

CONFIDENTIAL (FR)

CURRENT ECONOMIC and FINANCIAL CONDITIONS

**Prepared for the
Federal Open Market Committee**

By the Staff

**BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM**

June 18, 1969

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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)

	1967	1968	1969 Proj.	1968		1969 Projected			
				III	IV	I	II	III	IV
Gross National Product	789.7	860.6	924.8	871.0	887.4	903.3	918.3	933.3	944.3
Final Sales	783.6	852.9	917.4	863.5	876.8	895.8	911.4	926.3	936.3
Private excluding net exports	600.4	653.7	703.3	660.6	672.8	688.6*	698.6	709.2	716.9
Net exports	4.8	2.0	1.7	3.3	1.0	0.3*	2.7	1.7	2.0
Personal consumption expenditures	492.2	533.8	570.7	541.1	546.8	557.4	566.0	576.0	583.3
Durable goods	72.6	82.5	87.5	85.1	85.1	86.8	87.5	88.2	87.5
Nondurable goods	215.8	230.3	244.1	232.7	233.7	238.1	241.5	246.5	250.3
Services	203.8	221.0	239.1	223.4	228.0	232.5	237.0	241.3	245.5
Gross private domestic investment	114.3	127.7	140.0	127.1	136.6	138.7*	139.5	140.2	141.6
Residential construction	24.6	29.9	31.4	29.5	31.6	32.6*	31.6	30.7	30.6
Business fixed investment	83.6	90.0	101.3	90.1	94.3	98.6*	101.0	102.5	103.0
Change in business inventories	6.1	7.7	7.4	7.5	10.6	7.5*	6.9	7.0	8.0
Nonfarm	5.6	7.3	7.1	7.3	9.7	6.7*	6.5	7.0	8.0
Net exports of goods and services	4.8	2.0	1.7	3.3	1.0	0.3*	2.7	1.7	2.0
Gov't. purchases of goods & services	178.4	197.2	212.4	199.6	203.0	206.9	210.1	215.4	217.4
Federal	90.6	100.0	103.8	101.2	101.7	102.4	102.9	105.4	104.7
Defense	72.4	78.9	81.0	79.6	80.0	80.2	80.2	82.2	81.5
Other	18.2	21.1	22.8	21.5	21.7	22.2	22.7	23.2	23.2
State & local	87.8	97.2	108.6	98.4	101.2	104.5	107.2	110.0	112.7
Gross national product in constant (1958) dollars	673.1	706.7	728.4	712.3	718.4	723.5	727.6	730.3	732.2
GNP implicit deflator (1958=100)	117.3	121.8	127.0	122.3	123.5	124.9	126.2	127.8	129.0
Personal income	628.8	685.8	739.6	694.3	708.2	721.7	734.1	746.6	755.8
Wages and salaries	423.4	463.5	504.0	469.0	479.0	490.8	500.0	509.2	516.0
Disposable income	546.3	589.0	623.4	592.7	602.4	609.2	617.7	630.0	636.5
Personal saving	40.2	40.7	37.5	37.1	40.9	36.9	36.9	39.0	38.0
Saving rate (per cent)	7.4	6.9	6.0	6.3	6.8	6.1	5.9	6.1	5.9
Corporate profits before tax	81.6	92.3	95.3	92.7	95.7	96.5	96.5	95.0	93.0
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	151.2	176.9	199.9	182.1	187.0	197.1	200.6	200.1	201.8
Expenditures	163.6	182.2	193.1	184.9	186.9	189.7	191.7	195.4	195.7
Surplus or deficit (-)	-12.4	-5.4	6.7	-2.8	0.2	7.4	8.9	4.7	6.1
Total labor force (millions)	80.8	82.3	94.0	82.4	82.6	83.7	83.8	84.1	84.3
Armed forces "	3.4	3.5	3.5	3.6	3.5	3.5	3.5	3.5	3.5
Civilian labor force "	77.3	78.7	80.5	78.8	79.1	80.2	80.3	80.6	80.8
Unemployment rate (per cent)	3.8	3.6	3.6	3.6	3.4	3.3	3.5	3.7	3.9
Nonfarm payroll employment (millions)	66.0	68.1	70.4	68.3	69.0	69.9	70.3	70.6	70.7
Manufacturing	19.4	19.7	20.1	19.8	19.9	20.1	20.1	20.1	20.0
Industrial production (1957-59=100)	158.1	164.7	172.6	165.2	167.4	170.2	172.8	173.5	174.0
Capacity utilization, manufacturing (per cent)	85.3	84.5	83.9	84.0	84.2	84.5	84.4	83.8	82.9
Housing starts, private (millions A.R.)	1.29	1.51	1.53	1.55	1.60	1.72	1.51	1.45	1.45
Sales new domestic autos (millions, A.R.)	7.57	8.62	8.49	9.01	8.82	8.37	8.50	8.60	8.50

* Commerce estimates modified to reflect revised and later data.

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

			1969	1968		1969			
	1967	1968	Proj.	III	IV	I	Projected		
							II	III	IV
	-----In Billions of Dollars-----								
Gross National Product	42.1	70.9	64.2	18.1	16.4	15.9	15.0	15.0	11.0
Inventory change	-8.6	1.6	-0.3	-3.2	3.1	-3.1	-0.6	0.1	1.0
Final Sales	50.8	69.3	64.5	21.4	13.3	19.0*	15.6	14.9	10.0
Private excluding net exports	28.8	53.3	49.6	16.2	12.2	15.8	10.0	10.6	7.7
Net exports	-.3	-2.8	-0.3	1.3	-2.3	-0.7*	2.4	-1.0	0.3
Government	22.2	18.8	15.2	3.9	3.4	3.9	3.2	5.3	2.0
GNP in constant (1958) dollars	16.0	33.6	21.7	8.9	6.1	5.1	4.1	2.7	1.9
Final sales	24.0	32.4	22.2	12.0	3.2	8.6	4.1	2.4	1.0
Private	9.8	23.9	18.1	11.1	2.1	7.4	3.1	2.1	0.9
	-----In Per Cent Per Year-----								
Gross National Product	5.6	9.0	7.5	8.5	7.5	7.2	6.6	6.5	4.7
Final sales	6.9	8.8	7.6	10.2	6.2	8.7	7.0	6.5	4.3
Private	5.0	8.3	7.5	10.8	6.0	9.0	7.2	5.5	4.5
Personal consumption expenditures	5.7	8.5	6.9	10.0	4.2	7.8	6.2	7.1	5.1
Durable goods	3.0	13.6	6.1	20.2	0.0	8.0	3.2	3.2	-3.2
Nondurable goods	4.4	6.7	6.0	7.9	1.7	7.5	5.7	8.3	6.2
Services	8.2	8.4	8.2	8.6	8.2	7.9	7.7	7.3	7.0
Gross private domestic investment	-5.4	11.7	9.6	-0.6	29.9	6.1*	2.3	2.0	4.0
Residential construction	-0.8	21.5	5.0	0.0	28.5	12.7*	-12.3	-11.4	-1.3
Business fixed investment	2.8	7.7	12.6	14.3	18.6	18.2*	9.7	5.9	1.9
Gov't. purchases of goods & services	14.2	10.5	7.7	8.0	6.8	7.7	6.2	10.1	3.7
Federal	17.1	10.4	3.9	4.8	2.0	2.8	2.0	9.7	-2.7
Defense	19.5	9.0	2.7	3.0	2.0	1.0	0.0	10.0	-3.4
Other	8.3	15.9	8.1	9.5	3.7	9.2	9.0	8.8	0.0
State & local	11.4	10.7	11.7	11.7	11.4	13.0	10.3	10.4	9.8
GNP in constant (1958) dollars	2.4	5.0	3.1	5.0	3.4	2.8	2.3	1.5	1.0
Final sales	3.7	4.9	3.2	6.9	1.8	4.9	2.3	1.3	0.6
Private	1.9	4.5	3.3	8.2 ^{1/}	1.5	5.3	2.2	1.5 ^{2/}	0.6
GNP implicit deflator	3.1	3.8	4.3	3.4 ^{1/}	4.1	4.3	4.3	5.0 ^{2/}	3.7
Personal income	7.2	9.1	7.8	9.6	8.0	7.6	6.9	6.8	4.9
Wages and salaries	7.3	9.5	8.7	10.0	8.5	9.9	7.5	7.4	5.3
Disposable income	6.8	7.8	5.8	4.4	6.5	4.5	5.6	8.0	4.1
Corporate profits before tax	-4.7	13.1	3.3	3.9	12.9	3.3	0.0	-6.2	-8.4
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	5.7	17.0	13.0	23.5	10.8	21.6	7.1	-1.0	3.4
Expenditures	14.9	11.4	6.0	6.6	4.3	6.0	4.2	7.7	0.6
Nonfarm payroll employment	3.1	3.2	3.4	2.9	4.1	5.2	2.3	1.7	0.6
Manufacturing	1.0	1.5	2.0	2.0	2.0	4.0	0.0	0.0	-2.0
Industrial production	1.2	4.2	4.8	2.4	5.3	6.7	6.1	1.6	1.2
Housing starts, private	10.9	16.7	1.6	29.7	14.5	28.2	-47.1	-16.9	0.0
Sales new domestic autos	-9.7	14.0	-1.5	27.1	-8.5	-20.4	6.3	4.7	-4.7

^{1/} Excluding Federal pay increase, 2.8 per cent per year.

^{2/} Excluding Federal pay increase, 3.9 per cent per year.

* Based on Commerce estimates modified to reflect revised and later data.

BUSINESS SPENDING FOR NEW PLANT AND EQUIPMENT

	1968 Actual	1969 Planned	<u>Actual</u> Q I	1969		
				<u>Planned</u>		
				Q II	Q III	Q IV
<u>Dollar (Bil.) Change from Preceding Period</u>						
Total	2.42	8.09	3.00	3.10	1.45	0.55
Manufacturing	-0.25	3.55	1.35	2.10	0.45	-0.30
Durable goods	-0.19	2.10	1.10	0.85	0.15	-0.50
Nondurable goods	-0.07	1.45	0.25	1.25	0.30	0.15
Nonmanufacturing	2.67	4.54	1.70	1.00	1.00	0.85

<u>Per Cent Change from Preceding Period</u>						
Total	3.9	12.6	4.6	4.5	2.0	0.7
Manufacturing	- 0.9	13.4	5.0	7.4	1.5	- 1.0
Durable goods	- 1.4	15.5	7.9	5.7	0.9	- 3.1
Nondurable goods	- 0.5	11.2	1.9	9.5	2.1	1.0
Nonmanufacturing	7.6	12.1	4.4	2.5	2.4	2.0
Mining	0.0	11.3	14.8	9.7	- 8.8	0.0
Railroad	-12.4	14.9	17.4	7.4	17.2	0.0
Nonrailroad						
transportation	11.1	12.1	0.0	- 9.4	17.2	0.0
Public utilities	16.8	13.4	8.8	1.9	- 1.1	- 2.3
Communication	7.6	19.5	4.3			
Commercial and				4.8	1.4	5.2
other	2.7	6.9	0.0			

Construction and real estate. Outlays for new construction, changed very little in May and, at a seasonally adjusted annual rate of \$90.9 billion, were below the peak reached last January. With the year-to-year rise in construction costs continuing at about 8 per cent, such outlays in real terms also remained below a year earlier.

NET^{1/} SHORT-TERM STATE & LOCAL NOTE OFFERINGS^{2/}
 Monthly or Monthly Averages
 (Millions of dollars)

	1966	1967	1968	1969
Q I	-59	-10	-50	390
Q II	236	385	40	443e
Monthly				
March	-319	-595	-604	281
April	580	827	3	383e
May	462	515	490	441e
June	-334	-187	-373	505e

e/ Estimated partially by the Federal Reserve.

1/ Gross issues less scheduled retirements.

2/ Estimated from Bond Buyer data.

These large offerings of short-term tax-exempts have pressed against a market made tighter by commercial bank liquidation of such obligations, by competition from increased commercial paper issues, and by the reduced liquidity of corporations, who are important buyers of municipal notes. Consequently, the best quality 6-month tax-exempt notes have risen over 100 basis points since early May, as shown in the earlier table on security yields, and almost 200 basis points since the beginning of 1969; these increases are roughly twice those in the long-term bond market. Dealers report very few postponements at these higher yields, but the level of yields has made it impossible to sell outstanding notes in the secondary market except with large capital losses.

In the corporate bond market, new offering yields have increased about 70 basis points since mid-May. With the market under increasing pressure in late May, dealers found it necessary to terminate syndicates on several large issues with resultant upward yield adjustments of 22 to 30 basis points. However, after the prime rate increase on June 9, investor interest in high yielding new issues--e.g., 7.90 to 8 per cent for Aa public utilities--produced rapid sell-outs, with institutional interest reported strong.

CORPORATE SECURITY OFFERINGS^{1/}
Monthly or Monthly Averages
(Millions of dollars)

	Bonds				Stocks		Total	
	Public Offerings		Private Placements		1968	1969	1968	1969
	1968	1969	1968	1969				
YEAR	894	--	544	--	382	--	1,830	--
Q I	821	886	574	513	330	674	1,726	2,073
Q II	1,035	1,062e	548	567e	319	633e	1,902	2,262e
May	1,046	900e	521	550e	300	600e	1,867	2,050e
June	1,340	1,100e	685	600e	385	700e	2,410	2,400e
July	1,244	1,100e	528	500e	372	700e	2,144	2,300e

e/ Estimated.

1/ Data are gross proceeds.

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

	FY 1968	Fiscal 1969			Calendar quarter						Calendar
	Actual	Jan.	5-20-69	F.R.	1968		1969			year	
		Budget	Revision	Bd	III	IV	I	II ^e /	III ^e /	IV ^e /	1969 ^e /
<u>Quarterly data, unadjusted</u>											
New budget:											
Surplus/deficit	-25.2	2.4	.9	1.8	- 3.2	- 7.1	- 2.0	14.1	1.7	- 4.7	9.1
Receipts	153.7	186.1	186.5	187.9	43.6	39.3	44.1	60.9	48.4	43.3	196.7
Total expenditures and net lending	178.9	183.7	185.6	186.2	46.9	46.3	46.1	46.8	46.7	48.0	187.6
Means of financing:											
Total borrowing from the public	23.1	- 3.1	n.a.	- .7	7.7	3.4	.2	-11.9	4.1	{	n.e.
Decrease in cash operating balance	.4	{	n.a.	- 1.1	- 3.3	3.9	- .1	- 1.6	- 5.0		
Other <u>1</u> /	1.7			0.0	- 1.1	- .2	1.9	- .6	- .9		
Cash operating balance, end of period	5.3	{	n.a.	6.4	8.6	4.7	4.8	6.4	11.4	{	
<u>Seasonally adjusted annual rate</u>											
Federal surplus/deficit											
in national income accounts	-11.3	2.7	1.7	3.4	- 2.8	.2	7.4	8.9	4.7	6.1	6.7
Receipts	161.1	190.0	190.0	191.7	182.1	187.1	197.1	200.6	200.1	201.8	199.9
Expenditures	172.4	187.3	188.3	188.3	184.9	186.9	189.7	191.7	195.4	195.7	193.1

e--Projected. Assumes extension of surcharge at 10 per cent through end of calendar year 1969.

¹/ Includes various accrual items, such as deposit fund accounts and clearing accounts.

n.e. - Not estimated.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	May ^{a/}	June	July	Aug.	Sept.
<u>Borrowing operations</u>					
New cash raised:					
Weekly and monthly bills	--	--	--	--	--
Tax bills	--	--	2.5	2.0	--
Coupon issues	--	--	--	--	--
Other (agency, debt repayment, etc.)	-1.1	-8.3	- .2	--	- .2
Total net borrowing from public	-1.1	-8.3	2.3	2.0	- .2
Plus: Other net financial sources ^{b/}	.7	.4	- .9	-1.0	1.0
Plus: <u>Budget surplus or deficit</u> (-)	-2.1	8.6	-2.1	-1.1	5.0
Equals: <u>Change in cash balance</u>	-2.5	.7	- .7	- .1	5.8
Memorandum: Level of cash balance end of period	5.7	6.4	5.7	5.6	11.4

a/ Actual and estimated data.

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