MARKET CONDITIONS

GENERAL BUSINESS

Business, in general, continues to wallow along in the doldrums. Despite some economic indicators that indicate a cooling in the rate of inflation and an overall improvement in Gross National Product, many concerns are finding very rough going in this period of widespread uncertainty. Auto sales continue at a healthy level and housing starts show no signs of a drop from recent, very encouraging levels. On the other hand, machine tool sales for the first quarter of 1971 are more than 35% under those for the same period in 1970 and many capital goods producers are reporting lower sales volume and either much lower profits, or even losses, for the past few months.

The recent international financial crisis seems to be resolving itself in a reasonable fashion but, presently, it appears the dollar has, in effect, been devalued through the workings of the international money markets even without an official devaluation originating in Washington.

There now seems to be more doubt about a general steel strike this year but there are certain key issues between union and management which present real stumbling blocks to an agreement before the strike deadline and should these prove insoluble, a strike could easily occur, even though the main wage issues may have been resolved in prior negotiations.

It appears that the controversial SST project has finally been abandoned due to lack of Federal support. The Administration is still faced with the problem of how much support should be given to Lockheed for continuance of its military aircraft programs as well as the production of the L-1011 airbus, a strictly commercial project. Decisions reached in connection with Lockheed, in particular, could have far-reaching effects on the attitude of Government toward many of our very largest corporations in the future.

The stock market has shown signs of weakness since the international financial crisis but much of the weakness may also be attributed to the fact that speculation had driven prices higher than earnings warranted and the prospect of rising interest rates has had a moderating effect on the demand for common stocks.