
Extended benefits	1*	27	81	249	248
Federal employees	30	33	35	37	7
Ex-servicemen	66	82	112	125	59
Railroad programs	18	22	20	20	2

* Puerto Rico had a State extended benefit program in effect at this time.

Hourly earnings. Wage increases have continued large in recent months. Hourly earnings of production workers in the private nonfarm economy increased 6.4 per cent over the year ending in January 1971, slightly more than over the previous year. Hourly earnings increases in manufacturing and transportation have accelerated somewhat in the past year; both were affected by important collective bargaining agreements in late 1970. The rates of increase of hourly earnings remain high in services and construction but have moderated somewhat in trade.

Upward pressure on wages is expected to continue strong this year. More than 5.3 million workers covered by major union contracts will be receiving deferred wage increases averaging 7.8 per cent. The largest number is in construction, where more than

1 million workers will receive deferred increases averaging 13.3 per cent by mid-year. In addition, 2.5 million union workers will receive automatic cost-of-living adjustments under existing collective bargaining agreements. These assured wage increases, coupled with expected large first-year wage raises for some 4.7 million workers negotiating new contracts, suggest little moderation in the rate of increase of wages in the unionized sectors of the economy during 1971.

Industrial relations. The United Steel Workers reached agreement with the National Can Corporation on February 15, while 32,000 members went on strike at the other three major companies upon expiration of their contracts. The agreement with National Can, covering 4,000 workers, may set the pattern for settlements in the rest of the can industry and possibly for upcoming negotiations in aluminum, copper and steel.

The National Can Corporation agreement provided wage increases totaling at least $1.10 over the life of the contract, an estimated average of about 9 per cent per year--about in line with the average rise in major collective bargaining settlements concluded in 1970. The wage package included a first-year wage increase of 50 cents, or about 14 per cent; increases of 12-1/2 cents in both the second and third years; and quarterly cost-of-living adjustments beginning in the second year with a minimum 12-1/2 cent adjustment guaranteed in both years. In addition, it is estimated that wage rates will rise an average of 10 cents over the life of the contract

as a result of increases in wage differentials between job classifications. The cost-of-living escalator formula in the can contract is the same as in the auto worker contracts--a one-cent increase for each 0.4 point rise in the Consumer Price Index, (1957-1959=100). If the increase in consumer prices exceeds the guaranteed minimum adjustment in the can contract--about a 3-1/2 per cent rise in consumer prices in both 1972 and 1973, the increase in average wage costs for National Can will exceed the 9 per cent per annum figure cited above.

Recent settlements in nonmanufacturing industries also have been large. Three railroad unions recently agreed to 42-month contracts providing average annual wage increases of 11 per cent for about 230,000 workers. The United Transportation Union (195,000 members) continues to negotiate although the union was free to strike March 1. In separate negotiations, the Railroad Signalmen (13,000 members) have set a March 5 strike deadline. At American Motors the auto workers have not yet reached an agreement and have set a March 8 strike deadline.

Wholesale prices. Wholesale prices rose at an estimated seasonally adjusted annual rate of 7.9 per cent in February (January 12th to February 9th) primarily as a result of a sharp increase for farm and food products. Prices of industrial commodities, on a preliminary basis, rose at only a 1.6 per cent annual rate, one of the smallest monthly increases since mid-1969.

WHOLESALE PRICES
(Percentage changes at seasonally adjusted annual rates)

	Dec. 1969 to June 1970	June to Sept.	Sept. to Dec.	Dec. 1970 to Jan. 1971	Jan. to Feb.p	Feb. 1970 to Feb. 1971p
All commodities	2.6	3.7	.4	5.9	7.9	2.7
Farm products, foods and feeds	-1.8	8.6	-8.9	9.1	32.1	.6
Farm products	-5.4	12.2	-16.6	12.9	60.7	- .2
Processed foods and feeds	.9	5.9	- 4.2	6.7	19.9	1.2
Industrial commodities	3.9	2.7	4.1	3.9	1.6	3.5

The sharp increase in prices of farm products and foods in February was attributable to livestock and meat and reflected severe weather which curtailed shipments of livestock. Under more normal weather conditions, the rise in farm product prices would have been much less, although it is still uncertain whether livestock and meat prices will recede this month or next to the January levels. In January, hog prices were depressed on the pricing date by the largest marketings in 5 years. In February, both beef cattle and hog prices, but particularly the latter, were sharply higher. Hog prices have since receded somewhat, as shown below, while prices of beef cattle thus far have shown little change. Declines may lie ahead, however, as the Department of Agriculture is forecasting "continued large supplies (of livestock products) at least through mid-1971." The bulge in retail prices of meat in February will be much less than in wholesale prices

because of temporary cost absorption of such fluctuations by processors and retailers. According to the Department of Agriculture, preliminary data for the first two weeks of February compared with January show a 2-1/2 per cent increase in the retail price of beef and a small increase in pork prices. The farm-retail spread reportedly dropped significantly to levels 12 to 15 per cent below those in January.

PERCENTAGE CHANGES IN PRICES OF LIVESTOCK[1/]

	Aggregate	Hogs	Choice Steers	Good Steers	Cows
Jan. 11- Feb. 8	12.0	24.6	14.9	13.6	1.2
Feb. 8 - Mar. 1	- 3.9	-12.1	- 1.5	- 1.7	2.4
Jan. 11 - Mar. 1	8.4	9.4	13.2	11.6	3.7

1/ Based on changes in FRB indexes. Specifications are somewhat different from those of the BLS.

Industrial prices rise seasonally in both January and February; in February and unadjusted monthly rise of 0.3 per cent was reduced to 0.1 per cent after seasonal adjustment. The rise for the two months combined was 0.4 adjusted compared to 0.7 unadjusted.

Prices for lumber and wood products increased much more than seasonally in the January-February period as demand for softwood, plywood and lumber rose. Although demand has softened since early February, higher prices could lie ahead as residential construction increases

further. Mill capacity has been reduced 5-10 per cent in the last year and one-half and higher prices are required to bring in increased supplies. However, the tight conditions which resulted in the 1968-69 surge in lumber prices are not now present.

Machinery and equipment prices continued to rise, but by the smallest amount since last summer. Motor vehicles, furniture, paperboard, and apparel also increased while fuels declined contra-seasonally. Prices of nonferrous metals dropped further and lowered the index for the metals and metal products group despite the increases posted for steel mill products, iron and steel scrap, and some fabricated products.

Consumer prices. The rise in the consumer price index slowed in January to a seasonally adjusted annual rate of 3.5 per cent, with declines in mortgage interest rates and in prices of used cars, meat, fruits and vegetables and apparel. However, new car prices rose substantially and service costs continued to climb. Food prices were unchanged overall as a drop of 4 per cent, annual rate, in the cost of food at home was offset by a further rise in the cost of restaurant meals. But food prices are expected to rise in February, reflecting an appreciable advance in meat prices.

CONSUMER PRICES
(Per cent change, seasonally adjusted annual rates)

	Dec. 1969 to June 1970	June to Sept.	Sept. to Dec.	Nov. to Dec.	Dec. 1970 to Jan. 1971
All items	6.1	4.2	5.5	6.6	3.5
Food	3.4	1.4	.7	2.1	.0
Nondurable commodities less food	3.6	3.6	5.7	7.6	1.0
Durables	5.6	4.7	7.3	9.9	2.1
Services 1/	9.3	7.1	7.0	6.9	6.9
Addendum:					
Services less	7.2	6.6	7.2	6.1	10.3
home finance 1/ 2/	3.0	3.8	5.2	3.1	- 2.0
Apparel					

1/ Not seasonally adjusted
2/ Confidential

Clothing prices dropped more than seasonally in January with unusually favorable clearance sales. This decline along with smaller increases for gasoline and other nondurables reduced the rise for nondurables less food to an annual rate of 1 per cent.

The major factor in slowing the rise in durable goods in January was a sharp reversal in used car prices. New car prices, however, rose contra-seasonally and both new and used car prices were about 8 per cent above their January 1970 levels. Household durable prices were unchanged from December and the rate of increase for houses continued to slow.

DURABLE GOODS PRICES
(Per cent change, seasonally adjusted annual rates)

	Dec. 1969 to June 1970	June to Sept.	Sept. to Dec.	Nov. to Dec.	Dec. 1970 to Jan. 1971
All durable goods	5.6	4.7	7.3	9.9	2.1
Used cars 1/	13.5	13.2	18.8	7.5	24.2
Home purchase 1/2/	8.9	9.2	6.3	6.6	3.2
New cars	1.9	6.9	16.9	28.1	26.2
Household durables 2/	2.8	2.2	3.3	1.1	.0
Addendum:					
Durable goods less used cars and home purchase	2.2	4.1	6.3	10.2	6.6

1/ Not seasonally adjusted
2/ Confidential

Despite the drop in mortgage interest rates, serviee prices continued to rise at about the 7 per cent rate maintained through the last nine months of 1970. Excluding home finance, the rise in service costs accelerated--reflecting substantial increases for auto insurance premiums, education, and recreation,and continued advances for medical services and utilities.

As a result of the reduction in rates on both VA-guaranteed (from 8-1/2 to 8 per cent) and conventional mortgages,and also of the slowing of the rise in home purchase prices, the home-ownership cost component of the CPI showed no increase for the first time since

March 1967. Such costs had risen at an average annual rate of about 10 per cent between June 1968 and December 1970. The further declines in rates on VA and FHA-guaranteed mortgages (to 7 per cent) will continue to affect the index through May as more commitments are made at lower rates.

Agricultural outlook. A rise of about 7 per cent in disposable income for the year 1971 and an increase of about 1 per cent in per capita food consumption were predicted at the February Agricultural Outlook Conference. Consumer prices were expected to increase further but the rise in food prices was predicted to be limited by increased supplies.

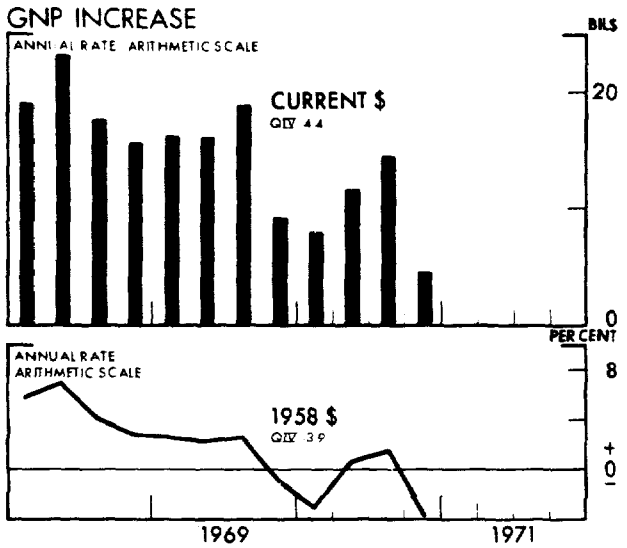
Farmers net income from farming was projected to be somewhat less than last year, but income from nonfarm sources was expected to increase. Major increases in costs of feed, labor, insurance, and real estate taxes were predicted, while prices received were expected to average substantially below 1970. Improvement in cost and availability of credit combined with higher production costs, were expected to result in continued expansion in farm debt. Some further increase in land values was considered likely although the long-term rise had slowed to 3 per cent in 1970.

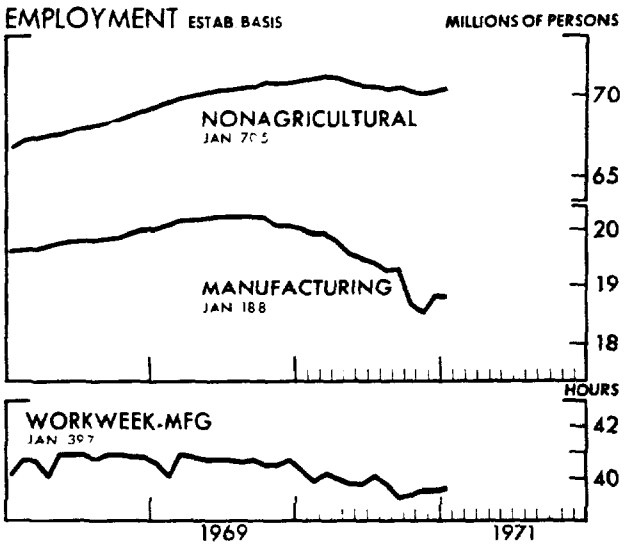
Per capita consumption of red meats was projected at 191 pounds, 5 pounds more than last year. Pork was expected to account for three-fourths of the increase and beef for the rest. Somewhat larger supplies of milk, turkeys, and eggs and about the same supply of

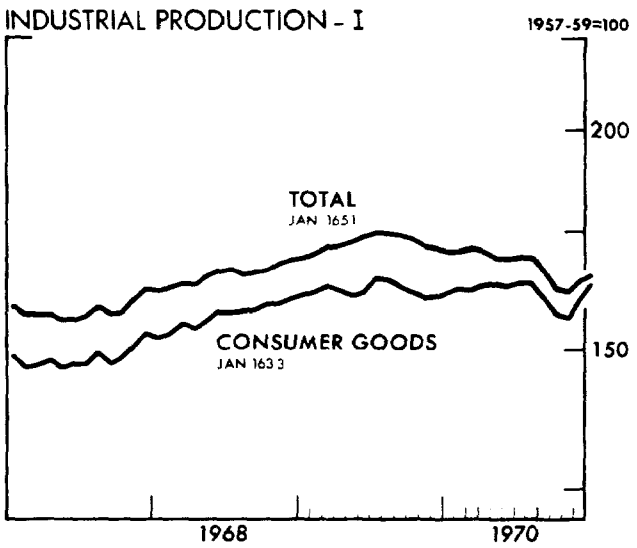
broilers as last year were forecast. These favorable livestock supply prospects hinge on the favorable resolution of two unusual uncertainties in the outlook for 1971: (1) the net effects of the new farm programs on crop production; and (2) potential damage caused by corn blight. The Outlook evaluation of these uncertainties apparently is fairly favorable. The January planting intentions report showed that larger acreages are planned for feed grains. Even with as mugh blight damage as last year, USDA estimates that with favorable weather, feed grain output could be 10 per cent larger than in 1970. Output of this size will support an ample scale of livestock production.

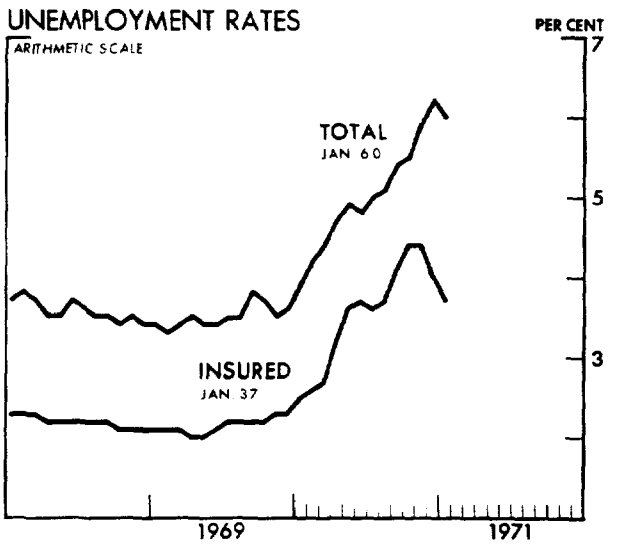
ECONOMIC DEVELOPMENTS - UNITED STATES

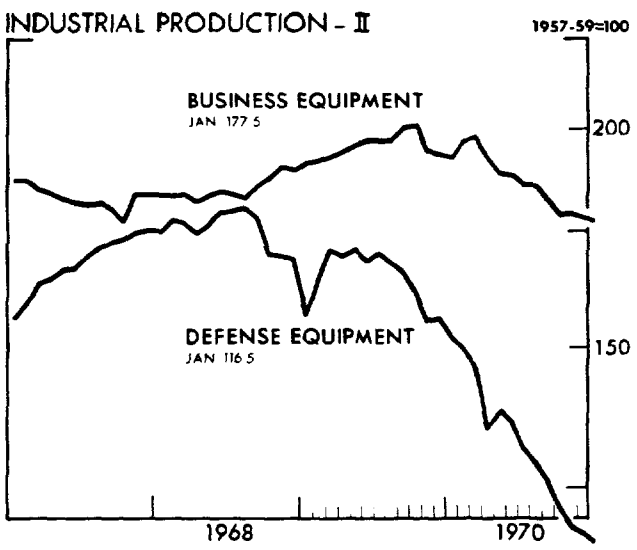
SEASONALLY ADJUSTED, RATIO SCALE

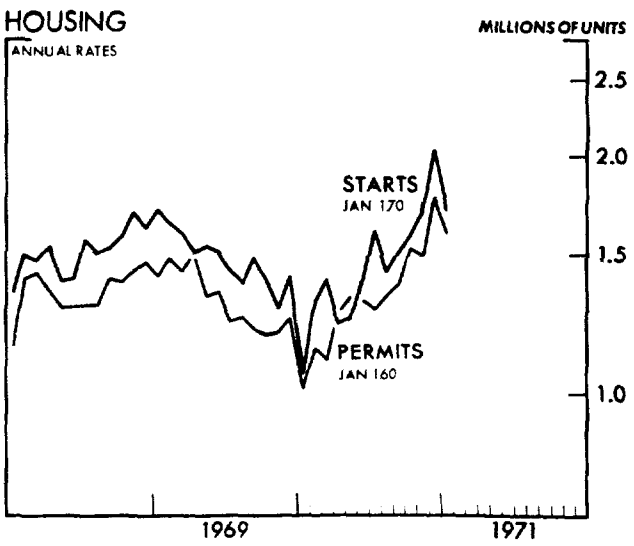






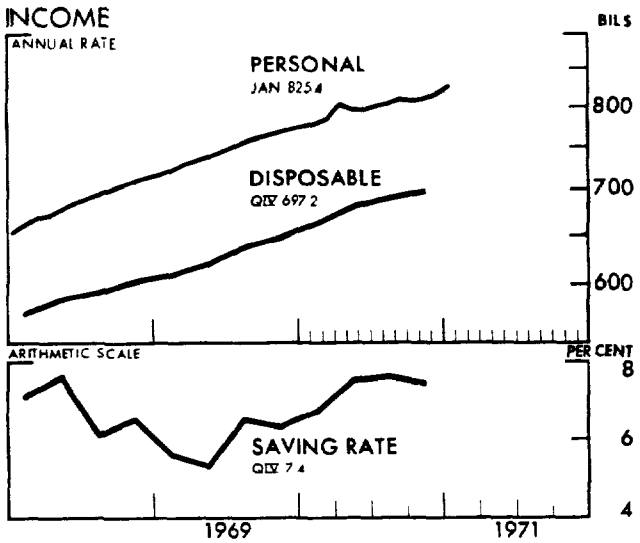


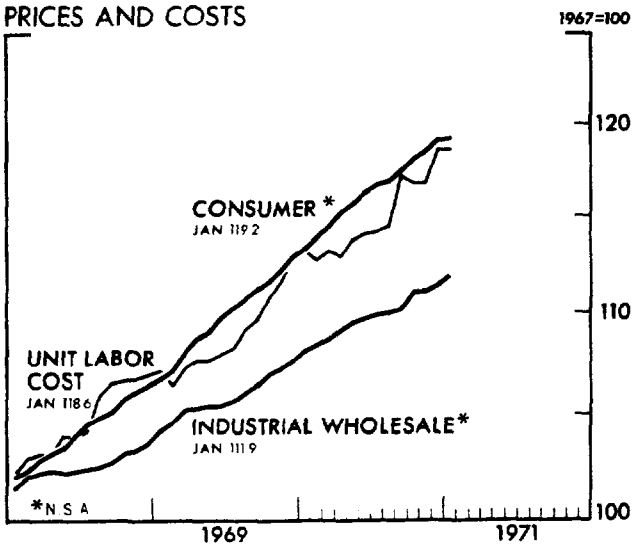


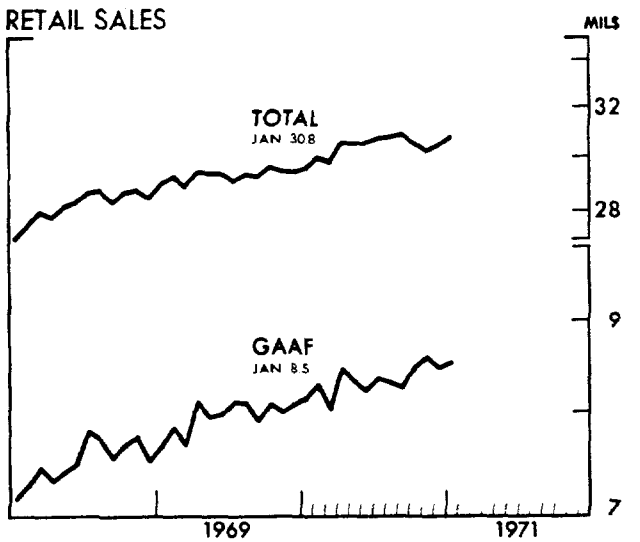


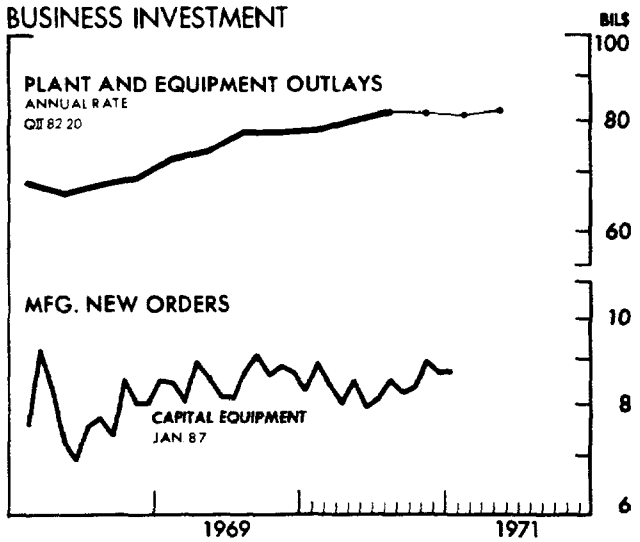
ECONOMIC DEVELOPMENTS - UNITED STATES

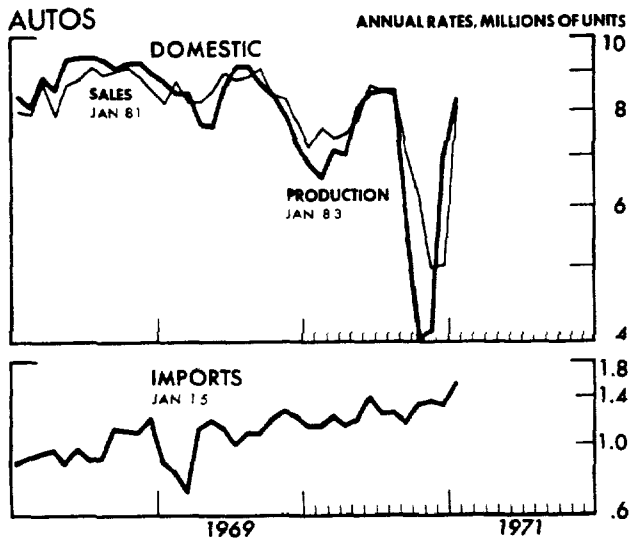
SEASONALLY ADJUSTED, RATIO SCALE

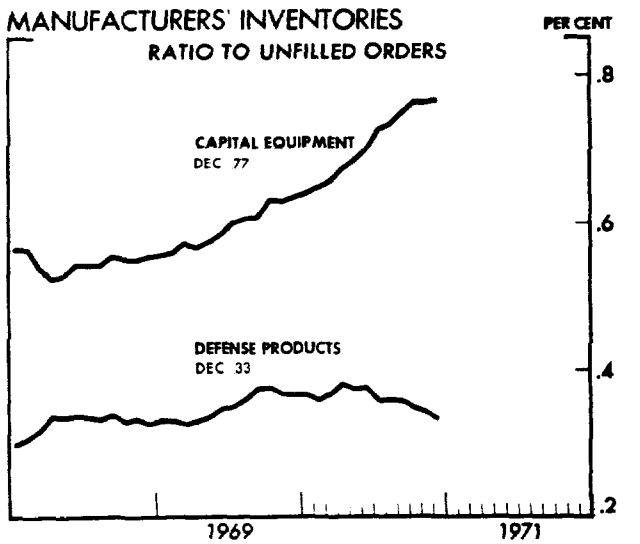












THE ECONOMIC PICTURE IN DETAIL

Domestic Financial Situation

Monetary aggregates. The money supply, narrowly defined (M_1), and other monetary aggregates rose sharply in February. Preliminary estimates indicate that the daily average level of M_1 rose from January to February at an annual rate of about 15 per cent, with currency holdings and private demand deposits both increasing sharply. This advance counterbalanced the weak gains of other recent months--except in December when growth was fairly sharp--and raised the rate of growth of M_1 since last September to 5.3 per cent, compared with 6.1 per cent in the third quarter of last year. The rate of growth in M_2 (M_1 plus time and savings deposits at commercial banks other than large CD's) also increased in February, to an annual rate of 22 per cent, as an increase in the rate of inflow of time deposits combined with the step up in M_1 growth. The rate of growth in M_2 since September has been 12.4 per cent compared with 11.0 per cent in the third quarter of last year. The February estimates are subject to revision when data for the last several days of February become available; revised estimates will be presented in the Supplement.

Exceptionally rapid growth in consumer-type time and savings deposits at weekly reporting banks was a major factor in the high rate of advance of the time deposit component of M_2. In addition, at country member banks time and savings deposit inflows appear to have continued at the historically high rate of advance recorded in January. At both

groups of banks, savings deposit inflows were particularly strong, reflecting the improved competitive position of savings deposits vis a vis other types of available liquid investments. However, growth in other time deposits included in M_2 was quite modest as outflows of foreign official funds nearly offset increases in State and local deposits and other deposits.

Even though growth in large certificates of deposits diminished substantially further, as banks became much less aggressive in issuing these certificates, the over-all gain in total time and savings deposits was at an annual rate of about 27 per cent in February, slightly more than recorded in January and significantly above the rate for the fourth quarter.

Reflecting the sharp advances in private deposits, a modest decline in Treasury deposits and further reduction in nondeposit sources of funds, the adjusted credit proxy is estimated to have increased at an annual rate of 13 per cent in February, a stronger gain than that recorded in January and in the fourth quarter. Commercial paper indebtedness of subsidiaries and affiliates and liabilities to foreign branches were both reduced over the month.

MONETARY AGGREGATES
(Seasonally adjusted percentage changes at annual rates)

	1970			1971	
	QII	QIII	QIV	Jan.	Feb.
1. Currency plus private demand deposits	5.8	6.1	3.4	1.1	15.0
2. Commercial bank time and savings deposits	14.1	32.2	21.8	25.5	27.0
a. large CD's	61.8	256.2	79.4	50.9	11.0
b. other time and savings	11.3	16.5	15.4	22.3	29.5
3. Savings deposits at mutual savings banks and S&L's	7.0	9.3	11.5	25.3	n.a.
4. Adjusted bank credit proxy	6.5	17.2	8.3	10.5	13.0
Concepts of money					
5. M_1 = (1)	5.8	6.1	3.4	1.1	15.0
6. M_2 = (1) + (2b)	8.4	11.0	9.2	11.2	22.0
7. M_3 = (1) + (2b) + (3)	7.9	10.3	9.7	14.2	n.a.

n.a. - Not available.

Bank credit. Commercial bank credit (adjusted for loan transfers between banks and their affiliates) is estimated to have increased at an annual rate of 12.3 per cent from the last Wednesday of January to the last Wednesday of February. This is slightly below the pace of advance for January but considerably stronger than that for the fourth quarter of last year. Security acquisitions, although below the exceptionally strong gains recorded in December and January, remained quite large, about $2.6 billion, and accounted for somewhat more than half of the total credit advance. Growth in total loans

(adjusted for transfers) was also fairly substantial, nearly matching the strong advance recorded in January. A further pick-up in the rate of business loan expansion, to an annual rate of about 13 per cent, paced the increase in total loans.

An increase in holdings of Treasury securities was responsible for about 40 per cent of the increase in total investments. Coinciding with this expansion, the maturity composition of Treasury portfolios was markedly restructured as banks acquired a large volume of longer-term issues, primarily those with 7-year maturities and a 6-1/4 per cent coupon, in exchange for rights during the Treasury's midmonth refinancing operation. Bank holdings of other securities also expanded substantially further in February, but the gain was well short of the exceptionally sharp increases recorded in the November-January period. Growth in holdings of longer-term municipals continued, although at a somewhat reduced pace. Holdings of short-term municipals and Federal agency issues were also increased.

The advance in total loans (adjusted for transfers) was at an annual rate of 7.8 per cent. In addition to the expansion in business loans, gains were recorded in most other loan categories except loans to nonbank financial institutions, which remained unchanged, and loans to brokers and dealers, which dropped sharply. The advance in real estate loans, while still moderate, appears to be somewhat above the average monthly increase recorded in the fourth quarter.

The strong advance in business loans in February appears to be partly attributable, as was the turnaround in January, to a temporary

cutback in the volume of loans being repaid with proceeds from capital market financings. But after allowing for this factor, growth still appears quite substantial, with stronger than seasonal gains recorded in several industry lines. While the general expansion in business loans may reflect stepped-up loan demands arising in conjunction with the first quarter bulge in business activity, it also appears that banks are seeking loans more aggressively--as suggested by the January 31 loan commitment survey (see Appendix A).

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

	1970			1971	
	HI	QIII	QIV	Jan.	Feb. 2/
Total loans & investments 3/	4.5	13.9	6.1	14.9	12.3 5/
U.S. Government securities	8.5	25.9	2.8	8.3	22.6
Other securities	10.4	20.3	34.5	39.3	20.4
Total loans 3/	2.4	9.8	-1.0	9.1	7.8
Business loans 4/	8.1	1.8	-9.2	5.4	11.8

1/ Last Wednesday of month series.
2/ All February changes are preliminary estimates based on incomplete data and are subject to revision.
3/ Includes outstanding amounts of loans sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
4/ Includes outstanding amounts of business loans sold outright by banks to their own holding companies, affilites, subsidiaries, and foreign branches.
5/ Excludes $814 million of System matched sale-purchase agreements outstanding on February 24.

Nonbank depositary intermediaries. Deposit inflows to both mutual savings banks and savings and loan associations during January were even stronger than early indications had suggested, and these

inflows have apparently continued large at least through the first half of February. The recent backup in corporate bond yields, discussed in a subsequent section, should not have much impact on thrift institution flows, because in the securities markets most competitive with deposits--short-term Government and Agency issues--the rate advantage for deposits has widened. Indeed, deposit inflows have been so exceptionally large that thrift institutions are expected to continue to de-emphasize their promotion of accounts and to require stricter nonrate terms--such as larger minimum balances--on deposits. While there is now no substantive evidence of cuts in offering rates at nonbank thrift institutions, the staff also expects rate adjustments to develop soon at these institutions.[1/]

DEPOSIT GROWTH AT NONBANK THRIFT INSTITUTIONS
(Seasonally adjusted annual rates, in per cent)[1/]

	Mutual Savings Banks	Savings and Loan Associations	Both
1970 - QI	2.7	2.3	2.5
QII	6.4	7.2	7.0
QIII	6.9	10.6	9.3
QIV	10.2	12.1	11.5
November*	9.3	9.5	9.4
December*	13.6	14.5	14.2
1971 - January* p/	15.0	30.3	25.3

1/ Seasonal adjustment factors have been updated, and S&L data have been revised from benchmarks.
* Monthly patterns may not be significant because of difficulties with seasonal adjustment.
p/ Preliminary.

1/ News articles have suggested that the most immediate form of "rate cutting" was the cessation of offering, or restriction of terms on, higher-rate accounts. This is borne out to a limited extent by a survey of Massachusetts mutual savings banks' deposit offering rates as of January 31, 1971--the only systematic data available since the sharp drop in short-term market yields. The principal change that had occurred since the October 31 survey of these institutions was that many had stopped offering daily interest crediting. There were no cutbacks in the rates being offered on regular or special notice accounts--a few savings banks actually increased their regular account rate--but the survey unfortunately did not include information on longer term accounts.

There continues to be evidence that savings and loan associations are experiencing some difficulty in channeling their vastly increased fund flows into immediately available new mortgages. During January, as in December, purchases of mortgages in the secondary market were made in large volume, and the acquisition of liquid assets reached a mammoth volume of $1.7 billion--more than half the increase for all of 1970. Mutual savings banks, on the other hand, have allocated their increased funds to corporate securities; during January, there was neither an increase in net mortgage acquisitions nor an increase in liquid assets held by savings banks.

The exceptionally rapid savings and loan liquid asset rebuilding has brought liquidity ratios to the highs reached during 1967 and early 1968. Some of this liquidity no doubt represents accumulation to take up outstanding mortgage commitments and to repay subsidized FHLBB fixed-term advances--$3.3 billion of which mature in April. There already has been some modest net repayment by S&L's of borrowed funds, and while it may represent some prepayment of the fixed-term advances, the largest part probably represents repayments of other advances.

LIQUIDITY OF INSURED SAVINGS AND LOAN ASSOCIATIONS[1/]

	October	November	December	January
Liquid assets held ($ billions) 2/				
1969-70	12.5	12.9	12.7	12.2
1970-71	14.4	14.9	14.8	16.5
Liquidity ratio (per cent) 3/				
1969-70	9.1	9.3	9.0	8.7
1970-71	9.7	9.9	9.7	10.7

1/ These associations represent about 97 per cent of industry resources.
2/ Consists of cash, U.S. Governments of any maturity, Federal Agency issues maturing within 5 years, and certain other short-term assets.
3/ Ratio of liquid assets to the sum of deposit liabilities and borrowed funds.

The Federal Home Loan Bank Board announced an increase in required liquidity ratios, effective April 1, from 5.5 per cent to 6.5 per cent of the sum of deposits and borrowed funds maturing within one year. This action is expected to have little immediate impact because the industry's aggregate liquidity ratio in January already was approaching 11 per cent.

Mortgage market. Continuation of strong deposit inflows to thrift institutions has been accompanied by a further buildup of mortgage commitments in advance of the spring building season, according to field reports and trade opinion. In January, the S&L's--which have accounted for most of the recovery--reported a record seasonally adjusted volume of both new and outstanding mortgage commitments.

Substantial decreases in mortgage yields have taken place as the availability of funds has improved. From last fall's record highs, loan rates paid by homebuyers have dropped more sharply in absolute terms than during the entire course of any other postwar downturn, although current levels are still advanced by pre-1969 standards. In January, contract rates on conventional first mortgages on new homes fell by as much as 35 basis points, according to the FHA series, and a further decline seems probable in February. Moreover, loan-to-price ratios and maturites for such loans remained close to the December averages, which were the most liberal in a year and a half, as measured by the FHLBB series.

RETURNS ON HOME MORTGAGES

Primary Market (Conventional loans)		Secondary Market (FHA and VA loans)	
Month	Rate	FNMA auction date	Yield
1970 - High, July, August	8.60	January 12	9.36
October	8.50	October 19	8.90
November	8.45	November 16	8.90
December	8.30	December 28	8.36
1971 - January	7.95	January 25	7.97
		February 8	7.67
		March 1	7.48

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

Effective February 18, contract rates on both FHA and VA mortgages were cut 1/2 of 1 per cent by administrative action, the third such reduction in as many months. This step brought the ceiling rate on these Government-underwritten loans down to 7 per cent, compared with 8-1/2 per cent as recently as last November. Even with the latest reduction in the ceiling rate, discounts on FHA and VA mortgages bearing the new 7 per cent rate averaged only 4 points in the March 1 FNMA auction of its forward purchase commitments. The average auction yield for 6-month commitments was down to 7.48 per cent, the lowest level since December 1968.

Corporate and municipal securities markets. Yields on prime corporate bonds rose over 80 basis points in February, reversing all of their January decline. An emerging belief that long-term interest rates, which had declined over 200 basis points since mid-1970, were at or near their cyclical lows led to buyer resistance in the new issue market, some liquidation of bonds in the secondary market, and accelerated filing of new issues by prospective borrowers concerned about the future cost of capital market financing.

Under the pressure of rapidly increasing forward supply and weaker demand, the corporate bond market underwent a period of sharp correction in February, with several syndicate terminations and cautious pricing of new issues by underwriters. Some weakness was also apparent in the tax-exempt market, where end-of-February yields were about 20 basis points above their January low, as measured by the Bond Buyer

index. The actual rise in yields was probably greater, since this index has recently shown some indication of a downward bias.

BOND YIELDS
(In per cent)

	New Aaa Corporate bonds 1/	Long-term State and local bonds 2/
1970		
Low	7.68 (12/18)	5.33 (12/11)
High	9.30 (6/18)	7.12 (5/28)
Week of:		
January 22	6.98	5.13
29	6.76 (1971 low)	5.16
February 5	6.91	5.27
12	6.97	5.05 (1971 low)
19	7.11	5.27
26	7.59	5.34

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

Even though about $300 million of scheduled bond offerings were postponed indefinitely or were moved into March during the unsettled market period in late February, total public bond offerings for the month were about $2.3 billion, 10 per cent above the average monthly pace for 1970. Because of the surge of filings and announcements in late February, the staff estimate for public bond offerings in March has been raised to a record $3.2 billion. While scheduled offerings are actually somewhat higher, the staff feels that, given such a large volume, further postponements and shifting are likely. Therefore, the April total has been projected at $2.6 billion, which allows for some

displacement of scheduled March issues into that month; the staff considers the April estimate to be on the low side; the volume may well be larger.

Bond offerings by financial firms, or financial subsidiaries of industrial firms, have become increasingly important in the first quarter of 1971. In particular, a number of banks and bank holding companies have announced debt issues recently, and there are reports that there will be more in the near future as banks seek to improve their capital positions. There has also been a marked increase in issues and filings, especially in recent weeks, by firms with bond ratings of Baa or lower and by commercial and consumer-oriented corporations. Public utility issues still continue at a high level, and the proportion of offerings by the communications industry in the first quarter may be even higher than it was last year.

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

	Bonds			
	Public offerings	Private placements	Stocks	Total
1969 - year	1,061	468	700	2,229
1970 - year	2,099	403	713	3,245
1970 - QIII	1,995	304	553	2,853
QIV	2,609	473	896	3,979
1971 - QI	2,500e	366e	683e	3,550e
January	2,000e	300e	450e	2,750e
February	2,300e	300e	600e	3,200e
March	3,200e	500e	1,000e	4,700e
April	2,600e	400e	900e	3,900e

e/ Estimated.

Because of an unusually small volume of new stock issues in January, estimated monthly average equity issues for the first quarter of 1971 seem likely to fall below the fourth quarter 1970 average; but scheduled equity financing appears to be building rapidly now, and both March and April are estimated at about $1 billion. There is also evidence of an increase in new commitment activity at life insurance companies, which may be reflected in an upward trend in takedowns in the second quarter of 1971. Except for the normal seasonal bulge in December of 1970, takedowns as reported by the SEC have changed little since mid-1970. Total corporate security offerings for the first quarter of 1971 are expected to be about 10 per cent below the record-setting fourth quarter of 1970, but the monthly average estimated for March and April marks a return to the late 1970 level.

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

1969 - year	2,228
1970 - year	1,515
1970 - QIII	1,490
QIV	1,954
1971 - QI	2,233e
January	2,700e
February	1,800e
March	2,200e
April	2,000e

e/ Estimated.

State and local government offerings of long-term securities in February were well below the January record total, which included an unusually large volume of revenue bonds. With new issue yields rising again in late February, some units apparently delayed proposed offerings. However, the forward calendar remains high, and the staff expects March and April volume to be around $2 billion each. Even at higher yields, new issues have been moving rather slowly and there are reports that bank acquisitions of long-term municipals have slackened in recent weeks.

Stock market. Although the rapid stock price advances of the past three months recently have been interrupted, trading volume continues at record levels. Daily volume, for the NYSE and AMEX combined, averaged 21.9 million shares in January and 25.6 million shares in February, compared with a combined average of 15 million shares for all of 1970.

Fails to deliver--the generally accepted indicator of brokerage back-office problems--have risen in each of the last seven months, reflecting this higher share turnover. But, at $1.7 billion, the February 19 estimated level of fails is still considerably below the peak of $4.1 billion reached in December 1968.

Financial writers have attributed much of the recent market activity to heavy institutional trading which, in turn, is thought to create fewer back-office problems because of the larger size of institutional trades. Analysis of the composition of NYSE transactions

suggests, however, that institutions have only slightly increased their relative share of total market activity in recent months and thus, cannot have been solely responsible for the rise in volume. For example, trading in blocks of over 10,000 shares--predominantly institutional--averaged 14 per cent of reported volume on the NYSE during the last six months of 1970 and about 16 per cent in January 1971. Moreover, trades of 100 and 200 shares, in which most round lot activity of individual investors is concentrated, have remained virtually constant as a percentage of total trades on the NYSE over the past six months. This suggests that the alleged reluctance of individuals to participate in the current market is exaggerated and the recent rise in fails has not been dampened by institutional trading. The comparatively low rate of rise in the level of fails in recent weeks is more likely the result both of efforts to improve back-office efficiency and continued slow trading in securities most likely to result in fails, particularly OTC stocks.

Government securities market. Yields on long-term Treasury issues moved somewhat higher during February in reflection of the weakening corporate market and changing interest rate expectations. Bill rates, however, declined by around 80 basis points as the System worked for progressively easier money market conditions, foreign official buying became quite heavy, and investors apparently sought short-term liquidity on the expectation that the broad decline in yields in recent months had bottomed out. With these rate movements, the spread of the

10-year Treasury yield over the 3-month bill rate widened from about 190 to around 270 basis points, a wider divergency between these rates than even in mid-1967 and nearly a 150 basis points greater spread than in late summer when yields began generally to move lower.

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

	1970		Weekly average for week ending			
	Daily highs 1/	Daily lows 1/	Feb. 9	Feb. 16	Feb. 23	Mar. 2
Bills						
1-month	7.84 (1/28)	4.58 (12/28)	3.96	3.66	3.44	3.32
3-month	7.93 (1/16)	4.74 (12/17)	3.91	3.66	3.52	3.39
6-month	7.99 (1/5)	4.78 (12/17)	3.95	3.71	3.62	3.52
1-year	7.62 (1/30)	4.74 (12/31)	3.98	3.77	3.71	3.66
Coupons						
3-year	8.42 (1/7)	5.60 (12/4)	5.25	5.11	4.90	4.83
5-year	8.30 (1/7)	5.85 (12/4)	5.71	5.61	5.42	5.36
7-year	8.12 (4/26)	6.10 (12/4)	6.06	6.00	5.81	5.77
10-year	8.22 (5/26)	6.21 (12/4)	6.09	6.09	6.13	6.12
20-year	7.73 (5/26)	6.15 (12/16)	6.09	6.09	6.17	6.23
Agencies						
6-month	8.65 (12/27)	5.30 (12/31)	4.37	4.08	3.98	3.94
1-year	8.75 (1/2)	5.53 (12/24)	4.64	4.47	4.34	4.23
3-year	8.54 (1/2)	6.16 (12/21)	5.69	5.57	5.43	5.29
5-year	8.43 (1/15)	6.37 (12/21)	6.07	5.97	5.83	5.68

1/ Latest dates of high or low rates in parentheses.

Downward pressures on short-term rates were intensified by relatively low dealer bill positions in the month. Some small relief for this situation was provided by the Treasury offering on February 18 of a $1.2 billion "strip" of bills in the 3- to 6-month maturity range; however, many of the underwriting banks chose to retain their awards of the "strip", and dealer bill positions were increased relatively little.

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

	February Daily Average	Feb. 8	Feb. 11	Feb. 22	Mar. 1
Treasury securities					
Total	4,652	4,539	4,214	3,798	3,997
Treasury bills (total)	3,073	2,711	2,585	2,357	2,944
Due in 92 days or less	844	615	615	386	707
93 days or over	2,229	2,096	1,970	1,971	2,236
Treasury notes and bonds (total)	1,579	1,829	1,629	1,441	1,053
Due within 1-year	243	202	204	296	286
1-5 years	569	756	587	427	323
over 5 years	766	871	839	719	444
Agency securities					
Total	946	989	916	909	977
Due within 1 year	578	527	474	578	659
over 1 year	369	462	442	331	318

The market for Treasury notes and bonds responded favorably to the $619 million of System purchases of coupon issues, of which $38 million were in the over-5-year maturity area. These purchases, which were undertaken over the course of five separate operations, brought total System purchases of coupon issues since late November to $1.3 billion, with $582 million of that amount in over-5-year maturities. While the weakening corporate bond market offset the effect of System buying in long maturities and yields on 10- and 20-year Treasury issues have pushed higher, intermediate Treasury yields are 25 to 30 basis points lower than in early February. In the longer-term market, the

yield increases on Government issues have been smaller than in the private market, and thus the spread between new Aaa-rate corporate yields and the 10-year Treasury yield has widened to around 1-1/2 percentage points, compared with a one percentage point in January and an historically "normal" spread of less than one percentage point.

The market for Federal agency securities has been quiet for the most part. The FHLB continued to repay debt in February by not refinancing a $600 million maturing issue. Other agency issues raised only about $600 million in net new money in the month, more than half of which was accounted for by FNMA which issued $700 million of new securities, $200 million of which were 12-1/4 year maturities, to replace a $350 million maturity. The cash proceeds of this FNMA issue are expected to be used to begin retiring $1.0 billion of FNMA discount notes.

Other short-term credit markets. During January seasonally adjusted commercial and finance company paper outstanding fell $552 million to $33.0 billion. Declines totaling $1.1 billion in bank-related paper and finance company paper were only partially offset by a $517 million rise in dealer paper.

The continuing increase in dealer paper outstanding is apparently attributable to the differential between the cost of bank borrowing and the issue price of commercial paper, which has made paper a more attractive source of short-term funds for corporations with access to the market. The rate spread between bank loans and commercial

paper is again large despite the decline in the prime rate to 5-3/4 per cent in early February. Commercial paper rates moved down further in the week of February 24, to a 4 to 4-3/4 per cent range.

Finance company paper, which showed a seasonally adjusted decline of only $285 million during the GM strike, fell $750 million during January. This large decline in a period of recovery in automobile sales may reflect in part the aggressive competition of commercial banks, which have been bidding actively to make consumer loans in the automotive area.

Declines in short-term interest rates ranged from 15 to 100 basis points during February, continuing their downward movement. Finance company paper rates have fallen particularly sharply; one-month paper rates fell to 3-1/4 per cent in the week of February 17-February 24, a level that was lower than the prevailing bill rate, but subsequently finance company rates rose somewhat. Declines in CD rates tended to lag behind the continued downward movement in bill rates during most of February, but since February 24 CD issuing rates have declined further.

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

	October 1970	December 1970	January 1971
		Amount Outstanding	
Total commercial and finance paper 1/	34,174	33,535	32,983
Bank related 2/	3,699	2.349	2,030
Nonbank related 3/			
Placed through dealers	12,246	13,242	13,759
Placed directly	18,229	17,944	17,194
		Net Change	
Total commercial and finance paper 1/		-639	-552
Bank related 2/		-1,350	-319
Nonbank related 3/		711	-233
Placed through dealers		996	517
Placed directly		-285	-750

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

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

	1970		Jan. 27	Feb. 17	Feb. 24	Net change Jan. 27, 1971 Feb. 24, 1971
	Highs	Lows				
1-month						
Commercial paper	9.25	5.50	4.50	4.25	4.00	- .50
Finance paper	9.00	5.00	4.25	3.88	3.25	-1.00
Bankers' acceptances	9.00	5.50	4.68	4.25	4.00	- .68
Certificates of deposit-- new issue 1/	7.75	5.00	4.25	4.00	3.88	- .37
Treasury bill	7.84	4.58	4.17	3.51	3.35	- .82
3-month						
Commercial paper	9.25	6.00	5.13	4.88	4.75	- .38
Finance paper	8.25	5.50	4.50	4.25	3.75	- .75
Bankers' acceptances	9.00	5.50	4.68	4.25	4.00	- .68
Certificates of deposit-- new issue 1/	6.75	5.50	4.63	4.13	4.13	- .50
Treasury bill	7.93	4.74	4.22	3.60	3.41	- .81
6-month						
Bankers' acceptances	9.00	5.50	4.68	4.25	4.00	- .68
Treasury bill	7.99	4.78	4.26	3.69	3.55	- .71
12-month						
Certificates of deposit-- new issue 1/	7.50	5.50	4.63	4.38	4.25	- .38
Treasury bill	7.62	4.74	4.24	3.76	3.67	- .57
Prime municipals 1/	5.80	2.95	2.45	2.30	2.30	- .15

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

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

Federal finance. While there have been no major new fiscal policy actions since the last Greenbook, recent experience has indicated a shortfall in receipts and also somewhat higher expenditures relative to earlier staff estimates for fiscal 1971. Reflecting this, receipts on a unified budget basis are now estimated to be $193.4 billion (compared to the earlier estimate of $194.2 billion), while the estimate of outlays has been increased by $300 million to $213.3 billion. This results in an estimated budget deficit for fiscal 1971 of $19.9 billion. The fiscal 1972 projections have not been changed.

The staff downward revision in fiscal 1971 receipts is accounted for by corporate taxes, where current declarations have been running low and refunds unusually high. There is also some uncertainty in regard to the administrative acceleration of withheld tax payments that was effective February 1, which involves an expected boost of $1 billion in fiscal year 1971 receipts. This acceleration has not yet shown up in actual tax receipts, and thus is now expected to increase tax receipts in March rather than in February, as earlier estimated.

The upward revision in fiscal 1971 budget outlays results from higher than expected outlays during the past six weeks; preliminary data on outlays have not provided any firm indication of previsely which expenditure categories are running high. The timing of the increase in social security payments is in some doubt. Board staff is still projecting a 10 per cent increase in benefits, but passage is unlikely before the end of March. The staff is projecting retroactive payments by the end of May, but this now looks like the earliest possible date for these

payments, and the resulting boost in consumer spending power could be delayed until the third quarter if the preparation of checks takes a longer time than the staff has allowed for.

Staff projections of the high employment budget remain substantially unchanged: a small surplus is still projected for the current quarter, followed by a temporary deficit in the second quarter that reflects the estimated timing of the retroactive social security checks. This results in a high-employment deficit of about $1 billion for fiscal 1971, with a similar deficit projected for fiscal 1972.

The deficits being incurred this year and next will require an increase very shortly in the Federal debt ceiling. The House Ways and Means Committee has approved an increase in the debt ceiling level from $395 billion to $430 billion, along with removal of the interest ceiling on government bonds for $10 billion of new issues. The redemption of tax anticipation bills on March 22 is expected to provide some temporary leeway under the now existing debt ceiling, and is expected to leave room for a $2 billion financing operation in late March, probably in the form of an offering of Treasury bills. Additional sizable Treasury borrowing will be needed in early April, which presumably will not be possible under the existing debt ceiling. However, Congressional action on the new debt ceiling may be completed by the end of March, allowing the April financing to take place as scheduled.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Feb.	March	April	May
Total net borrowing	--	.3	1.3	2.6
Weekly and monthly bills	1.4	--	--	--
Tax bills	--	-2.5	-2.3	--
Coupon issues	--	--	--	--
As yet unspecified new borrowing	--	2.0	3.5	3.5
Other (debt repayments, etc.)	-1.4	.8	.1	-.9
Plus: Other net financial sources[a/]	-.8	.7	.6	-.2
Plus: Budget surplus or deficit (-)	-.9	-4.9	3.5	-5.4
Equals: Change in cash balance	-1.7[b/]	-3.9	5.4	-3.0
Memoranda: Level of cash balance, end of period	7.9[b/]	4.0	9.4	6.4
Derivation of budget surplus or deficit:				
Budget receipts	16.1	13.5	22.3	14.6
Budget outlays	17.0	18.4	18.8	20.0
Maturing coupon issues held by public	5.0[c/]	1.0[c/]	--	5.8
Net agency borrowing	-.2	-.1	-.1	-.2

a/ Checks issued less checks paid and other accrual items.
b/ Actual
c/ Refunded during February quarterly refinancing.

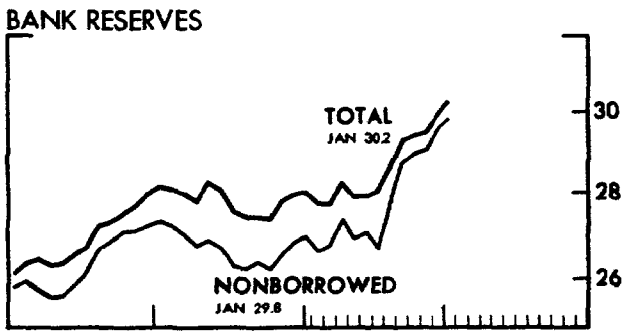
FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS
(In billions of dollars)

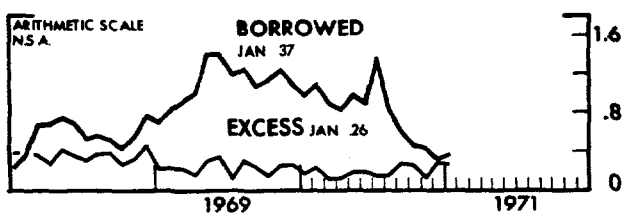
	Fiscal 1971e/		Fiscal 1972e/		Calendar Years		F.R. Board Staff estimates				
							Calendar Quarters				
	Jan. Budget	F.R. Board	Jan. Budget	F.R. Board	1970 Actual	1971e/	1970 IV	1971 I	II	III	IV
Federal Budget											
(Quarterly data, unadjusted)											
Surplus/deficit	-18.6	-19.9	-11.6	-21.6	-11.4	-24.1	-8.9	-7.1	3.8	-9.6	-11.2
Receipts	194.2	193.4	217.6	213.4	190.5	200.6	41.1	45.4	60.5	49.9	44.8
Outlays	212.8	213.3	229.2	235.0	201.9	224.7	49.9	52.5	56.7	59.5	56.0
Means of financing:											
Net borrowing from the public	17.6	18.7	10.6	20.6	11.8	22.8	8.9	1.0	1.4	8.4	12.0
Decrease in cash operating balance	n.a.	.1	n.a.	--	-2.8	.2	.7	4.1	-3.9	--	--
Other 1/	n.a.	1.1	n.a.	1.0	2.4	1.1	-.7	2.0	-1.3	1.2	-.8
Cash operating balance, end of period	n.a.	7.9	n.a.	7.9	8.1	7.9	8.1	4.0	7.9	7.9	7.9
Memo: Net agency borrowing 2/	n.a.	2.4	n.a.	n.e.	8.2	n.e.	1.5	-.4	-.3	n.e.	n.e.
National Income Sector											
(Seasonally adjusted annual rate)											
Surplus/deficit	-15.0	-16.7	-4.2	n.e.	-11.1	-18.1	-16.6	-15.6	-22.6	-17.2	-16.9
Receipts	200.0	198.6	225.9	n.e.	195.2	207.6	193.3	200.8	205.3	207.9	216.5
Expenditures	215.0	215.2	230.1	n.e.	206.3	225.7	209.9	216.4	227.9	225.1	233.4
High employment surplus deficit (NIA basis) 3/	n.a.	-.8	n.a.	-1.0	-.8	.6	1.3	1.6	-4.4	3.8	1.3

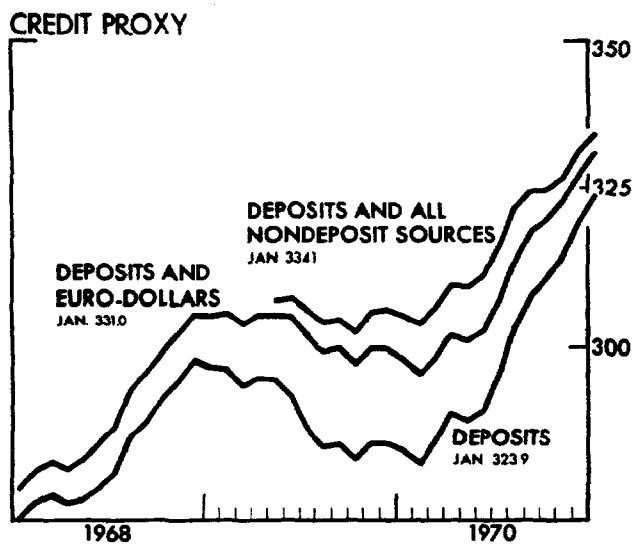
* Actual e--projected
n.e.--not estimated n.a.--not available
1/ Includes such items as deposit fund accounts and clearing accounts.
2/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal Land Banks, Federal Intermediate Credit Banks, and Banks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

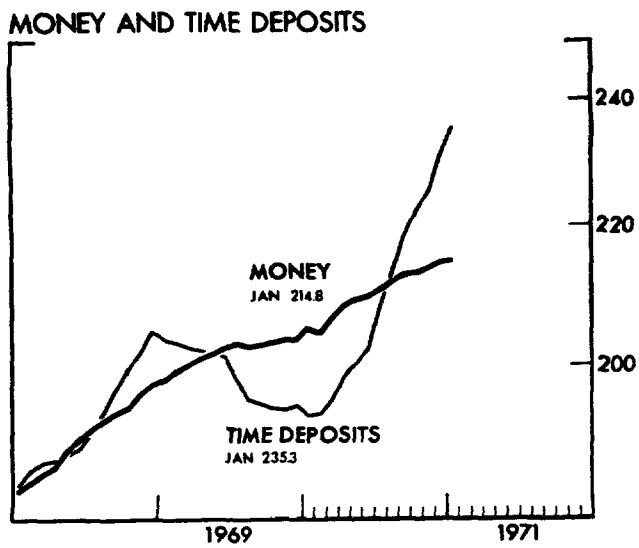
FINANCIAL DEVELOPMENTS - UNITED STATES

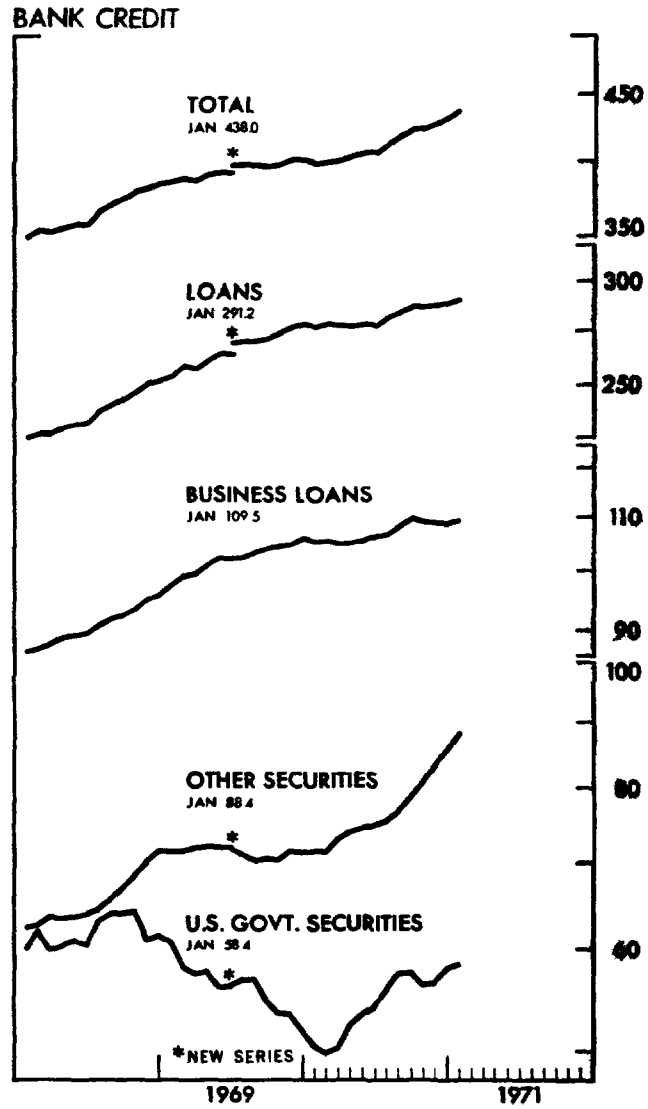
BILLIONS OF DOLLARS, SEASONALLY ADJUSTED, RATIO SCALE

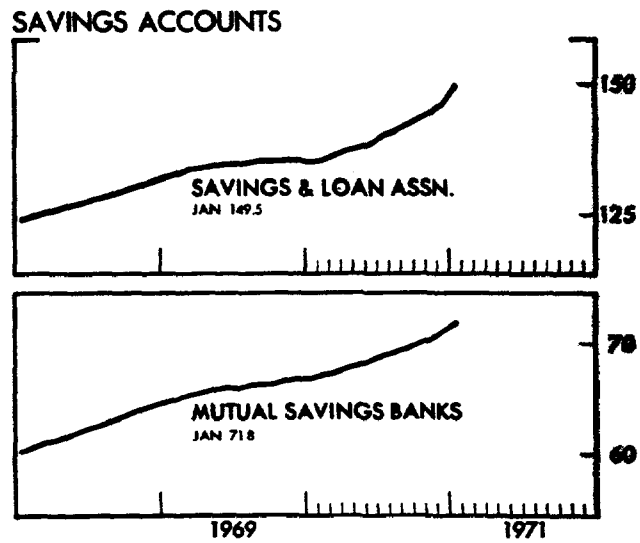




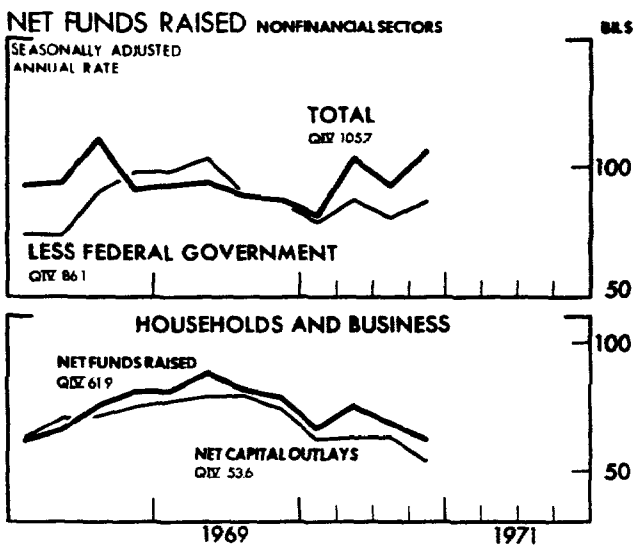


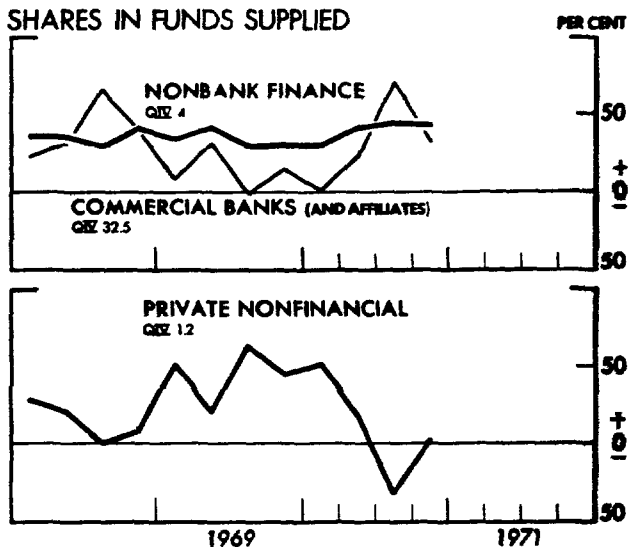


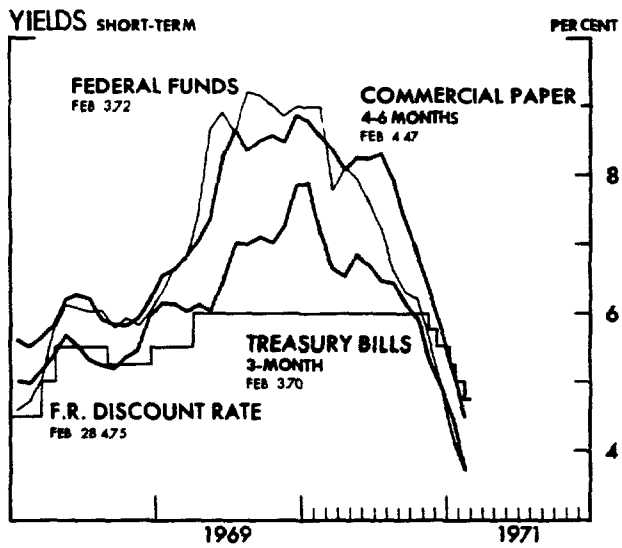


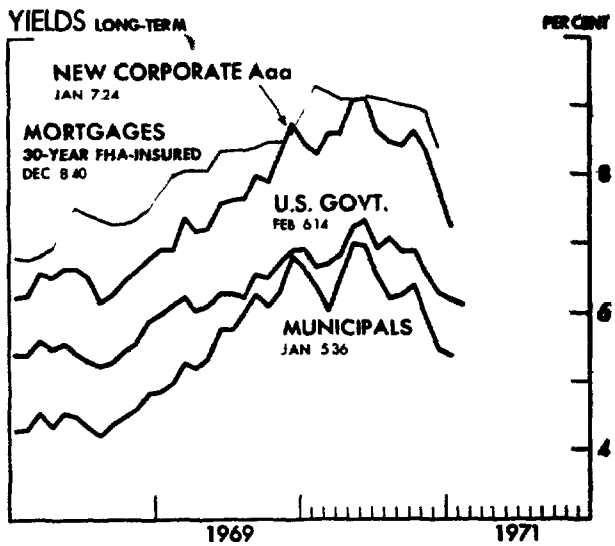


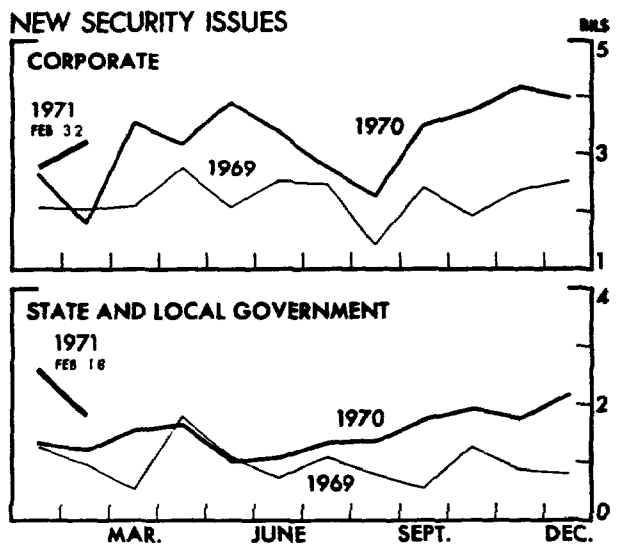
FINANCIAL DEVELOPMENTS - UNITED STATES

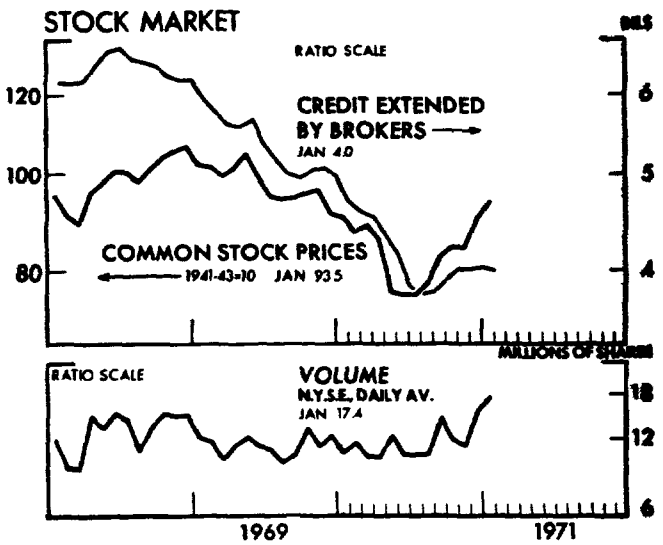












THE ECONOMIC PICTURE IN DETAIL

International Developments

U.S. balance of payments. The payments deficit on the liquidity basis appears to have worsened considerably in January-February. Preliminary data indicate an unadjusted deficit for the two months of over $1-1/2 billion, apart from SDR allocations and special transactions. The seasonal adjustment is probably small. At this rate the deficit in the first quarter would be far above the $3 billion annual rate of the last half of 1970.

The factors responsible for this deterioration can presently be identified only in small part. The trade surplus, which had been at an annual rate of $3 billion in the third quarter of 1970 and $3/4 billion in the fourth quarter, was virtually zero in January, as discussed below. The limited information now available on identifiable capital flows seems generally favorable. Bank-reported claims on foreigners were reduced by $1/2 billion in January, considerably more than the inflow which customarily occurs in that month, reversing the larger-than-usual outflows of December. U.S. purchases of foreign securities remained relatively small, apart from a $200 million issue by the World Bank. Net foreign purchases of U.S. stocks were about $150 million (based on incomplete data), about the same as the high rate of the fourth quarter of 1970. Although sales of Eurobonds in January by U.S. firms were quite small, there was a sizable

pick-up in February to $150 million, including a $50 million convertible issue by the Ford Company, the first such offering in some time. With the strong upturn in the U.S. stock market, U.S. corporations may be able to find renewed acceptance for convertible debentures abroad to finance their foreign direct investment outlays.

On the official settlements basis, the January-February deficit (not seasonally adjusted) apparently considerably exceeded $2 billion, approaching the record rate of the last quarter of 1970, even though repayments of Euro-dollar borrowings have been smaller. In January the decline in liabilities to foreign branches (apart from the reduction of $1 billion connected with the purchase of Export-Import Bank notes) was very small, but in February it may have been about $3/4 billion.

U.S. foreign trade. According to preliminary data, the trade balance in January fell to nearly zero, as imports advanced by a very sharp 7 per cent from December while exports increased more moderately -- by about 4-1/2 per cent. This extended the steady deterioration in the trade balance since mid-1970, when for two months peak surpluses of $5 billion, at a seasonally adjusted annual rate (balance-of-payments basis), were recorded. Most of this shrinkage stems from a sharp acceleration in the growth of imports by value, partly reflecting higher prices. Imports rose from an annual rate of $39 billion in the first half of 1970, to $40 billion in the third quarter, and over $41 billion in the fourth quarter. In December and

January, imports averaged $42.3 billion at an annual rate, about 11 per cent higher than in the same period a year earlier.

Imports of all major commodities, except crude oil and fuel oil, increased in January. Coffee imports rose in order to rebuild inventories, drawn down in the fourth quarter with the expectation that lower prices would result from expanded international coffee quotas. Increased imports of building materials, such as lumber, plywood, and glass, appear to be in response to the resurgence in housing starts. Steel imports continued their upward climb partly because of hedge buying in anticipation of a summer steel strike. Imports of machinery, particularly office machines and textile equipment, rose sharply, while auto imports from Canada recovered somewhat from the fourth quarter low caused by the GM strike. Imports of other nonfood consumer goods -- televisions and radios, furniture, clothing, footwear, and tape recorders -- showed large gains, despite the continued slack in overall domestic consumer demand.

The trend of total exports in recent months has not produced as many surprises as the rise in imports. The January increase in exports made up for a dip in November and December, resulting partly from the GM strike. The December-January average annual rate of $42.8 billion was about 8 per cent above the same period a year earlier.

In January, sizable increases occurred in machinery exports, which had fallen off somewhat at the end of last year. Shipments of

automotive equipment showed a steep rise, especially in exports of parts to Canada and to other areas, reflecting the recovery from the GM strike. Exports of agricultural commodities expanded further in January from the already high levels prevailing throughout 1970. Deliveries of commercial aircraft, which are expected to rise in the next few months, declined slightly in January.

Euro-dollar market. Following a temporary firming in late January and early February, Euro-dollar rates declined more rapidly than U.S. money market rates through most of February -- resulting in a narrowing of the excess of Euro-dollar rates over the cost of domestic funds to U.S. banks in comparable maturities, and a widening of spreads between European national money market rates and Euro-dollar rates.

SELECTED EURO-DOLLAR AND U.S. MONEY MARKET RATES

Average for month or week ending Wednesday	(1) Call Euro-$ Deposit 1/	Federal Funds 2/	(3)= (1)-(2) Differential	(4) 3-month Euro-$ Deposit 1/	(5) 60-89 day CD rate (Adj.) 3/	(6)= (4)-5 Differential
1970						
December	6.70	4.90	1.80	7.25	5.82	1.43
1971						
January	5.16	4.14	1.02	5.92	5.10	0.82
Feb. 3	5.54	4.09	1.45	5.81	4.61	1.20
10	5.35	3.59	1.76	5.78	4.34	1.44
17	4.19	4.14	0.05	5.44	4.21	1.23
24	4.13	3.47	0.66	5.29	4.21	1.08
Mar. 3	4.60	3.45p/	1.15p/	5.21	3.95p/	1.26p/

1/ All Euro-dollar rates are noon bid rates in the London market.
2/ Effective rate.
3/ Offer rate (median, as of Wednesday) on large denomination CD's by prime banks in New York City; C/D rates are adjusted for the cost of required reserves.
p/ Preliminary.

Gross liabilities of U.S. banks to their foreign branches declined about $3/4 billion from February 3 to 24, to a total of $6.8 billion. Partial data available through March 1 show a further decline in borrowings of about $125 million.

In the four week Euro-dollar reserve requirement computation period ended February 17, the banks' daily average borrowings plus foreign branch holdings of special Ex-Im Bank securities were about $280 million lower than in the previous period. In February 18 - March 1, average borrowings were down further, by about $1 billion. An additional Ex-Im note offering of $1/2 billion was made on February 26, with payment to be made on March 3.

Foreign Exchange Markets. The dollar was at the floor against nearly all major foreign currencies in the exchange markets in February. Central banks of the EEC countries, the U.K., Switzerland, and Canada made net spot and forward purchases of dollars totaling about $2.9 billion for the month, a record amount for a period apparently free of speculative flows. These reserve gains reflected both the underlying U.S. balance of payments and -- we believe -- sizable interest-induced flows of capital. The major reserve gainers in February were the U.K. and Germany which had total net purchases of dollars in the amounts of $1.4 billion and $960 million, respectively.

One notable element of central bank exchange market intervention during the period was the extensive forward market operations conducted by the Bank of England and, to a lesser extent, by the German

Federal Bank. Both the U.K. and Germany are trying to hold to relatively restrictive monetary policies, desired for domestic reasons but threatened by continuing interest-induced inflows of funds. By selling their own currencies in the forward market the two central banks are switching market demand for their domestic currencies (and their own net purchases of dollars) from the spot market to the forward market. To the extent that this is accomplished, the central bank's purchases of dollars and the consequent additions to the domestic monetary base are postponed, making it easier for the central bank to continue for a time a monetary policy out of phase with U.S. monetary policy. The Bank of England in February had net forward sales of sterling (purchases of dollars) of roughly $600 million, mainly in the form of swaps. The Bundesbank, operating through the Federal Reserve Bank of New York in the New York market, had net (outright) forward sales of marks (purchases of dollars) amounting to about $225 million between February 25, when the operations began, and March 2. A specific aim of the German operations is to reduce the covered-interest differential in favor of movements into DM; it was hoped that this could be done without a large volume of transactions, but whether that will be possible is still to be seen.

In other official operations in February, the System drew $155 million on the swap facility with the National Bank of Belgium and $150 million on the line with the Swiss National Bank, providing

exchange cover for those banks' dollar intake. Outstanding indebtedness now amounts to $385 million on the Belgian line and $450 million on the Swiss line. On March 5, the System will repay the remaining $75 million equivalent on the Dutch line, using existing System DM balances.

Interest rates in major industrial countries abroad. Despite some reduction in demand pressures, monetary authorities in most European countries and Japan have continued to be concerned over rising prices and costs. Consequently, they have either maintained a restrictive policy stance (as in Germany, the Netherlands, and the United Kingdom) or have relaxed monetary conditions only gradually (as in France, Italy, and Japan). Hence, while interest rates in these countries have been influenced in recent months by rate declines in this country and in the Euro-dollar market, and have generally declined, they have remained at much higher levels than rates in the U.S. and Euro-dollar markets, and the resulting differentials have given rise to heavy capital flows. In some cases, the differentials have widened in recent weeks; short-term rates have not declined much in Germany since January, and have actually risen in the United Kingdom.

Canadian monetary policy remains moderately expansive. While short-term interest rates there firmed for a time early this year, they have fallen to new lows since last week's discount rate reduction. Canadian official reserve gains of about $200 million since last September have not been the result of unusually large capital inflows.

Official reserves of the EEC countries and the United Kingdom have risen by more than $7 billion since last September, most of which probably has resulted from net capital inflows. A large portion of Japan's reserve gains of roughly $1 billion during this period is also attributable to capital inflows.

Capital flows into Germany and the United Kingdom have been particularly massive. Central banks of these countries and of one or

two other countries that have also been anxious to continue monetary restraint have taken measures to neutralize -- at least in part -- the secondary expansionary effects of capital inflows. The Bank of England and the Netherlands Bank have made sizable dollar swaps with commercial banks. The Bundesbank raised reserve requirements on all deposits in December. The Bank of England has severely restricted short- and medium-term borrowing of foreign currencies by U.K. firms, and both central banks have sought to sop up excess liquidity through open market sales of government securities: short- and medium-term in Germany and long-term in the United Kingdom. Swaps with commercial banks tend to postpone rather than permanently neutralize the secondary

SELECTED SHORT-TERM INTEREST RATES 1/

	1970				1971	Latest
	Sept.	Oct.	Nov.	Dec.	Jan.	
United Kingdom	7.42	7.23	7.12	7.23	7.35	7.62 (2/19)
Switzerland	5.50	5.50	5.25	5.25	5.00	4.75 (2/19)
Japan	8.50	8.15	7.75	8.00	7.38	7.25 (2/19)
Canada	5.33	5.13	4.59	4.35	4.50	3.94 (3/2)
Belgium	7.75	7.50	7.18	6.95	6.91	6.30 (2/22)
Germany	9.25	9.33	8.88	8.22	7.50	7.63 (3/2)
Netherlands	7.69	8.00	7.11	7.22	6.72	5.88 (2/25)
France	8.12	7.85	7.25	7.47	6.34	5.78 (2/26)
Italy	8.00	7.50	7.38	6.00	5.50	5.50 (Jan.)
Euro-dollar	7.98	7.99	7.19	7.15	5.89	5.12 (2/23)
United States	6.14	5.83	5.25	4.79	4.30	3.30 (3/2)

1/ Rates quoted are monthly averages, generally for 3-month funds, as follows: Italy and Switzerland, time deposits; Germany, interbank loan rate; United Kingdom, local authority deposit; Netherlands, local authority loan; Canada and United States, Treasury bills; Belgium, tap rate on Treasury bills; Euro-dollar deposit; France and Japan, call money rate. Latest rates are for the dates in parentheses.

impact of capital inflows and further defensive measures may be necessary in several countries should the inflows continue at recent rates.

Central bank discount rates have been reduced in Germany (November and December), France (October and January), Belgium (October and December), Canada (November and twice in February), and Japan (October and January), but have remained unchanged in Britain, Italy, the Netherlands, and Switzerland.

SELECTED LONG-TERM BOND YIELDS 1/

	1970				1971	Latest
	Sept.	Oct.	Nov.	Dec.	Jan.	
United Kingdom	9.46	9.38	9.82	9.75	9.56	9.24 (2/26)
Japan	8.69	8.65	8.55	8.69	n.a.	8.69 (Dec.)
Switzerland	8.88	5.84	5.71	5.68	5.64	5.53 (2/5)
Canada	7.92	7.93	7.80	7.26	6.67	6.85 (2/24)
France	7.77	7.78	7.79	7.80	7.79	7.63 (2/20)
Italy	8.88	8.97	8.91	8.70	n.a.	8.70 (Dec.)
Belgium	8.01	8.05	7.83	7.72	7.79	7.72 (2/1)
Netherlands	7.95	8.09	7.92	7.61	7.34	7.32 (2/12)
Germany	8.49	8.69	8.64	8.17	7.68	7.79 (2/15)
United States	6.61	6.53	6.30	6.10	6.06	5.99 (3/2)
Euro-bonds	8.60	8.56	8.24	8.08	7.60	7.60 (Jan.)

1/ Rates are monthly averages except for Belgium, where the beginning-of-month yield is shown, and Euro-bonds, where the end-of-month yield is cited. Yields are for long-term government and public sector bonds except as follows: the Euro-bond yield is a composite of 10 dollar-denominated issues of U.S. companies; for Italy, the composite yield is for all bonds except Treasury bonds; for Japan, a composite yield of private industrial bonds is shown. The French yield is net of withholding tax, the gross yield being approximately one percentage point higher. Latest yields are for the dates in parentheses.

In Germany, most short-term interest rates receded from around 9 per cent in September to about 7-1/2 per cent in January, where they have since stabilized. Money market conditions in Germany remain tight, partly because banks' reserve requirements were raised on December 1, partly because the Bundesbank has made sizable open market sales to nonbanks since November, and partly because the banks -- expecting interest rate declines in the near future -- have been buying medium-term paper from the Bundesbank. In addition, growth of currency in circulation has tended to offset the commercial banks' reserve gains from foreign exchange transactions. Long-term rates have also declined in recent months.

Last week interest rates in Germany firmed again: bond yields moved up, and the call money rate rose to 7-5/8 per cent on March 2.

Most short-term rates in the United Kingdom are now as high as or higher than they were at the beginning of the year. Signalling its determination to continue the fight against inflation -- retail price in January were 8-1/2 per cent higher than a year earlier -- the Bank of England has kept its Bank Rate at 7 per cent, to which it was reduced in April 1970. The rise in some rates reflects tightness in sterling money markets since the turn of the year, and also expectations of declining long-term rates.

In a bullish bond market, the Bank of England has been vigorously selling government bonds, thereby restricting growth in money supply,

holding down bank liquidity, and keeping interest rates high. Bank loans levelled off in the fourth quarter of 1970 and actually fell in January of this year, largely because of the Bank of England's insistence that restraint be observed. A ban was placed on British businesses' foreign currency borrowing of under five year maturity on January 22, 1971.

The widening spread between high uncovered British yields and falling yields elsewhere resulted last month in large inflows of short-term funds as well as in speculative foreign demand for British bonds. The Bank of England swapped $650 million of its $1 billion February reserve gain to banks, thereby postponing the impact on bank liquidity.

In France, short-term interest rates declined sharply after the turn of the year while long-term rates fell only marginally. The Bank of France has resisted pressures to lower its discount rate from 6.5 per cent, to which it was reduced on January 8, but it has allowed the money market intervention rate to fall below the discount rate in order to keep market rates more or less level with Euro-dollar rates. In recent weeks the Bank has been setting its money market intervention rate somewhere between the call Euro-dollar rate and the (higher) British and German money market rates.

Interest rates in Italy have declined considerably since last summer. A new interbank agreement, in effect since September, places ceilings on deposit interest rates much lower than the rates being paid last August. The downward pressure that this agreement exerted on other short-term interest rates has been somewhat accentuated by expectations

of less buoyant aggregate demand in Italy. Increased confidence in the lira is another factor. On January 9, the Bank of Italy reduced its rate on advances from 5-1/2 to 5 per cent, in part because demand pressures seemed to be lessening.

In Belgium, short-term interest rates have declined much less than Euro-dollar rates. The National Bank, concerned about upward price pressures from the value-added tax introduced in January, has permitted only a moderate relaxation of monetary tightness. Belgian long-term bond yields remain high. Large capital inflows have contributed to a $350 million rise so far this year in the National Bank's reserves.

The Netherlands Bank is maintaining its restrictive ceiling on private short-term credit expansion as demand and cost pressures persist. Accelerated fund inflows since the turn of the year have eased the seasonal pressure on the money market, but the Bank has been swapping guilders for dollars to commercial banks, usually on a 3-month basis.

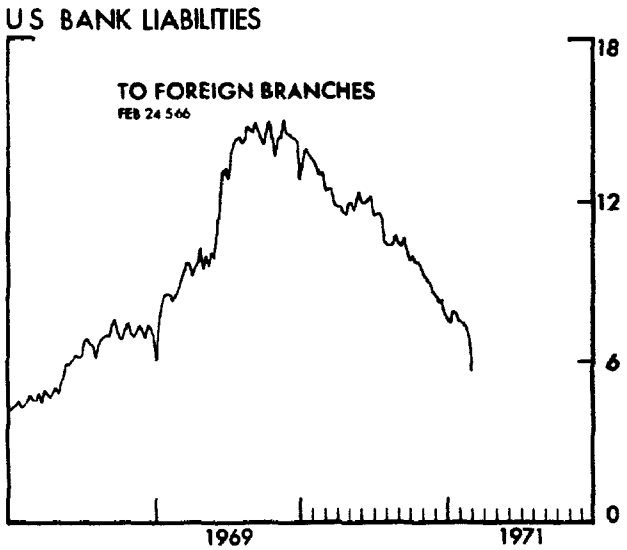
In Canada, short-term interest rates were declining at a rate faster than comparable U.S. rates from March to August last year, but remained steady between late December through late February while U.S. rates continued to drop. This development put the Canadian dollar under further upward pressure and the floating rate rose steadily to a high of $99.80 on February 22 in spite of a quarter-point reduction in the discount rate on February 15. The Bank of Canada again lowered its discount rate on February 24, this time by half a percentage point. This second reduction has resulted in a comparable drop in the chartered banks' prime rate, and Canadian Treasury bills dropped sharply to below 4 per cent in the last week of February.

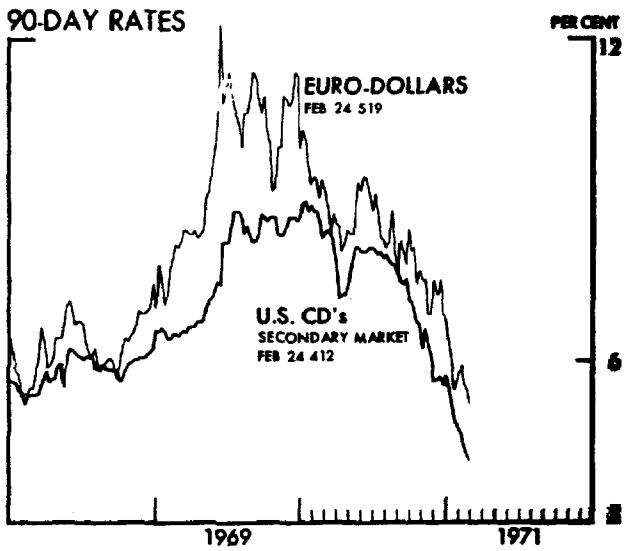
Long-term yields in Canada declined rapidly between November and January, reducing the differential against U.S. yields to an extraordinarily low level. In the last quarter of 1970, new Canadian bond issues abroad made up a markedly lower share of total issues.

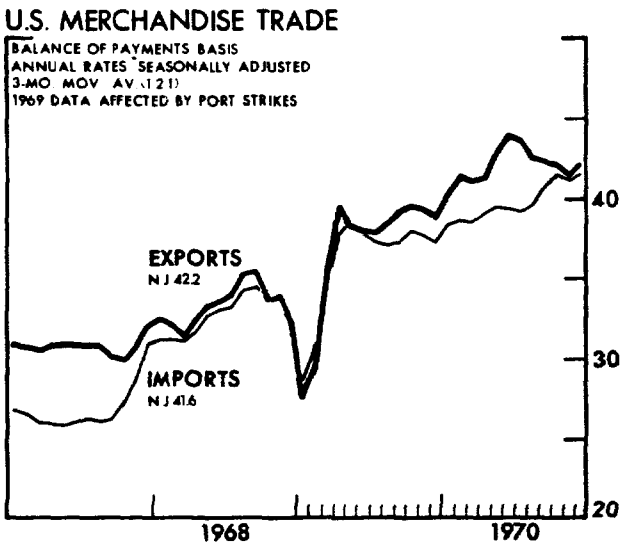
The Bank of Japan has been following a moderately expansionary policy since late last summer and has lowered its discount rate twice -- on October 28 and January 20. Since U.S. rates have been declining more than Japanese rates, there has been some shift from yen to dollar financing of Japanese exports and imports, tending to add to the Bank of Japan's rapidly growing reserves. To discourage this shift, the Bank lowered its accommodation rates for domestic financing of imports on January 20 and on March 1 abolished the quarter-point charge on dollar swaps in connection with its loans for imports.

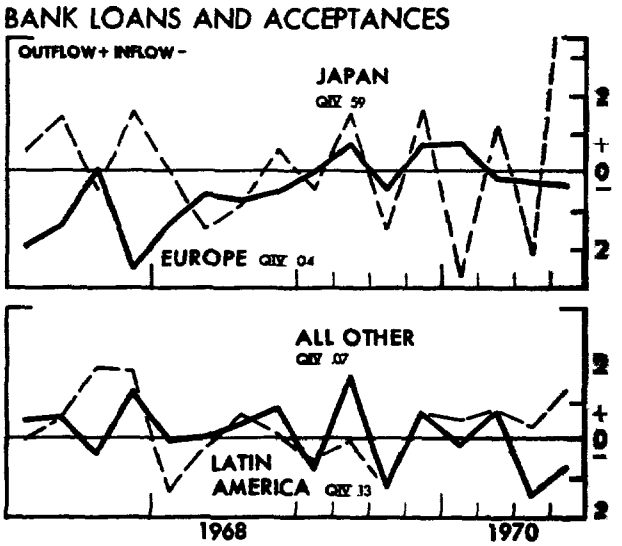
U.S. AND INTERNATIONAL ECONOMIC DEVELOPMENTS

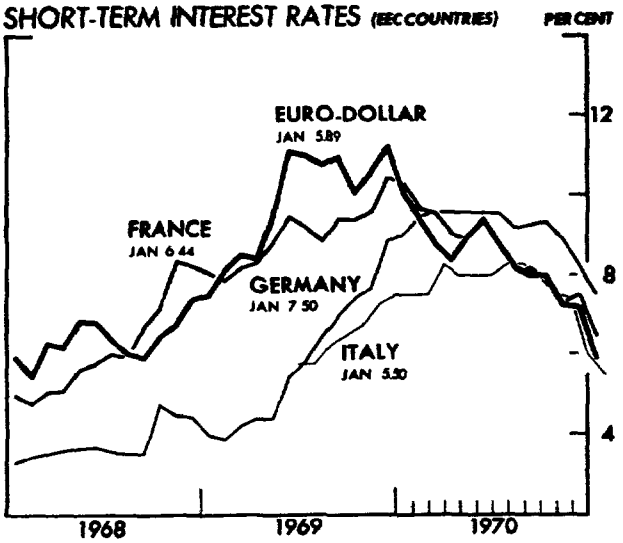
BILLIONS OF DOLLARS

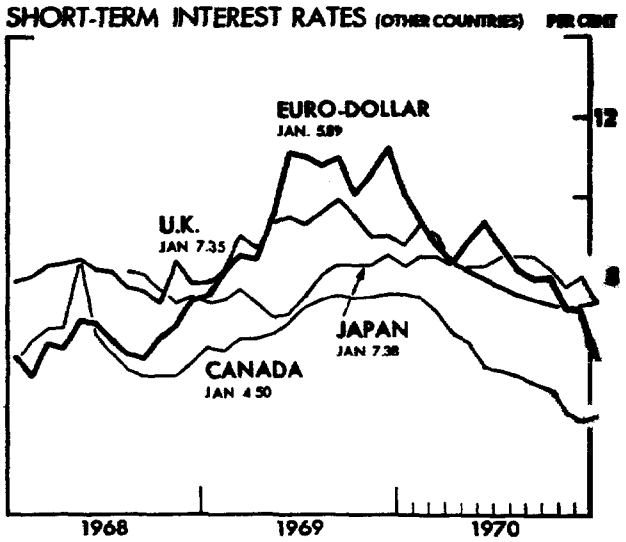












APPENDIX A: LOAN COMMITMENT SURVEY*

The results of the January 31 Survey of Bank Loan Commitments give additional evidence that credit conditions at commercial banks have eased further. More than 75 per cent of the Survey participants reported an easing in commitment policies while none reported a tightening. About 60 per cent of the banks that indicated they had eased their policies cited both weak loan demands and increased availability of funds as responsible for this change. Another 30 per cent attributed the change solely to an improvement in fund availability while the remainder pointed only to weak loan demands.

The improvement in available supplies of loanable funds appears to have been much more substantial than the weakening in loan demands, as the volume of new commitment during the 3-month period ending January 31 was more than $4 billion above the volume for the preceding 3-month period. C and I firms received the lion's share of the increase with confirmed lines of credit and term loans and revolving credits showing the largest gains. Commitments extended to nonbank financial institutions--notably finance companies--also exhibited a healthy rise. Commitments for real estate mortgages and construction loans also increased and reached a level higher than recorded in any previous survey.

Takedowns, expirations and cancellations

Takedowns, expirations and cancellations of commitments during the past three months were somewhat larger than what was reported in the October, 1970, survey, but well below the volume reported in the three prior surveys in 1970. Most banks do not anticipate much change in the volume of takedowns in the next three months. However, about 20 per cent are expecting some decline.

Unused Commitments

Total unused commitments rose to highest level recorded since the initiation of this survey in January of 1969. The total commitments available to C&I firms on January 31 were about $2.8 billion higher than in October and more than $3 billion above the previous high occurring in October, 1969.

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

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

Table 1: NEW AND UNUSED COMMITMENTS
(Billions of dollars not seasonally adjusted)

	New commitments made during 3-month ending			Takedowns, expirations, and cancellations during 3-month ending			Unused commitments Change during 3-months ending			Outstanding on
	July 31	Oct. 31	Jan. 31	July 31	Oct. 31	Jan. 31	July 31	Oct. 31	Jan 31	Jan. 31
Grand total commitments	21.8	15.2	19.3	20.9	10.6	15.6	1.0	4.6	3.8	58.4
Total- Comm. & Indust.	17.0	11.6	14.5	15.7	8.4	11.7	1.4	3.2	2.8	44.5
Total- Nonbank Finan. Institutions	3.9	2.6	3.7	4.1	1.3	2.9	-0.2	1.3	0.7	11.0
Total- Real Estate Mortgages	1.0	1.0	1.2	1.2	0.9	0.9	-0.2	0.1	0.2	2.9
MEMO: Const. Loans (Included above)	0.8	0.8	1.0	1.0	0.8	0.8	0.3	3/	0.1	2.3
Comm. & Industrial										
Term Loans	1.2	0.9	1.3	1.4	0.7	1.3	-0.1	0.1	0.1	1.5
Revolving Credits	3.8	2.8	4.0	3.5	1.5	3.1	0.3	1.3	0.9	12.8
Total Term & Revolving 2/	5.1	3.9	5.5	4.9	2.6	4.4	0.2	1.3	1.1	15.1
Confirmed Lines of Credit	11.4	7.1	8.3	10.9	5.1	6.7	0.5	2.0	1.5	26.7
Other Commitments	0.5	0.6	0.7	-0.1	0.8	0.6	0.6	-0.2	0.1	2.7
Nonbank Financial Institutions										
Finance Companies	2.5	1.6	2.2	2.8	0.5	1.7	-0.2	1.1	0.5	7.4
For Mortgage Warehousing	0.5	0.4	0.7	0.5	0.3	0.5	-0.1	0.1	0.1	1.6
All Other	0.9	0.6	0.8	0.8	0.5	0.7	0.1	0.1	0.1	2.2
Real Estate Mortgages										
Residential	0.4	0.3	0.4	0.3	0.3	0.3	3/	0.1	0.1	0.9
Other	0.6	0.7	0.8	0.8	0.6	0.6	-0.2	0.1	0.1	2.0

1/ Participants in Quarterly Interest Rate Survey with total deposits of more than $1 billion (43 banks in July, 42 in Oct. and January).
2/ This item may exceed sum of previous two items because some banks report combined total only.
3/ Less than $50 million.
NOTE: Figures may not add to total due to rounding.

Table 2: VIEWS ON COMMITMENT POLICY

Number of Banks

	July 31 1969	Oct. 31 1969	Jan. 31 1970	Apr. 30 1970	July 31 1970	Oct. 31 1970	Jan. 31 1971
Total number of banks responding:	48	48	48	48	48	48	47
Unused commitments in the past three months have:							
Risen rapidly	0	0	1	0	0	1	3
Risen moderately	16	5	7	12	19	28	31
Remained unchanged	21	20	18	15	17	13	7
Declined moderately	11	23	21	21	12	6	6
Declined rapidly	0	0	0	1	0	0	0
Takedowns in the next three months should:							
Rise rapidly	1	0	0	0	0	0	0
Rise moderately	14	14	9	13	13	6	8
Remain unchanged	28	31	30	30	33	24	29
Decline moderately	5	4	9	5	2	18	10
Decline rapidly	0	0	0	0	0	0	0
Commitment policy compared to three months ago is:							
Much more restrictive	26	12	3	0	0	0	0
Somewhat more restrictive	16	20	15	7	5	2	0
Unchanged	6	15	29	40	37	19	8
Less restrictive	0	1	1	1	6	26	34
Much less restrictive	0	0	0	0	0	1	5

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

Indicated Change	Number of Banks Indicating Change	Reasons for Change (Number of Banks)		
		Increased Loan Demand	Reduced Availability of Funds	Both Demand And Funds
More restrictive	0	0	0	0
		Decreased Loan Demand	Increased Availability of Funds	Both Demand And Funds
Less restrictive	39	5	11	23