Prefatory Note

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

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

---

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

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

Content last modified 6/05/2009.

CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

April 13, 1973

By the Staff
Board of Governors
of the Federal Reserve System

The Domestic Economy

Industrial production. Industrial production increased 0.7 per cent further in March, and at 121.7 per cent (1967=100) was 9.4 per cent above a year earlier. Gains in output were widespread among consumer goods, business equipment, and materials. For the first quarter as a whole, the index averaged 120.8 and was 8 per cent, annual rate, above the fourth quarter of 1972.

Auto assemblies in March were unchanged from the February annual rate of 10.1 million units, and April production schedules are at about the same level. Output of furniture, some other household goods, and nondurable consumer goods rose further in March, and production of household appliances was maintained at record levels. Gains in production of business equipment were widespread. Output of most durable and nondurable industrial materials increased further, but production of steel was about unchanged from the advanced February level. (Confidential until released April 16, p.m.)

INDUSTRIAL PRODUCTION
(1967=100, seasonally adjusted)

	1973			1972	Per cent change from	
	Jan.	Feb.	March	March	Feb. 1973	A year ago
Total index	119.9	120.9	121.7	111.2	.7	9.4
Consumer goods	127.8	127.9	129.0	119.6	.9	7.9
Business equip.	113.6	114.4	115.6	101.3	1.0	14.1
Defense equip.	79.0	80.5	80.4	77.6	-.1	3.6
Materials	122.1	123.9	125.0	113.1	.9	10.5
steel	119.0	121.2	119.8	98.8	-1.2	21.3
Autos*	9.7	10.1	10.1	8.3	0	21.7

*Seasonally adjusted annual rate.

New homes sold by merchant builders in February held at a relatively strong seasonally adjusted annual rate of 718,000 units, although the rate was below the peak reached in the fourth quarter. Unsold units continued to rise and builders' inventories exceeded a 7 months' supply, a high for the series which began in 1963. At $29,900, the median price of new homes sold edged off somewhat in February. Even so, it remained above the still-rising median price of homes for sale and was 13 per cent above a year earlier. The median price of existing homes sold in February was $28,180--10 per cent more than a year earlier.

NEW SINGLE FAMILY HOMES SOLD AND FOR SALE

	Homes Sold 1/	Homes for Sale 2/	Median price of Homes Sold	Median price of Homes for Sale
	(Thousands of units)		(Thousands of dollars)	
1972				
QI (r)	688	318	26.2	26.1
QIII (r)	733	386	27.9	27.1
QIV (r)	762	404	29.0	28.3
October (r)	823	394	28.9	27.6
November (r)	719	398	29.1	27.8
December (r)	746	404	29.6	28.3
1973				
January (r)	721	420	30.1	28.5
February (p)	718	426	29.9	29.1

1/ SAAR.
2/ SA, end of period.
p - Preliminary r - Revised.

First quarter manufacturing capacity utilization is above that for the fourth quarter, but the implied idle capacity cushion remains surprisingly large in light of the near-capacity operations in various key industries. Other evidence suggests significant pressure on capacity in paper, rubber, petroleum, autos, lumber, certain chemicals and basic steel.

MANUFACTURING CAPACITY UTILIZATION
First Quarter, 1973

	1972		1973
	QI	QIV	QI
Manufacturing	75.3	79.7	80.5
Advanced products	72.7	76.0	76.8
Primary products	80.3	86.5	87.5

Confidential until release, April 17.

The Domestic Financial Situation.

Mortgage rates. Rates on home mortgages edged up further during March, according to HUD(FHA) series which reflect market conditions prevailing toward the end of a given month. In the primary market, contract interest rates on new and existing homes each rose by 5 basis points to 7.80 per cent and 7.85 per cent, respectively--25 basis points above their recent lows in March 1972. In the private secondary market, the average yield on FHA-insured mortgages rose to 7.63 per cent, up 7 basis points from February and 18 basis points above the year-earlier low. The spreads favoring gross yields on home mortgages over new issues of high grade utility bonds continued quite narrow; indeed, if allowance is made for servicing costs, net returns on home mortgages again carried little yield attraction, if any, for diversified investors.

AVERAGE RATES AND YIELDS ON NEW-HOME MORTGAGES

	Primary market: Conventional loans Level (percent)	Spread (basis points)	Secondary market: FHA-insured loans Level (percent)	Spread (basis points)	Discount (points)
1971 - Low	7.55	-36	7.32	-27	2.5e
High	7.95	52	7.97	31	7.8
1972 - Low	7.55	15	7.45	5	3.7
High	7.70	61	7.57	48	4.7
Oct.	7.70	32	7.57	19	4.7
Nov.	7.70	61	7.57	48	4.7
Dec.	7.70	55	7.56	41	4.6
1973 - Jan.	7.70	32	7.55	17	4.5
Feb.	7.75	35	7.56	16	4.6
Mar.	7.80	31	7.63	14	5.2

NOTE: FHA series: interest rates on conventional first mortgages (excluding additional initial fees and charges) are rounded by FHA to the nearest 5 basis points. On FHA loans carrying the 7 percent ceiling rate in effect since mid-February 1971, a change of 1.0 point in discount is associated with a change of 12 to 14 basis points in yield. Gross yield spread is average mortgage return, before deducting servicing costs, minus average yield on new Aaa utility bonds.

e/ Estimated.

INTEREST RATES

	1973 Highs	1973 Lows	Mar. 19	Apr. 12
Short-Term Rates				
Federal funds (wkly. avg.)	7.18 (4/4)	5.61 (1/3)	7.13 (3/14)	6.84 (4/11)
3-month				
Treasury bills (bid)	6.55 (4/3)	5.12 (1/4)	6.22	6.20
Comm. paper (90-119 day)	7.13 (4/12)	5.63 (1/12)	6.88	7.13
Bankers' acceptances	7.38 (4/12)	5.75 (1/11)	7.38	7.38
Euro-dollars	9.25 (3/2)	5.81 (1/5)	8.13	8.00
CD's (prime NYC) 60-89 day Most often quoted new	7.13 (4/4)	5.38 (1/3)	6.63 (3/14)	7.00 (4/11)
6-month				
Treasury bills (bid)	6.81 (4/3)	5.38 (1/4)	6.70	6.48
Comm. paper (4-6 mo.)	7.13 (4/12)	5.63 (1/12)	7.00	7.13
Federal agencies	7.19 (3/28)	5.64 (1/3)	7.10	6.92
CD's (prime NYC) 180-269 day Most often quoted new	7.00 (4/11)	5.63 (1/3)	7.00 (3/14)	7.00 (4/11)
1-year				
Treasury bills (bid)	6.76 (3/16)	5.40 (1/4)	6.72	6.46
Federal agencies	7.36 (4/3)	5.86 (1/2)	7.30	7.14
CD's (prime NYC) Most often quoted new	7.00 (4/11)	5.75 (1/3)	7.00 (3/14)	7.00 (4/11)
Prime municipals	4.15 (4/4)	3.20 (1/3)	4.15 (3/14)	3.95
Intermediate and Long-term				
Treasury coupon issues				
5-years	6.92 (3/16)	6.23 (1/4)	6.85	6.64
20-years	6.95 (3/16)	6.04 (1/3)	6.93	6.85
Corporate				
Seasoned Aaa	7.32 (3/26)	7.10 (1/2)	7.30	7.25
Baa	8.12 (4/5)	7.88 (1/12)	8.03	8.10
New Issue Aaa Utility	7.52 (3/14)	7.29 (1/10)	7.52 (3/14)	--
Municipal				
Bond Buyer Index	5.35 (3/21)	5.00 (1/17)	5.34 (3/14)	5.22
Mortgage--implicit yield in FNMA auction 1/	7.86 (4/2)	7.69 (1/8)	7.75 (3/5)	7.86 (4/2)

1/ Yield on short-term 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.

APPENDIX A: RESULTS OF FRB-CENSUS SURVEY OF STATE AND LOCAL GOVERNMENT BORROWING ANTICIPATIONS AND REALIZATIONS: FOURTH QUARTER, 1972*

Preliminary results of the FRB-Census[1/] Survey of State and local borrowing for the fourth quarter of 1972 indicate that sales of long-term municipal securities exceeded planned borrowing.[2/] Market conditions in that period were favorable to flotation of long-term bonds, with investment funds in ample supply and the Bond Buyer index of yields on municipal bonds declining steadily from the beginning of the quarter through the first week of December. There was some upturn in long-term rates in the final weeks of the year, but by the end of December the Bond Buyer 20-bond index stood at 5.11, an eighth of a percentage point below its level at the beginning of October.

As indicated on Table 1, many units were unable to accomplish the anticipated fourth-quarter borrowing they had reported on the Survey sent out in late September, but this was more than offset by unplanned borrowing. State and local governments brought to market during the October-December period about $2.0 billion of long-term securities which had not been scheduled at the beginning of the quarter. These accelerations resulted from a wide variety of administrative changes, most of which are lumped in the "Other" category shown on Table 2. However, it is significant that $450 million of borrowing in the last quarter of 1972 was accelerated because of the issuers' conviction that interest

---

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/ Although the survey response rate was extremely high, the actual borrowing total as reported on the Survey accounted for only 83 per cent of gross sales of long-term securities in the fourth quarter of 1972. A number of replies were received too late for incorporating into this preliminary summary, and it is also likely that a considerable volume of bonds were sold by new units not yet included in the sample.

* Prepared by Eleanor M. Pruitt, Economist, Capital Markets Section, Division of Research and Statistics.

Table 1

ANTICIPATIONS vs REALIZATIONS
(In millions of dollars)

			Type of Unit					
	Total	State	State Colleges	Counties	Cities	Towns	Special Districts	School Districts
Anticipated	4,615	1,277	224	432	1,460	113	599	510
Authorized	3,357	1,203	156	238	1,150	50	446	315
Not yet authorized	1,059	74	68	194	310	64	153	195
Realized	2,943	915	186	138	1,037	13	462	19[illegible]
Unplanned	1,981	353	126	201	653	44	389	217
Total actual borrowing	4,924	1,268	311	339	1,690	57	851	408
MEMO:								
Difference between lines 1 and 2 (gross shortfalls)	1,672	362	38	294	423	100	137	319
Difference between lines 1 and 4 (net shortfalls (+) or average (-)	-309	9	-87	93	-230	56	-252	102

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

Table 2

DOLLAR VOLUME OF ACCELERATED BORROWINGS
BY REASONS GIVEN
Fourth Quarter, 1972
(In millions of dollars)

			Type of Unit					
	Total	States	State Colleges	Counties	Cities	Towns	Special Districts	School Districts
Authorized sooner than expected	183.1		3.6	13.0	63.3	--	13.2	89.9
Project plans ready early	158.9	23.9	1.2	37.2	38.8	--	38.6	19.2
Interest rates expected to rise	454.7	--	--	34.6	333.8	18.7	30.0	37.4
Interest rates declined	50.9	--	1.8	12.0	4.3	19.8	10.1	3.1
More costly than expected	38.1	--	19.5	6.8	6.7	4.7	--	--
Other	1,095.1	328.7	99.8	96.9	205.8	0.8	296.8	66.3
Total	1,980.9	352.6	125.8	200.5	652.7	44.0	388.5	216.7

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

rates were going to rise. The substantial rise in short-term interest rates in 1972, with the consequent narrowing of spreads between long-term and short-term rates, was undoubtedly one factor which encouraged expectations of advances in interest rates among State and local decision makers. The strength of the economy also generated widespread anticipation of growing credit demands in 1973.

The gross shortfall in planned borrowing, that is, the difference between what governmental units reported last September as planned borrowing and what they actually borrowed during the fourth quarter, was about $1.7 billion or 37 per cent of total anticipated borrowing. Only a small percentage of these shortfalls were due to the borrowers' belief that interest rates were too high. The bulk of the shortfalls occurred because of failure to obtain authorization or some other obstacle of a legal or administrative nature. Table 3 shows the pattern of reasons for shortfalls, as reported by units accounting for $1.3 billion or approximately three-quarters of the total.1/

Although a large volume of planned borrowing was not realised in the fourth quarter of 1972, the impact on capital spending was negligible, about $78 million. (Table 4) In most cases, apparently, the unit was borrowing well in advance of actual need and there was no immediate cutback in construction outlays. Furthermore, a number of units were able to maintain their capital spending program by resorting to short-term borrowing or use of liquid assets. Table 5 details the alternative financing methods used by those units which reported in detail on how they maintained their capital outlays in spite of failure to realize borrowing plans. Such units accounted for $1.2 billion, or over 70 per cent, of the shortfalls.

Judging from the response to questions on their future borrowing plans, State and local government demands on the capital markets will remain high over 1973. The preliminary, unadjusted data indicate planned borrowing of about $10 billion for the first half of 1973. Anticipations for the January-March period were $4.6 billion, and data on actual gross

---

1/ Units are required to report details on shortfalls only if the deficiency in actual borrowing is greater than 10 per cent of the total anticipated borrowing.

Table 3

REPORTED SHORT-FALLS BY REASONS GIVEN
Fourth Quarter, 1972

	Total dollar volume (in millions)	Per cent distribution
Authorization not obtained	181.8	14.4
Other administrative or legal delays	706.4	55.9
Interest rate ceiling	--	--
Interest rates too high	16.2	1.3
Interest rates expected to fall	19.0	1.5
Construction cost too high	7.9	0.6
Federal State grant or loan not available	16.9	1.3
Other	316.2	25.0
Total	1,264.4	100.0

Table 4

IMPACT OF BORROWING REDUCTIONS[1/] ON CAPITAL OUTLAYS
Fourth Quarter 1972
(In millions of dollars)

Type of unit	
States	1.0
State colleges	1.4
Counties	55.0
Cities	7.1
Towns	2.0
Special districts	2.5
School districts	9.3
Total	78.2

1/ Total capital outlay reductions or postponements connected with borrowing shortfalls reported by those units for which the shortfall was greater than 10 per cent of anticipations.

Table 5

FINANCE SUBSTITUTIONS BECAUSE OF SHORTFALLS
Fourth Quarter, 1972

	Total dollar volume (in millions)	Per cent distribution
Short-term borrowing	185.6	14.9
Liquid Assets	162.9	10.6
Postponements of other cash outlays	121.8	10.6
Money not needed immediately	653.3	57.8
Other methods	52.7	9.3
Total	1,176.3	100.0

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

securities sales for that quarter show a total of $5.6 billion The planned borrowing for the second quarter of the year is $5.3 billion, an average monthly volume of almost $1.8 billion, which corresponds closely to staff estimates of gross long-term municipal sales over that period.

It should be stressed, of course, that reported borrowing anticipations cannot be taken as projections of security sales. As is apparent from the history of these surveys, many factors prevent realization of plans. The anticipations do indicate, though, a surprisingly high demand for funds, considering the recent growth of tax revenues and the large volume of revenue-sharing payments which the units knew about when they made the forward estimates of borrowing reported on the December survey. However, the impact of revenue sharing on borrowing and spending patterns may well not have been determined fully when the survey was taken.

Aside from the inevitable administrative problems which will probably prevent realization of some large fraction of present borrowing plans, there is the uncertain nature of accelerated or unplanned borrowing. Analysis of past surveys suggests that shortfalls tend to be offset by accelerated borrowing only in periods when market conditions are favorable or expected to deteriorate in the near future. So far this year, it appears that unplanned borrowing has continued to be quite large, as would have been expected in light of financial market conditions.

APPENDIX B: CORPORATE LIQUIDITY IN 1972*

The SEC's estimates of corporate working capital for the fourth quarter of 1972 have recently become available. Since data for early 1973 do not yet exist, these series are quite relevant to the current concern with recent business short-term financing patterns and with corporate liquidity.

Table I presents data on the level of net working capital and its components for the end of 1971 and 1972, along with quarterly changes throughout the year. Net change data for the final quarter of 1971 are included as well for purposes of comparison, since there are strong seasonal patterns in many of these series. For example, cash balances rise during the fourth quarter and are reduced in the first; the reduction in "cash" during the first quarter of 1972 was unusually small, however.

Increases in liquid assets were smaller in the final quarter of 1972 than they were a year ago, since liquidity ratios were now to a large extent being maintained rather than restored. There has been a substantial build-up in accounts receivable and payable throughout the year, largely in manufacturing; although wholesale and retail trade contributed appreciably to both in the fourth quarter.

The large negative change in short-term bank loans for the fourth quarter of 1972 is not what one would expect, however, given the movements in business loan data reported by banks. This working capital series does not include term loans, however. Instalments on these due within a year are included in "other current liabilities"; the remainder is not covered by any of the working capital series. Data on the term-loan liabilities of the manufacturing sector indicate an increase in term loans of about $1.4 billion in the third quarter--of which $.2 billion is included in other current liabilities in Table I--and $2.5 billion in the fourth quarter. None of the latter is included in the fourth quarter flow shown in Table I. This addition alone would make the changes in total bank loans positive in the second half of the year, even without the presence of long-term bank credit among the liabilities of non-manufacturing business.

---

* Prepared by Helen S. Tice, Economist, Capital Markets Section, Division of Research and Statistics.

Table I

All Domestic Nonfinancial Corporations: Working Capital
(In billions of dollars)

	Levels, End of year		Quarterly Changes Not seasonally adjusted, not annualized				
			1971	1972			
	1971	1972	IV	I	II	III	IV
Cash 1/	55.3	60.3	2.9	-.1	.4	1.7	2.9
U.S. Government securities	10.4	9.7	2.6	-.6	-1.2	-1.1	2.1
Receivables	211.0	232.3	.6	3.8	4.4	6.3	6.9
Inventories	203.1	218.2	1.5	4.1	3.5	4.5	2.9
Other current assets 2/	36.8	40.7	2.0	2.0	1.3	-.3	.8
Total current assets	516.7	561.1	9.6	9.3	8.4	11.1	15.7
Short-term bank loans	44.8	44.5	-2.0	1.1	.1	-.1	-1.4
Accounts payable	162.9	176.4	7.2	-1.4	1.3	3.5	10.0
Federal income tax	14.5	16.7	.7	1.2	-2.3	1.6	1.7
Other current liabilities 3/	89.7	99.2	-.4	3.6	3.5	2.1	.3
Total current liabilities	311.8	336.8	5.5	4.6	2.7	7.1	10.7
Net working capital 4/	204.9	224.3	4.1	4.7	5.7	4.1	5.0
Liquid Assets 5/	102.6	110.6	7.5	1.4	.5	.3	5.8

SOURCE: Securities and Exchange Commission.
1/ Includes demand and time deposits and foreign currency holdings.
2/ Includes commercial paper.
3/ Includes commercial paper and instalments due within one year on long-term debt, including long-term bank debt.
4/ Current assets less current liabilities.
5/ Cash, U.S. Government securities, and other current assets.

In Table II one liquidity measure, the ratio of liquid assets to current liabilities or the "quick ratio", is given for selected industries as well as for nonfinancial business as a whole. Since these data are not routinely included in the Greenbook the table includes some perspective with particular attention to the period surrounding the liquidity crisis of mid-1970. Liquidity ratios have been declining throughout the entire postwar period, as businesses worked down the liquid asset holdings accumulated during World War II, found ways to economize on the use of cash balances, and began to manage all short-term asset accounts more aggressively. The credit tightness of 1969 and the events of the recession of 1969-70 led to a reduction in both cash balances and U.S. Government securities. The rebuilding of liquidity was largely accomplished by late 1971, and thus the aggregate liquidity ratio remained roughly stable throughout 1972 at a level somewhat below that of mid-1969.

With the exception of trade, the liquidity position of all industries shown here improved throughout 1972. For manufacturing, liquid assets have risen and inventories fallen relative to current assets, and the liquidity ratio has returned to mid-1969 levels. The liquidity of electric utilities has improved substantially since the early part of the year. Communications, gas utilities, and railroads have restored liquidity ratios to 1969 levels.

For both wholesale and retail trade, however, liquidity has continued to decline. For these sectors liquid assets have expanded far less rapidly than have inventories and receivables.

Table II

Ratio of Liquid Assets to Current Liabilities: Selected Industries
(Not seasonally adjusted)

	Total Nonfinancial	Manufacturing	Communication	Utilities: Electric	Utilities: Gas	Railroad	Trade: Wholesale	Trade: Retail
End of Years								
1961	.500	.593	.649	.396	.384	.698	.285	.393
1962	.499	.578	.765	.436	.415	.719	.286	.360
1963	.488	.568	.643	.387	.368	.767	.275	.348
1964	.463	.525	.786	.424	.345	.727	.254	.337
1965	.421	.482	.529	.348	.337	.662	.233	.299
1966	.374	.400	.456	.352	.297	.577	.227	.271
1967	.368	.384	.467	.271	.263	.478	.239	.296
1968	.355	.384	.321	.246	.231	.433	.233	.272
1969	.313	.323	.266	.208	.198	.367	.227	.260
1970	.296	.296	.281	.201	.265	.362	.220	.273
1971	.329	.363	.291	.206	.240	.357	.213	.273
1972	.328	.369	.295	.212	.256	.386	.207	.259
End of Quarters								
1969 - I	.355	.383	.353	.278	.291	.397	.229	.275
II	.339	.355	.304	.235	.263	.384	.235	.287
III	.318	.327	.291	.231	.214	.327	.229	.267
IV	.313	.323	.266	.208	.198	.367	.227	.260
1970 - I	.305	.306	.272	.228	.247	.311	.223	.267
II	.296	.290	.333	.233	.279	.312	.220	.262
III	.287	.282	.267	.225	.236	.294	.217	.266
IV	.296	.296	.281	.201	.265	.362	.220	.273
1971 - I	.298	.296	.325	.235	.345	.329	.223	.266
II	.305	.312	.264	.217	.329	.341	.223	.271
III	.310	.319	.358	.222	.273	.334	.221	.271
IV	.329	.363	.291	.206	.240	.357	.213	.273
1972 - I	.329	.358	.371	.196	.287	.338	.213	.275
II	.327	.359	.361	.190	.310	.343	.209	.266
III	.321	.349	.346	.220	.297	.350	.206	.263
IV	.328	.369	.295	.212	.256	.386	.207	.259
MEMO: Total current liabilities 1972-IV in $ billions	336.8	165.1	10.2	9.0	5.1	3.9	40.7	44.0

APPENDIX C: INDUSTRIAL UNIT LABOR COSTS*

Preliminary data for the new monthly series for industrial unit labor costs are available at the time of the FR industrial production index estimate about the 15th of the month. The series, shown on a 1963 comparison base with a two-month moving average, represents total labor costs for all employees in the industrial sector, for manufacturing, mining, and electric and gas utilities. It is based on FR production data, BLS monthly production worker manhour data adjusted to total employee levels by FR, and BLS monthly production worker payroll data. Adjustments for non-production worker compensation and supplemental labor costs are developed mainly from annual compensation data published by the Bureau of the Census. The results are based on broader and firmer data than for manufacturing alone which is published quarterly by BLS (and shown more currently at monthly intervals as Series No. 62 in the Business Conditions Digest).

The rise in industrial unit labor costs that began in 1966 and included increases of 3.6 per cent in 1967, 3.3 per cent in 1969, and 4.4 per cent in 1970, moderated somewhat in 1971 and 1972 with increases of 1.5 and 2.6 per cent in those latter years. The slower rise was due to strong gains in industrial productivity in 1971 and 1972 as compensation per man hour rose at a relatively constant rate of from 5.7 to 6.3 per cent each year from 1967 through 1972.

Preliminary estimates for the first quarter of 1973 indicate that industrial productivity increased at an annual rate of 6.7 per cent over the previous quarter. In spite of this strong productivity gain industrial unit labor costs rose at an annual rate of 5.7 per cent as compensation per man hour increased at an annual rate of 12.5 per cent. An increase in average hourly earnings at an annual rate of more than 8 per cent, as well as the initial impact of increased social security taxes, is reflected in the large rise in compensation per man hour. The component of the wholesale price index most nearly equivalent to the total industrial sector (all commodities less farm products) increased at an annual rate of about twelve per cent during the quarter.

---

* Prepared by Kenneth Armitage, Economist, Business Conditions Section, Division of Research and Statistics. For a more detailed description of the series see: Industrial Production, 1971 Edition.

Quarterly movements of the industrial unit labor cost series usually have been similar to those of the BLS series for unit labor costs in manufacturing, although the movements of the industrial series have been somewhat more stable. From QII of 1966 through QIV of 1972 the BLS series increased about 23 per cent, and the industrial unit labor cost series increased about 20 per cent during that period.

Table 1
Total Industrial Sector: Output per Man-Hour, Output, Hourly Compensation and Unit Labor Cost (Indexes, 1963=100)

YEAR	OUTPUT PER MAN-HOUR 1/	OUTPUT 2/	COMPENSATION PER MAN-HOUR 3/	UNIT LABOR COST 4/
1965	108.8	116.7	106.8	98.1
1966	112.5	128.1	110.3	98.1
1967	115.0	130.7	116.9	101.6
1968	119.5	138.3	123.7	103.5
1969	122.9	144.9	131.5	106.9
1970	124.7	139.8	139.6	111.6
1971	130.0	139.9	147.6	113.3
1972	134.8	149.7	156.9	116.2
		Per cent Change Over Previous Year		
1965	3.7	9.2	3.1	-.6
1966	3.4	9.8	3.3	-
1967	2.2	2.0	6.0	3.6
1968	3.9	5.8	5.8	1.9
1969	2.9	4.8	6.3	3.3
1970	1.5	-3.5	6.2	4.4
1971	4.3	.1	5.7	1.5
1972	3.7	7.0	6.3	2.6

1/ The output component is the FR index of industrial production. The manhours component is based on BLS production worker man hours in manufacturing adjusted by FR for all employees and for comparability with the total industrial sector

2/ FR index of industrial production.

3/ Compensation is BLS production worker wages in manufacturing and mining adjusted to Bureau of the Census Annual Survey of Manufacturers and Bureau of Economic Analysis annual levels for total employees, supplemental labor costs, and comparability to the industrial sector. See footnote 1 for man hours.

4/ Compensation per man hour divided by output per man hour. For descriptions of these series see footnotes 1 and 3 respectively.

Table 2
Total Industrial Sector: Output per Man-Hour, Output, Hourly Compensation, and Unit Labor Cost, Seasonally Adjusted
(Indexes, 1963=100)

YEAR & QUARTER	OUTPUT PER MAN-HOUR[1/]	OUTPUT[2/]	COMPENSATION PER MAN-HOUR[3/]	UNIT LABOR COST[4/]
1971				
1st	128.5	138.7	145.0	112.5
2nd	129.8	140.4	147.0	113.2
3rd	130.3	139.6	148.1	113.6
4th	131.3	140.8	150.2	114.0
Annual Avg.	130.0	139.9	147.6	113.3
1972				
1st	132.3	144.1	153.2	115.4
2nd	133.8	148.4	155.4	116.3
3rd	135.7	151.2	157.7	115.9
4th	137.2	155.2	161.1	117.2
Annual Avg.	134.8	149.7	156.9	116.2
1973				
1st	139.5p	158.3p	166.2p	118.9p
	Per cent Change Over Previous Quarter at Annual Rate			
1971				
1st	6.6	9.3	5.3	-.7
2nd	4.0	11.8	5.5	2.5
3rd	1.5	-2.3	3.0	1.4
4th	3.1	3.4	5.6	1.1
Annual Avg.	3.5	6.7	5.6	1.7
1972				
1st	3.1	9.3	7.9	4.9
2nd	4.5	11.8	5.7	3.1
3rd	5.6	7.5	5.9	-1.4
4th	4.4	10.4	8.5	4.5
Annual Avg.	3.6	6.7	6.1	2.5
1973				
1st	6.7p	7.9p	12.5p	5.7p

1/ The output component is the FR index of industrial production. The man hours component is based on BLS production worker man hours in manufacturing adjusted by FR for all employees and for comparability with the total industrial sector.

2/ FR index of industrial production.

3/ Compensation is BLS production worker wages in manufacturing and mining adjusted to Bureau of the Census Annual Survey of Manufacturers and Bureau of Economic Analysis annual levels for total employees, supplemental labor costs, and comparability to the industrial sector. See footnote 1 for man hours.

4/ Compensation per man hour divided by output per man hour. For descriptions of these series see footnotes 1 and 3 respectively.