

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

May 20, 1970

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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.)

	1968	1969	1970 Proj.	1969			1970 Projected			
				II	III	IV	I	II	III	IV
Gross National Product	865.7	932.1	979.6	924.8	942.8	952.2	959.6	970.0	986.5	1002.5
Final purchases	858.4	924.1	978.9	917.9	932.0	944.5	958.9	971.0	985.5	1000.5
Private	658.1	709.5	755.6	705.0	715.0	726.2	737.7	749.7	761.4	773.8
Excluding net exports	655.6	707.4	752.1	703.4	712.3	723.5	734.7	746.7	757.4	769.8
Personal consumption expenditures	536.6	576.0	616.8	572.8	579.8	589.5	600.4	612.7	622.2	631.7
Durable goods	83.3	89.8	90.4	90.6	89.8	90.4	89.4	90.0	90.7	91.5
Nondurable goods	230.6	243.6	262.5	242.1	245.1	248.7	255.4	261.6	264.9	268.0
Services	222.8	242.6	263.9	240.1	244.9	250.3	255.6	261.1	266.6	272.2
Gross private domestic investment	126.3	139.4	136.1	137.4	143.3	141.8	135.0	133.0	136.2	140.1
Residential construction	30.2	32.2	30.1	32.7	31.4	31.6	30.2	29.0	29.2	32.1
Business fixed investment	88.8	99.2	105.3	97.8	101.1	102.5	104.0	105.0	106.0	106.0
Change in business inventories	7.3	8.0	0.7	6.9	10.7	7.7	0.8	-1.0	1.0	2.0
Nonfarm	7.4	7.8	0.6	6.7	10.3	7.4	0.4	-1.0	1.0	2.0
Net exports of goods and services	2.5	2.1	3.5	1.6	2.7	2.7	3.0	3.0	4.0	4.0
Gov't. purchases of goods & services	200.3	214.6	223.3	212.9	217.0	218.3	221.2	221.3	224.1	226.7
Federal	99.5	101.9	99.7	100.6	103.2	102.3	102.3*	99.6	98.9	98.0
Defense	78.0	79.2	75.8	78.5	80.3	79.2	78.9*	76.6	74.7	73.0
Other	21.5	22.7	23.9	22.1	22.9	23.1	23.3*	23.0	24.2	25.0
State & local	100.7	112.7	123.6	112.3	113.8	116.0	118.9	121.7	125.2	128.7
Gross national product in constant (1958) dollars	707.6	727.5	727.6	726.7	730.6	729.8	724.3	723.9	728.6	733.6
GNP implicit deflator (1958 = 100)	122.3	128.1	134.6	127.3	129.0	130.5	132.5	134.0	135.4	136.6
Personal income	687.9	747.2	800.9	740.5	756.5	767.4	778.6	800.8	806.6	817.6
Wages and salaries	465.0	509.9	546.8	504.3	516.9	525.0	532.4	545.0	550.6	559.0
Disposable income	590.0	629.7	680.9	622.0	639.0	647.5	660.4	679.5	687.6	696.0
Personal saving	38.4	37.6	47.4	33.3	43.1	41.7	43.5	50.1	48.6	47.2
Saving rate (per cent)	6.5	6.0	7.0	5.3	6.7	6.4	6.6	7.4	7.1	6.8
Corporate profits before tax	91.1	93.8	84.3	95.4	92.5	91.4	85.1p	82.5	84.0	85.5
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	176.3	201.5	200.4	202.8	201.3	203.3	198.7	200.8*	199.2	202.7
Expenditures	181.5	192.0	205.4	189.3	193.6	196.7	198.4*	210.4*	205.7	206.9
Surplus or deficit (-)	-5.2	9.5	-5.0	13.5	7.7	6.7	0.3*	-9.6*	-6.5	-4.2
High employment surplus or deficit (-)	-10.0	5.3	4.0	7.8	3.9	5.6	5.2	-0.8	3.7	8.0
Total labor force (millions)	82.3	84.2	86.3	83.9	84.6	85.0	85.8	86.1	86.4	86.7
Armed forces "	3.5	3.4	3.2	3.5	3.5	3.5	3.3	3.2	3.2	3.1
Civilian labor force "	78.7	80.7	83.0	80.4	81.0	81.5	82.4	82.9	83.2	83.6
Unemployment rate (per cent)	3.6	3.5	4.8	3.5	3.6	3.6	4.1	4.9	5.1	5.2
Nonfarm payroll employment (millions)	67.9	70.1	71.4	70.0	70.4	70.7	71.1	71.2	71.4	71.8
Manufacturing	19.8	20.1	19.7	20.1	20.2	20.1	19.9	19.7	19.6	19.6
Industrial production (1957-59=100)	165.5	172.8	171.6	172.6	174.3	171.9	170.7	170.5	171.8	173.4
Capacity utilization, manufacturing (per cent)	84.6	83.7	78.6	84.5	84.2	81.7	79.9	78.6	78.2	77.8
Housing starts, private (millions A.R.)	1.51	1.47	1.32	1.52	1.43	1.36	1.25	1.20	1.35	1.50
Sales new domestic autos (millions, A.R.)	8.62	8.46	7.69	8.54	8.45	8.13	7.35	7.60	7.80	8.00

\* Federal purchases of goods and services and GNP, in '70-I, include the retroactive part of the pay increase for Federal military and civil service personnel (\$2.1 billion annual rate). By means of accrual adjustments, however, this retroactive part is excluded from total Federal expenditures and the surplus or deficit in '70-I and included in these in '70-II. The retroactive part of the pay increase for postal employees (\$.4 billion annual rate) is included in Federal government N.I.A. account item, subsidies less current surplus of government enterprises, in '70-I; this also is excluded from total expenditures in '70-I and included therein in '70-II.

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CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1968	1969	1970 Proj.	1969			1970			
				II	III	IV	I	Projected		
				II	III	IV	I	II	III	IV
-----In Billions of Dollars-----										
Gross National Product	72.2	66.4	47.5	16.1	18.0	9.4	7.4	10.4	16.5	16.0
Inventory change	-0.1	0.7	-7.3	0.3	3.8	-3.0	-6.9	-1.8	2.0	1.0
Final purchases	72.2	65.7	54.8	15.8	14.1	12.5	14.4	12.1	14.5	15.0
Private	52.0	51.4	46.1	12.9	10.0	11.2	11.5	12.0	11.7	12.4
Excluding net exports	54.7	51.8	44.7	12.8	8.9	11.2	11.2	12.0	10.7	12.4
Net Exports	-2.7	-0.4	1.4	0.1	1.1	0.0	0.3	0.0	1.0	0.0
Government	20.2	14.3	8.7	2.9	4.1	1.3	2.9	0.1	2.8	2.6
GNP in constant (1958) dollars	33.0	19.9	0.1	3.6	3.9	-0.8	-5.5	-0.4	4.7	5.0
Final purchases	33.0	19.6	6.5	3.5	0.6	1.8	0.5	1.5	2.7	4.1
Private	24.9	18.3	10.1	3.9	1.4	2.8	2.2	3.0	1.9	3.6
-----In Per Cent Per Year-----										
Gross National Product	9.1	7.7	5.1	7.1	7.8	4.0	3.1	4.3	6.8	6.5
Final purchases	9.2	7.7	5.9	7.0	6.1	5.4	6.1	5.0	6.0	6.1
Private	8.5	7.8	6.5	7.5	5.7	6.3	6.3	6.5	6.2	6.5
Personal consumption expenditures	9.0	7.3	7.1	7.7	4.9	6.7	7.4	8.2	6.2	6.1
Durable goods	14.1	7.8	0.7	10.0	-3.5	2.7	-4.4	2.7	3.1	3.5
Nondurable goods	7.2	5.6	7.8	5.9	5.0	5.9	10.8	9.7	5.0	4.7
Services	9.1	8.9	8.8	8.7	8.0	8.8	8.5	8.6	8.4	8.4
Gross private domestic investment	8.9	10.4	-2.4	6.5	17.2	-4.2	-19.2	-5.9	9.6	11.5
Residential construction	20.8	6.6	-6.5	-7.2	-15.9	2.5	-17.7	-15.9	2.8	39.7
Business fixed investment	6.1	11.7	6.1	10.5	13.5	5.5	5.9	3.8	3.8	0.0
Gov't. purchases of goods & services	11.2	7.1	4.1	5.5	7.7	2.4	5.3	0.2	5.1	4.6
Federal	9.7	2.4	-2.2	-3.9	10.3	-3.5	0.0	-10.6	-2.8	-3.6
Defense	7.7	1.5	-4.3	-2.5	9.2	-5.5	-1.5	-11.7	-9.9	-9.1
Other	16.8	5.6	5.3	-8.9	14.5	3.5	3.5	-5.1	20.9	13.2
State & local	12.8	11.9	9.7	14.0	5.3	7.7	10.0	9.4	11.5	11.2
GNP in constant (1958) dollars	4.9	2.8	0.0	2.0	2.1	-0.4	-3.0	-0.2	2.6	2.8
Final purchases	5.0	2.8	0.9	2.0	0.3	1.0	0.3	0.8	1.5	2.3
Private	4.7	3.3	1.8	2.8	1.0 <sup>1/</sup>	2.0	1.5 <sup>2/</sup>	2.1	1.3	2.5
GNP implicit deflator *	4.0	4.7	5.1	5.1	5.6 <sup>1/</sup>	4.5	6.2 <sup>2/</sup>	4.5	4.2	3.7
Personal income	9.3	8.6	7.2	8.9	8.6	5.8	5.8	11.4	2.9	5.5
Wages and salaries	9.8	9.7	7.2	8.9	10.0	6.3	5.6	9.5	4.1	6.1
Disposable income	8.0	6.7	8.1	7.7	10.9	5.3	8.0	11.6	4.8	4.9
Corporate profits before tax	13.4	3.0	-10.1	0.4	-12.2	-4.8	-27.6	-12.2	7.3	7.1
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	16.7	14.3	-0.5	8.5	-3.0	4.0	-9.0	4.2	-3.2	7.0
Expenditures	10.8	5.8	7.0	1.7	9.1	6.4	3.5	24.2	-8.9	2.3
Nonfarm payroll employment	3.0	3.4	1.9	3.3	2.0	1.7	2.3	0.6	1.1	2.2
Manufacturing	2.1	1.8	-2.0	1.6	1.8	-3.4	-4.0	-4.0	-2.0	0.0
Industrial production	4.7	4.4	-0.7	5.6	3.9	-5.5	-2.8	-0.5	3.0	3.7
Housing starts, private	16.7	-2.7	-9.7	-31.4	-22.7	-20.2	-32.1	-16.0	50.0	44.4
Sales new domestic autos	14.0	-1.9	-9.1	8.4	-4.2	-15.1	-38.2	13.4	10.5	10.3

\* Based on deflators calculated to three decimals.

<sup>1/</sup> Excluding effects of Federal pay increase, 4.3 per cent per year.<sup>2/</sup> Excluding effects of Federal pay increase, 5.2 per cent per year in 70-I.

who had previously postponed their offerings returned to the market. Consequently, the May volume of public bond issues is likely to be about \$3.2 billion (including AT&T), down only slightly from the previous staff estimate. Although the sharply lower stock prices resulted in a number of cancellations and withdrawals of new equity offerings, the volume of new stock issues so far appears to be remaining at unusually high levels. This development probably reflects not only the pressing need for capital, but also the increasing need for many corporations to reduce debt ratios. With both bond and stock volume remaining large in May (excluding AT&T) and June, gross corporate issues are thus expected to remain at near the record April pace.

CORPORATE SECURITY OFFERINGS<sup>1/</sup>  
(Monthly or monthly averages in millions of dollars)

		Bonds				Stocks		Total	
		Public Offerings		Private Placements					
		1969	1970	1969	1970	1969	1970	1969	1970
Q	I	886	1,521e	513	392e	674	697e	2,073	2,610e
	II	1,137	2,333e	558	367e	756	633e	2,451	3,333e
	April	1,268	2,000e	649	400e	830	600e	2,748	3,000e
	May*	871	3,200e	510	300e	694	600e	2,076	4,100e
	June	1,272	1,800e	514	400e	744	700e	2,530	2,900e

<sup>1/</sup> Data are gross of underwriting expenses.

<sup>e/</sup> Estimated.

\* "Public bond" figure and "Total" include AT&T rights offering.

The May schedule of long-term municipal bonds was reduced significantly, as the sharp rise in rates and the slow movement of bonds out of dealer inventories depressed the market. State and local governments withdrew offerings and the pace of new bond filings slowed appreciably. The staff now estimates that long-term borrowing by state and local units in May will be only about \$1 billion, \$300 million less than previously estimated, and there is no evidence as yet that the June volume will be much higher. Undoubtedly, municipal financing plans have been dampened by the 100 basis point rise in the Bond Buyer index over the 8-week period beginning in mid-March.

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

	1969	1970
Year	990	--
Q I	927	1,350
Q II	1,216	1,217e
April	1,801	1,650e
May	1,110	1,000e
June	737	1,000e

e/ Estimated.

Uncertainty about the tax deductibility of the cost of some bank funds used to purchase municipal bonds still hung over the market after the ambiguous Internal Revenue Service announcement in mid-May concerning guidelines about investment of borrowed funds. Doubts about the nature of the guidelines and their future interpretation will probably restrict bank participation in the municipal market for the immediate future.

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

	Fiscal 1970 e/ Revised <sup>1/</sup> Budget		Fiscal 1971 e/ Jan. Revised Budget		Calendar Years F.R. Board		Calendar Quarters 1970			
		F.R. Board		Budget	1969	1970	I	IIe/	IIIe/	IVe/
<u>Federal Budget</u>										
(Quarterly data, unadjusted)										
Surplus/deficit	-1.8	-3.0	1.3	-1.3	5.3	-8.3	-3.5	8.6	-6.0	-7.4
Receipts	196.4	195.5	202.1	204.3	195.6	194.8	44.3	60.4	47.6	42.5
Outlays	198.2	198.5	200.8	205.6	190.3	203.1	47.8	51.8	53.6	49.9
Means of financing:										
Net borrowing from the public <sup>2/</sup>		3.5	-1.2		-4.1	7.0	2.0	-6.8	6.3	5.5
Decrease in cash operating balance	n.a.	-1.5	n.a.	n.a.	- .6	--	-1.6	- .5	- .5	2.6
Other <sup>3/</sup>		1.0			- .7	1.3	3.1	-1.3	.2	- .7
Cash operating balance, end of period		7.4			5.3	5.3	6.9	7.4	7.9	5.3
<u>National Income Sector</u>										
(Seasonally adjusted annual rate)										
Surplus/deficit	n.a.	1.2	1.6	n.a.	9.5	-5.0	.3	-9.6	-6.5	-4.2
Receipts	n.a.	201.0	205.4	n.a.	201.5	200.4	198.7	200.8	199.2	202.7
Expenditures	199.3	199.8	203.8	208.3	192.0	205.4	198.4	210.4	205.7	206.9
High employment budget surplus/ deficit <sup>4/</sup>	n.a.	3.5	n.a.	12.6	5.3	4.0	5.2	-.8	3.7	8.0

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)

	May	June	July	August
<u>Borrowing operations</u>				
New cash raised				
Unspecified new borrowing	--	--	4.2	3.4
Weekly and monthly bills	.4	.6	.5	.4
Tax bills	--	--	--	--
Coupon issues	3.6	--	--	--
Other (agency, debt repayment, etc.)	-2.4	-4.5	--	-.8
Total net borrowing from public	1.6	-3.9	4.7	3.0
Plus: Other net financial sources <sup>a/</sup>	.2	-.9	.3	-.3
Plus: <u>Budget surplus or deficit (-)</u>	-3.8	7.2	-6.0	-3.3
Equals: <u>Change in cash balance</u>	-2.0	2.4	-1.0	-.6
Memoranda: Level of cash balance end of period	5.0	7.4	6.4	5.8
Derivation of budget surplus or deficit				
Budget receipts	14.0	24.1	12.5	14.9
Budget outlays	17.8	16.9	18.5	18.2

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