

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

September 15, 1971

in capital spending, are expected to raise real GNP growth to an annual rate of about 7 per cent in the next three quarters--not usually high for a period of cyclical recovery.

GNP AND RELATED ITEMS 1971 - III THROUGH 1972 - II
(Changes in seasonally adjusted annual rates)

	1971		1972	
	Q III	Q IV	Q I	Q II
-----Billions of Dollars-----				
GNP	16.0	22.8	30.5	25.4
Final sales	17.9	21.1	28.3	20.6
Personal consumption	10.9	14.4	16.7	13.4
Residential construction	1.1	1.4	1.4	.7
Business fixed investment	1.0	- .2	1.7	2.5
Net exports	- .5	-	1.5	1.5
Federal purchases	1.8	2.5	3.0	- .5
State & local purchases	3.5	3.0	4.0	3.0
Inventory change	-1.9	1.7	2.2	4.8
-----Per Cent Per Year-----				
Real GNP	2.0	6.4	7.3	7.5
GNP deflator	4.0	2.2	3.9	1.6

Relatively little impact from these policy changes is likely to be evident in the current quarter. We now expect a GNP increase of only \$16 billion almost \$6-1/2 billion less than the rise last quarter.^{1/} This reflects in part a slower increase in prices as a result of the freeze, but the gain in real GNP is also expected to fall far short of that in the second quarter, 2.0 per cent as compared with 4.8 per cent.

^{1/} We have revised up second quarter GNP to reflect new figures which suggest a net export total of \$-0.5 billion instead of \$-2.2 billion. Commerce plans to make a similar adjustment.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of dollars, with quarterly figures at annual rates.)

	1970	1971 Proj.	1971				1972	
			I	II	III	IV	I	II
Gross National Product	974.1	1051.2	1020.8	1043.1 ^r	1059.1	1081.9	1112.4	1137.8
Final purchases	971.3	1046.7	1017.6	1037.4 ^r	1055.3	1076.4	1104.7	1125.3
Private	751.9	813.0	789.4	807.2 ^r	819.8	835.4	856.7	874.8
Excluding net exports	748.3	812.5	785.2	807.6	820.8	836.4	856.2	872.8
Personal consumption expenditures	615.8	665.9	644.6	660.9	671.8	686.2	702.9	716.3
Durable goods	88.6	101.9	97.6	100.8	103.0	106.0	109.4	111.9
Nondurable goods	264.7	281.2	272.0	279.8	283.0	290.0	298.0	303.5
Services	262.5	282.9	275.0	280.4	285.8	290.2	295.5	300.9
Gross private domestic investment	135.3	151.2	143.8	152.4	152.8	155.7	161.0	169.0
Residential construction	30.4	39.9	36.4	39.7	41.0	42.4	43.8	44.5
Business fixed investment	102.1	106.8	104.3	107.0	108.0	107.8	109.5	112.0
Change in business inventories	2.8	4.6	3.2	5.7	3.8	5.5	7.7	12.5
Nonfarm	2.5	4.1	3.0	5.2	3.0	5.0	7.5	12.5
Net exports of goods and services	3.6	0.4	4.2	-0.5 ^r	-1.0	-1.0	0.5	2.0
Exports	62.9	66.5	66.1	66.4 ^r	66.9	66.5	71.0	72.7
Imports	59.3	66.1	61.9	66.9	67.9	67.5	70.5	70.7
Gov't. purchases of goods & services	219.4	233.7	228.2	230.2	235.5	241.0	248.0	250.5
Federal	97.2	97.5	96.7	95.7	97.5	100.0	103.0	102.5
Defense	75.4	72.0	73.0	71.8	71.5	71.5	73.5	73.5
Other	21.9	25.5	23.7	23.9	26.0	28.5	29.5	29.0
State & local	122.2	136.3	131.5	134.5	138.0	141.0	145.0	148.0
Gross national product in constant (1958) dollars	720.0	741.1	729.7	738.4 ^r	742.2	754.1	767.8	782.2
GNP implicit deflator (1958 = 100)	135.3	141.9	139.9	141.3	142.7	143.5	144.9	145.5
Personal income	803.6	858.7	834.3	854.8	866.5	879.3	900.2	916.7
Wage and salary disbursements	541.4	576.0	562.3	572.4	580.2	589.2	604.7	616.0
Disposable income	687.8	743.4	721.6	740.8	750.2	760.9	781.0	795.2
Personal saving	54.1	58.4	58.4	60.9	59.2	55.2	58.3	58.8
Saving rate (per cent)	7.9	7.9	8.1	8.2	7.9	7.3	7.5	7.4
Corporate profits before tax	75.4	82.9	79.1	83.3	82.5	86.5	92.5	98.0
Corp. cash flow, net of div. (domestic)	69.8	82.8	77.2	81.2	83.7	89.2	94.1	98.6
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	191.5	198.8	195.6	198.3	199.4	202.0	207.6	213.3
Expenditures	205.1	222.0	213.2	220.9	224.5	229.2	237.0	238.9
Surplus or deficit (-)	-13.6	-23.2	-17.5	-22.6	-25.1	-27.2	-29.4	-25.6
High employment surplus or deficit (-)	0.9	1.7	2.5	0.9	2.4	1.1	-3.4	-0.7
Total labor force (millions)	85.9	86.8	86.5	86.5	87.0	87.3	87.6	88.0
Armed forces "	3.2	2.8	3.0	2.8	2.8	2.7	2.6	2.5
Civilian labor force "	82.7	84.0	83.6	83.7	84.2	84.6	85.0	85.5
Unemployment rate (per cent)	4.9	6.0	5.9	6.0	6.1	6.0	5.8	5.5
Nonfarm payroll employment (millions)	70.6	70.7	70.4	70.7	70.6	71.0	71.6	72.3
Manufacturing	19.4	18.6	18.7	18.6	18.5	18.6	18.8	19.0
Industrial production (1967=100)	106.7	106.4	105.5	106.7	105.8	107.8	110.0	112.5
Capacity utilization, manufacturing (per cent)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Housing starts, private (millions A.R.)	1.43	2.00	1.81	1.96	2.11	2.13	2.13	2.13
Sales new autos (millions, A.R.)								
Domestic models	7.12	8.63	8.39	8.29	8.60	9.25	9.25	9.25
Foreign models	1.23	1.58	1.50	1.57	1.75	1.50	1.40	1.30

NOTE: Projection of related items such as employment and industrial production index are based on projection of deflated GNP. Federal budget high employment surplus or deficit (N.I.A. basis) are staff estimates and projections by method suggested by Okun and Teeters.

n.a. - not available.