

CONFIDENTIAL (FR)

CURRENT CONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

January 7, 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.)

	1968	1969 Proj.	1970 Proj.	1969*			1970*			
				II	III	IV	Projected			
							I	II	III	IV
Gross National Product	865.7	932.5	980.2	924.8	942.8	953.8	961.8	970.8	986.3	1001.8
Final sales	858.4	924.2	975.2	917.9	932.0	944.7	954.4	965.7	982.8	997.8
Private	658.1	709.3	752.0	705.0	715.0	725.2	734.2	745.1	757.8	771.0
Excluding net exports	655.6	707.3	748.4	703.4	712.3	722.8	730.7	741.1	754.3	767.5
Personal consumption expenditures	536.6	575.7	613.9	572.8	579.8	588.3	596.5	607.9	620.1	630.9
Durable goods	83.3	89.9	91.5	90.6	89.8	90.6	89.5	90.7	92.2	93.7
Nondurable goods	230.6	243.5	260.3	242.1	245.1	248.0	252.4	257.6	263.4	267.7
Services	222.8	242.4	262.1	240.1	244.9	249.7	254.6	259.6	264.5	269.5
Gross private domestic investment	126.3	139.9	139.6	137.4	143.3	143.6	141.6	138.3	137.7	140.6
Residential construction	30.2	32.2	27.1	32.7	31.4	31.5	28.7	25.7	25.7	28.1
Business fixed investment	88.8	99.3	107.5	97.8	101.1	103.0	105.5	107.5	108.5	108.5
Change in business inventories	7.3	8.3	5.0	6.9	10.7	9.1	7.4	5.1	3.5	4.0
Nonfarm	7.4	8.0	4.9	6.7	10.3	8.5	7.0	5.0	3.5	4.0
Net exports of goods and services	2.5	2.1	3.6	1.6	2.7	2.4	3.5	4.0	3.5	3.5
Gov't. purchases of goods & services	200.3	214.9	223.1	212.9	217.0	219.5	220.2	220.6	225.0	226.8
Federal	99.5	102.2	100.4	100.6	103.2	103.2	101.4	99.3	101.0	100.0
Defense	78.0	79.4	75.7	78.5	80.3	79.9	77.5	75.0	75.8	74.5
Other	21.5	22.7	24.7	22.1	22.9	23.3	23.9	24.3	25.2	25.5
State & local	100.7	112.7	122.7	112.3	113.8	116.3	118.8	121.3	124.0	126.8
Gross national product in constant (1958) dollars	707.6	728.0	733.5	726.7	730.6	731.4	730.4	730.5	733.8	739.2
GNP implicit deflator (1958=100)	122.3	128.1	133.6	127.3	129.0	130.4	131.7	132.9	134.4	135.5
Personal income	687.9	747.1	795.9	740.5	756.5	766.8	775.5	792.0	801.5	814.5
Wages and salaries	465.0	509.8	541.8	504.3	516.9	524.5	530.0	536.3	545.8	555.2
Disposable income	590.0	629.5	677.3	622.0	639.0	646.9	657.5	672.0	684.8	694.9
Personal saving	38.4	37.8	46.6	33.3	43.1	42.2	44.5	47.4	47.7	46.9
Saving rate (per cent)	6.5	6.0	6.9	5.3	6.7	6.5	6.8	7.1	7.0	6.8
Corporate profits before tax	91.1	93.7	86.9	95.4	92.5	91.5	88.5	86.0	86.0	87.0
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	176.3	201.5	198.9	202.9	201.4	203.0	198.8	199.9	196.8	200.1
Expenditures	181.5	191.8	204.3	189.3	193.6	195.9	197.1	205.0	206.7	208.4
Surplus or deficit (-)	-5.2	9.7	-5.4	13.6	7.9	7.1	1.7	-5.1	-9.9	-8.3
Total labor force (millions)	82.3	84.3	85.5	83.8	84.6	84.9	85.1	85.3	85.6	85.9
Armed forces "	3.5	3.5	3.3	3.5	3.5	3.5	3.4	3.3	3.3	3.2
Civilian labor force "	78.7	80.8	82.2	80.3	81.1	81.4	81.7	82.0	82.3	82.7
Unemployment rate (per cent)	3.6	3.6	4.5	3.5	3.7	3.6	4.0	4.5	4.6	4.8
Nonfarm payroll employment (millions)	67.9	70.2	70.9	70.0	70.4	70.6	70.8	70.8	70.9	71.2
Manufacturing	19.8	20.1	19.9	20.1	20.2	20.1	20.0	19.9	19.8	19.9
Industrial production (1957-59=100)	165.4	172.2	170.1	172.6	174.3	171.6	170.0	169.0	170.0	171.5
Capacity utilization, manufacturing (per cent)	84.5	83.7	78.8	84.5	84.2	81.7	79.9	78.5	78.0	77.7
Housing starts, private (millions A.R.)	1.51	1.49	1.09	1.51	1.43	1.31	1.13	1.00	1.00	1.22
Sales new domestic autos (millions, A.R.)	8.62	8.50	8.12	8.54	8.45	8.13	7.75	8.00	8.25	8.50

\* Assumes Administration's proposals for repeal of investment tax credit and extension of tax surcharge at 10% through 1969 and then at 5% through June 1970.

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1968	1969 Proj.	1970 Proj.	1969*			1970*			
				II	III	IV	Projected			
							I	II	III	IV
-----In Billions of Dollars-----										
Gross National Product	72.2	66.8	47.7	16.1	18.0	11.0	8.0	9.0	15.5	15.5
Inventory change	-0.1	1.0	-3.3	0.3	3.8	-1.6	-1.7	-2.3	-1.6	0.5
Final sales	72.2	65.8	51.0	15.8	14.1	12.7	9.7	11.3	17.1	15.0
Private	52.0	51.2	42.7	12.9	10.0	10.2	9.0	10.9	12.7	13.2
Excluding net exports	54.7	51.7	41.1	12.8	8.9	10.5	7.9	10.4	13.2	13.2
Net exports	-2.7	-0.4	1.5	0.1	1.1	-0.3	1.1	0.5	-0.5	0.0
Government	20.2	14.6	8.2	2.9	4.1	2.5	0.7	0.4	4.4	1.8
GNP in constant (1958) dollars	33.0	20.4	5.5	3.6	3.9	0.8	-1.0	0.1	3.3	5.4
Final sales	33.3	19.7	8.5	3.5	0.6	2.4	0.4	1.8	5.1	5.1
Private	24.9	18.2	11.5	3.9	1.4	2.4	1.5	3.6	4.8	5.4
-----In Per Cent Per Year-----										
Gross National Product	9.1	7.7	5.1	7.1	7.8	4.7	3.4	3.7	6.4	6.3
Final sales	9.2	7.7	5.5	7.0	6.1	5.4	4.1	4.7	7.1	6.1
Private	8.5	7.8	6.0	7.5	5.7	5.7	5.0	5.9	6.8	7.0
Personal consumption expenditures	9.0	7.3	6.6	7.7	4.9	5.9	5.6	7.6	8.0	7.0
Durable goods	14.1	7.9	1.8	10.0	-3.5	3.6	-4.9	5.4	6.6	6.5
Nondurable goods	7.2	5.6	6.9	5.9	5.0	4.7	7.1	8.2	9.0	6.5
Services	9.1	8.8	8.1	8.7	8.0	7.8	7.8	7.9	7.5	7.6
Gross private domestic investment	8.9	10.8	-0.2	6.5	17.2	0.8	-5.6	-9.3	-1.7	8.4
Residential construction	20.8	6.6	-15.8	-7.2	-15.9	1.3	-35.6	-41.8	0.0	37.4
Business fixed investment	6.1	11.8	8.3	10.5	13.5	7.5	9.7	7.6	3.7	0.0
Gov't. purchases of goods & services	11.2	7.3	3.8	5.5	7.7	4.6	1.3	0.7	8.0	3.2
Federal	9.7	2.7	-1.8	-3.9	10.3	0.0	-7.0	-8.3	6.8	-4.0
Defense	7.7	1.8	-4.7	-2.5	9.2	-2.0	-12.0	-12.9	4.3	-6.9
Other	16.8	5.6	8.8	-8.9	14.5	7.0	10.3	6.7	14.8	4.8
State & local	12.8	11.9	8.9	14.0	5.3	8.8	8.6	8.4	8.9	9.0
GNP in constant (1958) dollars	4.9	2.9	0.8	2.0	2.1	0.5	-0.5	0.0	1.8	3.0
Final sales	5.0	2.8	1.2	2.0	0.3	1.3	0.2	1.0	2.8	2.8
Private	4.7	3.3	2.0	2.8	1.0 <sup>1/</sup>	1.6	1.1	2.5	3.3 <sup>2/</sup>	3.7
GNP implicit deflator	4.0	4.7	4.3	5.1	5.6 <sup>1/</sup>	4.2	3.9	3.7	4.6 <sup>2/</sup>	3.3
Personal income	9.3	8.6	6.5	8.9	8.6	5.4	4.5	8.5	4.8	6.5
Wages and salaries	9.8	9.6	6.3	8.9	10.0	5.9	4.2	4.8	7.1	6.9
Disposable income	8.0	6.7	7.6	7.7	10.9	4.9	6.6	8.8	7.6	5.9
Corporate profits before tax	13.4	2.9	-7.3	0.4	-12.2	-4.3	-13.1	-11.3	0.0	4.6
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	16.7	14.3	-1.3	8.5	-3.0	3.2	-8.3	2.2	-6.2	6.7
Expenditures	10.8	5.7	6.5	1.7	9.1	4.8	2.4	16.0	3.3	3.3
Nonfarm payroll employment	3.0	3.4	1.0	2.9	2.3	1.1	1.1	0.0	0.6	1.7
Manufacturing	2.1	1.5	-1.0	0.0	2.0	-2.0	-2.0	-2.0	-2.0	2.0
Industrial production	4.6	4.1	-1.2	5.6	3.9	-6.2	-3.7	-2.4	2.4	3.5
Housing starts, private	16.7	-1.0	-27.1	-48.3	-21.5	-33.8	-56.8	-44.4	0.0	90.0
Sales new domestic autos	14.0	-1.4	-4.5	8.4	-4.2	-15.3	-18.5	12.9	12.5	12.1

\* Assumes Administration's proposals for repeal of investment tax credit and extension of tax surcharge at 10% through 1969 and then at 5% through June 1970.

<sup>1/</sup> Excluding Federal pay increase 4.3 per cent.

<sup>2/</sup> Excluding Federal pay increase 3.5 per cent.

1970 PLANT AND EQUIPMENT EXPENDITURES PLANS  
COMMERCE-SEC NOVEMBER AND DECEMBER SURVEYS  
(Billions of Dollars)

	1968 Act.	1969 Est.	1970 Planned	1969 1st Half Act.	1969 2nd Half Est.	1970 1st Half Planned	1970 2nd Half Planned
-----At Annual Rate-----							
All Business	64.1	71.3	78.1	69.6	72.9	77.6	78.7
Manufacturing	26.4	29.7	31.6	28.8	30.5	31.5	31.6
Durable	13.5	15.3	15.7	15.2	15.5	16.0	15.4
Nondurable	12.9	14.4	15.9	13.6	15.1	15.5	16.2
Nonmanufacturing	37.6	41.6	46.6	40.8	42.4	46.0	47.1
-----Changes in Billions of Dollars-----							
All Business	2.4	7.2	6.9	5.0	3.3	4.7	1.2
Manufacturing	- .3	3.3	1.9	2.0	1.8	1.0	.1
Durable	- .2	1.8	1.4	1.4	.3	.5	-.6
Nondurable	- .1	1.4	1.5	.6	1.5	.5	.7
Nonmanufacturing	2.7	3.9	5.0	3.0	1.6	3.6	1.1
-----Per Cent Changes At Annual Rates-----							
All Business	3.9	11.2	9.7	15.5	9.6	12.3	3.0
Manufacturing	- .9	12.3	6.4	15.0	12.4	6.5	.8
Durable	-1.4	13.5	2.5	20.3	4.2	6.8	-7.4
Nondurable	- .5	11.0	10.5	3.8	21.8	6.0	9.0
Nonmanufacturing	7.6	10.4	12.0	16.0	7.7	17.1	4.3

Labor market. Layoffs of factory workers have risen in recent months, and in November separations exceeded hirings by a significant margin, suggesting a further decline in manufacturing employment in December. In addition, joblessness covered under State unemployment insurance programs continued to rise sharply in December. The number of workers drawing unemployment pay in mid-December was up 16 per cent from a year earlier and equal to its highest level (seasonally adjusted)

Despite two large postponements late in the month, December public bond offerings rose more than previously estimated, to a total of \$1.3 billion, a new December record and a high for 1969. Significantly, the December volume included a larger-than-usual proportion of issues by industrial transportation, and mortgage investment companies. The calendar built up rapidly as several large new filings were made and a number of convertible bonds were issued in spite of the weakness in the stock market that was evident in the first three weeks of December. The heavy volume of public bond offerings combined with a large total for new stock issues and the usual end-of-year increase in private placements brought the total corporate security offerings for December to an estimated \$2.9 billion, which would be the largest monthly volume in three years.

CORPORATE SECURITY OFFERINGS<sup>1/</sup>  
Monthly or Monthly Averages  
(Millions of dollars)

	Bonds				Stocks		Total	
	Public Offerings		Private Placements					
	1968	1969	1968	1969	1968	1969	1968	1969
Year	894	1,051	554	532	382	697	1,830	2,280
QI	821	886	574	513	330	674	1,726	2,073
QII	1,035	1,136	548	526	319	709	1,902	2,371
QIII	869	1,065	454	487	389	588	1,711	2,140
QIV	852	1,117e	641	600e	491	817e	1,984	2,534e
November	939	1,060e	362	500e	466	1,000e	1,767	2,560e
December	607	1,340e	964	800e	483	800e	2,055	2,940e
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	1969	1970	1969	1970	1969	1970	1969	1970
January	930	1,700e	636	500e	460	800e	2,075	3,000e
February	842	1,300e	395	500e	807	700e	2,045	2,500e

<sup>1/</sup> Data are gross proceeds.

e - Estimated.

e/ - Estimated.

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

	Fiscal 1970		Calendar Year <sup>e/</sup>		Calendar quarter					
	Summer Budget	F.R.	1969	1970	1969		1970 <sup>e/</sup>			
	Review	Board <sup>e/</sup>			III*	IV <sup>e/</sup>	I	II	III	IV
<u>Quarterly data, unadjusted</u>										
New budget:										
Surplus/deficit	5.9	.2	5.0		2.5	-6.0	-3.9	12.6		
Receipts	198.8	195.2	195.8		47.9	43.1	44.1	60.1		
Total expenditures and net lending	192.9	195.0	190.9		50.4	49.1	48.0	47.5		
Means of financing:										n.e.
Total borrowing from the public		2.8	-4.5	n.e.	3.2 <sup>1/</sup>	4.7	2.5	-7.6		
Decrease in cash operating balance	n.a.	-2.5	-.6		-.7	1.3	.7	-3.8		
Other <sup>2/</sup>		-.6	--		--	-.1	.7	-1.2		
Cash operating balance, end of period		8.4	5.3*		6.6	5.3*	4.6	8.4		
<u>Seasonally adjusted annual rate</u>										
Federal surplus/deficit										
in national income accounts	5.1	2.9	9.7	-5.4	7.9	7.1	1.7	-5.1	-9.9	-8.3
Receipts	201.2	200.8	201.5	198.9	201.4	203.0	198.8	199.9	196.8	200.1
Expenditures	196.1	197.9	191.8	204.3	193.6	195.9	197.1	205.0	206.7	208.4
High employment budget surplus/deficit <sup>3/</sup>	n.a.	7.0	9.5	3.3	7.9	9.6	7.3	3.3	.1	2.6

\* Actual.

e--Projected. Incorporates provisions of Tax Reform Act of 1969.

n.a.--Not available. n.e.--Not estimated.

p--Preliminary.

<sup>1/</sup> Excludes effect of reclassification of \$1.6 billion of CCC certificates of interest from Budget transactions to borrowing from the public.

<sup>2/</sup> Includes such items as deposit fund accounts and clearing accounts.

<sup>3/</sup> National Income account translation estimated by Federal Reserve staff.

Italy's trade surplus will probably decline significantly-- perhaps by about half--while Japan's already very large surplus will become considerably larger. The Dutch trade deficit, and Canada's trade surplus, will each decline slightly.

**TRADE BALANCES<sup>a/</sup>**  
(seasonally adjusted, in millions of U.S. dollars)

	1969			1970 <sup>c/</sup>		
	1st half	2nd half <sup>b/</sup>	Year <sup>b/</sup>	1st half	2nd half	Year
Germany	1,053	2,200	3,253	1,850	1,350	3,200
United Kingdom	- 399	25	- 374	70	120	190
France	-1,164	-1,415	-2,579	- 400	- 500	- 900
Italy	540	500	1,040	550	150	400
Netherlands	- 447	- 490	- 943	- 450	- 400	- 850
Japan	2,006	1,608	3,614	2,200	2,400	4,600
Canada	388	442	830	300	400	700
Total, excl. U.S.	2,577	2,864	5,441	4,120	3,220	7,340
U.S.	- 100	700	600	1,300	1,000	2,300

<sup>a/</sup> Trade balances are shown on an f.o.b. basis for all countries listed except Germany and the Netherlands, where imports are on a c.i.f. basis.

<sup>b/</sup> Estimate.

<sup>c/</sup> Forecast.

**CURRENT ACCOUNT BALANCES<sup>a/</sup>**  
(seasonally adjusted, in millions of U.S. dollars)

	1969			1970 <sup>c/</sup>		
	1st half	2nd half <sup>b/</sup>	Year <sup>b/</sup>	1st half	2nd half	Year
Germany <sup>d/</sup>	760	845	1,605	400	- 150	250
United Kingdom	218	631	849	600	650	1,250
France	-1,611	-1,865	-3,476	- 700	- 800	-1,500
Italy	1,517	1,450	2,967	1,550	750	2,300
Netherlands	31	39	70	50	80	130
Japan	1,214	828	2,042	1,200	1,500	2,700
Canada	- 345	- 405	- 750	- 550	- 500	-1,050
Total, excl. U.S.	1,784	1,523	3,307	2,550	1,530	4,080
U.S.	650	1,400	2,050	1,900	1,750	3,650

<sup>a/</sup> Includes unilateral transfers.

<sup>b/</sup> Estimate.

<sup>c/</sup> Forecast.

<sup>d/</sup> Includes official transfer payments.

Table I

FISCAL IMPACT OF TAX REFORM ACT OF 1969<sup>1/</sup>  
(NIA basis in billions of dollars)

	Calendar year 1970	1970 Seasonally adjusted annual rates			
		I	II	III	IV
A. Changes from Earlier Staff Projections of Receipts and Expenditures <sup>2/</sup>					
<u>Receipts</u>					
Corporate tax reform	0.7	0.7	0.7	0.7	0.7
Individual tax reform and relief	-1.3	-0.6	-0.6	-2.0	-2.0
Total tax reform and relief	-0.6	0.1	0.1	-1.3	-1.3
<u>Expenditures</u>					
Additional increase in social security benefits <sup>3/</sup>	1.7	0	4.2	1.3	1.3
Total additional effect on budget surplus of Tax Reform Act of 1969	-2.3	+ .1	-4.1	-2.6	-2.6
B. Total Direct Impact of Act Relative to Tax and Benefit Rates In 1969					
<u>Receipts</u>					
Tax reform and relief	-0.6	0.1	0.1	-1.3	-1.3
Surtax reduction and repeal	-9.4	-7.2	-7.2	-11.6	-11.6
Individuals	-6.6	-4.4	-4.4	-8.8	-8.8
Corporate	-2.8	-2.8	-2.8	-2.8	-2.8
Investment Tax Credit repeal	+1.9	+1.9	+1.9	+1.9	+1.9
Total receipts	-8.1	-5.2	-5.2	-11.0	-11.0
<u>Expenditures</u>					
Increase of social security benefit rates	4.0	0	7.2	4.3	4.3
Total effect on budget surplus of Tax Reform Act	-12.1	-5.2	-12.4	-15.3	-15.3

1/ The dollar value of the impacts is calculated on the basis of 1969 income levels.

2/ Previous Greenbooks have anticipated the Act's provisions relating to the surtax and investment tax credit and also allowed for a more modest increase in social security benefit rates.

3/ Reflects retroactive benefits to be paid in April and a 15 per cent rather than 10 per cent benefit increase.