

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

July 15, 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	Projected			Projected	
				II	III	IV	I	II
Gross National Product	932.1	978.8	959.6	971.1	984.8	999.6	1015.2	1030.1
Final purchases	924.1	978.2	958.9	971.1	984.3	998.6	1013.7	1028.1
Private	709.5	755.8	737.7	750.5	761.3	773.6	785.5	796.4
Excluding net exports	707.4	752.1	734.7	747.0	757.5	769.3	780.2	791.1
Personal consumption expenditures	576.0	616.5	600.4	612.5	622.0	631.9	641.9	653.0
Durable goods	89.8	92.1	89.4	92.0	93.0	94.0	94.8	95.8
Nondurable goods	243.6	261.0	255.4	259.5	263.0	266.9	271.1	276.0
Services	242.6	263.4	255.6	261.0	266.0	271.0	276.0	281.2
Gross private domestic investment	139.4	136.0	135.0	134.5	136.0	138.4	139.8	140.1
Residential construction	32.2	30.3	30.2	29.5	29.5	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	0.4	0.4	0.0	0.5	1.0	1.5	2.0
Net exports of goods and services	2.1	3.7	3.0	3.5	3.8	4.3	5.3	5.3
Gov't. purchases of goods & services	214.6	222.5	221.2	220.6	223.0	225.0	228.2	231.7
Federal	101.9	99.7	102.3	99.6	99.0	98.0	97.7	97.7
Defense	79.2	76.0	78.9	76.6	75.3	73.2	71.9	70.8
Other	22.7	23.7	23.3	23.0	23.7	24.8	25.8	26.9
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	727.2	724.3	724.7	727.7	732.2	737.7	743.3
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	799.7	778.6	797.8	806.0	816.5	828.5	840.5
Wages and salaries	509.9	544.9	532.4	541.1	549.0	557.0	565.5	573.5
Disposable income	629.7	680.2	660.4	677.0	687.6	695.8	705.4	715.1
Personal saving	37.6	46.7	43.5	47.8	48.8	46.8	46.2	44.6
Saving rate (per cent)	6.0	6.9	6.6	7.1	7.1	6.7	6.5	6.2
Corporate profits before tax	93.8	82.9	85.6	83.0	81.0	82.0	82.0	83.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	201.5	199.7	198.7	200.8	198.1	201.2	206.7	210.0
Expenditures	192.0	207.0	198.4	210.4	209.2	210.1	212.0	215.5
Surplus or deficit (-)	9.5	-7.3	0.3	-9.6	-11.1	-8.9	-5.3	-5.5
High employment surplus or deficit (-)	5.3	1.1	6.2	-3.1	-1.7	3.1	10.2	11.0
Total labor force (millions)	84.2	86.0	85.8	85.7	86.1	86.5	86.9	87.3
Armed forces "	3.4	3.2	3.3	3.2	3.2	3.1	3.1	3.0
Civilian labor force "	80.7	82.8	82.4	82.5	82.9	83.4	83.8	84.3
Unemployment rate (per cent)	3.5	4.9	4.1	4.8	5.1	5.4	5.6	5.8
Nonfarm payroll employment (millions)	70.3	71.1	71.1	70.9	71.1	71.3	71.6	72.0
Manufacturing	20.2	19.7	20.0	19.6	19.5	19.6	19.6	19.6
Industrial production (1957-59=100)	172.8	170.3	170.7	169.3	170.0	171.0	172.2	173.7
Capacity utilization, manufacturing (per cent)	83.7	78.0	79.8	77.9	77.3	76.8	76.5	76.5
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	7.95	7.35	7.95	8.15	8.35	8.45	8.60

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

		1970	1970				1971	
	1969	1970 Proj.	I	II	III	IV	I	II
-----Billions of Dollars-----								
Gross National Product	66.4	46.7	7.4	11.5	13.7	14.8	15.6	14.9
Inventory change	0.7	-7.4	-6.9	-0.8	0.5	0.5	0.5	0.5
Final purchases	65.7	54.1	14.4	12.2	13.2	14.3	15.1	14.4
Private	51.4	46.3	11.5	12.8	10.8	12.3	11.9	10.9
Excluding net exports	51.8	44.7	11.2	12.3	10.5	11.8	10.9	10.9
Net exports	-0.4	1.6	0.3	0.5	0.3	0.5	1.0	0.0
Government	14.3	7.9	2.9	-0.6	2.4	2.0	3.2	3.5
GNP in constant (1958) dollars	19.9	-0.3	-5.5	0.4	3.0	4.5	5.5	5.6
Final purchases	19.6	6.2	0.5	1.4	2.2	4.2	5.3	5.3
Private	18.3	10.7	2.2	3.7	1.9	4.0	4.7	3.9
-----In Per Cent Per Year-----								
Gross National Product	7.7	5.0	3.1	4.8	5.6	6.0	6.2	5.9
Final purchases	7.7	5.9	6.1	5.1	5.4	5.8	6.0	5.7
Private	7.8	6.5	6.3	6.9	5.8	6.5	6.2	5.5
Personal consumption expenditures	7.3	7.0	7.4	8.1	6.2	6.4	6.3	6.9
Durable goods	7.8	2.6	-4.4	11.6	4.3	4.3	3.4	4.2
Nondurable goods	5.6	7.1	10.8	6.4	5.4	5.9	6.3	7.2
Services	8.9	8.6	8.5	8.4	7.7	7.5	7.4	7.5
Gross private domestic investment	10.4	-2.4	-19.2	-1.5	4.5	7.1	4.0	0.9
Residential construction	6.6	-5.9	-17.7	-9.3	0.0	32.5	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	3.7	5.3	-1.1	4.3	3.6	5.7	6.1
Federal	2.4	-2.2	0.0	-10.6	-2.4	-4.0	-1.2	0.0
Defense	1.5	-4.0	-1.5	-11.7	-6.8	-11.2	-7.1	-6.1
Other	5.6	4.4	3.5	-5.1	12.2	18.6	16.1	17.1
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	0.0	-3.0	0.3	1.6	2.5	3.0	3.0
Final purchases	2.8	0.9	0.3	0.8	1.2	2.3	2.9	2.9
Private	3.3	1.9	1.5	2.6	1.3	2.7	3.2	2.6
GNP implicit deflator*	4.7	5.1	6.2 ^{1/}	4.5	4.0	3.5	3.2	2.8
Personal income	8.6	7.0	5.8	9.9	4.1	5.2	5.9	5.8
Wages and salaries	9.7	6.9	5.6	6.5	5.8	5.8	6.1	5.7
Disposable income	6.7	8.0	8.0	10.1	6.3	4.8	5.5	5.5
Corporate profits before tax	3.0	-11.6	-25.4	-12.2	-9.6	4.9	0.0	7.3
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.3	-0.9	-9.0	4.2	-5.4	6.3	10.9	6.4
Expenditures	5.8	7.8	3.5	24.2	-2.3	1.7	3.6	6.6
Nonfarm payroll employment	3.5	1.1	1.7	-1.1	1.1	1.1	1.7	2.2
Manufacturing	2.0	-2.5	-2.0	-8.0	-2.0	2.1	0.0	0.0
Industrial production	4.4	-1.4	-2.8	-3.3	1.7	2.4	2.8	3.5
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	-6.0	-38.2	32.3	10.1	9.8	4.8	7.1

* Based on deflators calculated to three decimals.

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

Public bond issues in June reached a total of slightly over \$1.9 billion, as the improved market situation in the latter part of the month permitted accelerations and reschedulings of previously postponed issues. Including the mammoth AT&T financing, public bond offerings in the second quarter of 1970 amounted to almost \$7 billion, a postwar record.

All indicators available to the staff suggest that bond financing in the public market will continue at relatively high levels through the third quarter of 1970 at least. July bond issues are expected to amount to approximately \$1.8 billion; and the staff estimates, on the basis of current schedulings, that public bond sales will be about \$1.5 billion in August, a month when a mid-summer slump in volume of offerings is usual. The September calendar already lists over \$1 billion in corporate bond issues, and the total for that month is likely to be close to the \$1.9 billion monthly average posted in the first half of 1970. Thus, the third quarter volume may be around \$5 billion.

CORPORATE SECURITY OFFERINGS
(Monthly or monthly averages, in millions of dollars)

	Bonds		Stocks	Total
	Public Offerings	Private Placements		
1969	1,061	468	700	2,229
1970 - QI	1,525	420	712	2,659
QII	2,308e ^{1/}	433e	533e	3,275e ^{1/}
QIII	1,700e	433e	600e	2,733e
June	1,925e	500e	800e	3,225e
July	1,800e	400e	700e	2,900e
August	1,500e	400e	500e	2,400e
September	1,800e	500e	600e	2,900e

e/ Estimated.

^{1/} The second quarter "Public offerings" and "Total" figures include \$1.5 billion AT&T offering. The monthly average for the second quarter "Public Bond Offerings" and "Total Security Offerings" excluding AT&T would be \$1,808(e) million and \$2,775(e) million, respectively.

Reflecting the reduced supply of municipals and the generally improved atmosphere of the capital markets, yields began to drop sharply in late June, and by mid-July they were over 50 basis points below the 1970 peak. Although the market situation has improved, the forward calendar is building slowly. Interest rates are still high enough to deter small and low-rated borrowers, and dealers report that a number of issuers may be postponing long-term financing in the hope that rates will drop significantly in the next few months. Nevertheless, taking into consideration the pressing needs of many units, the staff estimates that July new issue volume will be \$1.1 billion, with the August total rising to about \$1.3 billion.

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

1969 - Year	990
1970 - QI	1,349
QII	1,232e
QIII	1,250e
June	1,075e
July	1,100e
August	1,300e
September	1,300e

e/ Estimated.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	June	July	Aug.	Sept.
<u>Borrowing operations</u>				
New cash raised				
Unspecified new borrowing	--	--	3.8	--
Weekly and monthly bills	.6	.5	.3	--
Tax bills	--	4.8	--	--
Coupon issues	--	--	--	--
Other (agency, debt repayment, etc.)	-3.7	- .1	- .9	-1.9
Total net borrowing from public	-3.1	5.2	3.2	-1.9
Plus: Other net financial sources ^{a/}	-1.8	.3	- .3	.2
Plus: <u>Budget surplus or deficit</u> (-)	6.9	-7.1	-3.0	2.5
Equals: <u>Change in cash balance</u>	2.0 ^{b/}	-1.6	- .1	.8
Memoranda: Level of cash balance end of period	8.0 ^{b/}	6.4	6.3	7.1
Derivation of budget surplus or deficit				
Budget receipts	23.3	12.9	15.2	19.6
Budget outlays	16.4	20.0	18.2	17.1

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

^{b/} Actual.

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/
<u>Federal Budget</u>										
(Quarterly data, unadjusted)										
Surplus/deficit	-3.0	-10.2	-1.3	-9.9	-3.5	8.5	-7.5	-7.7	-5.0	10.3
Receipts	194.5	194.2	204.3	199.4	44.3	59.3	47.8	42.8	46.5	62.3
Outlays	197.5	204.4	205.6	209.3	47.8	50.8	55.3	50.5	51.5	52.0
Means of financing:										
Net borrowing from the public ^{2/}	4.0	9.5		9.2	2.0	-6.3	6.5	7.3	3.0	-
Decreased in cash operating balance	-2.1	-.8		.7	-1.6	-1.1	.9	1.0	.4	-
Other ^{3/}	1.2	1.5	n.a.	-.1	3.1	-1.1	.2	-.7	1.5	-1.1
Cash operating balance, end of period	8.0	6.1		7.3	6.9	8.0	7.1	6.1	5.7	7.3
<u>National Income Sector</u>										
(Seasonally adjusted annual rate)										
Surplus/deficit	1.3	-7.3	n.a.	-7.7	.3	-9.6	-11.1	-8.9	-5.3	-5.5
Receipts	201.0	199.7	n.a.	204.0	198.7	200.8	198.1	201.2	206.7	210.0
Expenditures	199.8	207.0	208.3	211.7	198.4	210.4	209.2	210.1	212.0	215.5
High employment budget surplus/deficit ^{4/}	3.6	1.6	n.a.	5.7	6.2	-1.3	-1.7	3.1	10.2	11.0

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.