

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

September 4, 1969

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.)

	1967	1968	1969 Proj.	1969				1970	
				I	II	Projected		I	II
Gross National Product	793.5	865.7	931.7	908.7	924.8	940.8	952.5	960.2	967.6
Final sales	786.2	858.4	924.1	902.1	917.9	932.8	943.5	955.2	965.6
Private	606.1	658.1	708.6	692.1	705.0	714.6	723.0	732.4	741.5
Excluding net exports	600.9	655.6	706.7	690.6	703.4	712.2	720.5	728.4	737.0
Personal consumption expenditures	492.3	536.6	577.1	562.0	572.8	582.2	591.6	600.1	608.0
Durable goods	73.0	83.3	89.2	88.4	90.6	89.0	88.8	88.0	87.3
Nondurable goods	215.1	230.6	245.2	238.6	242.1	247.8	252.4	256.7	260.5
Services	204.2	222.8	242.7	235.0	240.1	245.4	250.4	255.4	260.2
Gross private domestic investment	116.0	126.3	137.1	135.2	137.4	138.0	137.9	133.3	131.0
Residential construction	25.0	30.2	31.2	33.3	32.7	30.5	28.4	27.3	28.0
Business fixed investment	83.7	88.8	98.3	95.3	97.8	99.5	100.5	101.0	101.0
Change in business inventories	7.4	7.3	7.6	6.6	6.9	8.0	9.0	5.0	2.0
Nonfarm	6.8	7.4	7.6	6.6	6.7	8.0	9.0	5.0	2.0
Net exports of goods and services	5.2	2.5	2.0	1.5	1.6	2.4	2.5	4.0	4.5
Gov't. purchases of goods & services	180.1	200.3	215.5	210.0	212.9	218.2	220.5	222.8	224.1
Federal	90.7	99.5	101.9	101.6	100.6	102.9	102.4	102.0	100.7
Defense	72.4	78.0	79.2	79.0	78.5	80.1	79.1	78.1	76.7
Other	18.4	21.5	22.7	22.6	22.1	22.8	23.3	23.9	24.0
State & local	89.3	100.7	113.6	108.5	112.3	115.3	118.1	120.8	123.4
Gross national product in constant (1958) dollars	674.6	707.6	728.0	723.1	726.7	729.9	732.1	731.6	731.4
GNP implicit deflator (1958=100)	117.6	122.3	128.0	125.7	127.3	128.9	130.1	131.2	132.3
Personal income	629.4	687.9	746.6	724.4	740.5	755.8	765.6	774.7	784.3
Wages and salaries	423.5	465.0	509.5	493.3	504.3	516.2	524.0	530.1	536.0
Disposable income	546.5	590.0	628.4	610.2	622.0	637.1	644.3	655.8	663.3
Personal saving	40.4	38.4	35.2	32.5	33.3	38.6	36.2	38.9	38.2
Saving rate (per cent)	7.4	6.5	5.6	5.3	5.3	6.1	5.6	5.9	5.8
Corporate profits before tax	80.3	91.1	93.5	95.5	94.7	92.7	91.0	88.0	85.0
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	151.1	176.3	201.1	198.1	201.9	201.3	203.0	197.3	198.0
Expenditures	163.8	181.5	191.7	188.5	189.3	193.9	194.9	196.6	198.0
Surplus or deficit (-)	-12.7	-5.2	9.4	9.6	12.5	7.4	8.1	0.7	0.0
Total labor force (millions)	80.8	82.3	84.2	83.7	83.8	84.4	84.7	85.0	85.2
Armed forces "	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Civilian labor force "	77.2	78.7	80.7	80.2	80.3	80.9	81.2	81.5	81.7
Unemployment rate (per cent)	3.8	3.6	3.6	3.3	3.5	3.7	3.9	4.1	4.5
Nonfarm payroll employment (millions)	65.9	67.9	70.1	69.5	70.0	70.4	70.6	70.8	70.7
Manufacturing	19.4	19.8	20.1	20.1	20.1	20.2	20.1	20.0	19.8
Industrial production (1957-59=100)	158.1	165.4	173.5	170.2	172.8	174.8	176.0	175.2	174.5
Capacity utilization, manufacturing (per cent)	85.3	84.5	84.3	84.5	84.6	84.2	83.8	82.4	81.0
Housing starts, private (millions A.R.)	1.29	1.51	1.42	1.72	1.51	1.25	1.20	1.20	1.30
Sales new domestic autos (millions, A.R.)	7.57	8.62	8.25	8.37	8.54	8.10	8.00	8.00	8.00

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1967	1968	1969 Proj.	1969				1970	
				I	II	III	Projected IV	I	II
-----In Billions of Dollars-----									
Gross National Product	43.6	72.2	66.0	16.2	16.1	16.0	11.7	7.7	7.4
Inventory change	-7.4	-0.1	0.3	-3.9	0.3	1.1	1.0	-4.0	-3.0
Final sales	51.1	72.2	65.7	20.1	15.8	14.9	10.7	11.7	10.4
Private excluding net exports	27.9	54.7	51.1	16.5	12.8	8.8	8.3	7.9	8.6
Net exports	-0.1	-2.7	-0.5	0.3	0.1	0.8	0.1	1.5	0.5
Government	23.3	20.2	15.1	3.3	2.9	5.3	2.3	2.3	1.3
GNP in constant (1958) dollars	16.5	33.0	20.4	4.6	3.6	3.2	2.2	-0.5	-0.2
Final sales	23.5	33.3	20.3	8.2	3.5	2.4	1.0	3.2	2.5
Private	10.0	24.9	18.4	7.8	3.9	2.1	1.6	2.8	3.4
-----In Per Cent Per Year-----									
Gross National Product	5.8	9.1	7.6	7.3	7.1	6.9	5.0	3.2	3.1
Final sales	7.0	9.2	7.7	9.1	7.0	6.5	4.6	5.0	4.4
Private	6.1	8.5	7.7	9.9	7.5	5.4	4.7	5.2	5.0
Personal consumption expenditures	5.6	9.0	7.5	8.2	7.7	6.6	6.5	5.7	5.3
Durable goods	3.1	14.1	7.1	9.7	10.0	-7.1	-0.9	-3.6	-3.2
Nondurable goods	4.0	7.2	6.3	7.3	5.9	9.4	7.4	6.8	5.9
Services	8.3	9.1	8.9	8.5	8.7	8.8	8.1	8.0	7.5
Gross private domestic investment	-4.4	8.9	8.6	3.9	6.5	1.7	-0.3	-13.3	-6.9
Residential construction	0.0	20.8	3.3	17.6	-7.2	-26.9	-27.5	-15.5	10.3
Business fixed investment	2.6	6.1	10.7	16.6	10.5	7.0	4.0	2.0	0.0
Gov't. purchases of goods & services	14.9	11.2	7.5	6.4	5.5	10.0	4.2	4.2	2.3
Federal	16.6	9.7	2.4	-1.2	-3.9	9.1	-1.9	-1.6	-5.1
Defense	19.3	7.7	1.5	-1.5	-2.5	8.2	-5.0	-5.1	-7.2
Other	7.6	16.8	5.6	1.8	-8.9	12.7	8.8	10.3	1.7
State & local	13.0	12.8	12.8	14.1	14.0	10.7	9.7	9.1	8.6
GNP in constant (1958) dollars	2.5	4.9	2.9	2.5	2.0	1.8	1.2	-0.4	-0.1
Final sales	3.6	5.0	2.9	4.6	2.0	1.3	0.6	1.8	1.4
Private	1.9	4.7	3.3	5.6	2.8	1.5	1.1	2.0	2.4
GNP implicit deflator	3.2	4.0	4.7	4.7	5.1	5.1*	3.8	3.5	3.2
Personal income	7.2	9.3	8.5	7.4	8.9	8.3	5.2	4.8	5.0
Wages and salaries	7.4	9.8	9.6	9.3	8.9	9.4	6.0	4.7	4.4
Disposable income	6.8	8.0	6.5	3.9	7.7	9.7	4.5	7.1	4.6
Corporate profits before tax	-4.6	13.4	2.6	4.2	-3.3	-8.4	-7.3	-13.2	-13.6
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	6.0	16.7	14.1	23.1	7.7	-1.2	3.4	-11.2	1.4
Expenditures	14.7	10.8	5.6	2.3	1.7	9.7	2.1	3.5	2.8
Nonfarm payroll employment	3.0	3.0	3.2	4.7	2.9	2.3	1.1	1.1	-0.6
Manufacturing	1.0	2.1	1.5	4.0	0.0	2.0	-2.0	-2.0	-4.0
Industrial production	1.2	4.6	4.9	6.7	6.1	4.6	2.7	-1.8	-1.6
Housing starts, private	10.9	16.7	-6.0	28.2	-48.3	-67.8	-16.0	0.0	33.3
Sales new domestic autos	-9.7	14.0	-4.3	-20.4	8.4	-20.8	-4.9	0.0	0.0

* Excluding Federal pay increase 4.0 per cent.

The quarterly pattern of spending for 1969 in the Commerce-SEC survey now shows a downward revision of \$2 billion in the third quarter, but an increase of about that magnitude is planned for the third quarter, followed by a leveling off in the fourth. There has been a fairly consistent pattern thus far in 1969 of actual spending falling short of anticipations; most, but not all, of the shortfall has been shifted into the following quarter's anticipation. Commerce-SEC extended the period covered by the August survey by one quarter, and the results indicate an increase in spending in the first quarter of 1970. However, these results are quite tentative and will not be published.

1969 PLANT AND EQUIPMENT EXPENDITURES ANTICIPATIONS
COMMERCE-SEC AUGUST SURVEY
(Billions of dollars)

	1968	1969	1969			
	Actual	Estimated	I Actual	II Actual	III Estimated	IV Estimated
All business	64.08	70.85	68.90	70.20	72.25	72.10
Manufacturing	26.44	29.68	28.20	29.30	30.45	30.55
Durable	13.51	15.43	15.00	15.35	15.80	15.50
Nondurable	12.93	14.25	13.20	13.95	14.60	15.05
Nonmanufacturing	37.64	41.17	40.70	40.90	41.80	41.55
Mining	1.42	1.56	1.55	1.65	1.60	1.45
Railroad	1.34	1.47	1.35	1.35	1.70	1.50
Nonrail transp.	4.31	4.52	4.80	4.00	4.65	4.85
Public util.	11.54	12.74	13.05	13.20	12.70	12.20
Communications	6.36	7.55	7.25	7.40		
Comm'l & other	12.67	13.33	12.75	13.30	21.20	21.55

Among the industries covered in the Commerce-SEC survey, the largest relative cutbacks in planned increases in 1969 were in nondurable

CORPORATE SECURITY OFFERINGS^{1/}
Monthly or Monthly Averages
(Millions of dollars)

	Public Bond Offerings		Private Bond Offerings		Stocks		Total	
	1968	1969	1968	1969	1968	1969	1968	1969
YEAR	894	--	554	--	382	--	1,830	--
Q I	821	886	574	513	330	674	1,726	2,073
Q II	1,035	1,136	548	526	319	709	1,902	2,371
Q III	869	987e	454	517e	389	467e	1,711	2,003e
July	1,244	1,360e	528	500e	372	500e	2,144	2,360e
August	637	700e	400	500e	396	400e	1,433	1,600e
September	727	1,000e	433	550e	398	500e	1,556	2,050e

Memo:								
Jan. - July	973	1,016e	556	517e	331	644e	1,861	2,242e
Aug. - Sept.	682	850e	417	525e	397	450e	1,495	1,825e

e/ Estimated.

1/ Data are gross proceeds.

In September, corporate security offerings are estimated to rise a little more than seasonally. However, after the registration of two large bond issues of tobacco firms, underwriters report no new large offerings in the pipeline and a general willingness and ability of corporations to await better market conditions. As shown in the bottom panel of the table, the August-September estimated total security offerings of corporations, including private placements, is expected to average \$1,825 million, or about one-fifth below the average pace of the first 7 months of the year. If the level of capital outlays

now being projected by the Board's staff is realized, these security estimates imply that the financing gap of corporations is widening further in the third quarter. Consequently, there will have to be continued sharp reductions in corporate holdings of liquid assets, or perhaps some stepped-up borrowing at banks and in the commercial paper market.

STATE AND LOCAL GOVERNMENT OFFERINGS
Monthly or Monthly Averages
(Millions of dollars)

	Long-term 1/		Net Short-term2/		Total 3/	
	1968	1969	1968	1969	1968	1969
YEAR	1,381	--	- 38	n.a.	1,343	n.a.
Q I	1,246	930	- 56	328	1,190	1,258
Q II	1,285	1,208	5	394e	1,290	1,602
Q III	1,537	921e	- 38	n.a.	1,499	n.a.
July	1,469	1,063	523	190e	1,992	1,253e
August	1,699	850e	204	575e	1,963	1,425e
September	1,444	850e	-902	n.a.	542	n.a.

e/ Estimated.

1/ Data are for principal amounts of new issues.

2/ EXCLUDES note offerings of Housing Assistance Administration and Renewal Assistance Administration.

3/ Combines GROSS long-term and NET short-term issues.

The marked increase in tax-exempt yields has further reduced gross long-term tax-exempt offerings in August to about \$850 million, \$200 million below July, and the same reduced volume is expected in September. (Even this volume would not have been possible, however,

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Aug.	Sept.	Oct.	Nov.
<u>Borrowing operations</u>				
New cash raised:				
Weekly and monthly bills	2.1	--	--	--
Tax bills	--	--	--	4.0
Coupon issues	--	--	--	--
Other (agency, debt repayment, etc.)	-1.2	--	-1.4	--
Total net borrowing from public	.9	--	-1.4	4.0
Plus: Other net financial sources ^{b/}	- .9	.7	.7	- .8
Plus: <u>Budget surplus or deficit</u> (-)	-1.7	4.6	-4.9	-1.1
Equals: <u>Change in cash balance</u>	-1.7	5.3	-5.6	2.1
Memoranda: Level of cash balance				
end of period	4.0 ^{a/}	9.3	3.7	5.8
Derivation of budget				
surplus or deficit				
Budget receipts	15.0	21.0	12.0	14.6
Budget outlays	16.7	16.4	16.9	15.7

a/ Actual

b/ Checks issued less checks paid and other accrual items.

NEW BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS
(In billions of dollars)

	FY 1969 Actual	Calendar year 1969e/	Fiscal 1970 May Budget Bureau est.	F.R. Bd	Calendar quarter					
					1969				1970	
					I	II	IIIe/	IVe/	Ie/	IIe/
<u>Quarterly data, unadjusted</u>										
New budget:										
Surplus/deficit	3.1	9.9	6.3	3.0	-2.0	15.3	-0.3	-3.1	-3.5	9.9
Receipts	187.8	197.9	199.2	195.9	44.1	60.8	48.5	44.5	43.8	59.1
Total expenditures and net lending	184.8	188.0	192.9	192.9	46.1	45.5	48.8	47.6	47.3	49.2
Means of financing:										
Total borrowing from the public	-1.4 ^{1/}	-8.6	n.a.	-2.2	.2	-12.6	3.8	--	2.7	-8.7
Decrease in cash operating balance	-.6	-1.4		-.1	-.1	-1.1	-3.4	3.2	.1	--
Other ^{2/}	-1.1	--		-.7	1.9	-1.7	-.1	-.1	.7	-1.2
Cash operating balance, end of period	5.9	6.1		6.0	4.8	5.9	9.3	6.1	6.0	6.0
<u>Seasonally adjusted annual rate</u>										
Federal surplus/deficit in national income accounts ^{3/}	4.8	9.4	6.3 ^{3/}	4.1	9.6	12.5	7.4	8.1	.7	0.0
Receipts	192.2	201.1	202.8	199.9	198.1	201.9	201.3	203.0	197.3	198.0
Expenditures	187.4	191.7	196.5	195.9	188.5	189.3	193.9	194.9	196.6	198.0
High-employment surplus/deficit ^{4/}	2.0	8.7	n.e.	6.7	7.9	10.5	7.4	8.9	4.3	6.2

e--Projected. Assumes extension of surcharge at 10 per cent through end of calendar year 1969 and at 5 per cent for January to June 1970. Also assumes repeal of investment tax credit.

n.e. - Not estimated.

n.a. - Not available.

^{1/} Excludes effect of conversion of agencies to private ownership.

^{2/} Includes various accrual items, such as deposit fund accounts and clearing accounts.

^{3/} National Income account translation estimated by Federal Reserve staff.

^{4/} Estimated by Board staff using QIII 1969 as the base quarter that represents high employment.

Comparison With Earlier Periods and Recent Developments

As is shown in Figure 1, the estimated borrowing for fiscal year 1970 is somewhat above longer-term trends--trends which were breached by the stringent market conditions of fiscal 1969. Reported gross borrowing for fiscal year 1969 equalled \$15.5 billion. As may be seen in Table 2, the annual rate of borrowing dropped precipitously over the past fiscal year period, from approximately \$18 billion in the second half of 1968 to \$13 billion in the first half of 1969. To accomplish an anticipated \$19 billion in long-term borrowing in fiscal 1970, therefore, would require a dramatic upsurge in municipal bond sales for the next three quarters. Indeed, the implied increase in such sales for the remaining three quarters of fiscal 1970 over the volume sold in the first half of calendar 1969 is approximately 50 per cent.

Table 2

RECENT AND ANTICIPATED
GROSS LONG-TERM BORROWING
BY STATE AND LOCAL GOVERNMENTS 1/
(Billions of Dollars)

Quarter	Calendar Year		
	1968	1969	1970
I	3.7	2.8	4.3
II	3.9	3.8	3.5
III	4.6	5.1	--
IV	4.4	5.9	--

1/ Investment Bankers Association data through 1969 II, adjusted anticipations thereafter.