

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

October 14, 1970

CHANGES IN GNP AND RELATED ITEMS, 1970, 1971  
(Seasonally-adjusted, annual rates)

	Third Quarter		Fourth Quarter	
	Projection of 9/9/70	Commerce Preliminary Estimate	Projection of 9/9/70	Current Projection
----- Billions of dollars -----				
GNP	13.9	14.1	15.0	12.5
Final sales	13.9	13.1	15.0	14.0
Personal consumption	10.6	8.0	11.0	9.9
Residential construction	1.6	.7	2.7	2.6
Business fixed investment	- .5	.9	- .5	- .5
Net exports	.6	.6	.3	.3
Federal purchases	- .7	- .7	- 1.5	-1.3
State and local purchases	2.3	3.7	3.0	2.9
Inventory change	- .1	.9	0.0	-1.5
----- Per Cent -----				
Real GNP	1.7	1.4	2.5	1.5
GNP deflator	4.0	4.4	3.6	3.6

The continued cautious spending attitudes of consumers along with the assumption that supplies of G. M. autos will be limited hold GNP growth to \$12.5 billion, annual rate in the fourth quarter as compared with \$15 billion projected previously. Even if GM resumes production at high rates at the beginning of November, all of the strike loss is not likely to be made up by the end of the quarter, and sales of autos and trucks as well as dealer stocks are likely to be lower

than otherwise. The loss of income by workers on strike will also result in some secondary effects on production, employment, and income. We therefore expect that the increase in consumption expenditure will be a little smaller than previously projected.

Inventory investment is expected to be lower than in the third quarter, mainly because of the auto situation. Other major components of GNP change are about the same as projected earlier. The anticipated small decline in business fixed investment appears consistent with the moderately lower level of new orders for machinery and equipment and the downward trend in physical output of business equipment. On balance, we anticipate some lessening of price pressures. And we project real GNP to grow at an annual rate of about 1.5 per cent.

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

	First Quarter		Second Quarter	
	Projection of 9/9/70	Current Projection	Projection of 9/9/70	Current Projection
----- Billions of dollars -----				
GNP	17.5	20.5	17.1	15.0
Final sales	17.0	20.2	16.1	12.1
Personal consumption	11.2	13.5	11.5	9.0 <sup>1</sup>
Residential construction	2.0	2.4	1.4	1.4
Business fixed investment	-1.0	-1.0	-1.0	-1.0
Net exports	.6	.6	.1	.1
Federal purchases	.7	1.2	.3	-1.2
State and local purchases	3.5	3.5	3.8	3.8
Inventory change	.5	.3	1.0	2.9
----- Per Cent -----				
Real GNP	2.8 <sub>1</sub> <sup>1</sup>	3.8 <sub>1</sub> <sup>1</sup>	3.7	2.9
GNP deflator	4.2 <sub>1</sub> <sup>1</sup>	4.3 <sub>1</sub> <sup>1</sup>	3.0	3.0

<sup>1</sup>/ Excluding effects of Federal pay increase, 3.3 per cent per year.

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 Projected	
			I	II	IIIp	IV	I	II
Gross National Product	931.4	978.4	959.5	971.1	985.2	997.7	1018.2	1033.2
Final purchases	922.9	975.6	957.9	968.1	981.2	995.2	1015.4	1027.5
Private	710.7	755.0	738.3	749.7	759.9	772.2	787.7	797.2
Excluding net exports	708.8	750.7	734.8	745.6	755.2	767.2	782.1	791.5
Personal consumption expenditures	577.5	618.1	603.1	614.4	622.4	632.3	645.8	654.8
Durable goods	90.0	91.1	89.1	91.9	91.4	91.8	96.3	95.8
Nondurable goods	245.8	264.2	258.8	262.6	265.5	270.0	274.0	278.0
Services	241.6	262.8	255.2	259.9	265.4	270.5	275.5	281.0
Gross private domestic investment	139.8	135.4	133.2	134.3	136.8	137.4	139.1	142.4
Residential construction	32.0	29.6	29.1	28.4	29.1	31.7	34.1	35.5
Business fixed investment	99.3	103.1	102.6	102.8	103.7	103.2	102.2	101.2
Change in business inventories	8.5	2.8	1.6	3.1	4.0	2.5	2.8	5.7
Nonfarm	8.0	2.3	0.9	2.6	3.5	2.3	2.8	5.7
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	220.6	219.6	218.4	221.3	223.0	227.7	230.3
Federal	101.3	99.7	102.3	99.7	99.0	97.7	98.9	97.7
Defense	78.8	76.2	79.3	76.8	75.2	73.4	73.0	71.1
Other	22.6	23.5	23.0	22.9	23.8	24.3	25.9	26.6
State & local	110.8	121.0	117.4	118.7	122.4	125.3	128.8	132.6
Gross national product in constant (1958) dollars	727.1	726.6	723.8	724.9	727.5	730.1	737.0	742.3
GNP implicit deflator (1958 = 100)	128.1	134.7	132.6	134.0	135.4	136.6	138.2	139.2
Personal income	748.9	802.0	782.3	801.3	807.1	817.3	833.5	846.0
Wages and salaries	509.0	541.1	531.9	539.5	543.8	549.3	561.3	568.8
Disposable income	631.6	685.8	665.3	683.6	693.0	701.1	715.1	725.2
Personal saving	37.6	49.8	44.8	51.5	52.5	50.3	50.5	51.3
Saving rate (per cent)	6.0	7.3	6.7	7.5	7.6	7.2	7.1	7.1
Corporate profits before tax	91.2	83.2	82.6	82.0	83.5	84.8	83.8	85.3
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	200.6	196.1	195.9	196.7	194.6	197.0	203.8	207.1
Expenditures	191.3	206.7	197.7	200.9	207.7	210.5	217.6	221.3
Surplus or deficit (-)	9.3	-10.6	-1.7	-14.2	-13.1	-13.5	-13.8	-14.2
High employment surplus or deficit (-)	4.5	-1.6	2.9	-5.5	-3.0	-0.1	3.9	3.1
Total labor force (millions)	84.2	85.9	85.8	85.7	86.0	86.2	86.5	86.8
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	82.8	83.1	83.5	83.8
Unemployment rate (per cent)	3.5	4.9	4.1	4.8	5.2	5.6	5.8	5.9
Nonfarm payroll employment (millions)	70.3	70.7	71.1	70.9	70.4	70.3	70.5	70.8
Manufacturing	20.2	19.5	20.0	19.6	19.3	19.2	19.3	19.4
Industrial production (1957-59=100)	172.8	168.9	170.7	169.3	168.0	167.6	168.5	170.0
Capacity utilization, manufacturing (per cent)	83.7	77.1	79.8	77.9	76.0	74.5	74.5	74.5
Housing starts, private (millions A.R.)	1.47	1.39	1.25	1.28	1.50	1.53	1.65	1.75
Sales new domestic autos (millions, A.R.)	8.46	7.70	7.35	7.95	8.02	7.48	9.10	8.50

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

		1970	1970				1971	
	1969	Proj.	I	IIp	III	Projected IV	I	II
-----Billions of Dollars-----								
Gross National Product	66.4	47.0	7.8	11.6	14.1	12.5	20.5	15.0
Inventory change	0.9	-5.7	-5.6	1.5	0.9	-1.5	0.3	2.9
Final purchases	65.5	52.7	13.4	10.2	13.1	14.0	20.2	12.1
Private	53.5	44.3	10.1	11.4	10.2	12.3	15.5	9.5
Excluding net exports	54.1	41.9	9.2	10.8	9.6	12.0	14.9	9.4
Net exports	-0.6	2.4	0.9	0.6	0.6	0.3	0.6	0.1
Government	12.0	8.4	3.3	-1.2	2.9	1.7	4.7	2.6
GNP in constant (1958) dollars	19.9	-0.5	-5.4	1.1	2.6	2.6	6.9	5.3
Final purchases	19.6	4.2	-0.5	-0.5	2.4	3.5	6.7	2.4
Private	20.1	9.8	1.1	3.3	2.0	4.6	7.2	2.4
-----In Per Cent Per Year-----								
Gross National Product	7.7	5.1	3.3	4.8	5.8	5.1	8.2	5.9
Final purchases	7.6	5.7	5.7	4.3	5.4	5.7	8.1	4.8
Private	8.1	6.2	5.5	6.2	5.4	6.5	8.0	4.8
Personal consumption expenditures	7.8	7.0	7.1	7.5	5.2	6.4	8.5	5.6
Durable goods	7.1	1.2	-7.5	12.6	-2.2	1.8	19.6	-2.1
Nondurable goods	6.8	7.5	10.8	5.9	4.4	6.8	5.9	5.8
Services	9.0	8.8	8.6	7.4	8.5	7.7	7.4	4.4
Gross private domestic investment	10.5	-3.2	-20.0	3.3	7.4	1.8	5.0	9.5
Residential construction	5.6	-7.5	-17.1	-9.6	9.9	35.7	30.3	16.4
Business fixed investment	12.0	3.8	0.0	0.8	3.5	-1.9	-3.9	-3.9
Gov't. purchases of goods & services	6.0	4.0	6.1	-2.2	5.3	3.1	8.4	4.6
Federal	1.8	-1.6	0.8	-10.2	-2.8	-5.3	4.9	-4.9
Defense	1.0	-3.3	2.5	-12.6	-8.3	-9.6	-2.2	-10.4
Other	5.1	4.0	-5.2	-1.7	15.7	8.4	26.3	10.8
State & local	10.0	9.2	11.2	4.4	12.5	9.5	11.2	11.8
GNP in constant (1958) dollars	2.8	-0.1	-3.0	0.6	1.4	1.5	3.8	2.9
Final purchases	2.8	0.6	-0.4	-0.3	1.3	2.0	3.7	1.3
Private	3.6	1.7	0.8	2.3	1.4	3.2	4.9	1.7
GNP implicit deflator	4.7	5.1	6.4	<sup>1/</sup> 4.3	4.4	3.6	4.3	3.0
Personal income	8.7	7.1	6.1	9.7	2.9	5.1	7.9	6.0
Wages and salaries	9.5	6.3	5.0	5.7	3.2	4.0	8.7	5.3
Disposable income	6.8	8.6	9.0	11.0	5.5	4.7	8.0	5.7
Corporate profits before tax	2.8	-8.8	-26.7	-2.9	7.3	6.2	-4.7	7.2
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.4	-2.2	-12.1	1.6	-4.3	4.9	13.8	6.5
Expenditures	5.3	8.1	3.7	26.7	-6.1	5.4	13.5	6.8
Nonfarm payroll employment	3.5	0.6	1.7	-1.1	-2.8	-0.6	1.1	1.7
Manufacturing	2.0	-3.5	-2.0	-8.0	-6.1	-2.1	2.1	2.1
Industrial production	4.4	-2.3	-2.8	-3.3	-3.1	-1.0	2.1	3.6
Housing starts, private	-2.7	-5.0	-31.0	10.9	66.9	8.5	30.5	24.2
Sales new domestic autos	-1.9	-9.0	-38.1	32.3	4.1	-27.3	86.6	-26.4

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

utility offerings. Indeed, utility use of the equity market has been a significant factor in stock sales for several months. Sales of stock by nonutility companies also increased recently as the equity market improved. In summary, the staff estimates that total corporate security offerings in October and November will be well above the expected yearly average of \$3 billion, with a seasonal decline in December when the market virtually shuts down in the last two weeks of the year.

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	1,993e	428e	699e	3,120e
1970 - QI	1,525	420	712	2,659
QII	2,331 <sup>1/</sup>	427	730	3,489 <sup>1/</sup>
QIII	1,991e	433e	583e	3,025e
QIV	2,133e	433e	766e	3,333e
September	2,400e	500e	700e	3,600e
October	2,600e	400e	1,000e	4,000e
November	2,300e	400e	800e	3,500e
December	1,500e	500e	500e	2,500e

e/ Estimated.

<sup>1/</sup> The second quarter "Public Offerings" and "Total" figures include the \$1.569 billion AT&T offering. The monthly averages for the second quarter, excluding AT&T, would be \$1,308 for "Public Bond Offering" and \$2,966 for "Total Offerings."

These staff projections for the fourth quarter imply a level of total security offerings exceeded only by that of the second quarter, which had been swollen by the massive AT&T issue. Apparently, corporations

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

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1969 - entire year	990
1970 - entire year	1,389e
1970 - QI	1,368
QII	1,237
QIII	1,449e
QIV	1,500e
September	1,700e
October	1,800e
November	1,700e
December	1,000e

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e/ Estimated.

If fourth quarter tax-exempt volume is maintained at levels expected by the staff, gross municipal long-term debt offerings will be about \$16.7 billion for the year 1970, an increase of about 40 per cent over the previous year, but only marginally higher than the previous record 1968 total.

Government securities market. Yields on Government securities are generally 20 to 30 basis points below their levels at the time of the last Committee meeting. However current rate levels are somewhat above their lowest levels reached immediately following the meeting when the market rallied sharply on expectations of a discount rate cut. More recently as day-to-day money costs have risen from the very low levels prevailing just after the meeting, these expectations have lessened and market rates have tended to increase from their lows, particularly in shorter maturities.

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

	Fiscal Year 1970*	Calendar	Fiscal Year 1971	Calendar Quarters							
		Year 1970	Revised	F.R.	1970			1971			
		F.R. Board	Budget 1/	Board	I*	II*	IIIe/	IVe/	Ie/	IIe/	
<u>Federal Budget</u>											
(Quarterly data, unadjusted)											
Surplus/deficit	-2.9	-9.1	-1.3	-13.2	-3.5	8.7	-6.6	-7.7	-6.2	7.3	
Receipts	193.8	192.5	204.3	197.4	44.4	58.7	47.0	42.4	47.0	61.1	
Outlays	196.8	201.5	205.6	210.6	47.8	50.0	53.6	50.1	53.2	53.8	
Means of financing:											
Net borrowing from the public <sup>2/</sup>	3.8	10.0		11.1	2.0	-6.4	7.4	7.0	3.3	-6.6	
Decrease in cash operating balance	-2.1	-1.2		2.4	-1.6	-1.1	-.8	2.3	.1	.8	
Other <sup>3/</sup>	1.2	.4	n.a.	-.3	3.1	-1.1	--	-1.6	2.8	-1.5	
Cash operating balance, end of period	8.0	6.5		5.6	6.9	8.0	8.8	6.5	6.4	5.6	
<u>National Income Sector</u>											
(Seasonally adjusted annual rate)											
Surplus/deficit	-.4	-10.6	.1	-13.7	-1.7	-14.2	-13.1	-13.5	-13.8	-14.2	
Receipts	198.9	196.1	208.7	200.6	195.9	196.7	194.6	197.0	203.8	207.1	
Expenditures	199.3	206.7	208.6	214.3	197.7	210.9	207.7	210.5	217.6	221.3	
High employment surplus/ deficit <sup>4/</sup>	1.0	-1.4	n.a.	1.0	2.9	-5.5	-3.0	-.1	3.9	3.1	

\* 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.



PROJECTION OF TREASURY CASH OUTLOOK  
(In billions of dollars)

	Sept.	Oct.	Nov.	Dec.
<u>Total net borrowing:</u>	-1.3	3.0	1.2	2.8
Weekly and monthly bills	.6	.5	.8	.7
Tax bills	--	2.5	--	--
Coupon issues	--	--	--	--
As yet unspecified new borrowing	--	--	.5	2.0
Other (agency, debt repayment, etc.)	-1.9	--	-.1	.1
 Plus: <u>Other net financial sources</u> <sup>a/</sup>	.4	.6	-.6	-1.6
Plus: <u>Budget surplus or deficit (-)</u>	2.4	-5.5	-2.7	.5
Equals: <u>Change in cash balance</u>	1.5 <sup>b/</sup>	-1.9	-2.1	1.7
 Memoranda: Level of cash balance, end of period	8.8 <sup>b/</sup>	6.9	4.8	6.5
 Derivation of budget surplus or deficit:				
Budget receipts	19.2	11.9	14.4	16.1
Budget outlays	16.8	17.4	17.1	15.6
 Maturing coupon issues held by public	--	--	6.0	--

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

<sup>b/</sup> Actual.