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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

May 6, 1971

The Domestic Economy

Industrial production. The preliminary production worker manhour data for April in conjunction with the available physical volume data indicate a rise of .5 of one point or more in industrial production (annual rate of about 3 1/2 per cent) as a further decline in durable goods industries was more than offset by a rise in nondurables.

Data now available for consumer goods point to increases in output of some household goods, apparel, and consumer staples more than offsetting a decline in auto assemblies. A further decline in most business and defense equipment lines is indicated but among materials there was increased production of iron and steel, some other metal products, and textiles and rubber products. Output of raw steel rose 4 per cent further in April and presumably there was a further increase in output of steel mill shapes and forms. Trade reports have indicated that rolling mill operations have been close to capacity for some time.

Autos. Sales of new domestic type autos in April were at a seasonally adjusted annual rate of 7.9 million units, and down somewhat from the rate of earlier months this year.

Sales of imported cars were at a seasonally adjusted annual rate of 1.6 million units, about the same as a month ago but about 40 per cent above a year earlier.

AUTO SALES
(Seasonally adjusted annual rates)

Millions

	1970	1971	
	April	QI	April
TOTAL	8.6	9.6	9.5
Domestic	7.5	8.1	7.9
Imports	1.1	1.5	1.6

Preliminary data indicate an auto production rate of about an 8.0 to 8.2 million units in April, down about one-tenth from March. Present schedules for May and June are for an annual rate of 8.5 million units.

Labor market. The labor market continued slack between March and April. Employment rose slightly (seasonally adjusted) reflecting employment increases in state and local government and construction. In manufacturing, both employment and the average workweek moved slightly lower in April with the employment decline occurring primarily among nonproduction workers in the durable-goods sector. The unemployment rate edged up to 6.1 per cent from 6.0 per cent in March, and the rate for Negroes reached 10 per cent, its highest point since early 1964.

NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted, in thousands)

	1970		1971	
	April	August	January	April
Total	71,149	70,414	70,652	70,719
Government	12,610	12,596	12,823	12,952
Private	58,539	57,818	57,829	57,767
Manufacturing	19,795	19,271	18,807	18,645
Nonmanufacturing	38,744	38,547	39,022	39,122

Payroll employment has held comparatively steady since the turn of the year. Compared to a year-earlier, nonfarm payroll employment was still down by 430,000 in April as growth in the service-producing industries and government was more than offset by declines in manufacturing (1.15 million) and construction (119,000). The unemployment rate also has shown little change since the turn of the year after it had risen from 3.9 per cent in January 1970 to 6.2 per cent in December. The total labor force rose in April but was little changed from last December and was up by only 634,000 from April 1970, less than half the normal rise.

LABOR FORCE AND UNEMPLOYMENT
(Seasonally adjusted, thousands)

	1970		1971	
	April	December	March	April
Total labor force	86,031	86,622	86,405	86,665
Civilian labor force	82,760	83,609	83,475	83,783
Total employment	78,886	78,463	78,475	78,698
Nonagricultural	75,317	75,055	75,079	75,140
Unemployment rate, percent	4.7	6.2	6.0	6.1

Wholesale prices. The rise in wholesale prices accelerated in April to a seasonally adjusted annual rate of 6 per cent, the sharpest rise since last October; prices of both industrial commodities and farm products and foods also rose at about a 6 per cent rate.

The increase in industrial commodity prices was sharply higher than over the first quarter and was equaled last year only in May and October. Materials rose strongly with increases in both cotton and man-made fiber textile products, nonferrous metals, hides and leather, waste paper, and crude rubber. Coal prices increased further, bringing the rise over the year to 30 per cent. An 8 per cent rise in can prices was associated in part with anticipated higher labor costs after the April contract settlement prices advanced on several important construction materials.

Finished non-durable goods (ex foods) leveled off in April, continuing the relatively favorable first quarter performance. Foods declined much less than seasonally. The rise in prices of both consumer and producer durables has slowed since the second half of last year, and the increase in producers' durables has also been appreciably slower than in the corresponding period of 1970.

Prices of steel mill products rose in April and early May. A further increase, covering sheet and strip products and effective in mid-June, was announced May 5 by U.S. Steel. If effectuated industry-wide, this increase will raise prices by about 6 1/4 per cent, on over 35 per cent of steel mill products, and bring to over 80 per cent of shipments the total of products with price increases this year. Copper prices have weakened recently, with the price on the London Metal Exchange falling early this week to a level close to that of U. S. producers.

WHOLESALE PRICES
(Per cent changes, seasonally adjusted annual rates)

	6 months		3 months	Monthly
	Dec. 69 to June 70	June to Dec.	Dec. 1970 to March 1971	March 1971 to April 1971
All commodities	2.4	2.2	5.4	6.0
Farm & food1/	-1.8	- .4	11.3	6.5
Industrials	3.8	3.4	2.9	6.4
Crude materials2/	8.5	.8	2.4	25.4
Intermediate materials2/	4.3	1.8	4.0	7.7
Finished goods				
Producer	4.1	6.0	3.9	2.1
Consumer2/	2.7	5.1	2.2	1.1
Durable	2.9	5.7	2.2	3.3
Nondurable2/	2.8	4.7	1.5	.0

1/ Farm products, and processed foods and feeds.
2/ Excludes foods.

Collective Bargaining. Wage rate increases in the first quarter for major private nonfarm settlements averaged 8.4 per cent a year, little changed from the 8.9 per cent for the yaar 1970 as a whole. Settlements were negotiated covering 750,000 workers in nonfarm industries, including railroads, autos, farm equipment, metal cans, and petroleum. There were virtually no major settlements in the construction industry.

In manufacturing, wage increases averaged 8.1 for the first year and 6.0 per cent for the life of the contract--both about unchanged from the 1970 averages. In nonmanufacturing, where railroad settlements predominated, the annual rate of wage increases over the life of the contract was 11.3 per cent compared to 11.5 per cent in 1970. First year wage increases declined somewhat, probably reflecting in part the absence of important settlements in the construction industry; in 1970, settlements covering 700,000 construction workers contributed substantially to large wage rate increases.

When wages and benefits are combined, the average annual rate of increase over the life of the contract for all settlements in the first quarter was 8.5 per cent compared with an increase of 9.1 per cent in 1970 as a whole.

WAGE INCREASES IN MAJOR COLLECTIVE BARGAINING SETTLEMENTS
(Mean Adjustments)

	Annual Rate of Increase		
	Year		1st Quarter
	1969	1970	1971
Private nonfarm industries[1/]			
First year	9.2	11.9	9.9
Average over life of contract	7.6	8.9	8.4
Manufacturing			
First year	7.9	8.1	8.1
Average over life of contract	6.0	6.0	6.0
Nonmanufacturing			
First year	10.8	15.4	12.0
Average over life of contract	9.3	11.5	11.3

1/ Covers settlements affecting 1,000 workers or more.

Construction. Seasonally adjusted value of new construction put in place, which was revised downward somewhat for March, edged higher in April and at an annual rate of $103 billion, was just short of the peak reached last February. Outlays for private residential construction increased for the ninth consecutive month in April, and were at a record rate of $37 billion, two-fifths above the low of last July. Expenditures for both private nonresidential and public construction (revised down for March) apparently changed little in April at a level only moderately below the all-time peaks reached earlier this year. Within the public sector, outlays for State and local projects were notably strong, at a rate a fifth above the low in March of 1970.

While total outlays in April averaged 14 per cent above a year earlier in current dollar terms, the year-to-year increase in constant dollars amounted to just 4 per cent. Thus far in 1971, construction costs have continued to show about the same year-to-year increase as in 1970--9 per cent, as measured by the Census Bureau's composite cost index.

NEW CONSTRUCTION PUT IN PLACE

	All	Private			Public
		Total	Residential	Non residential	
Annual					
1970	91.3	63.1	29.3	33.8	28.3
Quarterly (SAAR)					
1970 - IV	94.4	65.3	31.9	33.4	29.1
1971 - I (r)	102.9	70.4	35.5	34.9	32.5
Monthly (SAAR)					
1971					
February (r)	104.2	70.8	35.6	35,2	33.4
March (r)	102.7	70.5	36.5	34.0	32.1
April (p) 1/	103.3	71.3	37.4	33.9	32.0
		Per cent change in April from year earlier			
In current dollars	+ 14	+12	+ 25	--	+ 18
In 1957-59 dollars	+ 4	+ 4	+ 18	- 10	+ 6

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

<u>Inventories</u>. The book value of business inventories rose at a $6.3 billion annual rate in March, according to preliminary data; strike-related stockbuilding continued at a rapid rate in the auto and steel sectors, and stocks declined elsewhere, though at a less rapid rate than in February. For the first quarter as a whole, book value rose at a $4.6 billion annual rate, little changed from the fourth quarter.

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

	1970	1971	1971	
	Q IV	Q I	February (Revised)	March (Prel.)
Manufacturing and trade, total	4.4	4.6	3.9	6.3
Autos and steel	-4.1	6.3	8.1	7.6
Excluding autos and steel	8.5	-1.7	-4.2	-1.3
Wholesale and retail trade, total	.6	6.2	7.3	10.0
Autos and steel	-5.7	5.8	8.2	7.0
Excluding autos and steel	6.3	.4	- .9	3.0
Manufacturing, total	3.8	-1.6	-3.4	-3.7
Autos and steel	1.6	.5	- .1	.6
Excluding autos and steel	2.3	-2.1	-3.3	-4.3

The inventory-sales ratio declined further in March. The ratio excluding autos and steel continued to improve, but most of the improvement has been in manufacturing; trade inventories other than autos, and steel in March remained at the January-February relationship to sales based on preliminary data.

INVENTORY-SALES RATIOS

	1970		1971		
	June	December	January	February (Revised)	March (Prel.)
Manufacturing and trade, total	1.56	1.60	1.57	1.55	1.54
Autos and steel	1.50	1.61	1.49	1.45	1.46
Excluding autos and steel	1.56	1.60	1.59	1.57	1.56
Wholesale and retail trade, total	1.36	1.40	1.36	1.37	1.37
Autos and steel	1.66	1.76	1.59	1.63	1.64
Excluding autos and steel	1.30	1.34	1.32	1.32	1.32
Manufacturing, total	1.73	1.78	1.77	1.72	1.70
Autos and steel	1.34	1.47	1.39	1.28	1.27
Excluding autos and steel	1.80	1.83	1.83	1.80	1.78

Manufacturers' and wholesalers' stocks of steel mill shapes in March were somewhat higher, relative to recent rates of steel use, than in previous pre-contract periods. The ratio of inventories to unfilled orders at durable goods manufacturers rose.

Census survey of consumer purchases and income expectations. The April survey of consumer expectations suggests no basic change in household attitudes has occurred in the last year or so. The index of purchase plans for new cars declined from 107.9 in January (January-April 1967 = 100) to 104.7 in April. This compares with 105.8 a year earlier and is about the same as in October. A decline from January has appeared likely because the high value reported in the previous survey reflected strike rebound expectations.

The probability of a household expecting an increase in income increased to 19.9--the same level as a year earlier--and up from 17.2 in the January survey, but there was also an increase in the probability of a household expecting a decrease in income. The per cent of households reporting higher current income compared with a year earlier remains at a low level--35.1 per cent--the same as in January and off sharply from 41.3 per cent a year earlier.

However, consumers were more optimistic in their housing plans. The index of buying plans for new houses increased strongly to 101.7 in April from 96.3 in the last survey and 87.9 in April 1970.

HOUSEHOLD PURCHASE AND INCOME EXPECTATIONS

	1970			1971	
	April	July	Oct.	Jan.	April
INDEXES OF EXPECTED UNIT PURCHASES					
(Seasonally adjusted. Average of January 1967 and Apri, 1967 = 100)					
All households:					
Houses	87.9	92.9	95.6	96.3	101.7
New cars	105.8	105.8	103.8	107.9	104.7
ACTUAL AND EXPECTED CHANGES IN INCOME					
Current income compared to income of one year ago:					
All households:					
Per cent reporting higher current income	41.3	39.9	37.3	35.0	35.1
Per cent reporting lower current income	12.4	13.0	13.6	14.2	14.5
Mean probabilities of substantial changes in income:					
All households:					
Increase	19.9	18.2	16.7	17.2	19.9
Decrease	7.0	7.3	7.3	6.7	7.5

NOTE: Indexes based on average of 6- and 12-month mean purchase probabilities.

<u>Consumer credit</u>. Consumer instalment credit outstanding rose $5.9 billion, seasonally adjusted annual rate, in March. This was the largest increase since November 1969 and was centered in automobile credit and personal loans. For the first quarter, the rate of expansion was $2.7 billion.

Both extensions and repayments of instalment credit were at record levels in March and the first quarter. Extensions rose sharply to a seasonally adjusted annual rate of $110.1 billion for the quarter, up $8.0 billion from the strike-reduced fourth quarter, and $3.2 billion above the previous high in the third quarter of 1970.

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

	Total	Automobile	Other Consumer Goods	Personal loans
1970--QI	4.0	.0	2.4	1.7
QII	4.6	.2	2.3	1.9
QIII	4.1	-.6	2.4	2.1
QIV	-1.5	-4.4	1.8	1.1
1971--QI	2.7	.4	.6	1.7

New orders. Revised data for new orders received by manufacturers of durable goods declined 1.1 per cent in March, according to preliminary data, rather than 2.2 per cent as indicated in the advance report. Unfilled orders were still reported down 0.6 per cent.

The Domestic Financial Situation

Monetary aggregates. Preliminary estimates indicate that all the monetary aggregates increased at a slower rate in April than in March. As may be seen in the table, the pace of advance in M_1 (currency plus private demand deposits) during April was only slightly below that recorded in March which has been revised upward to 11.6 per cent from 10.5 per cent. The April rates of growth in M_2 (M_1 plus commercial bank time and savings deposits) and M_3 (M_2 plus deposits of mutual savings banks and savings and loan associations) declined more perceptibly, primarily because inflows of consumer time and savings deposits at banks and nonbank institutions failed to match the exceptional advances of other recent months.

The rate of expansion in the adjusted credit proxy also slowed further in April. The reduced rate of advance reflected the forementioned cutback in growth of consumer time and savings deposits, a slight decline in large certificate of deposits and further substantial cuts in nondeposit liabilities. A pickup in private demand deposit growth and an increase in U.S. Treasury deposits partly offset these developments. The further decline in nondeposit liabilities principally reflected a reduction in head office liabilities of foreign branches undertaken to finance the acquisition by the foreign branches of \$1.5 billion in special U.S. Treasury certificates. Commercial paper borrowing by bank affiliates, the other major source of nondeposit funds, remained about unchanged over the month.

MONETARY AGGREGATES
(Seasonally adjusted, annual rates of change, in per cent)

	Annual		1970				1971			
	1969	1970	QI	QII	QIII	QIV	QI	Feb.	March	April E/
1. Currency plus private demand deposits	3.1	5.4	5.9	5.8	6.1	3.4	8.9	14.0	11.6	10.9
2. Commercial bank time and savings deposits	-5.0	18.4	1.4	14.1	32.[illegible]	21.8	27.3	28.6	25.9	10.7
a. large CD's	-53.3	132.4	9.5	61.8	256.2	79.4	27.9	12.1	19.2	-20.6
b. other time and savings	1.4	11.5	.[illegible]	11.3	16.5	15.4	27.2	30.5	27.0	14.8
3. Savings deposits at mutual savings banks and S&L's	3.4	7.8	2.5	7.0	9.3	11.5	23.2	18.5	24.8	19.1
4. Adjusted bank credit proxy	n.a.	8.3	.5	6.5	17.2	8.3	10.9	12.9	8.9	5.6
Concepts of Money										
5. M_1: (1)	3.1	5.4	5.9	5.8	6.1	3.4	8.9	14.0	11.6	10.9
6. M_2: (1) + (2b)	2.4	8.2	3.4	8.4	11.0	9.2	17.8	22.1	18.9	12.9
7. M_3: (1) + (2b) + (3)	2.8	7.9	2.7	7.9	10.3	9.7	19.0	22.1	19.8	16.1

E/ Partially estimated.

Commercial bank credit. Preliminary estimates indicate that total loans and investments at commercial banks, adjusted for transfers of loans between banks and their affiliates, declined moderately between the last Wednesday in March and the last Wednesday in April. This reduction, the first monthly decline since October of last year, was attributable primarily to a sharp drop in Treasury bill holdings. Holdings of longer term Treasury issues were also trimmed, however, and total loans dropped moderately. These declines were partly offset by a further sharp increase in holdings of other securities (mainly municipal, securities, and Federal agency issues); the advance, however, failed to match the gains recorded in other recent months.

The decline in total loans was attributable to a marked pay-down of broker and dealer loans--reflecting the sharp cutback in dealer inventory positions which occurred over the month--and to a slight reduction in loans to nonbank financial institutions. Increases were recorded in all other loan categories. Real estate loans continued rising at an above average pace, while other categories rose only moderately. Business loans expanded at an annual rate of about 1 per cent which contrasts with the sharp decline recorded in March.

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

	1970	1971		
	QIV	QI	March	AprilE
Total loans & investments 2/	6.1	13.8	12.9 4/	- 2.1
U.S. Government securities	2.8	22.1	32.2	-31.4
Other securities	34.5	30.4	30.7	22.2
Total loans	-1.0	7.3	3.2 4/	- 3.6
Business loans 3/	-9.2	2.5	-11.7	1.1

1/ Last Wednesday of month series.
2/ Includes outstanding amounts of loans sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
3/ Includes outstanding amounts of business loans, sold outright by banks to their own holding companies, affiliates, subsidiaries, and foreign branches.
4/ Excludes $814 million of System matched sale-purchase agreements outstanding on February 24.
E/ Partially estimated.

Nonbank thrift institutions. On the basis of information for most of the month, it is now estimated that deposit growth at nonbank thrift institutions continued during April at near the high rate of the first quarter. It is noteworthy that for the first four months of 1971 (seasonally adjusted but not at an annual rate) net deposit inflows to the two nonbank thrift intermediaries have already exceeded $16 billion; there is no full year, at least back to 1955, in which net deposit inflows were that high.

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

	Mutual Savings Banks	Savings and Loan Associations	Both
1970 - QIII	6.9	10.6	9.3
QIV	10.2	12.1	11.5
1971 - QI	17.5	25.9	23.2
March* p/	21.2	26.6	24.8
April* e/	14.2	21.5	19.1

* Monthly patterns may not be significant because of difficulties with seasonal adjustment.
p/ preliminary.
e/ estimated on the basis of data for part of the month.

Despite what appears to be continued large deposit inflows, the savings and loan associations are reported to be revising downward their projected repayments of funds advanced from the Federal Home Loan Banks. Presumably, the recent increase in short-term market yields has changed savings and loan managers' outlook for future deposit growth. In any event, advances repaid during April amounted to about $1.5 billion, nearly all of which represented the fixed-rate fixed-term advances that began to mature after the 15th.

The Federal Home Loan Bank Board has revised downward its estimates of its own repayments of borrowed funds during the current quarter, on the basis of the new lower projections of repayments of advances from S&Ls. Moreover, the FHLBB also is anticipating that during the second half of this year advances will expand--perhaps by as much as $2 billion, about equal to the repayments now estimated for the second quarter.

The FRB staff expects savings inflows to the S&Ls to taper off during the second half of this year, but not as sharply as the FHLBB staff. We also expect higher repayments of advances than the FHLBB staff is now projecting for the second quarter.

Mortgage market. With deposit growth continuing unusually strong, new and outstanding mortgage commitments at New York State mutual savings banks increased further during March. By the end of March, however, the backlog of outstanding commitments at these diversified long-term lenders--which account for about 60 per cent of the industry--was still a fourth below earlier highs.

Including S&Ls and reporting life insurance companies as well, the aggregate volume of residential mortgage commitments outstanding at all three lender groups combined expanded in February for the tenth consecutive month, reaching a total that was within

7 per cent of the early 1969 high. Although life insurance company commitment data are not yet available for March, the backlog of outstanding residential mortgage commitments for these three lender groups taken together probably climbed to a record high during that month.

RESIDENTIAL MORTGAGE COMMITMENTS OUTSTANDING AT SELECTED LENDERS 1/
(Billions of dollars, seasonally adjusted)

Date	N.Y. State Savings Banks	S&L's	Both Thrift Institutions	Reporting Life Insurance Companies	All Three Lender Groups
1969 - High	3.3 (Apr., May)	7.2 (Apr.)	10.4 (Apr.)	4.2 (July, Aug.)	14.5 (Apr.)
- Low	2.6 (Dec.)	5.8 (Dec.)	8.4 (Dec.)	3.8 (Dec.)	12.2 (Dec.)
1970 - High	2.6 (Jan.)	8.1 (Dec.)	10.1 (Dec.)	3.5 (Jan.)	12.7 (Dec.)
- Low	1.8 (Oct., Nov.)	5.2 (Mar.)	7.7 (Mar.)	2.6 (Dec.)	10.9 (Mar., Apr.)
1970					
December	2.0	8.1	10.1	2.6	12.7
1971					
January	2.1	8.3	10.4	2.5	12.9
February	2.3	8.9	11.2	2.4	13.5
March	2.5	10.1	12.6	n.a.	n.a.

1/ Based on data, including loans in process, from Federal Home Loan Bank Board, Savings Banks Association of New York State, and Life Insurance Association of America covering 80 per cent of industry. Data for savings banks and S&L's include a minor amount of nonresidential commitments.

FNMA weekly field reports continue to confirm the upturn in secondary market yields on Government-underwritten home mortgages that occurred late in April within this sensitive sector of the market. A sharp shift in investor sentiment was reflected in the exceptionally large volume of offers received by FNMA in its mortgage purchase auction of April 26, and in the minimal amount of bids submitted to FNMA in its mortgage sales auction of April 29.

Corporate and municipal securities. Yields on both corporate and municipal bonds continued to rise in late April and early May. Although yield indexes for the week of May 7 are not yet available, it appears likely that long-term rates will set new highs for 1971.

BOND YIELDS
(In per cent)

	New Aaa 1/ Corporate bonds	Long-term State 2/ and local bonds
1970		
Low	7.68 (12/18)	5.33 (12/10)
High	9.30 (6/18)	7.12 (5/28)
1971		
Low	6.76 (1/29)	5.00 (3/18)
High	7.81 (4/30)	5.74 (1/7)
Week of:		
April 2	7.15	5.15
9	7.17	5.21
16	7.32	5.32
23	7.54	5.48
30	7.81	5.69

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

The recent difficulties experienced by corporate and tax-exempt bond markets reflect investor uncertainties associated with adverse international developments--especially given their concern about the outlook for monetary policy. In the municipal area, a recent slackening in commercial bank acquisition of tax-exempt securities also depressed the market.

Given the uncertain market situation of the past few weeks, further switching of corporate offering dates occurred, and the April volume of public bonds was only slightly over $2.1 billion; the shifting of dates suggest that May bond volume will reach $2.7 billion. The forward calendar for June seems to be building rather slowly at present, but the outlook is quite uncertain. Although underwriters report that there are still many prospective bond issuers, relatively few firms have announced or filed offerings; and the staff estimates that the June public bond total will be about $2.2 billion, only slightly above the 1970 average. While the volume of public bonds for the second quarter is thus expected to fall below that of the previous two quarters, stock offerings are likely to remain somewhat above the 1970 average, and takedowns of private placements appear to be picking up significantly. Therefore, the total corporate security offerings in the second quarter of 1971 will still be at a near-record level.

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
1971 - QI	2,789e	519e	737e	4,046e
- QII	2,333e	583e	867e	3,783e
April	2,100e	450e	1,100e	3,650e
May	2,700e	500e	700e	3,900e
June	2,200e	800e	800e	3,800e

Long-term debt offerings by State and local governments seem to have been slowed somewhat by the rapid rise of interest rates over the past month. The postponement of two large issues lowered the staff estimates for April and May, and unless interest rates decline substantially, the June total may not exceed $1.8 billion. Municipal needs for long-term funds have not diminished, but rising yields have made interest ceilings operative again in some areas.

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

	Long-term
1969 - Year	991
1970 - Year	1,515
1971 - QI	2,230e
QII	1,850e
April	1,850e
May	1,900e
June	1,800e

Government securities market. In the quarterly refunding, the Treasury offered two notes in a rights exchange to holders of maturing May issues. The new issues were a 15-month 5 per cent note priced at par and a reopened 3-1/2 year 5-3/4 per cent note priced to yield 5.88 per cent. Subscription books were open through Wednesday, May 5.

In the two days just after the April 28 announcement, the prices of the when-issued notes rose to premiums of 6/32 above the initial offering price. However, the premiums were erased subsequently, and most recently both notes were trading at or near issue price. Hence, a substantial amount of attrition is now expected for the refunding--but, at the same time, the Treasury's cash needs may be lessened due to reinvestments of U.S. dollars by foreign central banks in the form of special issues.

Yields on outstanding Treasury notes and bonds have risen by another 15 to 30 basis points since the Greenbook was released. Treasury bill rates, however, have shown only small mixed changes on balance since that time.

INTEREST RATES

	1971			
	Highs	Lows	April 5	May 4
Short-Term Rates				
Federal funds (weekly averages)	4.27 (4/21)	3.29 (3/10)	4.02 (3/31)	4.14 (4/28)
3-month				
Treasury bills (bid)	4.89 (1/4)	3.22 (3/11)	3.69	3.88
Bankers' acceptances	5.50 (1/6)	3.88 (3/10)	4.25	5.00
Euro-dollars	6.50 (1/4)	4.94 (3/17)	5.48	6.26
Federal agencies	4.90 (1/6)	3.27 (2/24)	3.68 (3/31)	4.23 (4/29)
Finance paper	5.50 (1/5)	3.62 (3/15)	4.00	4.38
CD's (prime NYC)				
Most often quoted new issue	5.38 (1/6)	3.62 (3/24)	3.75 (3/31)	4.63 (4/28)
Secondary market	5.62 (1/6)	3.80 (3/17)	3.90 (3/31)	4.82 (4/28)
6-month				
Treasury bills	4.94 (1/4)	3.35 (3/11)	3.75	4.22
Bankers' acceptances	5.62 (1/6)	4.00 (3/10)	4.38 (e)	5.12 (e)
Commercial paper (4-6 months)	5.75 (1/7)	4.00 (3/29)	4.25	5.00
Federal agencies	5.10 (1/6)	3.53 (3/10)	3.78 (3/31)	4.50 (4/29)
CD's (prime NYC)				
Most often quoted new issue	5.50 (1/6)	4.00 (3/24)	4.13 (3/31)	4.75 (4/28)
Secondary market	5.68 (1/6)	3.70 (3/3)	4.10 (3/31)	4.97 (4/28)
1-year				
Treasury bills (bid)	4.74 (1/4)	3.45 (3/11)	3.70	4.45
CD's (prime NYC)				
Most often quoted new issue	5.50 (1/6)	4.38 (3/3)	4.50 (3/31)	5.13 (4/28)
Prime municipals	3.00 (1/6)	2.15 (3/24)	2.30 (3/31)	2.85 (4/29)
Intermediate and Long-Term				
Treasury coupon issues				
5-years	6.14 (5/4)	4.74 (3/22)	5.30	6.14
20-years	6.39 (1/4)	5.69 (3/23)	5.89	6.26
Corporate				
Seasoned Aaa	7.47 (1/4)	7.05 (2/16)	7.23	7.42
Baa	8.93 (1/5)	8.28 (2/16)	8.45	8.51
New Issue Aaa	7.81 (4/30)	6.76 (1/29)	7.15 (4/2)	7.81 (4/30)
Municipal				
Bond Buyer Index	5.74 (1/7)	5.00 (3/18)	5.15 (4/2)	5.69 (4/29)
Moody's Aaa	5.50 (4/29)	4.75 (2/11)	5.00 (4/2)	5.50 (4/29)
Mortgage--implicit yield in FNMA biweekly auction 1/	7.96 (1/25)	7.43 (3/1)	7.45 (3/29)	7.54 (4/26)

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

International developments and the balance of payments

Massive speculative flows into German marks, and, to a lesser extent, other European currencies on Tuesday and Wednesday, May 3 and 4, caused the central banks of Germany, Switzerland, the Netherlands and Belgium to withdraw from their exchange markets early on Wednesday. These central banks remained out of the markets for the rest of the week, pending weekend meetings of government officials to decide upon courses of action.

The outburst of speculation appeared to be triggered by the publication on Monday of a report by the five major German economic research institutes, four of whom joined in recommending the floating of the German mark while the fifth recommended revaluation. Remarks made by German Economics Minister Schiller encouraged exchange market participants to believe that some such action might be taken, and consequently led to a great demand for marks on the exchanges. The Bundesbank purchased nearly a billion dollars on Tuesday, and another billion in the first forty minutes of trading on Wednesday, at which time it withdrew from the market.

Demand for other European currencies then swelled, and in short order the central banks of Switzerland, the Netherlands, and Belgium purchased $600 million, $250 million, and $100 million, respectively, before those banks withdrew from their markets.

The central banks of France, Britain, and Italy continued to operate normally. The Bank of France purchased $250 million early on Wednesday; then the demand for francs ebbed, and it has not had to purchase dollars since that time.

The Bank of Japan, which was closed on Wednesday because of a legal holiday, purchased $330 million on Thursday, and is expected to continue to deal with the market on Friday.

Spot exchange rates for the floating European currencies moved to only small premiums over their previous upper limits in active trading on Wednesday and Thursday. The excess over the previous upper limit on the DM amounted to about 1-1/2 per cent, on the Swiss franc 3-1/2 per cent, on the guilder 1 per cent, and on the Belgian franc less than 1/2 per cent. There was little change between Wednesday and Thursday. No quantitative information on positions taken by commercial banks is available.

Euro-dollar rates firmed very sharply in the wake of the speculative activity. The one-month rate on Thursday reached 8-1/2 per cent, compared to 5-3/4 per cent on Monday.

Money market rates in Germany, which had stiffened shortly before the end of April, fell off again this week in consequence of the inflow of funds to the German banking system.

U.S. banks' liabilities to their foreign branches, which as noted in the April 28 Greenbook had stabilized since mid-April, declined only moderately to Tuesday May 4, but have undoubtedly fallen off more later in the week.

The U.S. balance of payments deficit on the liquidity basis, according to preliminary indications, was very large in the week ending Wednesday April 28. Data for the following week are not available. No new indications on developments in trade and other elements of the balance of payments are available, and there is no reason to alter the view that the great size of the deficit in recent months is due primarily to movements of short-term capital, influenced at first by interest rate differences and recently by hedging and speculation on currency values.