

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

November 10, 1970

showed the first appreciable improvement in six months, and we are estimating a good recovery for nondurable goods stores following two months of little change.

CHANGES IN GNP AND RELATED ITEMS, 1970
(Seasonally adjusted, annual rates)

	Third Quarter	Fourth Quarter	
	Commerce	Projection	Current
	Prel.	of	Projection
	10/14/70	10/14/70	
-----Billions of dollars-----			
GNP	14.1	12.5	9.3
Final Sales	13.1	14.0	13.3
Personal consumption	8.0	9.9	8.0
Residential construction	.7	2.6	2.9
Business fixed investment	.9	- .5	- .5
Net exports	.6	.3	1.0
Federal purchases	- .7	- 1.3	-1.2
State and local purchases	3.7	2.9	3.0
Inventory change	.9	- 1.5	-4.0
-----Per cent-----			
Real GNP	1.4	1.5	- .2
GNP deflator	4.4	3.6	4.0

But output of business equipment has continued to trend down and we are still projecting a small downturn in dollar outlays for business fixed investment this quarter. On the other hand, residential construction activity continues to generate substantial additional strength with a broadly-based rise in starts and permits suggesting a rise in outlays in the current quarter of about \$3 billion,

CHANGES IN GNP AND RELATED ITEMS, 1971
(Seasonally adjusted, annual rates)

	First Quarter		Second Quarter	
	Projection of 10/14/70	Current Projection	Projection of 10/14/70	Current Projection
-----Billions of dollars-----				
GNP	20.5	22.5	15.0	13.5
Final sales	20.2	20.5	12.1	11.5
Personal consumption	13.5	15.0	9.0	7.9
Residential construction	2.4	2.2	1.4	1.6
Business fixed investment	-1.0	-1.2	-1.0	-1.0
Net exports	.6	.3	.1	.2
Federal purchases	1.2	1.2	-1.2	-1.0
State and local purchases	3.5	3.0	3.8	3.8
Inventory change	.3	2.0	2.9	2.0
-----Per cent-----				
Real GNP	3.8	4.3	2.9	1.7
GNP deflator	4.3	4.7 ^{1/}	3.0	3.6
^{1/} Excluding effects of Federal pay increase, 3.8 per cent per year.				

Despite a fairly strong pickup in productivity in the past two quarters and an associated moderation of the rise in unit labor costs, price increases have continued at a disappointingly sharp rate in the industrial sphere. The wage settlement in autos will presumably be large and will likely set a pattern for upcoming negotiations in such important industries as cans, aluminum and steel. As a result, and reflecting also the likely reemergence of some increases in food prices by next spring, we have adjusted up

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 Proj.	1971 Proj.	1970		1971 Projection			
			III	IV	I	II	III	IV
Gross National Product	977.6	1,039.4	985.2	994.5	1,017.0	1,030.5	1,046.5	1,063.5
Final purchases	975.4	1,035.5	981.2	994.5	1,015.0	1,026.5	1,042.0	1,058.5
Private	754.8	802.4	759.9	771.3	787.6	796.3	806.8	819.0
Excluding net exports	750.3	796.3	755.2	765.6	781.6	790.1	800.6	812.8
Personal consumption expenditures	617.6	658.4	622.4	630.4	645.4	653.3	662.3	672.6
Durable goods	90.6	95.4	91.4	90.0	96.0	95.0	94.5	96.0
Nondurable goods	264.2	279.3	265.5	269.7	273.7	277.1	281.4	285.0
Services	262.8	283.7	265.4	270.7	275.7	281.2	286.4	291.6
Gross private domestic investment	134.9	141.8	136.8	135.2	138.2	140.8	142.8	145.2
Residential construction	29.7	36.5	29.1	32.0	34.2	35.8	37.3	38.7
Business fixed investment	103.1	101.4	103.7	103.2	102.0	101.0	101.0	101.5
Change in business inventories	2.2	3.9	4.0	0.0	2.0	4.0	4.5	5.0
Nonfarm	1.8	3.9	3.5	0.0	2.0	4.0	4.5	5.0
Net exports of goods and services	4.5	6.2	4.7	5.7	6.0	6.2	6.2	6.2
Gov't. purchases of goods & services	220.6	233.1	221.3	223.2	227.4	230.2	235.2	239.5
Federal	99.7	99.0	99.0	97.8	99.0	98.0	99.2	99.6
Defense	76.2	72.7	75.2	73.3	73.5	71.8	72.4	73.1
Other	23.6	26.3	23.8	24.5	25.5	26.2	26.8	26.5
State & local	121.0	134.1	122.4	125.4	128.4	132.2	136.0	139.9
Gross national product in constant (1958) dollars	725.8	741.3	727.5	727.1	734.9	738.0	743.1	749.2
GNP implicit deflator (1958 = 100)	134.7	140.2	135.4	136.8	138.4	139.6	140.8	142.0
Personal income	801.2	848.3	807.1	814.0	830.5	843.0	854.0	865.5
Wages and salaries	540.9	570.6	543.8	548.4	559.8	566.4	573.9	582.3
Disposable income	685.1	728.9	693.0	698.6	715.0	724.8	733.4	742.2
Personal saving	49.6	51.0	52.5	49.6	50.6	52.2	51.4	49.6
Saving rate (per cent)	7.2	7.0	7.6	7.1	7.1	7.2	7.0	6.7
Corporate profits before tax	82.5	85.9	83.5	82.0	84.0	85.0	86.0	88.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	195.5	206.6	194.5	195.0	201.6	204.9	208.0	211.9
Expenditures	206.4	221.0	207.7	209.1	216.8	220.3	222.4	224.4
Surplus or deficit (-)	-10.9	-14.4	-13.2	-14.1	-15.2	-15.4	-14.4	-12.5
High employment surplus or deficit (-)	-1.1	5.8	-3.0	1.8	3.1	5.6	7.0	7.4
Total labor force (millions)	85.9	87.2	86.0	86.4	86.7	87.0	87.4	87.7
Armed forces "	3.2	2.9	3.1	3.1	3.0	2.9	2.9	2.9
Civilian labor force "	82.7	84.3	82.8	83.3	83.7	84.1	84.5	84.8
Unemployment rate (per cent)	5.0	6.4	5.2	5.7	6.0	6.3	6.6	6.7
Nonfarm payroll employment (millions)	70.6	70.8	70.5	70.2	70.6	70.7	70.8	71.0
Manufacturing	19.5	19.1	19.3	18.9	19.2	19.1	19.1	19.1
Industrial production (1957-59=100)	167.9	168.8	168.0	163.5	167.0	167.7	169.0	171.5
Capacity utilization, manufacturing (per cent)	76.8	73.3	76.2	73.2	73.9	73.2	72.9	73.1
Housing starts, private (millions A.R.)	1.40	1.77	1.51	1.55	1.65	1.75	1.82	1.85
Sales new domestic autos (millions, A.R.)	7.57	8.79	7.99	6.98	9.10	8.80	8.50	8.75

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1970	1971	1970		1971			
	Proj.	Proj.	III	IV	Projection			
					I	II	III	IV
-----Billions of dollars-----								
Gross National Product	46.2	61.8	14.1	9.3	22.5	13.5	16.0	17.0
Inventory change	-6.3	1.7	0.9	-4.0	2.0	2.0	0.5	0.5
Final purchases	52.5	60.1	13.1	13.3	20.5	11.5	15.5	16.5
Private	44.1	47.6	10.2	11.4	16.3	8.7	10.5	12.2
Excluding net exports	41.5	46.0	9.6	10.4	16.0	8.5	10.5	12.2
Net exports	2.6	1.7	0.6	1.0	0.3	0.2	0.0	0.0
Government	8.4	12.5	2.9	1.9	4.2	2.8	5.0	4.3
GNP in constant (1958) dollars	-1.3	15.5	2.6	-0.4	7.8	3.1	5.1	6.1
Final purchases	4.1	13.8	2.4	3.0	5.9	1.2	4.6	5.7
Private	9.5	15.1	2.4	3.5	6.8	1.5	3.0	4.7
-----In per cent per year-----								
Gross National Product	5.0	6.3	5.8	3.8	9.0	5.3	6.2	6.5
Final purchases	5.7	6.2	5.4	5.4	8.2	4.5	6.0	6.3
Private	6.2	6.3	5.4	6.0	8.5	4.4	5.3	6.0
Personal consumption expenditures	6.9	6.6	5.2	5.1	9.5	4.9	5.5	6.2
Durable goods	0.7	5.3	-2.2	-6.1	26.7	-4.2	-2.1	6.3
Nondurable goods	7.5	5.7	4.4	6.3	5.9	5.0	6.2	5.1
Services	8.8	8.0	8.5	8.0	7.4	8.0	7.4	7.3
Gross private domestic investment	-3.5	5.1	7.4	-4.7	8.9	7.5	5.7	6.7
Residential construction	-7.2	22.9	9.9	39.9	27.5	18.7	16.8	15.0
Business fixed investment	3.8	-1.6	3.5	-1.9	-4.6	-3.9	0.0	2.0
Gov't. purchases of goods & services	4.0	5.7	5.3	3.4	7.5	4.9	8.7	7.3
Federal	-1.6	-0.7	-2.8	-4.8	4.9	-4.0	4.9	1.6
Defense	-3.3	-4.6	-8.3	-10.1	1.1	-9.2	3.3	3.9
Other	4.4	11.4	15.7	11.8	16.3	11.0	9.2	-4.5
State & local	9.2	10.8	12.5	9.8	9.6	11.8	11.5	11.5
GNP in constant (1958) dollars	-0.2	2.1	1.4	-0.2	4.3	1.7	2.8	3.3
Final purchases	0.6	1.9	1.3	1.7	3.2	0.7	2.5	3.1
Private	1.7	2.6	1.7	2.4	4.6	1.0	2.0	3.1
GNP implicit deflator	5.1	4.1	4.4	4.0	4.7 ^{1/}	3.6	3.4	3.2
Personal income	7.0	5.9	2.9	3.4	8.1	6.0	5.2	5.4
Wages and salaries	6.3	5.5	3.2	3.4	8.3	4.7	5.3	5.9
Disposable income	8.5	6.4	5.5	3.2	9.4	5.5	4.7	4.8
Corporate profits before tax	-9.5	7.5	7.3	-7.2	9.8	4.8	4.7	11.6
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	-2.5	5.7	-4.5	1.0	13.5	6.5	6.0	7.5
Expenditures	7.9	7.1	-6.1	2.7	14.7	6.5	3.8	3.6
Nonfarm payroll employment	0.4	0.3	-1.9	-1.7	2.3	0.6	0.6	1.1
Manufacturing	-3.5	-2.1	-5.9	-8.3	6.3	-2.1	0.0	0.0
Industrial production	-3.1	0.5	-3.1	-10.8	8.6	1.7	3.1	5.9
Housing starts, private	-4.6	26.4	68.4	12.5	25.0	24.2	17.1	5.5
Sales new domestic autos	-10.6	13.5	2.0	-50.5	121.6	-13.2	-13.6	11.8

^{1/} Excluding effects of Federal pay increase, 3.8 per cent per year.

the fourth quarter 1970 annual rate shown in the August Commerce-SEC survey. The McGraw-Hill respondents also indicated that they expect price increases of about 7 per cent for their purchases of fixed capital, which implies a decline in real spending in 1971.

While the plans indicated in this survey are, in large part, still subject to final approval by boards of directors, it should be noted that in the past 15 years the McGraw-Hill fall survey has consistently indicated correctly the direction of change. The surveys, however, have overstated the actual year-to-year changes in about two-thirds of these years.

ANTICIPATED PLANT AND EQUIPMENT SPENDING, 1971
(McGraw-Hill Fall Survey)

	Per cent change from prior year		
	1969 Actual	1970 ^{1/}	1971
All business	11.5	6.6	2
Manufacturing	11.7	1.2	-2
Durable	13.0	- .5	-3
Nondurable	10.3	2.3	-1
Nonmanufacturing	11.4	10.5	5
Utilities	13.9	16.5	8
Communications	21.6	22.4	15
Commercial	6.0	4.5	3

^{1/} Planned according to the August 1970 Commerce-SEC survey.

week of November. Another factor that might contribute to some bond market buoyance is the possibility of some slight improvement during the fourth quarter in the availability of funds for takedowns of securities placed privately.

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

	Bonds		Stocks	Total
	Public Offerings	Private Placements		
1969 - entire year	1,061	468	700	2,229
1970 - entire year	2,013e	423e	692e	3,129e
1970 - QI	1,525	420	712	2,659
QII	2,331 ^{1/}	427	730	3,489 ^{1/}
QIII	1,994e	379e	560e	2,933e
QIV	2,200e	467e	767e	3,433e
October	2,400e	400e	1,000e	3,800
November	2,700e	300e	800e	3,800e
December	1,500e	700e	500e	2,700e

e/ Estimated.

^{1/} The second quarter "Public Offerings" and "Total" figures reflect the \$1.569 billion AT&T offering. The monthly averages for the second quarter, excluding AT&T, would be \$1,808 for "Public Bond Offering" and \$2,966 for "Total Offerings."

The forward calendar for new offerings of State and local governments shows signs of a slight easing over the rest of the quarter. However, the backlog of authorized but unsold issues is still high, and new offerings could pick up sharply--especially if yields continue to decline. Trading inventories of tax-exempt securities have risen in recent weeks, probably indicating dealer expectations of further price rises.

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

1969 - entire year	990
1970 - entire year	1,393e
1970 - QI	1,368
QII	1,237
QIII	1,449e
QIV	1,533e
October	1,900e
November	1,700e
December	1,000e

e/ Estimated.

Government securities market. Attention in the U.S. Government securities market over the last four weeks has been primarily focused on the Treasury's November rights financing and the subsequent note auction. Both of these financings were extremely well received, with attrition on the rights exchange amount to only about 11 per cent--or about \$650 million--and with the average issuing rate on the auctioned 6-3/4 per cent 18-month note turning out at 6.21, well below earlier expectations. Yields throughout the Government market, particularly in the bill area, were also pushed sharply lower in recent weeks by heightened expectations of a near-term reduction in the discount rate and/or the commercial bank prime rate. In all, yields on Treasury notes and bonds are generally 15 to 45 basis points lower than at the time of the mid-October meeting, while Treasury bill rates have declined by around 40 to 50 basis points, with the 3-month issue recently at a 24-month low of 5.50 per cent.

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

	Fiscal Year		Calendar Years		Calendar Quarters							
	1970*	1971e/	F.R. Estimates		1970				1971 e/			
			1970	1971	III*	IVe/	I	II	III	IV		
<u>Federal Budget</u>												
(Quarterly data, unadjusted)												
Surplus/deficit	-2.9	-14.8	-12.3	-15.2	-7.8	-9.7	-5.2	7.9	-8.1	-9.8		
Receipts	193.8	196.6	190.6	203.2	46.5	41.0	48.0	61.1	49.4	44.7		
Outlays	196.8	211.4	202.8	218.4	54.3	50.7	53.2	53.2	57.5	54.5		
Means of financing:												
Net borrowing from the public ^{1/}	3.8	13.0	10.6	14.5	7.4	7.6	4.3	-6.3	8.3	8.2		
Decrease in cash operating balance	-2.1	1.1	-.4	--	-.8	3.1	-1.1	-.1	-1.5	2.7		
Other ^{2/}	1.2	.7	2.2	.7	1.2	-1.0	2.0	-1.5	1.3	-1.1		
Cash operating balance, end of period	8.0	6.9	5.7	5.7	8.8	5.7	6.8	6.9	8.4	5.7		
<u>National Income Sector</u>												
(Seasonally adjusted annual rate)												
Surplus/deficit	-.4	-14.5	-10.8	-14.4	-13.2	-14.1	-15.2	-15.4	-14.4	-12.5		
Receipts	198.9	199.0	195.5	206.6	194.5	195.0	201.6	204.9	208.0	211.9		
Expenditures	199.3	213.5	206.4	221.0	207.7	209.1	216.8	220.3	222.4	224.4		
High employment surplus deficit ^{3/}	1.0	1.9	-1.1	5.8	-3.0	1.8	3.1	5.6	7.0	7.4		

* Actual

e--projected

n.a.--not available

^{1/} 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.

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

^{3/} Estimated by Federal Reserve Board Staff.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Oct.	Nov.	Dec.	Jan.
<u>Total net borrowing:</u>	2.7	2.0	2.9	.2
Weekly and monthly bills	.5	.8	.7	.4
Tax bills	2.5		--	--
Coupon issues	--	2.0	--	--
As yet unspecified new borrowing	--	--	2.0	--
Other (agency, debt repayments, etc.)	-.3	-.8	.2	-.2
Plus: <u>Other net financial sources</u> ^{a/}	1.2	-.6	-1.6	.9
Plus: <u>Budget surplus or deficit (-)</u>	-6.3	-3.5	.1	.2
Equals: <u>Change in cash balance</u>	-2.4	-2.1	1.4	1.3
Memoranda: Level of cash balance, end of period	6.4	4.3	5.7	7.0
Derivation of budget surplus or deficit:				
Budget receipts	11.5	13.8	15.7	18.0
Budget outlays	17.8	17.3	15.6	17.8
Maturing coupon issues held by public	--	6.0	--	--

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

b/ Actual.

HIGH EMPLOYMENT BUDGET
(Billions of current dollars; seasonally adjusted annual rates)

Calendar Year	Receipts	Expenditures	Surplus or Deficit	GNP Gap	Receipts Gap
1967	<u>150.6</u>	<u>163.7</u>	<u>-13.1</u>	<u>- 6.0</u>	<u>- .6</u>
I	146.2	159.4	-13.2		
II	148.5	161.3	-12.8		
III	152.7	165.0	-12.3		
IV	155.1	169.0	-13.9		
1968	<u>170.6</u>	<u>181.8</u>	<u>-11.2</u>	<u>-19.2</u>	<u>- 4.8</u>
I	158.0	174.5	-16.5		
II	161.6	180.8	-19.2		
III	179.2	184.3	- 5.1		
IV	183.7	187.4	- 3.7		
1969	<u>195.3</u>	<u>191.4</u>	<u>3.9</u>	<u>-12.8</u>	<u>- 5.3</u>
I	190.4	187.7	2.7		
II	194.9	189.4	5.5		
III	195.6	192.5	3.1		
IV	200.1	195.9	4.2		
1970 ^e	<u>204.3</u>	<u>205.4</u>	<u>- 1.1</u>	<u>+24.6</u>	<u>+ 8.2</u>
I	199.8	197.1	2.7		
II	204.0	209.9	- 5.9		
III	203.7	206.7	- 3.0		
IV ^e	209.7	207.9	1.8		
1971 ^e	<u>225.5</u>	<u>219.7</u>	<u>5.8</u>	<u>+57.5</u>	<u>+18.9</u>
I ^e	218.6	215.5	3.1		
II ^e	224.5	218.9	5.6		
III ^e	228.2	221.2	7.0		
IV ^e	230.7	223.3	7.4		

e--projected