

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

June 17, 1970

CONFIDENTIAL - FR

June 17, 1970

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.)

	1969	1970 Proj.	1970				1971	
			I	II	III	IV	I	II
Gross National Product	932.1	977.8	959.6	969.5	983.5	998.5	1,013.5	1,028.5
Final purchases	924.1	977.2	958.9	969.5	983.0	997.5	1,012.0	1,026.5
Private	709.5	754.9	737.7	748.9	760.3	772.8	783.5	794.5
Excluding net exports	707.4	751.1	734.7	745.5	756.1	768.0	778.9	789.9
Personal consumption expenditures	576.0	615.7	600.4	611.1	620.7	630.6	640.6	651.8
Durable goods	89.8	91.8	89.4	91.5	92.7	93.7	94.5	95.5
Nondurable goods	243.6	260.5	255.4	258.5	262.0	265.9	270.1	275.0
Services	242.6	263.4	255.6	261.1	266.0	271.0	276.0	281.3
Gross private domestic investment	139.4	135.9	135.0	134.4	135.9	138.4	139.8	140.1
Residential construction	32.2	30.2	30.2	29.4	29.4	31.9	34.3	35.6
Business fixed investment	99.2	105.1	104.0	105.0	106.0	105.5	104.0	102.5
Change in business inventories	8.0	0.6	0.8	0.0	0.5	1.0	1.5	2.0
Nonfarm	7.8	0.5	0.4	0.0	0.5	1.0	1.5	2.0
Net exports of goods and services	2.1	3.9	3.0	3.4	4.2	4.8	4.6	4.6
Gov't. purchases of goods & services	214.6	222.3	221.2	220.6	222.7	224.7	228.5	232.0
Federal	101.9	99.6	102.3*	99.6	98.7	97.7	98.0	98.0
Defense	79.2	75.8	78.9*	76.6	74.8	72.9	72.2	71.3
Other	22.7	23.8	23.3*	23.0	23.9	24.8	25.8	26.7
State & local	112.7	122.7	118.9	121.0	124.0	127.0	130.5	134.0
Gross national product in constant (1958) dollars	727.5	726.5	724.3	723.5	726.7	731.4	736.5	742.2
GNP implicit deflator (1958 = 100)	128.1	134.6	132.5	134.0	135.3	136.5	137.6	138.6
Personal income	747.2	800.6	778.6	799.3	806.9	817.7	829.3	841.1
Wages and salaries	509.9	546.0	532.4	543.0	550.1	558.4	566.4	574.3
Disposable income	629.7	681.0	660.4	678.2	688.4	696.9	706.1	715.6
Personal saving	37.6	48.5	43.5	50.4	50.9	49.2	48.2	46.3
Saving rate (per cent)	6.0	7.1	6.6	7.4	7.4	7.1	6.8	6.5
Corporate profits before tax	93.8	82.7	85.6	83.0	80.5	81.5	81.5	83.0
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	201.5	199.5	198.7	200.7	197.7	200.8	207.4	210.7
Expenditures	192.0	205.7	198.4*	210.4	206.6	207.5	211.2	214.7
Surplus or deficit (-)	9.5	-6.2	0.3*	-9.7	-8.9	-6.7	-3.8	-4.0
High employment surplus or deficit (-)	5.3	3.1	4.5	-1.3	2.6	6.6	12.8	12.8
Total labor force (millions)	84.2	86.1	85.8	85.9	86.2	86.6	87.0	87.4
Armed forces "	3.4	3.2	3.3	3.3	3.2	3.1	3.1	3.0
Civilian labor force "	80.7	82.9	82.4	82.6	83.0	83.5	83.9	84.4
Unemployment rate (per cent)	3.5	5.0	4.1	5.0	5.3	5.6	5.8	6.0
Nonfarm payroll employment (millions)	70.3	71.2	71.1	71.0	71.1	71.4	71.6	72.0
Manufacturing	20.2	19.7	20.0	19.7	19.6	19.6	19.6	19.6
Industrial production (1957-59=100)	172.8	170.6	170.7	169.6	170.6	171.6	172.6	174.2
Capacity utilization, manufacturing (per cent)	83.7	78.4	79.9	78.4	77.8	77.3	77.0	76.9
Housing starts, private (millions A.R.)	1.47	1.31	1.25	1.20	1.33	1.45	1.55	1.60
Sales new domestic autos (millions, A.R.)	8.46	7.69	7.35	7.60	7.80	8.00	8.10	8.25

* Federal purchases of goods and services and GNP, in '70-I, include the retroactive part of the pay increase for Federal military and civil service personnel (\$2.1 billion annual rate). By means of accrual adjustments, however, this retroactive part is excluded from total Federal expenditures and from the surplus or deficit in '70-I and included in these in '70-II. The retroactive part of the pay increase for postal employees (\$.4 billion annual rate) is included in Federal government N.I.A. account item, subsidies less current surplus of government enterprises, in '70-I; this also is excluded from total expenditures in '70-I and included therein in '70-II.

CONFIDENTIAL - FR

June 17, 1970

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

			1970				1971	
	1969	1970 Proj.	I	II	III	Projected IV	I	II
-----Billions of Dollars-----								
Gross National Product	66.4	45.7	7.4	9.9	14.0	15.0	15.0	15.0
Inventory change	0.7	-7.4	-6.9	-0.8	0.5	0.5	0.5	0.5
Final purchases	65.7	53.1	14.4	10.6	13.5	14.5	14.5	14.5
Private	51.4	45.4	11.5	11.2	11.4	12.5	10.7	11.0
Excluding net exports	51.8	43.7	11.2	10.8	10.6	11.9	10.9	11.0
Net exports	-0.4	1.8	0.3	0.4	0.8	0.6	-0.2	0.0
Government	14.3	7.7	2.9	-0.6	2.1	2.0	3.8	3.5
GNP in constant (1958) dollars	19.9	-1.0	-5.5	-0.8	3.2	4.7	5.1	5.7
Final purchases	19.6	5.5	0.5	0.2	2.5	4.3	4.9	5.4
Private	18.3	10.1	2.2	2.5	2.3	4.2	3.5	4.3
-----In Per Cent Per Year-----								
Gross National Product	7.7	4.9	3.1	4.1	5.8	6.1	6.0	5.9
Final purchases	7.7	5.7	6.1	4.4	5.6	5.9	5.8	5.7
Private	7.8	6.4	6.3	6.1	6.1	6.6	5.5	5.6
Personal consumption expenditures	7.3	6.9	7.4	7.1	6.3	6.4	6.3	7.0
Durable goods	7.8	2.2	-4.4	9.4	5.2	4.3	3.4	4.2
Nondurable goods	5.6	6.9	10.8	4.9	5.4	6.0	6.3	7.3
Services	8.9	8.6	8.5	8.6	7.5	7.5	7.4	7.7
Gross private domestic investment	10.4	-2.5	-19.2	-1.8	4.5	7.4	4.0	0.9
Residential construction	6.6	-6.2	-17.7	-10.6	0.0	34.0	30.1	15.2
Business fixed investment	11.7	5.9	5.9	3.8	3.8	-1.9	-5.7	-5.8
Gov't. purchases of goods & services	7.1	3.6	5.3	-1.1	3.8	3.6	6.8	6.1
Federal	2.4	-2.3	0.0	-10.6	-3.6	-4.1	1.2	0.0
Defense	1.5	-4.3	-1.5	-11.7	-9.4	-10.2	-3.8	-5.0
Other	5.6	4.8	3.5	-5.1	15.7	15.1	16.1	14.0
State & local	11.9	8.9	10.0	7.1	9.9	9.7	11.0	10.7
GNP in constant (1958) dollars	2.8	-0.1	-3.0	-0.4	1.8	2.6	2.8	3.1
Final purchases	2.8	0.8	0.3	0.1	1.4	2.4	2.7	2.9
Private	3.3	1.8	1.5	1.8	1.6	2.8	2.4	2.9
GNP implicit deflator *	4.7	5.1	6.2 ^{1/}	4.5	4.0	3.5	3.2	2.8
Personal income	8.6	7.1	5.8	10.6	3.8	5.4	5.7	5.7
Wages and salaries	9.7	7.1	5.6	8.0	5.2	6.0	5.7	5.6
Disposable income	6.7	8.1	8.0	10.8	6.0	4.9	5.3	5.4
Corporate profits before tax	3.0	-12.4	-25.4	-12.1	-12.0	5.0	0.0	7.4
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.3	-1.0	-9.0	4.0	-6.0	6.3	13.1	6.4
Expenditures	5.8	7.1	3.5	24.2	-7.2	1.7	7.1	6.6
Nonfarm payroll employment	3.5	1.3	1.7	-0.6	0.6	1.7	1.1	2.2
Manufacturing	2.0	-2.5	-2.0	-6.0	-2.0	0.0	0.0	0.0
Industrial production	4.4	-1.3	-2.8	-2.6	2.4	2.3	2.4	3.7
Housing starts, private	-2.7	-10.9	-32.1	-16.0	43.3	36.1	27.6	12.9
Sales new domestic autos	-1.9	-9.2	-38.2	13.4	10.5	10.3	5.0	7.4

* Based on deflators calculated to three decimals.

^{1/} Excluding effects of Federal pay increase, 5.2 per cent per year in 70-1.

As may be seen in the following table, the recent survey indicates rather large increases in spending for the second and third quarters and a slight decline in the fourth when spending by durable foods manufacturers shows a sharp decline.

QUARTERLY PATTERN OF ANTICIPATED EXPENDITURES
FOR NEW PLANT AND EQUIPMENT, 1970
(Billions of dollars, seasonally adjusted annual rates)

	1969				1970			
	I	II	III	IV	I	II	III	IV
	------(Actual)-----				------(Anticipated)-----			
Total	72.52	73.94	77.84	77.84	78.22	80.66	83.28	82.12
Manufacturing	29.99	31.16	33.05	32.39	32.44	32.88	33.25	32.80
Durable	15.47	15.98	16.53	15.88	16.40	16.69	16.89	15.81
Nondurable	14.52	15.18	16.52	16.50	16.05	16.18	16.36	17.00
Nonmanufacturing	42.53	42.78	44.80	45.46	45.78	47.78	50.02	50.31

Inventories. Book value of business inventories rose in April at about the March rate, and only slightly more than the modest first quarter average. A fairly large April increase at manufacturers was partly offset by inventory liquidation at trade establishments. Work stoppages in the trucking industry may not have had much effect on overall inventory change but they do seem to have affected its distribution, with producers' stocks of materials and components piling up while users' and distributors' were drawn down.

were offered. On the municipal side, large money market banks, which are a major support of that market, have been less active as buyers over the past month. Individuals are still a key factor in both markets. In general, an air of uncertainty and lack of confidence, re-enforced by reports of large corporations with serious financial problems, continued to exert upward pressure on long-term yields well into the month of June.

Even after borrower withdrawals, volume set a new record in the public bond market in May, but new stock offerings essentially disappeared in the last two weeks of the month. With stock volume abnormally low, private placements apparently continuing at a depressed level, and with cancellations of bond offerings in the public market, the volume of total corporate security offerings in May was about \$600 million less than the staff originally projected.

CORPORATE SECURITY OFFERINGS^{1/}
(Monthly or monthly averages, in millions of dollars)

	Bonds		Stocks	Total
	Public Offerings	Private Placements		
1969	1,061	468	700	2,229
1970				
QI	1,520e	390e	675e	2,600e
QII*	2,200e	365e	465e	3,035e
May*	3,000e	300e	200e	3,500e
June	1,600e	400e	600e	2,600e
July	1,500e	300e	500e	2,300e

^{1/} Data are gross of underwriting expenses.

^{e/} Estimated

* "Public bond" figure and "Total" include AT&T rights offering of \$1.5 billion in May.

The inability of State and local governments to sell much of their backlog of authorized long-term debt in May and June contrasted significantly with their experience in the first quarter of 1970 when yields were declining dramatically. According to the Federal Reserve-Census Bureau survey of State and local government borrowing anticipations, an unusually large number of units were able to sell more long-term bonds in that quarter than they had earlier planned. These accelerated issues aggregated \$1.8 billion, much of it representing sales of issues previously postponed in 1969. The revision of rate ceilings by many governments undoubtedly contributed to this ability to market previously postponed issues. The acceleration and rescheduling of debt sales which was made possible by the first quarter municipal market rally was offset, however, by shortfalls in other units, many of which were still hampered by restrictive debt ceilings. There was still a substantial dollar volume of cutbacks in construction outlays in the first quarter of 1970. However, the increased volume of borrowing made possible by the municipal bond market rally softened the impact of money market conditions on State and local construction expenditures, as compared with previous survey periods.

STATE AND LOCAL GOVERNMENT OFFERINGS
(Monthly or monthly averages, in millions of dollars)

1969	990
1970	
QI	1,350e
QII	1,176e
May	1,000e
June	900e
July	1,000e

e/ Estimated.

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

	Fiscal	Calendar	Fiscal Year 1971		Calendar Quarters					
	Year 1970	Year 1970	Revised	F.R.	1970			1971		
	F. R. Board	F. R. Board	Budget 1/	Board	I	IIe/	IIIe/	IVe/	Ie/	IIe/
Federal Budget										
(Quarterly data, unadjusted)										
Surplus/deficit	-3.4	-9.2	-1.3	-7.3	-3.5	8.2	-6.5	-7.4	-4.4	10.9
Receipts	194.8	194.5	204.3	200.3	44.3	59.6	47.9	42.7	46.9	62.7
Outlays	198.2	203.7	205.6	207.6	47.8	51.4	54.4	50.1	51.3	51
Means of financing:										
Net borrowing from the public 2/	3.6	7.9		7.5	2.0	-6.7	5.9	6.7	3.3	-8.4
Decreased in cash operating balance	-1.9	-.7		--	-1.6	-.9	.4	1.4	-.4	-1.4
Other 3/	1.7	2.0	n.a.	-.1	3.1	-.6	.2	-.7	1.5	-1.1
Cash operating balance, end of period	7.8	6.0		7.8	6.9	7.8	7.4	6.0	6.4	7.8
National Income Sector										
(Seasonally adjusted annual rate)										
Surplus/deficit	1.2	-6.3	n.a.	-5.9	.3	-9.7	-8.9	-6.7	-3.8	-4.0
Receipts	201.0	199.5	n.a.	204.2	198.7	200.7	197.7	200.8	207.4	210.7
Expenditures	199.8	205.7	208.3	210.0	198.4	210.4	206.6	207.5	211.2	214.7
High employment budget surplus/deficit 4/	3.2	3.1	n.a.	10.1	4.5	-1.3	2.6	6.6	15.5	15.5

e--projected

n.a.--not available

1/ Official Budget Revision: May 19, 1970

2/ Excludes effect of reclassification of \$1.6 billion of CCC certificates of interest, as of July 1, 1969. This reclassification increased Federal debt, but is not treated as borrowing from the public.

3/ Includes such items as deposit fund accounts and clearing accounts.

4/ Estimated by Federal Reserve Board Staff.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	May	June	July	Aug.
<u>Borrowing operations</u>				
New cash raised				
Unspecified new borrowing	--	--	4.3	3.7
Weekly and monthly bills	.4	.6	.5	.3
Tax bills	--	--	--	--
Coupon issues	2.1	--	--	--
Other (agency, debt repayment, etc.)	-.8	-4.3	-.1	-.9
Total net borrowing from public	1.7	-3.7	4.7	3.1
Plus: Other net financial sources ^{a/}	.2	-1.6	.3	-.3
Plus: <u>Budget surplus or deficit (-)</u>	-3.4	7.6	-6.4	-2.8
Equals: <u>Change in cash balance</u>	-1.5 ^{b/}	2.3	-1.4	--
Memoranda: Level of cash balance end of period	5.5 ^{b/}	7.8	6.4	6.4
Derivation of budget surplus or deficit				
Budget receipts	14.0	23.6	13.0	15.2
Budget outlays	17.4	16.0	19.4	18.0

^{a/} Checks issued less checks paid and other accrual items.

^{b/} Actual

CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

June 19, 1970

Table 2

**ESTIMATE OF SELECTED TREASURY FINANCING
ACTIVITIES IN SECOND HALF OF CALENDAR 1970
(Billions of dollars)**

	July	August	September	October	November	December
Additions to weekly bill auction <u>1/</u>	.5	.3	--	--	--	--
Unspecified gross cash offering <u>1/</u>	4.3	3.7	--	3.9	3.7	--
Maturing publicly- held coupon issues	--	5.6	--	6.0	--	--
<u>1/</u> Staff estimate.						