

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

September 9, 1970

CONFIDENTIAL - FR

September 9, 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<br>Proj. | 1970  |       |       |        | 1971      |        |
|--|-------|---------------|-------|-------|-------|--------|-----------|--------|
|  |       |               | I     | II    | III   | IV     | I         | II     |
|  |       |               |       |       |       |        | Projected |        |
| Gross National Product   | 931.4 | 978.9         | 959.5 | 971.1 | 985.0 | 1000.0 | 1017.5    | 1034.6 |
| Final purchases  | 922.9 | 976.3         | 957.9 | 968.1 | 982.0 | 997.0  | 1014.0    | 1030.1 |
| Private  | 710.7 | 756.4         | 738.3 | 749.7 | 762.0 | 775.5  | 788.3     | 800.3  |
| Excluding net exports  | 708.8 | 752.0         | 734.8 | 745.6 | 757.3 | 770.5  | 782.7     | 794.6  |
| Personal consumption expenditures                              | 577.5 | 619.6         | 603.1 | 614.4 | 625.0 | 636.0  | 647.2     | 658.7  |
| Durable goods  | 90.0  | 92.4          | 89.1  | 91.9  | 93.5  | 95.0   | 96.2      | 97.2   |
| Nondurable goods   | 245.8 | 264.7         | 258.8 | 262.6 | 266.5 | 271.0  | 275.5     | 280.5  |
| Services   | 241.6 | 262.5         | 255.2 | 259.9 | 265.0 | 270.0  | 275.5     | 281.0  |
| Gross private domestic investment                              | 139.8 | 135.1         | 133.2 | 134.3 | 135.3 | 137.5  | 139.0     | 140.4  |
| Residential construction                                       | 32.0  | 30.1          | 29.1  | 28.4  | 30.0  | 32.7   | 34.7      | 36.1   |
| Business fixed investment                                      | 99.3  | 102.4         | 102.6 | 102.8 | 102.3 | 101.8  | 100.8     | 99.8   |
| Change in business inventories                                 | 8.5   | 2.7           | 1.6   | 3.1   | 3.0   | 3.0    | 3.5       | 4.5    |
| Nonfarm  | 8.0   | 2.4           | 0.9   | 2.6   | 3.0   | 3.0    | 3.5       | 4.5    |
| Net exports of goods and services                              | 1.9   | 4.3           | 3.5   | 4.1   | 4.7   | 5.0    | 5.6       | 5.7    |
| Gov't. purchases of goods & services                           | 212.2 | 219.9         | 219.6 | 218.4 | 220.0 | 221.5  | 225.7     | 229.8  |
| Federal  | 101.3 | 99.6          | 102.3 | 99.7  | 99.0  | 97.5   | 98.2      | 98.5   |
| Defense  | 78.8  | 76.1          | 79.3  | 76.8  | 75.5  | 73.0   | 72.8      | 72.0   |
| Other  | 22.6  | 23.5          | 23.0  | 22.9  | 23.5  | 24.5   | 25.4      | 26.5   |
| State & local  | 110.8 | 120.3         | 117.4 | 118.7 | 121.0 | 124.0  | 127.5     | 131.3  |
| Gross national product in<br>constant (1958) dollars           | 727.1 | 727.2         | 723.8 | 724.9 | 727.9 | 732.4  | 737.5     | 744.4  |
| GNP implicit deflator (1958 = 100)                             | 128.1 | 134.6         | 132.6 | 134.0 | 135.3 | 136.5  | 138.0     | 139.0  |
| Personal income  | 748.9 | 803.7         | 782.3 | 801.3 | 809.5 | 821.5  | 835.0     | 848.6  |
| Wages and salaries   | 509.0 | 543.0         | 531.9 | 539.5 | 546.5 | 554.0  | 564.5     | 572.8  |
| Disposable income  | 631.6 | 686.4         | 665.3 | 683.6 | 693.5 | 703.3  | 713.5     | 724.5  |
| Personal saving  | 37.6  | 49.0          | 44.8  | 51.5  | 50.7  | 49.0   | 47.7      | 46.9   |
| Saving rate (per cent)   | 6.0   | 7.1           | 6.7   | 7.5   | 7.3   | 7.0    | 6.7       | 6.5    |
| Corporate profits before tax                                   | 91.2  | 82.7          | 82.6  | 82.3  | 82.5  | 83.5   | 82.5      | 84.5   |
| Federal government receipts and<br>expenditures (N.I.A. basis) |       |               |       |       |       |        |           |        |
| Receipts   | 200.6 | 196.2         | 195.9 | 196.6 | 194.7 | 197.4  | 204.7     | 207.9  |
| Expenditures   | 191.3 | 206.9         | 197.7 | 210.9 | 209.0 | 210.0  | 215.0     | 218.0  |
| Surplus or deficit (-)   | 9.3   | -10.7         | -1.7  | -14.3 | -14.3 | -12.6  | -10.3     | -10.1  |
| High employment surplus or deficit (-)                         | 4.5   | -1.6          | 2.9   | -5.4  | -4.3  | 0.3    | 8.0       | 8.1    |
| Total labor force (millions)                                   | 84.2  | 86.0          | 85.8  | 85.7  | 86.0  | 86.4   | 86.8      | 87.3   |
| Armed forces "   | 3.5   | 3.2           | 3.3   | 3.2   | 3.1   | 3.1    | 3.0       | 3.0    |
| Civilian labor force "   | 80.7  | 82.8          | 82.4  | 82.5  | 82.9  | 83.3   | 83.8      | 84.3   |
| Unemployment rate (per cent)                                   | 3.5   | 4.8           | 4.1   | 4.8   | 5.1   | 5.3    | 5.5       | 5.6    |
| Nonfarm payroll employment (millions)                          | 70.3  | 70.9          | 71.1  | 70.9  | 70.7  | 71.0   | 71.3      | 71.8   |
| Manufacturing  | 20.2  | 19.6          | 20.0  | 19.6  | 19.4  | 19.5   | 19.5      | 19.6   |
| Industrial production (1957-59=100)                            | 172.8 | 170.3         | 170.7 | 169.3 | 170.0 | 171.0  | 172.2     | 174.0  |
| Capacity utilization, manufacturing<br>(per cent)              | 83.7  | 78.0          | 79.8  | 77.9  | 77.3  | 76.8   | 76.6      | 76.6   |
| Housing starts, private (millions A.R.)                        | 1.47  | 1.39          | 1.25  | 1.28  | 1.49  | 1.53   | 1.65      | 1.75   |
| Sales new domestic autos (millions,<br>A.R.)                   | 8.46  | 8.08          | 7.35  | 7.95  | 8.50  | 8.50   | 8.65      | 8.75   |

CONFIDENTIAL-FR

September 9, 1970

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

|   |      |               | 1970              |       |      |                 | 1971              |      |
|---|------|---------------|-------------------|-------|------|-----------------|-------------------|------|
|   | 1969 | 1970<br>Proj. | I                 | II    | III  | Projected<br>IV | I                 | II   |
| -----Billions of Dollars-----                               |      |               |                   |       |      |                 |                   |      |
| Gross National Product                                      | 66.4 | 47.5          | 7.8               | 11.6  | 13.9 | 15.0            | 17.5              | 17.1 |
| Inventory change  | 0.9  | -5.8          | -5.6              | 1.5   | -0.1 | 0.0             | 0.5               | 1.0  |
| Final purchases   | 65.5 | 53.4          | 13.4              | 10.2  | 13.9 | 15.0            | 17.0              | 16.1 |
| Private   | 53.5 | 45.7          | 10.1              | 11.4  | 12.3 | 13.5            | 12.8              | 12.0 |
| Excluding net exports                                       | 54.1 | 43.2          | 9.2               | 10.8  | 11.7 | 13.2            | 12.2              | 11.9 |
| Net exports   | -0.6 | 2.4           | 0.9               | 0.6   | 0.6  | 0.3             | 0.6               | 0.1  |
| Government  | 12.0 | 7.7           | 3.3               | -1.2  | 1.6  | 1.5             | 4.2               | 4.1  |
| GNP in constant (1958) dollars                              | 19.9 | 0.1           | -5.4              | 1.1   | 3.0  | 4.5             | 5.1               | 6.9  |
| Final purchases   | 19.6 | 4.8           | -0.5              | -0.5  | 3.2  | 4.5             | 4.7               | 5.9  |
| Private   | 20.1 | 11.8          | 1.1               | 3.3   | 4.5  | 5.7             | 5.3               | 5.1  |
| -----In Per Cent Per Year-----                              |      |               |                   |       |      |                 |                   |      |
| Gross National Product                                      | 7.7  | 5.1           | 3.3               | 4.8   | 5.7  | 6.1             | 7.0               | 6.7  |
| Final purchases   | 7.6  | 5.8           | 5.7               | 4.3   | 5.7  | 6.1             | 6.8               | 6.4  |
| Private   | 8.1  | 6.4           | 5.5               | 6.2   | 6.6  | 7.1             | 6.6               | 6.1  |
| Personal consumption expenditures                           | 7.8  | 7.3           | 7.1               | 7.5   | 6.9  | 7.0             | 7.0               | 7.1  |
| Durable goods   | 7.1  | 2.7           | -7.5              | 12.6  | 7.0  | 6.4             | 5.1               | 4.2  |
| Nondurable goods  | 6.8  | 7.7           | 10.8              | 5.9   | 5.9  | 6.8             | 6.6               | 7.3  |
| Services  | 9.0  | 8.7           | 8.6               | 7.4   | 7.8  | 7.5             | 8.1               | 8.0  |
| Gross private domestic investment                           | 10.5 | -3.4          | -20.0             | 3.3   | 3.0  | 6.5             | 4.4               | 4.0  |
| Residential construction                                    | 5.6  | -5.9          | -17.1             | -9.6  | 22.5 | 36.0            | 24.5              | 16.1 |
| Business fixed investment                                   | 12.0 | 3.1           | 0.0               | 0.8   | -1.9 | -2.0            | -3.9              | -4.0 |
| Gov't. purchases of goods & services                        | 6.0  | 3.6           | 6.1               | -2.2  | 2.9  | 2.7             | 7.6               | 7.3  |
| Federal   | 1.8  | -1.7          | 0.8               | -10.2 | -2.8 | -6.1            | 2.9               | 1.2  |
| Defense   | 1.0  | -3.3          | 2.5               | -12.6 | -6.8 | -13.2           | -1.1              | -4.4 |
| Other   | 5.1  | 4.0           | -5.2              | -1.7  | 10.5 | 17.0            | 14.7              | 17.3 |
| State & local   | 10.0 | 8.6           | 11.2              | 4.4   | 7.8  | 9.9             | 11.3              | 11.9 |
| GNP in constant (1958) dollars                              | 2.8  | 0.0           | -3.0              | 0.6   | 1.7  | 2.5             | 2.8               | 3.7  |
| Final purchases   | 2.8  | 0.7           | -0.4              | -0.3  | 1.8  | 2.5             | 2.6               | 3.2  |
| Private   | 3.6  | 2.1           | 0.8               | 2.3   | 3.1  | 3.9             | 3.6               | 3.4  |
| GNP implicit deflator                                       | 4.7  | 5.1           | 6.4 <sup>1/</sup> | 4.3   | 4.0  | 3.6             | 4.2 <sup>2/</sup> | 3.0  |
| Personal income   | 8.7  | 7.3           | 6.1               | 9.7   | 4.1  | 5.9             | 6.6               | 6.5  |
| Wages and salaries  | 9.5  | 6.7           | 5.0               | 5.7   | 5.2  | 5.5             | 7.6               | 5.9  |
| Disposable income   | 6.8  | 8.7           | 9.0               | 11.0  | 5.8  | 5.7             | 5.8               | 6.2  |
| Corporate profits before tax                                | 2.8  | -9.3          | -26.7             | -1.5  | 1.0  | 4.8             | -4.8              | 9.7  |
| Federal government receipts and expenditures (N.I.A. basis) |      |               |                   |       |      |                 |                   |      |
| Receipts  | 14.4 | -2.2          | -12.1             | 1.4   | -3.9 | 5.5             | 14.8              | 6.3  |
| Expenditures  | 5.3  | 8.2           | 3.7               | 26.7  | -3.6 | 1.9             | 9.5               | 5.6  |
| Nonfarm payroll employment                                  | 3.5  | 0.9           | 1.7               | -1.1  | -1.1 | 1.7             | 1.7               | 2.8  |
| Manufacturing   | 2.0  | -3.0          | -2.0              | -8.0  | -4.1 | 2.1             | 0.0               | 2.1  |
| Industrial production                                       | 4.4  | -1.4          | -2.8              | -3.3  | -1.7 | 2.4             | 2.8               | 4.2  |
| Housing starts, private                                     | -2.7 | -5.3          | -31.0             | 8.9   | 65.6 | 11.5            | 30.5              | 24.2 |
| Sales new domestic autos                                    | -1.9 | -4.6          | -38.1             | 32.3  | 27.8 | 0.0             | 7.1               | 4.6  |

1/ Excluding effects of Federal pay increase, 5.5 per cent per year.2/ Excluding effects of Federal pay increase, 3.3 per cent per year.

PLANNED EXPENDITURES FOR NEW PLANT AND EQUIPMENT, 1970  
(Comparison of successive Commerce-SEC surveys)

|                  | (Billions of dollars) |                |               |                  | Per cent change<br>from 1969 |               |                  |
|------------------|-----------------------|----------------|---------------|------------------|------------------------------|---------------|------------------|
|                  | 1969                  | 1970           |               |                  |                              |               |                  |
|                  | Actual                | Feb.<br>Survey | May<br>Survey | August<br>Survey | Feb.<br>Survey               | May<br>Survey | August<br>Survey |
| Total            | 75.56                 | 82.94          | 81.45         | 80.52            | 9.8                          | 7.8           | 6.6              |
| Manufacturing    | 31.68                 | 34.60          | 32.85         | 32.05            | 9.2                          | 3.7           | 1.2              |
| Durable goods    | 15.96                 | 17.50          | 16.44         | 15.88            | 9.7                          | 3.0           | -.5              |
| Nondurable goods | 15.72                 | 17.10          | 16.42         | 16.16            | 8.8                          | 4.5           | 2.8              |
| Nonmanufacturing | 43.88                 | 48.34          | 48.60         | 48.47            | 10.2                         | 10.8          | 10.5             |

Actual spending in the second quarter rose \$2.0 billion, only \$0.4 billion less than expected at the time of the May survey. For the remainder of 1970 businessmen now anticipate an increase of \$0.8 billion in the third quarter instead of their earlier anticipated \$2.6 billion gain. But, they now expect a rise of \$1.2 billion in the fourth quarter rather than the slight decline anticipated in the May survey. Past experience suggests, however, that additional shortfalls of actual spending from planned outlays are likely to occur.

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                   | 80.22 | 81.05 | 82.24 |
| Manufacturing    | 29.99                | 31.16 | 33.05 | 32.39 | 32.44                   | 34.43 | 31.21 | 32.15 |
| Durable          | 15.47                | 15.98 | 16.53 | 15.88 | 16.40                   | 16.32 | 15.38 | 15.53 |
| Nondurable       | 14.52                | 15.18 | 16.52 | 16.50 | 16.05                   | 16.11 | 15.84 | 16.62 |
| Nonmanufacturing | 42.53                | 42.78 | 44.80 | 45.46 | 45.78                   | 47.79 | 49.84 | 50.09 |

Hourly earnings. Despite large wage increases negotiated in recent collective bargaining settlements and deferred increases provided in earlier collective bargaining agreements, advances in average hourly earnings of production and nonsupervisory workers on private payrolls have been somewhat smaller this year than last year. Moderation has occurred in trade, finance, services and manufacturing. The slowing in manufacturing is primarily attributable to much less overtime and to lower employment in high-wage industries. Hourly earnings increases have been larger than last year in construction, and more recently in trucking, reflecting the effect of large wage settlements in those industries.

AVERAGE HOURLY EARNINGS OF PRODUCTION  
AND NONSUPERVISORY WORKERS  
(Per cent change from a year earlier)

|  | 1968 | 1969 | 1970 |     |       |
|--|------|------|------|-----|-------|
|  |      |      | QI   | QII | QIII* |
| Total private                          | 6.3  | 6.7  | 6.4  | 6.0 | 5.9   |
| Manufacturing                          | 6.4  | 6.0  | 5.8  | 5.7 | 5.3   |
| Durables                               | 6.3  | 6.3  | 5.4  | 6.0 | 5.6   |
| Nondurables                            | 6.6  | 6.2  | 6.3  | 5.9 | 5.8   |
| Mining                                 | 5.0  | 7.5  | 6.8  | 6.4 | 6.7   |
| Contract construction                  | 7.3  | 8.4  | 10.0 | 8.7 | 9.4   |
| Transportation and<br>public utilities | 5.6  | 6.1  | 5.4  | 5.3 | 6.0   |
| Trade                                  | 7.1  | 6.7  | 6.8  | 6.3 | 5.9   |
| Finance                                | 6.6  | 6.2  | 5.2  | 4.8 | 4.8   |
| Services                               | 6.1  | 8.2  | 8.6  | 7.7 | 7.2   |

\* July-August average.

Industrial relations. Contract negotiations between the auto industry and 650,000 members of the United Auto Workers are now approaching the September 14th expiration date of the present contract.

Public issues of corporate bonds remain large, with \$2.1 billion now expected by the staff in September and about \$1.9 billion in October, suggesting no near-term let-up in the pace of offerings. Underwriters confirm the continued large volume of prospective issues by utilities, large manufacturing corporations, and firms that had postponed or cancelled issues earlier in the year. Private placements of bonds and offerings of equities are expected to be maintained at a pace about equal to the average of the first three quarters. Stock offerings, however, are expected to increase in September, with a number of large utility and several mortgage trust offerings scheduled for that month.

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-through October | 1,914e <sub>1</sub> / | 426e               | 652e   | 2,992e <sub>1</sub> / |
| 1970 - Q I           | 1,525                 | 420                | 712    | 2,659                 |
| Q II                 | 2,329e <sub>1</sub> / | 437e               | 658e   | 3,424e <sub>1</sub> / |
| Q III                | 1,892e                | 433e               | 600e   | 2,925e                |
| August               | 1,750e                | 400e               | 450e   | 2,600e                |
| September            | 2,100e                | 500e               | 700e   | 3,300e                |
| October              | 1,900e                | 400e               | 600e   | 2,900e                |

e/ Estimated.

1/ The second quarter "Public Offerings" and "Total" figures included the \$1,569 billion AT&T offering. The monthly average for "Public Bond Offerings" excluding AT&T would be \$1,757(e) for the year through October and \$1,806(e) for the second quarter. The ex-AT&T monthly averages for "Total Offerings" would be \$2,835(e) for the year through October and \$2,901 for the second quarter.

Sales of long-term bonds by State and local governments in August were about \$1.3 billion, the same as in July. But with the continued improvement in market conditions, the forward calendar is beginning to build, and new offerings are expected to increase significantly in coming months. The most recent Federal Reserve-Census survey of State and local borrowing anticipations, which is reported in Appendix B, tends to confirm this view. Planned borrowing in the second half of 1970 is large but actual borrowing in the third quarter will apparently again be below their anticipations. With rates now more attractive, and banks more actively purchasing tax-exempts, the survey results suggest the possibility of a significant rise in offerings during the final months of the year.

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

---

|                      |        |
|----------------------|--------|
| 1969-entire year     | 90     |
| 1970-through October | 1,380e |
| 1970 - Q I           | 1,368  |
| Q II                 | 1,237  |
| Q III                | 1,390e |
| August               | 1,275e |
| September            | 1,600e |
| October              | 1,800e |

---

e/ Estimated.

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

|  | Fiscal<br>Year 1970* | Calendar<br>Year 1970<br>F.R. Board | Fiscal Year 1971     |                | Calendar Quarters |       |       |       |       |       |
|--|----------------------|-------------------------------------|----------------------|----------------|-------------------|-------|-------|-------|-------|-------|
|  |                      |                                     | Revised<br>Budget 1/ | F. R.<br>Board | 1970              |       |       | 1971  |       |       |
|  |                      |                                     |                      |                | I*                | II*   | IIIe/ | IVe/  | Ie/   | IIe/  |
| <u>Federal Budget</u>                                    |                      |                                     |                      |                |                   |       |       |       |       |       |
| (Quarterly data, unadjusted)                             |                      |                                     |                      |                |                   |       |       |       |       |       |
| Surplus/deficit  | -2.9                 | -10.2                               | -1.3                 | -11.7          | -3.5              | 8.7   | -7.4  | -8.0  | -6.1  | 9.7   |
| Receipts   | 193.3                | 193.5                               | 204.3                | 199.4          | 44.4              | 58.7  | 47.6  | 42.8  | 46.4  | 62.5  |
| Outlays  | 196.8                | 203.6                               | 205.6                | 211.1          | 47.8              | 50.0  | 55.0  | 50.8  | 52.5  | 52.8  |
| Means of financing:                                      |                      |                                     |                      |                |                   |       |       |       |       |       |
| Net borrowing from the public <sup>2/</sup>              | 3.8                  | 10.0                                |                      | 11.0           | 2.0               | -6.4  | 6.9   | 7.5   | 4.2   | -7.6  |
| Decrease in cash operating balance                       | -2.1                 | -1.1                                |                      | 1.0            | -1.6              | -1.1  | .4    | 1.2   | .4    | -1.0  |
| Other <sup>3/</sup>                                      | 1.2                  | 1.4                                 | n.a.                 | -.2            | 3.1               | -1.1  | .1    | -.7   | 1.5   | -1.1  |
| Cash operating balance, end of period                    | 8.0                  | 6.4                                 |                      | 7.0            | 6.9               | 8.0   | 7.6   | 6.4   | 6.0   | 7.0   |
| <u>National Income Sector</u>                            |                      |                                     |                      |                |                   |       |       |       |       |       |
| (Seasonally adjusted annual rate)                        |                      |                                     |                      |                |                   |       |       |       |       |       |
| Surplus/deficit  | -.4                  | -10.7                               | n.a.                 | -11.8          | -1.7              | -14.3 | -14.3 | -12.6 | -10.3 | -10.1 |
| Receipts   | 198.3                | 196.2                               | n.a.                 | 201.2          | 195.9             | 196.6 | 194.7 | 197.4 | 204.7 | 207.9 |
| Expenditures   | 199.3                | 206.9                               | 208.3                | 213.0          | 197.7             | 210.9 | 209.0 | 210.0 | 215.0 | 218.0 |
| High employment budget surplus/<br>deficit <sup>4/</sup> | 1.2                  | -1.6                                | n.a.                 | 3.0            | 2.9               | -5.4  | -4.3  | .3    | 8.0   | 8.1   |

\* Actual

e--projected

n.a.--not available

<sup>1/</sup> Official Budget Revision: May 19, 1970

<sup>2/</sup> 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.

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

<sup>4/</sup> Estimated by Federal Reserve Board Staff. Since the last Greenbook, the high employment figures have been revised to include the effect on the GNP price deflator of the assumed Federal pay raise beginning in the first quarter of 1971.



PROJECTION OF TREASURY CASH OUTLOOK  
(In billions of dollars)

|  | Aug.              | Sept. | Oct. | Nov. | Dec. |
|--|-------------------|-------|------|------|------|
| <u>Total net borrowing:</u>                            | 2.8               | -1.9  | 2.8  | 2.4  | 2.3  |
| Weekly and monthly bills                               | .4                | .6    | .5   | .8   | .7   |
| Tax bills  | --                | --    | --   | --   | --   |
| Coupon issues  | 3.1               | --    | --   | --   | --   |
| As yet unspecified new borrowing                       | --                | --    | 2.3  | 2.6  | 1.5  |
| Other (agency, debt repayment, etc.)                   | -.7               | -2.5  | --   | -1.0 | .1   |
| Plus: <u>Other net financial sources</u> <sup>a/</sup> | -.2               | .2    | .6   | -.6  | -.7  |
| Plus: <u>Budget surplus or deficit</u> (-)             | -2.7              | 2.0   | -6.0 | -2.4 | .4   |
| Equals: <u>Change in cash balance</u>                  | -.1 <sup>b/</sup> | .3    | -2.6 | -.6  | 2.0  |
| Memoranda: Level of cash balance, end of period        | 7.3 <sup>b/</sup> | 7.6   | 5.0  | 4.4  | 6.4  |
| Derivation of budget surplus or deficit:               |                   |       |      |      |      |
| Budget receipts  | 15.4              | 19.6  | 11.9 | 14.4 | 16.5 |
| Budget outlays   | 18.1              | 17.6  | 17.9 | 16.8 | 16.1 |
| Maturing coupon issues held by public                  | 5.6               | --    | --   | 6.0  | --   |

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

<sup>b/</sup> Actual.

APPENDIX A: REVISED PROJECTIONS FOR HOUSING STARTS  
AND RESIDENTIAL EXPENDITURES\*

---

Greenbook projections of seasonally adjusted private housing starts and the related series for residential construction expenditures have been revised appreciably upward. The revisions reflect altered projections of inflows of funds to the major lending institutions--in line with the most recent fund flow data--and the evidence, based on the July spurt, that multifamily starts have more momentum than the drop in the second quarter of this year had suggested.

PRIVATE HOUSING STARTS AND  
RESIDENTIAL CONSTRUCTION EXPENDITURES  
(Seasonally adjusted annual rates)

|          | Starts, including<br>farm (thousands<br>of units) |       | Residential construc-<br>tion expenditures<br>(billions of dollars) |      |
|----------|---|-------|---|------|
|          | Old   | New   | Old   | New  |
| 1970-QI  | 1,252   | 1,252 | 29.1  | 29.1 |
| QII      | 1,280   | 1,280 | 28.4  | 28.4 |
| QIIIp    | 1,350   | 1,490 | 29.0  | 30.0 |
| QIVp     | 1,500   | 1,533 | 31.7  | 32.6 |
| 1971-QIp | 1,575   | 1,650 | 34.1  | 34.7 |
| QIIp     | 1,625   | 1,750 | 35.2  | 36.1 |

p - Projected.

Because of the lag between net inflows of funds to mortgage lenders and housing starts, starts for the remainder of this year are essentially established by the level of net inflows and commitments that occurred in the first half of this year. By the same token, of course, the starts pattern for the first half of next year still remains largely to be determined. Assuming the money stock rises at an annual rate of about 5 per cent over the rest of the year, staff projections are that net inflows to thrift institutions will be at an annual rate of 7.5 per cent and at about a 12 per cent annual rate for consumer-type time and savings deposits at commercial banks. This means that even if flows to the life insurance companies fall below the earlier projection, net inflows to the four lending institutions

---

\* Prepared by Bernard Freedman, Economist, Capital Markets Section,  
Division of Research and Statistics.

Comparison with Earlier Period and Recent Developments

The anticipated borrowing for fiscal year 1971 represents a return to a higher pace of long-term financing after the turndown in actual borrowing in fiscal 1970. The long-term borrowing anticipations by State and local units represent an increase over actual fiscal 1970 levels of about \$3.3 billion. This figure may even move higher should credit conditions continue to relax, and postponed issues reenter the market.

Table 6

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

| Quarter | Calendar Year |      |            |            |
|---------|---------------|------|------------|------------|
|         | 1968          | 1969 | 1970       | 1971       |
| I       | 3.7           | 2.8  | 4.1        | 2.9 antic. |
| II      | 3.9           | 3.8  | 3.7        | 3.3 antic. |
| III     | 4.6           | 2.5  | 5.5 antic. | --         |
| IV      | 4.4           | 3.0  | 4.9 antic. | --         |

1/ Investment Bankers Association data through 1970-II, adjusted anticipations thereafter.

However, shortfalls are already apparent for the third calendar quarter of 1970. With two months of this period already complete, staff estimates imply shortfalls from expectation of about \$1.3 billion in the current quarter. These shortfalls can still be attributed mainly to the high cost of borrowing but expectations of further declines in interest rates may also be partly responsible. At the end of September, units planning to borrow this quarter will be surveyed, and reasons for the shortfall will be available by November. But, in any event, if market conditions improve in the October to December quarter, it is likely that continued attempts at reentry by previously postponed issues will lead to a sharp increase in actual long-term financing--as well as anticipated borrowing--over the balance of fiscal 1971.