August 9, 1973

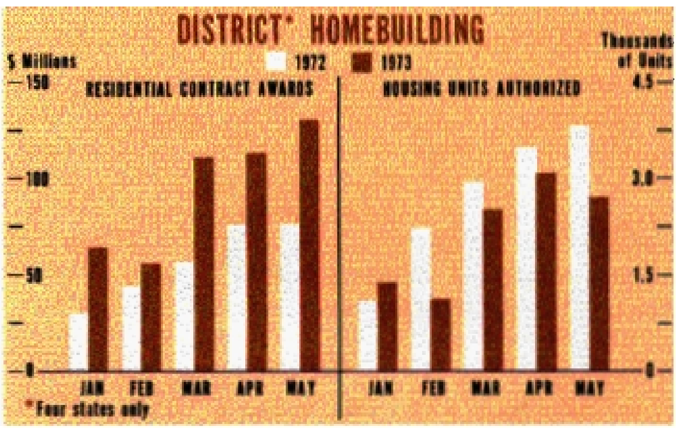
Montana
North Dakota
South Dakota
Minnesota
Northwestern Wisconsin
Upper Michigan

NINTH DISTRICT CONDITIONS
federal reserve bank of minneapolis

CONSTRUCTION: A Residential Slowdown?

District contract awards were up 50 percent in the first five months of 1973. Contract valuations for the four full states of the district—Minnesota, Montana, North Dakota and South Dakota—totaled $1,191 million this year, compared to $792 million a year ago.

Much of this increase came from a $200 million electric generating complex in eastern Montana's coal country. This project, an equal share arrangement between Montana Power Company and Puget Sound Power and Light, will bring two 350 megawatt coal-fired plants on line by 1976. Representing over one-third of Montana's present capacity, this will be the largest generating project in Montana.



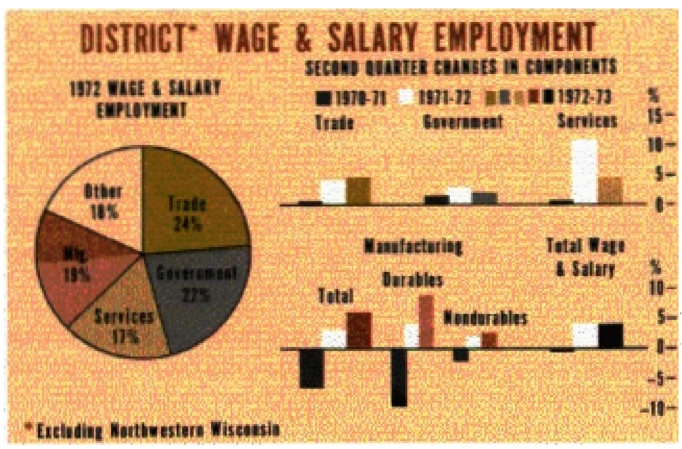
Another major source of construction strength, residential contract awards stood 72 percent higher than a year earlier at the end of May. But while residential awards increased, the number of housing units authorized to be built in the four states declined 20 percent. An extraordinarily large number of permits were filed in December 1972, apparently in anticipation of a sewer hookup tax going into effect in the Minneapolis/St. Paul metro area in January. The subsequent decline in authorizations, which is almost entirely attributable to the Twin Cities, may simply reflect the fact that applications were filed early to avoid the hookup tax.

It should be noted, perhaps, that housing unit authorizations dipped sharply in May, down 9 percent from April and down 29 percent from a year ago. Residential building nationally showed similar signs of slowing from 1972's pace. This is to be expected as the moratorium on subsidized housing and the growing tightness in mortgage funds have an increasing effect on homebuilding. The still brisk pace of residential contract awards now may reflect projects already in the pipeline, while the slowdown in authorizations could signal a tapering in residential building by the third or fourth quarter.

LABOR: Job Market Noticeably Improved

About 78,000 people have found new jobs in the district since the second quarter of 1972. Boosting employment by 3.1 percent, the creation of new jobs over the year more than offset a 1.9 percent expansion in the labor force. Consequently, by mid-1973 unemployment had shrunk to 4.9 percent from 5.9 percent twelve months earlier.

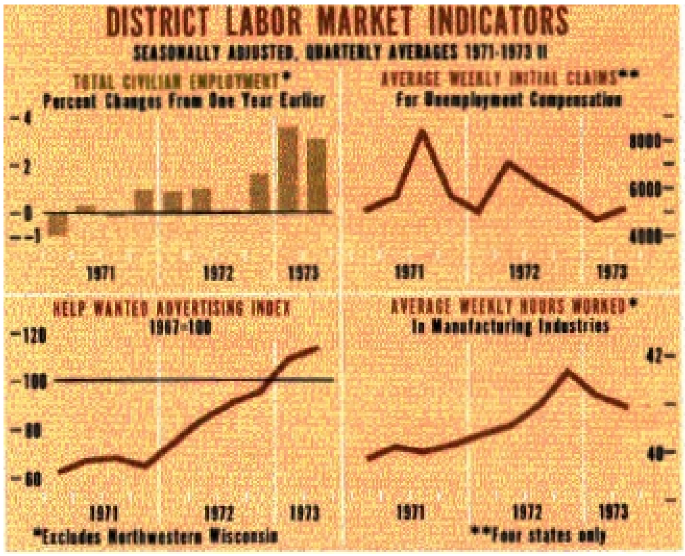
The wage and salary segment of district employment, which accounts for 81 percent of all workers, has added 4.1 percent more jobs since last year. A good part of this growth occurred in manufacturing industries. Second-quarter gains in the large trade and service sectors exceeded year-earlier levels by about 4.7 percent, and government employment increased 2.1 percent. Construction employment was up 4.3



percent, but mainly because adverse weather restricted building a year ago.

The effects of employment expansion also show up in other labor market indicators. Initial claims for unemployment insurance during the first half were well below year-earlier figures, and the help wanted advertising index was 41 percent higher. The increase in help wanted advertising corresponds to the increases in job opening statistics. In May, for example, the Minnesota Department of Manpower Services reported 16,900 job openings, 6,700 more positions than were available a year ago.

While the number of jobs was expanding, average weekly hours worked in manufacturing declined from the record set in the fourth quarter of 1972. District manufacturers seem to be under less pressure these days to hire extra workers.



Although further advances in district employment are foreseen, no unusually large increases are expected in the near future. Manufacturing activity in the third and fourth quarters is not expected to expand as rapidly as during the first half, and no exceptionally big gains in trade, service or government employment appear likely.

FINANCE: Loans and Investments

Loan growth at district member banks slowed during the second quarter from the very rapid first quarter pace, but was still strong by historical standards. The seasonally adjusted annual rate of increase in total loans during the quarter was about 13 percent, compared to rises of 24 percent in the first quarter and 19 percent in the second half of 1972. The more moderate pace established since the first quarter appears to be consistent with the national pattern.

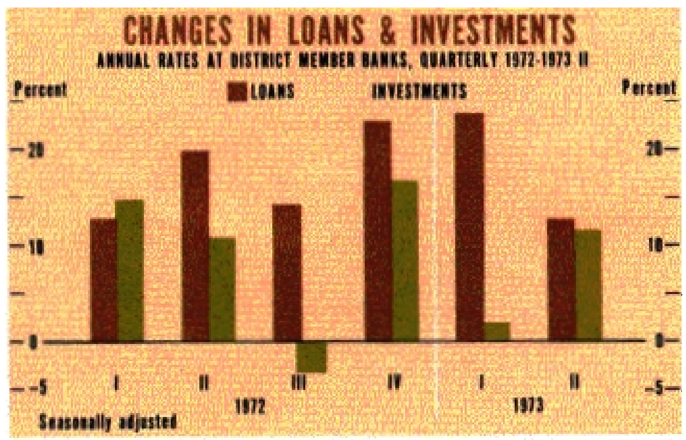
A marked reduction in the growth rate of business loans at large urban banks in the district has probably had the most pronounced effect on total expansion. Loans to businesses account for nearly one-half of total loans outstanding at large banks. Other loan categories—including loans to nonbank financial institutions and real estate and consumer loans—have weakened somewhat.

Data for large banks in the nation also indicate that business loan growth slowed during the period, although to a lesser extent than at district banks. Since there is little evidence that short-term credit demand has diminished appreciably, the slowdown nationally apparently reflected the shifting of business short-term credit demand from banks to other sources of funds. In the face of a sharp runup in the bank prime rate and tightening in other lending terms, some business borrowers probably turned to the commercial paper market for credit. The value of commercial paper increased in June after a rather steep decline earlier in the year when business borrowers switched to banks where more favorable lending terms were available.

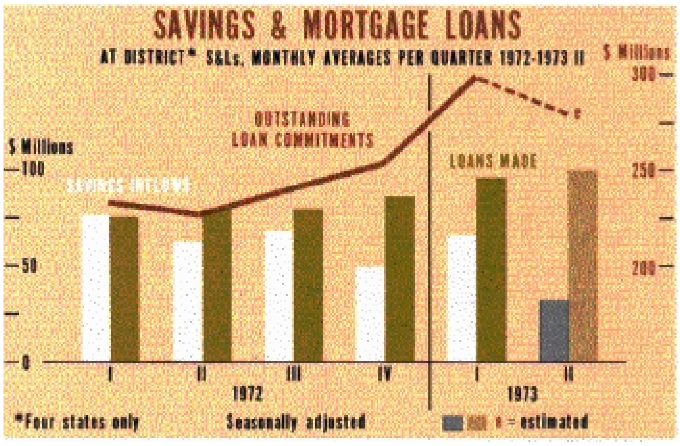
Large district banks have increased sales of participations in business loans to banks outside the district. This effectively reduces outstanding business loans in the district, but not in the nationwide banking system, and so partially explains why the second quarter business loan slowdown was greater in the district than in the nation.

Loan growth at smaller urban and country banks in the district remained strong in the second quarter. The advance for the period was quite close to the 16 percent annual rate posted in the previous three months. Continued large farmer expenditures for capital equipment and other farm inputs have been an important impetus to this vigorous loan growth.

District bank investments rose substantially during the second quarter, after three months of little growth. The stronger showing in the second quarter largely reflected the fact that district banks stopped liquidating U.S. government securities and even increased their holdings slightly. Other securities, including municipal securities and U.S. agency issues, rose sharply again in the second quarter.



District savings and loan associations continue to provide large amounts of mortgage credit. Mortgage loans made in the first quarter, seasonally adjusted, were 11 percent above the volume of the fourth quarter and 28 percent above the first quarter of 1972. In the April-May interval, the monthly average of mortgage loans made was 5 percent above that for the first quarter and 30 percent above the comparable period in 1972.



Because the current level of loan commitments at district S&Ls is still quite high, the volume of mortgage loans made should remain rather large in the third quarter. However, S&Ls have become more hesitant in granting new commitments, partly because savings inflows have slowed and because mortgage interest rates—at S&Ls in some states, anyway—are near the maximum permitted by state law. Consequently, outstanding commitments have been declining, and fewer mortgage loans will probably be made later in the year.

Board Tightens Credit

In order to help restrain the expansion of credit in the economy, the Board of Governors of the Federal Reserve System on June 29 announced another increase in the discount rate and a tightening of reserve requirements.

The discount rate, which is the interest rate on member bank borrowings from Federal Reserve Banks, was raised from 6½ to 7 percent, effective July 2. The increase was the sixth since the beginning of 1973 when the rate stood at 4½ percent. The latest increase places the discount rate at a historic high, matched only by the level that existed for a short time in the early 1920s.

In an accompanying move, the Board increased reserve requirements by one-half percentage point on all demand deposits above $2 million. This step increases required reserves, thereby reducing bank resources available for making loans and purchasing securities.

Ceilings Raised on Savings Deposits

By increasing maximum interest rates commercial banks, savings and loan associations, and mutual savings banks are permitted to pay on passbook savings and other types of consumer deposits, regulatory agencies are hoping to attract more depositor dollars to lending institutions.

These increases come in the wake of evidence that the growth of consumer savings at financial intermediaries has slowed recently. Because interest rates on market investments such as U.S. government securities and federal agency issues have been rising rapidly, savings deposits and certificates subject to relatively low maximum rate ceilings were becoming increasingly less attractive. Recent changes in maximum rates are intended to mitigate that problem and, in so doing, to help insure a continuing source of funds for mortgages and other consumer credit needs.

MAXIMUM INTEREST RATES
ON CONSUMER SAVINGS & CERTIFICATES OF DEPOSITS

	Commercial Banks		S&Ls & Mutual Savings Banks		
	OLD CEILING	NEW CEILING	MINIMUM BALANCE*	OLD CEILING	NEW CEILING
Savings accounts					
Passbook	4½%	5 %	none	5 %	5¼%
90-day notice	not applicable		none	5¼	5¾
Certificates					
90 days to 1 year	5	5½	$1,000	5¼	5¾
1 to 2 years	5½	6	1,000	5¾	6½
2 to 2½ years	5¾	6	5,000	6	6½
2½ years and over	5¾	6½	5,000	6	6¾
4 years and over	5¾	6½	none	6	6¾
4 years and over ($1,000 minimum balance)	5¾	none	1,000	6	none

*Applicable only to savings & loans. If mutual savings banks in the same area offer similar accounts with a lower minimum balance, the lower minimum applies to S&Ls as well.

In comparing new and previously existing rate structures, several points are worthy of comment:

- Savings and loan associations and mutual savings banks continue to have higher maximum interest rates than commercial banks in all maturity ranges where maximum rates are stipulated.
- Some differentials in rates for identical maturities at savings banks, on the one hand, and commercial banks, on the other, have changed. On passbook accounts the difference has narrowed from one-half to one-quarter of one percentage point. On one- and two-year certificates, however, the difference has widened from one-quarter to one-half of one percentage point.
- A new savings instrument which carries no maximum rate may be issued by all three types of institutions. It requires a minimum maturity of four years and a minimum balance of $1,000. Savings and loans are limited to issuing the certificate up to 5 percent of total deposits.

In a related action affecting all three types of financial institutions, it was announced that the payment of a time certificate of deposit prior to maturity could be made, subject to a penalty consisting of a reduction of the interest rate to the passbook rate paid by the institution and forfeiture of three-months interest.

NINTH DISTRICT income and finance

INDICATOR		UNIT	1973 JULY	1973 JUNE	1973 MAY	1972 JUNE	Percent Change JUNE-JUNE
MEASURES OF CONSUMER INCOME & FINANCIAL POSITION	Total Personal Income *						
	Nonagricultural Personal Income *						
	Average Weekly Earnings in Manufacturing [1]	Dollars	n.a.	169.72e	166.13e	160.01	+ 6.1
	Consumer Installment Credit Outstanding [2]	Million $	n.a.	n.a.	1,902	1,600	
	Time and Savings Deposits at Member Banks	Million $	8,141	8,051	7,964	6,839	+17.7
	Savings Balances at Savings & Loan Assoc. [3]	Million $	n.a.	5,537	5,450	4,830	+14.6
	Cash Farm Receipts [3]	Million $	n.a.	401	435	327	+22.6
MEASURES OF FINANCIAL CONDITION OF MEMBER BANKS	CITY BANKS [4,5]						
	Adjusted Loans and Discounts [6]	Million $	3,853	3,803	3,755	3,093	+23.0
	Commercial and Industrial Loans	Million $	1,783	1,717	1,703	1,398	+22.8
	Real Estate Loans	Million $	659	667	647	556	+20.0
	Gross Demand Deposits	Million $	2,065	2,121	2,124	2,016	+ 5.2
	Time Deposits	Million $	2,377	2,370	2,295	1,866	+27.0
	U.S. Government Securities	Million $	399	424	400	491	-13.6
	Other Securities	Million $	832	845	857	689	+22.6
	COUNTRY BANKS [4,7]						
	Loans and Discounts	Million $	5,683	5,601	5,494	4,702	+19.1
	Gross Demand Deposits	Million $	2,816	2,785	2,784	2,429	+14.7
	Time Deposits	Million $	5,763	5,681	5,668	4,979	+14.1
	U.S. Government Securities	Million $	1,033	1,052	1,071	1,126	- 6.6
	Other Securities	Million $	1,810	1,774	1,776	1,540	+15.2
MEASURES OF RESERVE POSITION AND "LIQUIDITY" OF MEMBER BANKS	Total Reserves [8]	Million $	751	727	731	782	- 7.0
	Required Reserves	Million $	745	723	727	777	- 7.0
	Excess Reserves	Million $	6	4	4	5	-20.0
	Borrowings from FRB	Million $	29	17	17	3	+466.7
	Ratio of Loans to Total Deposits—City Banks [4]	Percent	89.0	85.9	85.8	79.9	+ 7.5
	Ratio of Loans to Total Deposits—Country Banks [4]	Percent	66.2	66.2	65.0	63.5	+ 4.3
MEASURES OF PRICE LEVELS	Consumer Price Index—Minneapolis [9,10]	Index	n.a.	n.a.	n.a.	n.a.	
	Prices Received by Farmers—Minnesota [9]	Index	n.a.	188	172	124	+51.6

NOTES

e–Partially estimated; all data not available

n.a.–Not available

p–Preliminary; subject to revision

r–Revised

sa–Seasonally adjusted

*–District and U.S. data not comparable

saar–Seasonally adjusted annual rate

FOOTNOTES

1. Excluding Northwestern Wisconsin
2. All commercial banks; estimated by sample
3. Excluding Northwestern Wisconsin and Upper Michigan
4. Last Wednesday of the month figures
5. Selected banks in major cities
6. Net loans and discounts less loans to domestic commercial city banks
7. All member banks, excluding the selected major city banks
8. Average of daily figures of the four or five weeks ending on Wednesday which contain at least four days falling within the month
9. Index: 1967 Base Period
10. Quarterly

UNITED STATES income and finance

Percent Change JUNE-JUNE	1973 JULY	1973 JUNE	1973 MAY	1972 JUNE	UNIT	INDICATOR	
+10.8	n.a.	1,027.1p	1,018.7	927.0	Billion $, saar	Total Personal Income	MEASURES OF CONSUMER INCOME & FINANCIAL POSITION
+10.5	n.a.	994.6p	986.4	900.1	Billion $, saar	Nonagricultural Personal Income	
+ 6.9	n.a.	165.64p	164.42	155.01	Dollars	Average Weekly Earnings in Manufacturing	
	n.a.	n.a.	63.7	54.9	Billion $	Consumer Installment Credit Outstanding[2]	
+17.9	n.a.	266.0	266.2	225.6	Billion $	Time and Savings Deposits at Member Banks	
	n.a.	n.a.	218.9	192.6	Billion $	Savings Balances at Savings & Loan Assoc.	
+40.0	n.a.	5.6	5.1	4.0	Billion $	Cash Farm Receipts	
						CITY BANKS[4,5]	MEASURES OF FINANCIAL CONDITION OF MEMBER BANKS
+23.4	n.a.	250.6	246.1	203.1	Billion $	Adjusted Loans and Discounts[6]	
+23.5	n.a.	105.0	102.8	85.0	Billion $	Commercial and Industrial Loans	
+19.6	n.a.	50.0	49.1	41.8	Billion $	Real Estate Loans	
+ 2.6	n.a.	150.0	150.5	146.2	Billion $	Gross Demand Deposits	
+20.2	n.a.	180.0	180.3	149.7	Billion $	Time Deposits	
- 8.5	n.a.	23.8	24.0	26.0	Billion $	U.S. Government Securities	
+ 2.6	n.a.	55.5	55.5	54.1	Billion $	Other Securities	
						COUNTRY BANKS[4,7]	
+18.5	n.a.	92.2	90.8	77.8	Billion $	Loans and Discounts	
+10.4	n.a.	57.1	56.9	51.7	Billion $	Gross Demand Deposits	
+13.3	n.a.	86.0	85.9	75.9	Billion $	Time Deposits	
- 2.3	n.a.	16.8	17.0	17.2	Billion $	U.S. Government Securities	
+10.1	n.a.	32.8	32.6	29.8	Billion $	Other Securities	
- 1.3	n.a.	32,083p	32,434	32,498	Million $	Total Reserves[8]	MEASURES OF RESERVE POSITION AND "LIQUIDITY" OF MEMBER BANKS
- 1.3	n.a.	31,884p	32,291	32,304	Million $	Required Reserves	
+ 2.6	n.a.	199p	143	194	Million $	Excess Reserves	
+2001.2	n.a.	1,786p	1,847	85	Million $	Borrowings from FRB	
+10.8	n.a.	80.3	78.7	72.5	Percent	Ratio of Loans to Total Deposits—City Banks[4]	
+ 5.7	n.a.	64.4	63.6	60.9	Percent	Ratio of Loans to Total Deposits—Country Banks[4]	
+ 5.9	n.a.	132.4	131.5	125.0	Index	Consumer Price Index[9]	MEASURES OF PRICE LEVELS
+37.6	n.a.	172	163	125	Index	Prices Received by Farmers[9]	

SOURCES

PERSONAL INCOME: U.S. Department of Commerce, Office of Business Economics

AVERAGE WEEKLY EARNINGS: Michigan, Minnesota, Montana, North Dakota, and South Dakota Employment Security Departments; U.S. Department of Labor, Bureau of Labor Statistics

COMMERCIAL BANK FINANCIAL DATA: Federal Reserve Bank of Minneapolis; Board of Governors of Federal Reserve System

SAVINGS AND LOAN ASSOCIATIONS: Federal Home Loan Bank Board

CASH RECEIPTS FROM FARM MARKETINGS: U.S. Department of Agriculture

CONSUMER PRICE INDEX: U.S. Department of Labor, Bureau of Labor Statistics

PRICES RECEIVED BY FARMERS: U.S. Department of Agriculture; Minnesota Farm Price Report

NINTH DISTRICT production and employment

INDICATOR		UNIT	1973 JUNE	1973 MAY	1972 JUNE	Percent Change JUNE-JUNE
MEASURES OF PRODUCTION AND FACTOR INPUTS TO PRODUCTION	Total Industrial Production*					
	Electrical Energy Consumption: Mfg. and Mining[1]	Index, sa	n.a.	148	139	
	Production Worker Manhours:[1]	Index, sa	105p	105	98	+ 7.1
	Manufacturing	Index, sa	106p	106	100	+ 6.0
	Mining	Index, sa	95p	95	86	+10.5
	Total Construction Contracts Awarded	Million $, sa	n.a.	n.a.	208.3	
	Residential Buildings	Million $, sa	n.a.	n.a.	84.5	
	Nonresidential Buildings	Million $, sa	n.a.	n.a.	66.7	
	All Other Construction	Million $, sa	n.a.	n.a.	57.1	
	Bldg. Permits: New Housing Units[2]	Number	2,708	3,129	3,982	-32.0
MEASURES OF MANPOWER UTILIZATION	Civilian Work Force[3]	Thousands, sa	2,685e	2,699p	2,649	+ 1.4
	Total Civilian Employment	Thousands, sa	2,556e	2,560p	2,496	+ 2.4
	Number Unemployed	Thousands, sa	129e	139p	153	-15.7
	Unemployment Rate[3]	Percent, sa	4.8e	5.1p	5.8	-17.2
	Average Weekly Hours in Manufacturing[3]	Hours, sa	40.8e	40.6e	40.4	+ 1.0
EMPLOYMENT BY INDUSTRY SECTOR	Wage and Salary Employment, Nonfarm[3]	Thousands, sa	2,086e	2,089p	2,004	+ 4.1
	Manufacturing	Thousands, sa	394e	395p	373	+ 5.6
	Mining	Thousands, sa	31e	31p	28	+10.7
	Construction	Thousands, sa	100e	100p	91	+ 9.9
	Transport., Comm., & Public Utilities	Thousands, sa	133e	134p	132	+ 0.8
	Trade	Thousands, sa	514e	515p	493	+ 4.3
	Finance, Insurance & Real Estate	Thousands, sa	96e	96p	93	+ 3.2
	Service Industries	Thousands, sa	370e	372p	354	+ 4.5
	Government	Thousands, sa	448e	446p	440	+ 1.8
MEASURES OF SPENDING	Total Retail Sales*					
	New Passenger Car Registrations	Thousands, sa	n.a.	n.a.	n.a.	
	Bank Debits[4]	Billion $, saar	n.a.	273.5	210.8	

NOTES

- e- Partially estimated; all data not available
- n.a.--Not available
- p--Preliminary; subject to revision
- r--Revised
- sa- Seasonally adjusted
- *--District and U.S. data not comparable
- saar--Seasonally adjusted annual rate

FOOTNOTES

1. Index: 1967 Base Period; Weights: 1967
2. A sample of permit-issuing centers
3. Excluding Northwestern Wisconsin
4. Six standard metropolitan statistical areas
5. A sample of centers blown up to represent total permits issued
6. 226 standard metropolitan statistical areas, excluding the seven leading centers

UNITED STATES production and employment

Percent Change JUNE-JUNE	1973 JUNE	1973 MAY	1972 JUNE	UNIT	INDICATOR	
+ 9.3	123.9p	123.5	113.4	Index, sa	Total Industrial Production	MEASURES OF PRODUCTION AND FACTOR INPUTS TO PRODUCTION
					Electrical Energy Consumption: Mfg. and Mining*	
	n.a.	101p	96	Index, sa	Production Worker Manhours:[1]	
	n.a.	102p	97	Index, sa	Manufacturing	
	n.a.	94p	96	Index, sa	Mining	
+19.1	8,490.2	8,185.1	7,506.4	Million $, sa	Total Construction Contracts Awarded	
+ 6.6	3,969.0	3,995.0	3,724.6	Million $, sa	Residential Buildings	
+24.3	2,867.0	2,364.2	2,306.7	Million $, sa	Nonresidential Buildings	
+42.6	2,104.2	1,825.9	1,475.1	Million $, sa	All Other Construction	
	n.a.	n.a.	207.4	Thousands	Bldg. Permits: New Housing Units[5]	
+ 2.7	88,932p	88,405	86,554	Thousands, sa	Civilian Work Force	MEASURES OF MANPOWER UTILIZATION
+ 3.6	84,674p	84,024	81,752	Thousands, sa	Total Civilian Employment	
-11.3	4,258p	4,381	4,802	Thousands, sa	Number Unemployed	
-12.7	4.8p	5.0	5.5	Percent, sa	Unemployment Rate	
+ 0.2	40.7p	40.8	40.6	Hours, sa	Average Weekly Hours in Manufacturing	
+ 3.8	75,464p	75,269	72,731	Thousands, sa	Wage and Salary Employment, Nonfarm	EMPLOYMENT BY INDUSTRY SECTOR
+ 4.7	19,822p	19,763	18,931	Thousands, sa	Manufacturing	
+ 1.8	612p	609	601	Thousands, sa	Mining	
+ 3.2	3,652p	3,606	3,540	Thousands, sa	Construction	
+ 2.7	4,606p	4,592	4,486	Thousands, sa	Transport., Comm., & Public Utilities	
+ 3.7	16,251p	16,243	15,678	Thousands, sa	Trade	
+ 2.9	4,041p	4,044	3,927	Thousands, sa	Finance, Insurance & Real Estate	
+ 3.9	12,825p	12,775	12,341	Thousands, sa	Service Industries	
+ 3.2	13,655p	13,637	13,227	Thousands, sa	Government	
+12.2	41.3p	41.6	36.8	Million $, sa	Total Retail Sales	MEASURES OF SPENDING
	n.a.	883.3	789.8	Thousands, sa	New Passenger Car Registrations	
	n.a.	5,348.7	4,403.4	Billion $, saar	Bank Debits[6]	

SOURCES

INDUSTRIAL PRODUCTION: Board of Governors of Federal Reserve System

ELECTRICAL ENERGY CONSUMPTION: Federal Reserve Bank of Minneapolis

PRODUCTION WORKER MANHOURS: Federal Reserve Bank of Minneapolis

CONSTRUCTION CONTRACTS AWARDED: Board of Governors of Federal Reserve System; F. W. Dodge Corporation

NEW HOUSING UNITS AUTHORIZED: Federal Reserve Bank of Minneapolis; U.S. Department of Commerce, Bureau of Census

EMPLOYMENT, UNEMPLOYMENT, AND HOURS: Michigan, Minnesota, Montana, North Dakota, and South Dakota Employment Security Departments; U.S. Department of Labor, Bureau of Labor Statistics

RETAIL SALES: U.S. Department of Commerce, Bureau of Census

NEW PASSENGER CAR REGISTRATIONS: Automotive News Magazine

BANK DEBITS: Board of Governors of Federal Reserve System

SPECIAL FACTORS BEHIND TODAY'S INFLATION

The explosive inflation rates in the first half of 1973 caught most economic forecasters by surprise. Since the cost-push forces that were a dominant feature of pre-Phase II inflation had been pretty well contained by the end of 1972, economists generally thought the worst was over. A consensus of published forecasts for the GNP price deflator from the beginning of this year reflected this thinking:

Annual Growth Rates of GNP Price Deflator

	1973 Qtr. I	1973 Qtr. II
Consensus forecasts	4.5%	3.4%
Reported results	6.1	6.8

True, a one-shot price spurt was expected to accompany lifting of the stiff Phase II controls, but neither this spurt nor traditional excess demand factors can account for today's inflation.

To find explanations for recent price increases, inflation followers have had to look for special forces behind this year's price movements. What they've found is an unusual combination of special factors which led to food price gains—even as early as the latter part of 1972—and to subsequent increases in a wide spectrum of industrial commodities and finished goods prices. Here's what the record shows:

Annual Growth Rates of Price Indexes

	1973 Qtr. I	1973 Qtr. II
Consumer Price Index	6.5%	8.3%
Food	18.6	20.2
Nonfood	3.2	5.1
Wholesale Price Index	17.1	22.9
Farm products	49.1	41.2
Industrial commodities	6.5	15.0

What are some of the special factors underlying this inflationary burst, and what commodity areas were especially affected? The diagram lists some commodity-industry classes most frequently cited in the business press which are subject to major price and capacity pressures. Arrayed in another part of the diagram are some special factors which reportedly account for part of the rapid advance recently witnessed in U.S. domestic prices.

At the heart of today's inflation seems to be the extraordinary coincidence in timing of a variety of demand and supply factors. Taken singly, several of these would have been significant enough, but in combination they have contributed very seriously to inflation.

Looking at food prices as an example, we see that a number of factors have impinged on food supplies. A rare convergence of low points in both hog and cattle production cycles in 1972 occurred simultaneously with a disastrous decline in anchovy production (an important world source of protein feed). Added to that were worldwide crop losses. Unfortunately while supplies were diminishing, growing per capita incomes in developing countries caused burgeoning demand for meat and other high protein foods and feeds. These factors have had substantial impact on the fate of agricultural prices globally.

The global view is really the key to problems in other commodity areas as well. An unusual coincidence of rapid, real expansion in all major industrial countries has put heavy demand pressures on all principal raw materials traded internationally and forced up prices in international markets very fast. An extra push to U.S. prices of such commodities as nonferrous metals and steel scrap came as a result of the second U.S. devaluation. (The devaluation effectively raised the cost of commodity imports while at the same time increasing foreign demand for U.S. products.)

Current national price stabilization policy, then, has been very much complicated by a bad draw of historical happenstance. While many of the special factors behind today's inflation can be viewed as more or less one-shot adjustments, others will have to be reckoned with through the intermediate- or even longer-term future.