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CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

June 4, 1971

The Domestic Economy

Labor market. The labor force, employment, and unemployment moved higher in May. The unemployment rate rose to 6.2 per cent from 6.1 per cent in April. The rise occurred largely among men, reflecting a sizeable labor force increase for the same group. Unemployment rates for women were unchanged over the month.

The labor force rose fairly sharply in May, following little growth since the end of last year. However, over the year growth is still less than normally expected; in May, the total labor force was up only about 1.0 million from a year earlier or about one-third less than expected on the basis of population growth and long-range trends.

LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
(Seasonally adjusted, in thousands)

	1970	1971		
	IVQ	IQ	April	May
Total labor force	86,504	86,537	86,665	87,028
Civilian labor force	83,461	83,585	83,783	84,178
Total employment	78,568	78,626	78,698	78,961
Total unemployment	4,892	4,960	5,085	5,217
Unemployment rates: (per cent)				
Total	5.9	5.9	6.1	6.2
Men aged 20-24 years	10.6	10.0	10.5	10.8
Men aged 25 and over	3.4	3.5	3.5	3.6
Women aged 20 and over	5.5	5.7	6.0	6.0
Teenagers	17.5	17.4	17.2	17.3
White	5.4	5.5	5.6	5.7
Negro and other races	9.2	9.5	10.0	10.5

Nonfarm payroll employment moved up 130,000 to 70.8 million in May--about the same level as a year earlier--but still 400,000 below its March 1970 peak. Employment rose by 77,000 in trade in May, and there were small increases in most other sectors. Manufacturing rose 30,000 over the month, with a small advance in the durable goods industries accounting for the gain. Nonproduction worker employment in manufacturing rose in May after 14 consecutive monthly declines. The average workweek rose 0.2 hours in May for production workers in manufacturing, after declining the same amount in April. The average workweek has not shown a clear upward or downward trend so far this year. State and local government and private nonmanufacturing employment rose somewhat over the past year, while manufacturing employment declined by 860,000, of which 235,000 were non-production workers.

<u>Retail sales</u>. Mainly because of the higher rate of new car sales in the last part of May, our earlier estimate of retail sales for the month has been raised and now shows total sales about unchanged from April. Our earlier estimate of increase in sales at nondurable goods stores has been raised to about a 1 per cent rise from April owing to a little more strength in sales at apparel and at food stores last week. Current estimates of change are shown in the table.

RETAIL SALES
Seasonally Adjusted
Percentage change from previous period

	1971					
	QI	Jan.	Feb.	March	April	May*
Total sales	4.1	2.2	1.5	1.8	.5	0
Durable	13.2	9.5	3.2	3.5	1.4	-1-1/4
Auto	24.1	16.3	7.2	4.7	1.6	- 3
Furniture & appl.	5.3	6.1	- .2	2.7	.7	0
Nondurable	.5	- .7	.7	1.0	.1	1
Apparel	- 1.5	- 2.2	1.7	.9	.5	3
Food	.9	- .4	- .6	.9	- .1	2
General merchandise	3.1	- .2	3.1	1.7	- .4	1/2
Total less autos and nonconsumer items	.5	- .4	.6	1.0	.1	1
Total real**	3.3	2.1	1.4	1.4	.1	n.a.

* Estimate by FR staff based on weekly sales data through May 29.
** Deflated by all commodities CPI, seasonally adjusted.

<u>Unit auto sales</u>. Domestic type auto sales strengthen in the third 10 day period of May and, as a result, sales for the month were at a seasonally adjusted annual rate of 8.4 million as compared with a rate of 8.3 million in April.

Consumer credit. Consumer instalment credit outstanding increased \$8.0 billion in April, seasonally adjusted annual rate, the largest expansion in any month since October 1969. All major components of the instalment credit total rose in April with the largest increase--\$3.7 billion--in auto credit. The increase in instalment credit was augmented by a sizeable advance in noninstalment credit bringing the overall expansion in consumer indebtedness during April to \$11.1 billion.

Both extensions and repayments of instalment credit reached new highs. The increase in extensions was centered in nonautomative consumer goods; repayments were only a little above the March total as reductions in the automobile and home improvement components were offset by increases in nonautomotive consumer goods and personal loans.

The upturn in auto credit since February has been substantial. Auto credit declined during most of 1970 with very large reductions in each month of the strike-affected fourth quarter. Although unit sales of new cars rebounded sharply in January, the proportion of credit sales was the lowest for any month in recent years, and the net change in auto credit remained negative. This was followed by a modest expansion of \$0.6 billion in February (seasonally adjusted annual rate), and more substantial gains of \$2.4 billion in March and \$3.7 billion in April. The latest two months reflect a return to a more normal proportion of new car credit sales, marked increases in used car sales, and record-high average instalment contracts for both new and used units.

Wholesale prices. Wholesale prices rose at a seasonally adjusted annual rate of 3.3 per cent between April and May -- substantially slower than the 5.6 per cent average of the first four months of the year. Price increases of industrial commodities were responsible for the increase in the overall WPI as prices of farm and food products declined on a seasonally adjusted basis for the first time this year.

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

	6 months		3 months	Monthly	
	Dec. 1969 to June 1970	June 1970 to Dec.	Dec. 1970 to Mar. 1971	Mar. 1971 to April	April'71 to May
All commodities	2.4	2.2	5.4	6.0	3.3
Farm and food 1/	-1.8	- .4	11.3	6.5	-2.1
Industrials	3.8	3.4	2.9	6.4	5.4
Crude materials 2/	8.5	.8	2.4	25.4	.0
Intermediate materials 2/	4.3	1.8	4.0	7.7	6.6
Finished goods 2/					
Producer	4.1	6.0	3.9	2.1	2.1
Consumer 2/	2.7	5.1	2.2	.0 r	4.4
Durable	2.9	5.7	2.2	3.3	4.4
Nondurable 2/	2.8	4.7	1.5	-2.1 r	5.6

r - Revised
1/ Farm products, and processed foods and feeds
2/ Excludes foods
Note: Seasonal factors have recently been revised.

The rise in industrial commodity prices of 5.4 per cent, seasonally adjusted annual rate, was less than in April but considerably above the average rate for the December-April period as fuels, textiles, and metals and metal products increased. Prices of consumer nonfood finished goods accelerated in May, rising twice as fast as in the first quarter but less than in the last half of 1970.

Since the May pricing date, increases in prices of some metals have been announced. Prices for aluminum fabricated pro cts were raised effective September first, following the signing of a new labor contract. The delay in the price increase reflects current high stocks of aluminum and weakness in present prices. Stainless steel prices were raised in mid-May, following two unsuccessful attempts to raise prices earlier this year, and zinc prices were increased last month for the second time this year.

Among declines in prices since early May, those for copper scrap have been especially sharp as lower quotations for copper on the London market were reflected in lower domestic prices for scrap and brass mill products. Despite this downward pressure on producer prices, the copper industry is expected to grant as large a wage settlement in the next few weeks as did the aluminum industry.

Increases in the prices of steel sheet and strip set for mid-June and early July will not affect the June WPI, but are expected to raise the metals group in the July index by about 0.5 per cent.

The Domestic Financial Situation

Monetary aggregates. The growth rates in the monetary aggregates for May are now estimated to have been slightly stronger than was indicated in the Greenbook. These revised estimates are presented in the table below. A preliminary estimate of the May growth in savings deposits at mutual savings banks and Savings and Loan associations, which has become available since the Greenbook was published, is also presented in the table. According to the estimates, these deposits expanded at an annual rate of 13.6 per cent, which is a rate of increase significantly below that prevailing over the first four months of the year. Growth in M_3 (the monetary aggregate which includes these deposits) during May is estimated to have been at an annual rate of 16 per cent, down slightly from the rate of increase for April and only moderately below the first quarter rate.

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

	1971 May e
1. M_1 (currency plus private demand deposits)	16.8
2. M_2 (M_1 plus commercial bank time and savings deposits other than large CD's)	14.9
3. M_3 (M_2 plus savings deposits at mutual savings banks and S & L's)	16.0
4. Adjusted bank credit proxy	8.4
5. Commercial bank time and savings deposits	15.0
a. large CD's	25.1
b. other time and savings	13.6
6. Savings deposits at mutual savings banks and S&L's	13.9

e - estimated

Bank credit. Commercial bank credit, adjusted for loan transfer, is now estimated to have increased at an annual rate of 10.9 per cent in May, rather than at a 12 per cent annual rate as shown in the Greenbook. This reduction reflects a marked change in the estimated rate of advance in U. S. government securities. Holding of these securities are now estimated to have declined at a 6 per cent annual rate rather than to have increased at an 8 per cent annual rate. Sharp liquidation in Treasury bill holdings at month end are responsible for this revision. The estimate of the rate of growth in other security holding for May has not been changed. It now appears that the annual rate of growth in total loans for May was 13.4 per cent (rather than 12.1 per cent). This upward revision was spread among several major loan categories. The estimated growth rate for business loans remained at an annual rate of 17.2 per cent.

Nonbank depositary intermediaries. Very preliminary data suggest that deposit growth at savings and loan associations and mutual savings banks slowed during May, on a seasonally adjusted basis. It is too early to know whether this decline from the exceptionally high March and April rates of growth indicates a significant change in trend. In some recent quarters, a downward bias has appeared in the seasonally adjusted middle month of each quarter.

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

	Mutual Savings Banks	Savings and Loan Associations	Both
1970 - QIII	6.9	10.6	9.3
QIV	10.5	12.1	11.6
1971 - QI	17.7	26.0	23.3
January	15.5	29.8	25.1
February	15.8	19.8	18.5
March p/	21.2	26.7	24.9
April p/	18.6	23.2	21.7
May e/	14.0	14.0	14.0

p/ Preliminary.
e/ Partially estimated.
Note: Monthly patterns may not be significant because of difficulties with seasonal adjustment.

Mortgage market. In Tuesday's auction for FNMA forward purchase commitments, yields based on the current 7 per cent ceiling rate for FHA and VA underwritten mortgages continued to rise quite rapidly. On 6-month commitments, the private market implicit yield rose 21 basis points to 8.18 per cent--75 basis points above the 1971 low. The discount associated with the 6-month commitment yield was more than 9 points. The total bids received by FNMA declined considerably in the latest auction, probably reflecting in large degree the reduction in the maximum limits on individual bids imposed by FNMA rather than a general decline in the demand for FNMA commitments.

FNMA PURCHASE AUCTIONS

		Amount of total offers		6-month commitments	
		Received (Millions of dollars)	Accepted	Discount (Points)	Private market yield (per cent)
1971 - High		1,168 (5/12)	312 (4/26)	9.4 (6/1)	8.18 (6/1)
April.	12	127	54	3.7	7.45
	26	687	314	4.4	7.54
May	10	1,168	237	5.6	7.68
	24*	786	152	7.8	7.97
June	1*	324	147	9.4	8.18

NOTE: Average secondary market yield after allowance for commitment fee and required purchase and holding of FNMA stock, assuming prepayment period of 15 years for 30-year Government-underwritten mortgages. Implicit yields shown are gross, before deduction of fee paid by investors to servicers of 50 basis points prior to August 10, 1970, auction, and 38 basis points thereafter.

*Dollar limits were announced in advance by FNMA on the total offers it would accept, and on the total competitive offers that any one bidder could make.

With many mortgage bankers reportedly unable to find investors for the 7 per cent government-underwritten mortgages which they currently hold, FNMA has scheduled a one-time "special" auction on June 9 to provide commitments for the purchase of an unspecified volume of such loans in an effort to reduce the pressures on its normal auction system. In this special auction, lenders will be able to submit an unlimited bid, solely on a competitive basis, for FNMA purchase commitments on 7 per cent mortgages which they have ready for immediate delivery.

Life insurance companies. The life insurance industry directed much of its improved fund flows in the first quarter into the corporate securities market. The extremely large net increase in common and preferred stock holdings (even after adjustment for valuation) undoubtedly reflects the sharply growing importance of variable annuity business, while the relatively large increase in short-term corporate debt most likely will be used to disburse funds for the rapidly growing volume of commitments for future acquisition of both securities and mortgages.

NET ASSET ACQUISITIONS BY LIFE INSURANCE COMPANIES
DURING THE FIRST QUARTER
(Millions of dollars, not seasonally adjusted)

	1967	1968	1969	1970	1971
Corporate Securities					
Short-term (less than one year)	165	196	335	350	938
Long-term	967	1,171	1,020	493	1,131
Preferred & Common Stock	2,710	381	655	145*	2,377*
Mortgages	1,137	460	409	646	171
Policy Loans	-467	276	415	719	268
Total Assets	2,843	2,456	3,132	2,500*	5,307*

* Market valuation of common stock accounts for $-388 million of the net change in 1970, and $1,295 million in 1971. That information was not available for the earlier data.

The extremely low volume of net mortgage acquisitions may simply represent a delay of commitment takedowns, combined with some increase in mortgage repayments. In fact, a delay in commitment disbursals may collaborate the exceptionally large volume of short-term securities acquired, net; some of that increase may represent funds intended for mortgages that--for whatever reason-- were delayed in their takedowns, perhaps into the second quarter. Mortgage new commitments made during the first quarter for future takedown showed a 40 per cent increase over a year ago.

Corporate and municipal securities markets. The growing view that the bond markets had over-discounted the strength of the economy and the degree of future monetary restraint resulted in a sustained high level of investor buying. In association with a light weekly calendar in the holiday-shortened first week of June, the rally that began in late May accelerated in both the corporate and tax-exempt bond markets. Yields fell back to the levels prevailing at the end of April.

BOND YIELDS
(Per cent)

	New Aaa Corporate Bonds	Long-term State 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	8.23 (5/21)	5.96 (3/20)
Week of:		
May 7	7.88	5.84
14	7.93	5.96
21	8.23	5.96
28	8.06	5.86
June 4	7.79	5.70

INTEREST RATES

	1971 Highs	1971 Lows	1971 May 10	1971 June 3
Short-Term Rates				
Federal funds (weekly averages)	4.82 (6/2)	3.29 (3/10)	4.41 (5/5)	4.82 (6/2)
3-month				
Treasury bills (bid)	4.89 (1/4)	3.22 (3/11)	3.83	4.24
Bankers' acceptances	5.50 (1/6)	3.88 (3/10)	4.88	5.00
Euro-dollars	8.00 (6/1)	4.94 (3/17)	7.09	7.75
Federal agencies	4.90 (1/6)	3.27 (2/24)	4.07 (5/6)	4.36
Finance paper	5.50 (1/5)	3.62 (3/15)	4.38	5.00
CD's (prime NYC)				
Most often quoted new issue	5.38 (1/6)	3.62 (3/24)	4.75 (5/5)	5.12
Secondary market	5.62 (1/6)	3.80 (3/17)	4.84 (5/5)	5.26
6-month				
Treasury bills	4.94 (1/4)	3.35 (3/11)	4.15	4.45
Bankers' acceptances	5.62 (1/6)	4.00 (3/10)	5.00 (e)	5.12 (e)
Commercial paper (4-6 months)	5.75 (1/7)	4.00 (3/29)	5.00	5.38
Federal agencies	5.10 (1/6)	3.53 (3/10)	4.59 (5/6)	4.82
CD's (prime NYC)				
Most often quoted new issue	5.50 (1/6)	4.00 (3/24)	4.88 (5/5)	5.38
Secondary market	5.68 (1/6)	3.70 (3/3)	5.00 (5/5)	5.50
1-year				
Treasury bills (bid)	4.87 (5/18)	3.45 (3/11)	4.47	4.74
CD's (prime NYC)				
Most often quoted new issue	5.50 (6/3)	4.38 (3/3)	5.25 (5/5)	5.50
Prime municipals	3.30 (5/27)	2.15 (3/24)	3.25 (5/6)	3.20
Intermediate and Long-term				
Treasury coupon issues				
5-years	6.60 (5/18)	4.74 (3/22)	6.13	6.12
20-years	6.49 (5/18)	5.69 (3/23)	6.25	6.14
Corporate				
Seasoned Aaa	7.69 (6/2)	7.05 (2/16)	7.44	7.68
Baa	8.93 (1/5)	8.28 (2/16)	8.54	8.71
New Issue Aaa	8.23 (5/20)	6.76 (1/29)	7.88 (5/6)	7.79
Municipal				
Bond Buyer Index	5.96 (5/20)	5.00 (3/18)	5.84 (5/6)	5.70
Moody's Aaa	5.80 (5/13)	4.75 (2/11)	5.65 (5/6)	5.50
Mortgage--implicit yield in FNMA auction 1/	8.18 (6/1)	7.43 (3/1)	7.68	8.18

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

Foreign exchange markets. The Bundesbank re-entered the exchange market on Wednesday, June 2, offering to buy marks (sell dollars) at a price of 28.03 U.S. cents per DM, about 2.4 per cent above par. The market rate, which had been slightly below 28 cents, immediately moved above the Bundesbank's bid rate, apparently on the belief that once the central bank had indicated its willingness to intervene at a rate above the former upper limit, that it might well raise its bid even higher in order to sell a large amount of dollars. The Bundesbank did no business on Wednesday, but on Thursday raised its bid several times and sold $53 million. On Friday it again raised its bid rate, but somewhat less aggressively, and sold an additional $93 million. By noon in New York on Friday, the mark had advanced to 28.37 cents, 3.9 per cent above par.

The Bundesbank also announced on Wednesday an increase, from nearly 14 per cent to almost 16 per cent, in the required reserve ratio applicable to German banks' domestic liabilities, and an increase in the ratio on foreign liabilities to double that on domestic liabilities. The aim of both the Bundesbank's dollar sales and the increase in reserve requirements was to restrict the domestic monetary base, particularly in the face of large deliveries of marks to the market by the Bundesbank on maturing forward exchange contracts (amounting to more than $2-1/2 billion equivalent in June and July).

Call money rates in Frankfurt, which had been extremely low during May (less than 1 per cent much of the time) firmed to over 6 per cent in response to these actions by the Bundesbank.

Other major foreign currencies, with the exception of the Canadian dollar, firmed along with the mark from mid-week. There was no significant intervention by other European central banks, but the Bank of Japan purchased around $200 million for the week.

Eurodollar interest rates moved up sharply last week and on Monday, June 1. Since then they have eased off somewhat but not below a 7 to 7-1/2 per cent range for one month and longer maturities. The spreads between Eurodollar rates and comparable U.S. rates have been unusually wide since early May. Meanwhile rates in European national markets have changed relatively little, with the exception of very short-term German money market rates which fell to low levels after the huge influx of funds from abroad early in May; these rates returned to more normal levels this week in response to the Bundesbank's raising of reserve requirements and its resumption of offers to sell dollars.

As a result of the decline in general levels of German and British short-term rates when discount rates were lowered early in April and of the rise in U.S. rates since then, the spreads between rates in European national markets and those in the United States narrowed in April and May.

Corrections.

Page II-35 should be followed by the present II-39.
Page II-36 should be followed by the present II-40.

SUPPLEMENTAL APPENDIX A: LOAN COMMITMENTS SURVEY*

Data provided by the 48 large banks in the Loan Commitments Survey of April 30 indicate that bank loan commitment policies eased further during the three month period ending April 30. About 45 per cent of the respondent banks reported that their policies on new loan commitments had become less restrictive since January 31, while only one bank reported that its policies had become somewhat more restrictive. The remaining banks reported that their policies were unchanged. Decreased demand for loans was cited by four banks as the principal factor responsible for their shift toward a less restrictive policy, while another seven attributed their policy change to an increase in funds availability. The remaining 11 banks that moved to less restrictive policies indicated that their decisions were induced by a combination of weak loan demands and increased fund availability.

New Commitments

The recent easing in commitments policy appears to have had a decided impact on the extension of new commitments as the volume of new commitments during the April survey period rose to $23.4 billion, $4 billion above the volume reported in the January 31 survey and the largest on record since the full panel of respondents began reporting in early 1969. More than four-fifths of the $4 billion increase in new commitments was for loans to commercial and industrial firms, raising the quarterly volume to a new high of nearly $18 billion. While the volume of new commitments for term loans rose moderately, the bulk of the increase in commitments for commercial and industrial loans was in confirmed lines of credit ($2.7 billion). As in the previous quarter, the volume of new commitments extended to nonbank financial institutions and for real estate mortgages expanded further, both reaching new highs.

To some extent seasonal influences contributed to the large increase in new commitments recorded in this survey. Banks generally review and renew expiring credit lines early in the first half of each year. (The amount of this seasonal influence cannot be accurately ascertained due to the relative newness of this survey.) Nevertheless, record levels of new commitment activity should not be surprising since the Loan Commitments Survey became operational during a period of monetary restraint and is now passing for the first time through a period of bank accommodation to monetary ease.

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

Takedowns, expirations, and cancellations

Takedowns, expirations, and cancellations (hereafter referred to simply as takedowns) increased sharply over the three months of the report period, but the volume was somewhat below the high recorded in July of last year. In part, this high level probably reflects the normal expiration of yearly commitments under confirmed lines of credit that occurs early in the calendar year. A new record high may be established during the May through July period, however, if the expectations of reporting banks turn out to be correct, as about one quarter of the banks (13) indicated they were expecting their takedown volume to increase while only 2 banks felt that takedown volume would decline.

Unused commitments

The volume of new commitments was well above the level of takedowns between January and April, and unused commitments increased $3.8 billion to a new high of $62.3 billion. Growth in unused commitments to commercial and industrial firms accounted for most of the overall rise, but outstandings to nonbank financial institutions and for real estate mortgages also rose.

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			Unused commitments: Outstanding on
	Oct. 31	Jan. 31	April 30	Oct. 31	Jan. 31	April 30	Oct. 31	Jan. 31	April 30	April 30
Grand total commitments	15.2	19.4	23.4	10.6	15.7	19.4	4.6	3.7	3.8	62.3
Total- Comm. & Indust.	11.6	14.6	17.9	8.4	11.8	14.7	3.2	2.8	3.1	47.6
Total- Nonbank Finan. Institutions	2.6	3.7	4.0	1.3	2.9	3.7	1.3	0.7	0.3	11.3
Total- Real Estate Mortgages	1.0	1.2	1.5	0.9	0.9	1.0	0.1	0.2	0.5	3.4
MEMO: Const. Loans (Included above)	0.8	1.0	1.2	0.8	0.8	0.7	3/	0.1	0.4	2.7
Comm. & Industrial										
Term Loans	0.9	1.4	1.8	0.7	1.3	1.5	0.1	0.1	0.3	1.8
Revolving Credits	2.8	4.0	4.0	1.5	3.1	3.8	1.3	0.9	0.1	13.0
Total Term & Revolving 2/	3.9	5.6	6.0	2.6	4.4	5.6	1.3	1.2	0.4	15.4
Confirmed Lines of Credit	7.1	8.3	11.0	5.1	6.8	8.9	2.0	1.5	2.3	29.0
Other Commitments	0.6	0.7	0.9	0.8	0.6	0.5	-0.2	0.1	0.4	3.1
Nonbank Financial Institutions										
Finance Companies	1.6	2.2	2.2	0.5	1.8	2.1	1.1	0.5	3/	7.2
For Mortgage Ware-housing	0.4	0.7	0.6	0.3	0.5	0.6	0.1	0.1	3/	1.6
All Other	0.6	0.8	1.2	0.5	0.7	0.9	0.1	0.1	0.3	2.6
Real Estate Mortgages										
Residential	0.3	0.4	0.6	0.3	0.3	0.4	0.1	0.1	0.2	1.0
Other	0.7	0.8	1.0	0.6	0.6	0.6	0.1	0.1	0.4	2.3

1/ Participants in Quarterly Interest Rate Survey with total deposits of more than $1 billion (42 banks).
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

	Oct. 31 1969	Jan. 31 1970	Apr. 30 1970	July 31 1970	Oct. 31 1970	Jan. 31 1971	Apr. 30 1971
Total number of banks responding:	48	48	48	48	48	47	48
Unused commitments in the past three months have:							
Risen rapidly	0	1	0	0	1	3	5
Risen moderately	5	7	12	19	28	31	25
Remained unchanged	20	18	15	17	13	7	12
Declined moderately	23	21	21	12	6	6	6
Declined rapidly	0	0	1	0	0	0	0
Takedowns in the next three months should:							
Rise rapidly	0	0	0	0	0	0	0
Rise moderately	14	9	13	13	6	8	13
Remain unchanged	31	30	30	33	24	29	33
Decline moderately	4	9	5	2	18	10	2
Decline rapidly	0	0	0	0	0	0	0
Commitment policy compared to three months ago is:							
Much more restrictive	12	3	0	0	0	0	0
Somewhat more restrictive	20	15	7	5	2	0	1
Unchanged	15	29	40	37	19	8	25
Less restrictive	1	1	1	6	26	34	21
Much less restrictive	0	0	0	0	1	5	1

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	1	0	0	1
		Decreased Loan Demand	Increased Availability of Funds	Both Demand And Funds
Less restrictive	22	4	7	11

SUPPLEMENTAL APPENDIX B: BANK LENDING PRACTICES SURVEY*

The results of the May 15 Survey of Bank Lending Practices reflect the changes in the economy and in financial market attitudes that have developed since the February survey. These changes found expression both in banker appraisals of loan demand and in the concomitant altering of lending policies.

Demand for business loans was reported to have picked up at 40 per cent of the participating banks, whereas in the two previous surveys few had reported any strengthening and more than three-fifths of the panel had experienced appreciable weakening. Currently, about 60 per cent of the respondents anticipate further expansion in loan demands by commercial and industrial firms during the summer months. These expectations of strengthing loan demands, along with the rise in market rates of interest since the preceding survey likely played an important role in essentially halting further easing in lending terms and conditions. In both the November, 1970 and February, 1971 surveys, lending policies in general had been eased substantially. But banks now appear to be largely maintaining these easier policies.

Terms and Conditions

Interest rates fluctuated widely during the early spring and the respondents were quite varied in their reactions to changes in the prime rate, which had been at 6 per cent on the previous survey date (February 15), then dropped in stages to 5-1/4 and was back to 5-1/2 on the current survey date. More than 40 per cent of the respondents indicated higher interest rate charges, while 20 per cent reported lower interest rates. At the remaining banks, interest rate policies were reported as unchanged since February.

Supporting balance requirements and standards of credit worthiness were maintained at about the same levels as reported in the previous survey, with possibly a slight tilt in the direction of firming (see Table 2A). Maturity restraints on term loans, however, were eased slightly further. Although banks are now somewhat more lenient in reviewing loan requests from new and nonlocal customers, they emphasized repeatedly that they seek high-quality borrowers only. The respondents were virtually unanimous in emphasizing that, though their overall lending terms are now more lenient than late last year, their standards of credit worthiness have not been relaxed.

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

Lending to Finance Companies

Supporting balance requirements on loans to finance companies have not changed significantly since the previous survey. In certain other areas of lending policy, banks reported some divergence in treatment accorded finance companies as compared with nonfinancial businesses. However, the net responses of respondents show that only about 5 per cent had firmed interest rates on loans to noncaptive finance companies while 20% had increased lending charges for nonfinancial businesses (Table 2A). On the other hand, over one-fifth indicated an increased interest in establishing or enlarging credit lines for finance companies while few indicated any further easing on credit lines for nonfinancial businesses, except for a moderate move toward leniency with respect to new customers.

Willingness to Make Other Loans

The comfortable liquidity position afforded most banks by the large influx of deposits this year, at a time of generally sluggish loan demands, has led to greater flexibility in lending policies over a range of types of credit. In the latest survey banks reported additional willingness to extend single-family mortgage loans, continuing the pattern begun early in 1970. Given the interest rate attractiveness of consumer instalment loans, banks are still quite eager to make this type of loan. More than a fourth of the respondents expressed a further willingness to make term loans to businesses, especially those of an intermediate-term maturity.

Other Variables

The smaller banks in this survey (with less than $1 billion in deposits) appeared to experience somewhat stronger loan demand than the larger banks (with deposits of $1 billion or more). Moreover, comments supplied by individual banks also suggest some regional variations in loan demand. A few banks outside national loan markets noted particularly that they had not experienced the run-off in business loans evident at the major money center banks.

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES
AT SELECTED LARGE BANKS IN THE U.S. 1/
(STATUS OF POLICY ON MAY 15, 1971 COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS & PERCENT OF TOTAL BANKS REPORTING)

	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	125	100.0	1	0.8	49	39.2	57	45.6	18	14.4	0	0.0
ANTICIPATED DEMAND IN NEXT 3 MONTHS	125	100.0	0	0.0	75	60.0	49	39.2	1	0.8	0	0.0

	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	124	100.0	0	0.0	53	42.7	44	35.5	24	19.4	3	2.4
COMPENSATING OR SUPPORTING BALANCES	125	100.0	0	0.0	9	7.2	111	88.8	5	4.0	0	0.0
STANDARDS OF CREDIT WORTHINESS	125	100.0	0	0.0	9	7.2	115	92.0	1	0.8	0	0.0
MATURITY OF TERM LOANS	125	100.0	1	0.8	6	4.8	107	85.6	11	8.8	0	0.0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	125	100.0	0	0.0	4	3.2	108	86.4	10	8.0	3	2.4
NEW CUSTOMERS	125	100.0	1	0.8	7	5.6	91	72.8	24	19.2	2	1.6
LOCAL SERVICE AREA CUSTOMERS	123	100.0	0	0.0	3	2.4	107	87.1	10	8.1	3	2.4
NONLOCAL SERVICE AREA CUSTOMERS	122	100.0	1	0.8	12	9.8	94	77.1	13	10.7	2	1.6

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1/ SURVEY OF LENDING PRACTICES AT 125 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF MAY 15, 1971.

TABLE 1 (CONTINUED)

	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	124	100.0	0	0.0	10	8.1	109	87.9	5	4.0	0	0.0
INTENDED USE OF THE LOAN	125	100.0	0	0.0	3	2.4	113	90.4	9	7.2	0	0.0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	125	100.0	0	0.0	22	17.6	88	70.4	14	11.2	1	0.8
COMPENSATING OR SUPPORTING BALANCES	125	100.0	0	0.0	5	4.0	119	95.2	1	0.8	0	0.0
ENFORCEMENT OF BALANCE REQUIREMENTS	125	100.0	0	0.0	11	8.8	112	89.6	2	1.6	0	0.0
ESTABLISHING NEW OR LARGER CREDIT LINES	125	100.0	2	1.6	8	6.4	79	63.2	35	28.0	1	0.8

	ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	125	100.0	0	0.0	4	3.2	88	70.4	33	26.4	0	0.0
CONSUMER INSTALMENT LOANS	124	100.0	0	0.0	1	0.8	79	63.7	35	28.2	9	7.3
SINGLE FAMILY MORTGAGE LOANS	122	100.0	1	0.8	2	1.6	71	58.3	42	34.4	6	4.9
MULTI-FAMILY MORTGAGE LOANS	122	100.0	1	0.8	3	2.5	104	85.2	14	11.5	0	0.0
ALL OTHER MORTGAGE LOANS	123	100.0	1	0.8	4	3.3	91	73.9	27	22.0	0	0.0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	124	100.0	0	0.0	4	3.2	99	79.9	19	15.3	2	1.6
LOANS TO BROKERS	122	100.0	0	0.0	2	1.6	110	90.2	8	6.6	2	1.6

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

COMPARISON OF QUARTERLY CHANGES IN BANK LENDING PRACTICES AT BANKS GROUPED BY SIZE OF TOTAL DEPOSITS 1/
(STATUS OF POLICY ON MAY 15, 1971, COMPARED TO THREE MONTHS EARLIER)
(NUMBER OF BANKS IN EACH COLUMN AS PER CENT OF TOTAL BANKS ANSWERING QUESTION)

SIZE OF BANK -- TOTAL DEPOSITS IN BILLIONS

	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	100	100	0	1	31	45	50	43	19	11	0	0
ANTICIPATED DEMAND IN NEXT 3 MONTHS	100	100	0	0	52	66	48	33	0	1	0	0

	TOTAL		MUCH FIRMER		MODERATELY FIRMER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	0	0	41	44	42	31	17	21	0	4
COMPENSATING OR SUPPORTING BALANCES	100	100	0	0	4	10	94	84	2	6	0	0
STANDARDS OF CREDIT WORTHINESS	100	100	0	0	4	10	96	89	0	1	0	0
MATURITY OF TERM LOANS	100	100	0	1	6	4	83	88	11	7	0	0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	100	100	0	0	2	4	85	88	7	8	6	0
NEW CUSTOMERS	100	100	2	0	0	10	77	69	17	21	4	0
LOCAL SERVICE AREA CUSTOMERS	100	100	0	0	0	4	86	87	8	9	6	0
NONLOCAL SERVICE AREA CUSTOMERS	100	100	0	1	6	13	78	76	12	10	4	0

1/ SURVEY OF LENDING PRACTICES AT 54 LARGE BANKS (DEPOSITS OF $1 BILLION OR MORE) AND 71 SMALL BANKS (DEPOSITS OF LESS THAN $1 BILLION) REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF MAY 15, 1971.

SIZE OF BANK -- TOTAL DEPOSITS IN BILLIONS

	NUMBER ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	100	100	0	0	4	11	90	86	6	3	0	0
INTENDED USE OF THE LOAN	100	100	0	0	0	4	93	89	7	7	0	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	0	0	19	17	68	72	13	10	0	1
COMPENSATING OR SUPPORTING BALANCES	100	100	0	0	4	4	94	96	2	0	0	0
ENFORCEMENT OF BALANCE REQUIREMENTS	100	100	0	0	7	10	89	90	4	0	0	0
ESTABLISHING NEW OR LARGER CREDIT LINES	100	100	0	3	7	6	63	63	30	27	0	1

	NUMBER ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1	$1 & OVER	UNDER $1
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	100	100	0	0	2	4	74	68	24	28	0	0
CONSUMER INSTALMENT LOANS	100	100	0	0	0	1	69	60	23	32	8	7
SINGLE FAMILY MORTGAGE LOANS	100	100	0	1	2	1	65	53	29	39	4	6
MULTI-FAMILY MORTGAGE LOANS	100	100	0	1	4	1	85	86	11	12	0	0
ALL OTHER MORTGAGE LOANS	100	100	0	1	4	3	77	72	19	24	0	0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	100	100	0	0	2	4	81	79	17	14	0	3
LOANS TO BROKERS	100	100	0	0	2	1	86	93	8	6	4	0

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

TABLE 2A

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

	May 1969	Aug. 1969	Nov. 1969	Feb. 1970	May 1970	Aug. 1970	Nov. 1970	Feb. 1971	May 1971
Strength of loan demand1/ (compared to 3 months ago)	60.0	30.6	28.0	-1.6	12.1	16.0	-56.8	-54.4	25.6
Anticipated demand in next 3 months	41.8	5.7	8.9	-8.0	11.2	13.6	-32.0	-13.6	59.2
LENDING TO NONFINANCIAL BUSINESSES2/									
Terms and Conditions									
Interest rates charged	91.0	78.3	49.6	34.4	-12.8	15.2	-73.6	-85.5	20.9
Compensating or supporting balances	75.6	68.3	57.6	38.4	18.4	24.8	-0.8	-23.4	3.2
Standards of credit worthiness	41.4	40.6	36.0	22.4	20.8	22.4	4.8	0.8	6.4
Maturity of term loans	42.3	42.2	35.2	17.6	10.4	14.4	-7.2	-25.0	-3.2
Reviewing Credit Lines									
Established customers	47.2	51.6	36.8	18.4	5.6	1.6	-32.0	-44.0	-7.2
New customers	80.2	81.4	60.8	34.4	17.6	6.4	-40.8	-56.8	-14.4
Local service area customers	46.7	48.8	32.0	14.4	5.6	-3.2	-33.6	-45.8	-8.1
Nonlocal service area customers	71.3	68.8	56.5	31.4	22.6	16.1	-16.8	-35.2	-1.7
Factors Relating to Applicant (Net percentage indicating more important)									
Value of depositor as source of business	67.2	65.0	46.0	29.9	18.5	18.5	--	-14.5	4.1
Intended use of loan	71.6	68.5	39.2	21.6	12.0	9.6	-9.6	-24.0	-4.8
LENDING TO NONCAPTIVE FINANCE COMPANIES2/									
Terms and Conditions									
Interest rates charged	50.8	48.0	19.3	14.5	-16.0	9.7	-41.6	-54.1	5.6
Compensating or supporting balances	27.9	35.0	26.7	21.7	6.4	12.1	1.6	-4.0	3.2
Enforcement of balance requirements	42.6	42.3	34.7	30.7	16.0	23.4	6.4	-4.1	7.2
Establishing new or larger credit lines	62.4	62.0	48.4	32.2	21.6	22.6	-10.4	-38.7	-20.8
WILLINGNESS TO MAKE OTHER LOANS3/									
Term loans to businesses	64.3	65.9	48.0	21.6	12.8	8.8	-28.8	-54.4	-23.2
Consumer instalment loans	17.2	26.9	24.2	17.7	-4.1	--	-24.2	-42.1	-34.7
Single-family mortgage loans	45.5	49.7	30.4	19.7	-8.2	-11.6	-25.6	-55.4	-36.9
Multi-family mortgage loans	57.5	58.3	36.3	21.8	3.4	--	-12.4	-24.2	-8.2
All other mortgage loans	62.0	62.5	42.3	22.2	9.9	5.0	-15.4	-31.2	-17.9
Participation loans with correspondent banks	38.4	48.4	31.5	10.6	5.6	-2.4	-9.6	-39.2	-13.7
Loans to brokers	40.0	59.3	36.1	20.5	20.3	10.6	-0.9	-27.9	-6.6

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

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

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

SUPPLEMENTAL APPENDIX C
SURVEY OF STATE AND LOCAL LONG-TERM BORROWING ANTICIPATIONS AND REALIZATIONS DURING THE FIRST QUARTER 1971*

With declining interest rates, State and local governments in the first quarter of 1971, as in the final month of 1970, were generally able to carry out their borrowing and capital outlay plans, according to the FRB-Census 1/ Survey of State and Local Long-term Borrowing Anticipations and Realizations (See Table 1). The declining level of interest rates on State and local securities was reflected in only small interest rate induced changes in borrowing; interest rates had virtually no impact on capital outlays in the first quarter of 1971 (See Table 2). State and local governments responding to the survey indicated that they had borrowed about $5.6 billion as planned and an additional $.8 billion 2/ beyond plans. Previously postponed borrowing finally accomplished during the January to March period accounted for at least $0.7 billion of the $6.7 billion of long-term securities actually sold.

Borrowing Short-Falls

Despite the easier financial market conditions and the record volume of their borrowing, the State and local sector still had $1.7 billion in gross short-falls from borrowing plans in the first quarter. Only $350 million, or 20 per cent of the short-falls, were not considered temporary by the potential borrowers. Almost 60 per cent of all set-backs, as shown in Table 3, involved administrative and legal problems, believed in part to relate to the current litigation surrounding pollution control revenue bonds.

1/ The Governments Division of the Bureau of the Census is responsible for the design of the sample as well as the polling of respondents.

2/ The survey accounted for 95 per cent of the $6.7 billion actually borrowed during the quarter. Results presented in this analysis represent the responses of 529 State and local units representing a response rate of approximately 90 per cent. The non-respondents had no borrowing anticipations for the quarter and are assumed not to have had long-term borrowing.

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*Prepared by Paul Schneiderman, Economist, Capital Markets Section, Division of Research and Statistics.

Table 1

LONG-TERM BORROWING BY STATE
AND LOCAL GOVERNMENTS
1969:III-1971:III
(Dollars in Billions)

	(1) Antici-pations	-	(2) Gross Borrowing Setbacks	+	(3) Accelerations And Unplanned Borrowing	=	(4) Actual Borrowing	Memo: Net Borrowing Setbacks (Col. 2-Col. 3)
1969-III	5.38		3.07		.15		2.46	2.92
IV	6.81		4.71		.88		2.98	3.83
1970-I	5.32		3.03		1.82		4.11	1.21
II	5.20		2.71		1.24		3.73	1.47
III	5.88		2.21		.79		4.46	1.42
IV	6.51		1.70		1.05		5.86	.65
1971-I	7.32		1.40		.76		6.68	.64
II	6.49		n.a.		n.a.		n.a.	n.a.

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Table 2

INTEREST RATE INDUCED LONG-TERM BORROWING SETBACKS AND CAPITAL OUTLAY CUTBACKS
1969: III - 1971: I
(Billions of dollars)

	Change in Tax-exempt Bond Yields 1/	Gross Borrowing Setbacks	-	Accelerations and Unplanned Borrowing	=	Net Interest Impact	Related Capital Outlay Cutbacks
1969 - III	.40	1.75		.00		1.75	.68
IV	.60	2.36		.00		2.36	1.20
1970 - I	- .63	.81		.00		.81	.20
II	.75	1.10		.05		1.05	.25
III	- .51	.59		.07		.52	.06
IV	- .81	.53		.34		.19	.06
1971 - I	- .71	.45		.15		.30	2/

1/ Bond Buyer Index, calculated from first week in the quarter to last week in the quarter.
2/ Less than $10 million.

Table 3

GROSS LONG-TERM BORROWING SHORT-FALLS
BY UNIT TYPE AND REASON FOR
SHORT-FALLS
FIRST QUARTER, 1971
(Data are in Millions of Dollars Unless Otherwise Specified)

	Interest Rate Induced						
Unit Type	Exceeded Ceiling	Too High	Rates Expected To Fall	Administrative and Legal Delay	All Others	Total	Per Cent
States and State Colleges	9.9	12.5	322.8	475.3	108.6	929.1	55.8
Counties	.0	5.5	11.1	97.6	30.4	144.6	8.7
Cities and Towns	23.2	4.4	7.5	230.5	47.4	313.0	18.8
Special Districts	.0	4.8	4.8	54.0	.5	64.1	3.9
School Districts	3.2	11.9	29.9	121.7	46.2	212.9	12.8
TOTAL	36.3	39.1	376.1	979.1	233.1	1,663.7	100.0
PER CENT	2.2	2.4	22.6	58.8	14.0	100.0	
MEMO: NO PLANS TO REINITIATE (Millions of dollars)	3.2	5.0	15.1	234.7	97.7	355.7	

Interest rates were a stated barrier for about 5 per cent of the short-falls, but expectations of further declines in interest rates were responsible for the postponement of about $375 million of planned borrowing. Most sensitive to first quarter movements in investor yield requirements were State agencies and public institutions of higher learning whose financial managers had rescheduled their offerings for the second quarter of this year in the hope of better market terms. Of course, yields in fact rose in the second quarter and the next survey will indicate whether these units postponed planned financing again.

Alternative Means of Finance

Long-term borrowing setbacks--most of which were considered temporary--had little effect on capital outlay plans of State and local governments. About 30 per cent of the postponed borrowing did not involve funds needed for current outlays, having been originally scheduled in advance of need. As indicated in Table 4, one-half of postponements of long-term offerings led directly to the issuance of short-term debt; over one-third of this short-term debt, in turn, reflected postponements of long-term offerings for interest rate reasons, especially expectations of lower long-term rates in the second quarter.

Table 4

ALTERNATIVE MEANS OF FINANCING
BORROWING SETBACKS
FIRST QUARTER, 1971
(Millions of dollars)

	All Setbacks	Interest Induced Setbacks
Short-term borrowing	732.4	289.3
Use of liquid assets	186.5	113.3
Reductions of other outlays	35.8	20.1
Not currently needed	414.5	27.5
Other	90.2	.0
Total	1,459.4	450.2
Memo: Capital Outlay Cutback	204.3	1.3

Long-term Borrowing Accelerations and Borrowing in Excess of Plans

The downward glide of municipal yields during the first quarter induced some offerings prior to initially planned issue dates. Altogether, the amount involved accounted for about 20 per cent of the approximately $760 million in accelerated and expanded borrowing. The staff feels, moreover, that apart from this direct effect, declining rates were also instrumental in stimulating early authorizations and speed-ups in project plans development.

Table 5

FACTORS INFLUENCING LONG-TERM BORROWING IN EXCESS OF ANTICIPATIONS
FIRST QUARTER, 1971
(Data are in millions of dollars unless otherwise specified)

	Interest Rate Induced	Project Plans Ready Early	Early Authorization	All others	Total	Per Cent
States and state colleges	56.3	41.0	34.8	27.4	159.5	21.0
Counties	18.6	20.9	9.8	47.6	96.9	12.8
Cities and towns	28.0	54.9	19.8	115.5	218.2	28.7
Special districts	10.0	52.2	.0	36.8	99.0	13.0
School districts	38.0	7.2	17.2	123.3	185.7	24.5
Total	150.9	176.2	81.6	350.6	759.3	100.0
Per Cent	19.9	23.2	10.7	46.2	100.0	--

The rise in construction costs fell heaviest upon school districts, accounting for about 15 per cent of their borrowing above planned levels. These units had borne a significant part of the previous impact of higher interest rates, having been forced to cancel long-term issues and having few financing alternatives to use as an expedient. Now that long-term markets permit these units to borrow, inflation in the construction industry has forced school districts to borrow more in order to finance previously postponed projects.

Anticipations

Long-term borrowing plans for the current (second) quarter show a modest increase over anticipations reported in December of 1970. This increase is attributed to borrowing postponed during the first quarter. Even with the rise in interest rates during the current quarter, it appears as if State and local units, net, will borrow close to their anticipated levels. This suggests that most units no longer expect a near-term decline in interest rates and see no point in further delay.

Table 6

LONG-TERM BORROWING ANTICIPATIONS[1/]
(Billions of dollars)

	April-June		
	Auth.	Unauth.	Total
As of:			
December 31, 1970	3.4	2.3	5.7
March 31, 1971	4.4	2.1	6.5
Net change	1.0	-.2	.8

1/ The anticipations in table are based upon results of the December 31, 1970 survey of the entire sample adjusted for changes reported by those units which borrowed or had plans to borrow at the time of the March 31, 1971 survey.