

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

December 9, 1970

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

	Fourth Quarter	
	Chart Show Projection	Current Projection
-----Billions of dollars-----		
GNP	9.3	1.4
Final sales	13.3	10.9
Personal consumption	8.0	6.7
Residential construction	2.9	2.8
Business fixed investment	- .5	-1.6
Net exports	1.0	.7
Federal purchases	-1.2	- .8
State & local purchases	3.0	3.0
Inventory change	-4.0	-5.5
-----Per cent-----		
Real GNP	- .2	-2.0
GNP deflator	4.0	4.2

Because of the recent sluggishness of auto demand, as well as the fact that GM is taking somewhat longer to get into full production than we had anticipated, we have cut back the projected rate of December auto sales, and reduced our estimate of the fourth quarter increase in consumer durable goods outlays by about \$1-1/2 billion.

Another reason for our forecast of a smaller GNP increase for the fourth quarter is the upward adjustment made by the Commerce Department in the third quarter rate of inventory accumulation, from \$4.0 to \$5.5 billion--part of which appears to have been involuntary. Although the book value of manufacturing inventories rose strongly in October, trade inventories declined sharply because of autos and December should see a further depletion of dealer stocks. We thus

continue to carry a projection of no inventory accumulation in the fourth quarter, and the decline from the third quarter rate of inventory investment is now \$1.5 billion greater than before.

The export surplus projected for the fourth quarter was also revised down. This less optimistic outlook reflects a surprisingly strong growth of imports over the past few months--particularly of industrial materials and machinery.

In other sectors, we are now projecting a somewhat larger downturn in business fixed investment outlays this quarter, reflecting mainly lower GM sales of cars and trucks to business. On the positive side, it still appears likely that we will have a strong gain in residential construction outlays and a moderate gain in State and local expenditures.

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

	First Quarter		Second Quarter	
	Chart Show Projection	Current Projection	Chart Show Projection	Current Projection
-----Billions of dollars-----				
GNP	22.5	26.6	13.5	16.5
Final sales	20.5	24.6	11.5	14.5
Personal consumption	15.0	16.7	7.9	9.9
Residential construction	2.2	2.3	1.6	1.5
Business fixed investment	-1.2	.5	-1.0	- .5
Net exports	.3	.5	.2	.0
Federal purchases	1.2	1.5	-1.0	- .1
State & local purchases	3.0	3.1	3.8	3.7
Inventory change	2.0	2.0	2.0	2.0
-----Per cent-----				
Real GNP	4.3	5.8	1.7	2.7
GNP deflator	4.7 ^{1/}	4.9 ^{2/}	3.6	3.8

^{1/} Excluding effects of Federal pay increase, 3.8 per cent per year.

^{2/} Excluding effects of Federal pay increase, 4.0 per cent per year.

quarter, for the year as a whole. In sum, the unemployment rate is projected to rise to 6.7 per cent by the fourth quarter of 1971 while the rate of increase in the GNP price deflator slows only to 3.4 per cent.

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

	Third Quarter		Fourth Quarter	
	Chart Show Projection	Current Projection	Chart Show Projection	Current Projection
-----Billions of dollars-----				
GNP	16.0	16.0	17.0	17.5
Final sales	15.5	15.5	16.5	17.0
Personal consumption	9.0	9.6	10.3	11.0
Residential construction	1.5	1.5	1.4	1.4
Business fixed investment	.0	.0	.5	.5
Net exports	.0	.0	.0	.0
Federal purchases	1.2	.6	.4	.1
State & local purchases	3.8	3.8	3.9	4.0
Inventory change	.5	.5	.5	.5
-----Per cent-----				
Real GNP	2.8	2.6	3.3	3.2
GNP deflator	3.4	3.6	3.2	3.4

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.)

	1970 Proj.	1971 Proj.	1970		1971			
			III	IV	Projection			
					I	II	III	IV
Gross National Product	976.7	1042.2	985.5	990.9	1017.5	1034.0	1050.0	1067.5
Final purchases	974.2	1038.4	980.0	990.9	1015.5	1030.0	1045.5	1062.5
Private	753.7	804.7	759.0	767.7	787.7	798.6	809.7	822.6
Excluding net exports	749.5	799.3	754.8	762.8	782.3	793.2	804.3	817.2
Personal consumption expenditures	617.1	660.5	622.1	628.8	645.5	655.4	665.0	676.0
Durable goods	90.1	95.0	91.2	88.3	95.0	94.5	94.5	96.0
Nondurable goods	264.3	281.2	265.8	270.0	274.5	279.4	283.5	287.5
Services	262.7	284.3	265.1	270.5	276.0	281.5	287.0	292.5
Gross private domestic investment	135.0	142.7	138.3	134.0	138.8	141.8	143.8	146.2
Residential construction	29.7	36.5	29.2	32.0	34.3	35.8	37.3	38.7
Business fixed investment	102.8	102.3	103.6	102.0	102.5	102.0	102.0	102.5
Change in business inventories	2.6	3.9	5.5	0.0	2.0	4.0	4.5	5.0
Nonfarm	2.1	3.9	5.0	0.0	2.0	4.0	4.5	5.0
Net exports of goods and services	4.2	5.4	4.2	4.9	5.4	5.4	5.4	5.4
Gov't. purchases of goods & services	220.6	233.7	221.0	223.2	227.8	231.4	235.8	239.9
Federal	99.6	99.6	98.6	97.8	99.3	99.2	99.8	99.9
Defense	76.4	73.9	75.8	73.8	74.3	73.5	73.7	73.9
Other	23.2	25.7	22.9	24.0	25.0	25.7	26.1	26.0
State & local	121.0	134.2	122.4	125.4	128.5	132.2	136.0	140.0
Gross national product in constant (1958) dollars	725.0	741.7	727.4	723.7	734.1	739.0	743.8	749.8
GNP implicit deflator (1958 = 100)	134.7	140.5	135.5	136.9	138.6	139.9	141.2	142.4
Personal income	801.3	852.3	807.2	814.4	829.4	848.6	858.5	872.5
Wages and salaries	540.4	571.1	543.8	546.2	556.2	569.5	574.5	584.1
Disposable income	685.1	733.1	693.0	698.6	713.9	730.1	738.2	750.1
Personal saving	50.1	53.1	52.7	51.2	49.4	55.4	53.5	54.1
Saving rate (per cent)	7.3	7.2	7.6	7.3	6.9	7.6	7.2	7.2
Corporate profits before tax	83.2	89.1	85.0p	83.0	87.0	88.5	89.5	91.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	195.8	208.6	195.5p	195.2	203.8 ^{1/}	207.5 ^{1/}	210.1	213.1
Expenditures	206.3	224.0	206.7	210.0	216.0 ^{1/}	225.9 ^{1/}	225.6	228.4
Surplus or deficit (-)	-10.5	-15.4	-11.2p	-14.8	-12.2 ^{1/}	-18.4 ^{1/}	-15.5	-15.3
High employment surplus or deficit (-)	-0.9	4.0	-1.7	1.2	4.0	0.0	4.8	7.0
Total labor force (millions)	86.0	87.2	86.0	86.4	86.7	87.0	87.4	87.7
Armed forces "	3.2	2.9	3.1	3.0	3.0	2.9	2.9	2.9
Civilian labor force "	82.8	84.3	82.8	83.4	83.7	84.1	84.5	84.8
Unemployment rate (per cent)	5.0	6.4	5.2	5.7	6.0	6.3	6.6	6.7
Nonfarm payroll employment (millions)	70.7	70.8	70.5	70.2	70.6	70.7	70.8	71.0
Manufacturing	19.4	19.1	19.3	18.8	19.2	19.1	19.1	19.1
Industrial production (1957-59=100)	167.6	169.0	168.0	162.5	167.0	168.0	169.2	171.6
Capacity utilization, manufacturing (per cent)	76.6	73.3	76.3	72.3	73.8	73.3	73.0	73.0
Housing starts, private (millions A.R.)	1.41	1.77	1.51	1.58	1.65	1.75	1.82	1.85
Sales new domestic autos (millions, A.R.)	7.39	8.29	7.99	6.25	8.60	8.30	8.00	8.25

^{1/} Federal pay increase paid in 71-II retroactive to 71-I; included in Federal purchases in 71-I but not in total Federal expenditures, wages and salaries and personal income until 71-II.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1970 Proj.	1971 Proj.	1970		1971 Projection			
			III	IV	I	II	III	IV
-----Billions of dollars-----								
Gross National Product	45.3	65.5	14.4	5.4	26.6	16.5	16.0	17.5
Inventory change	-5.9	1.3	2.4	-5.5	2.0	2.0	0.5	0.5
Final purchases	51.3	64.2	11.9	10.9	24.6	14.5	15.5	17.0
Private	43.0	51.0	9.3	8.7	20.0	10.9	11.1	12.9
Excluding net exports	40.7	49.8	9.2	8.0	19.5	10.9	11.1	12.9
Net exports	2.3	1.2	0.1	0.7	0.5	0.0	0.0	0.0
Government	8.4	13.1	2.6	2.2	4.6	3.6	4.4	4.1
GNP in constant (1958) dollars	-2.1	16.7	2.5	-3.7	10.4	4.9	4.8	6.0
Final purchases	2.9	15.5	0.9	1.1	8.5	3.0	4.3	5.6
Private	8.6	16.0	1.6	0.5	9.2	2.7	3.2	4.6
-----In Per Cent Per Year-----								
Gross National Product	4.9	6.7	6.1	2.2	10.7	6.5	6.2	6.7
Final purchases	5.6	6.6	4.9	4.4	9.9	5.7	6.0	6.5
Private	6.1	6.8	5.0	4.6	10.4	5.5	5.6	6.4
Personal consumption expenditures	6.9	7.0	5.0	4.3	10.6	6.1	5.9	6.6
Durable goods	0.1	5.4	-3.0	-12.7	30.3	-2.1	0.0	6.3
Nondurable goods	7.5	6.4	4.9	6.3	6.7	7.1	5.9	5.6
Services	8.7	8.2	8.0	8.1	8.1	8.0	7.8	7.7
Gross private domestic investment	-3.4	5.7	11.9	-12.4	14.3	8.6	5.6	6.7
Residential construction	-7.2	22.9	11.3	38.4	28.7	17.5	16.8	15.0
Business fixed investment	3.5	-0.5	3.1	-6.2	2.0	-1.9	0.0	2.0
Gov't. purchases of goods & services	4.0	5.9	4.8	4.0	8.2	6.3	7.6	7.0
Federal	-1.7	0.0	-4.4	-3.2	6.1	-0.4	2.4	0.4
Defense	-3.0	-3.3	-5.2	-10.6	2.7	-4.3	1.1	1.1
Other	2.7	10.8	0.0	19.2	16.7	11.2	6.2	-1.5
State & local	9.2	10.9	12.5	9.8	9.9	11.5	11.5	11.8
GNP in constant (1958) dollars	-0.3	2.3	1.4	-2.0	5.8	2.7	2.6	3.2
Final purchases	0.4	2.1	0.5	0.6	4.7	1.6	2.3	3.0
Private	1.5	2.7	1.1	0.3	6.3	1.8	2.2	3.1
GNP implicit deflator	5.2	4.2	4.6	4.2	4.9*	3.8	3.6	3.4
Personal income	7.0	6.4	2.9	3.6	7.4	9.3	4.7	6.5
Wages and salaries	6.2	5.7	3.2	1.8	7.3	9.6	3.5	6.7
Disposable income	8.5	7.0	5.5	3.2	8.8	9.1	4.4	6.4
Corporate profits before tax	-8.8	7.1	14.6	-9.4	19.3	6.9	4.5	8.9
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	-2.4	6.5	-2.4	-0.6	17.6	7.3	5.0	5.7
Expenditures	7.8	8.6	11.5	6.4	11.4	18.3	-0.5	5.0
Nonfarm payroll employment	0.6	0.1	-2.0	-1.7	2.3	0.6	0.6	1.1
Manufacturing	-4.0	-1.5	-6.0	-10.4	8.5	-2.1	0.0	0.0
Industrial production								
Housing starts, private	-4.1	25.5	70.0	18.5	17.7	24.2	16.0	6.6
Sales new domestic autos	-12.6	12.2	2.0	-87.1	150.4	-14.0	-14.5	12.5

* Excluding Federal pay increase, 4.0 per cent.

RENTAL VACANCY RATES
(Per cent)

	Average for third quarter of:						
	1957	1964	1966	1967	1968	1969	1970
All regions	5.2	7.7	6.8	6.4	5.4	5.0	4.9
Northeast	3.3	5.0	4.9	4.3	3.4	2.8	2.8
North Central	5.4	7.2	5.8	5.6	5.4	5.5	5.4
South	6.0	8.2	7.1	7.8	6.8	6.3	6.5
West	7.1	11.5	10.2	8.1	6.2	5.8	5.0

Anticipated spending for new plant and equipment. Business reported plans to spend \$80.6 billion on new plant and equipment this year, up 6.6 per cent from 1969, according to the November Commerce-SEC survey. While this expected increase is the same as reported in August, it is down from the 9.8 per cent and 7.8 per cent reported in February and May, respectively. According to November plans, expenditures will show little change in both the fourth quarter of 1970 and the first quarter of 1971 and then rise in the second quarter.

ANTICIPATED EXPENDITURES FOR NEW PLANT AND EQUIPMENT, 1970-1971
(Billions of dollars, seasonally adjusted annual rates)

	1970				1971	
	I	II	III	IV	I	II
	-----Actual-----				-----Anticipated-----	
Total	78.2	80.2	81.8	81.7	81.4	82.2
Manufacturing	32.4	32.4	32.1	32.1	31.5	31.1
Durable	16.4	16.3	15.7	15.3	15.7	14.9
Nondurable	16.0	16.1	16.4	16.8	15.8	16.3
Nonmanufacturing	45.8	47.8	49.7	49.6	49.9	51.1
Utilities	12.1	12.7	13.8	14.4	15.9	n.a.
Communications	9.1	10.4	10.6	10.7*	11.1*	n.a.

* Confidential, not published separately.

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

1969 - entire year	990
1970 - entire year	1,420e
QIII	1,474
QIV	1,607e
November	1,622p
December	1,300e
1971 January	1,600e

p/ Preliminary
e/ Estimated

the view gained currency that interest rates would continue to decline in the weeks ahead despite the current high pace of new issues. The November public bond total was only marginally below the May peak, which had included a \$1.5 billion debt offering by AT&T. New stock issues are estimated to have been about \$800 million in November, and although takedowns of private placements apparently remained at low levels, total corporate securities offerings last month amounted to over \$4 billion, a record high.

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	2,090e	405e	688e	3,185e
1970 - QIII	1,986e	315e	540e	2,842
QIV	2,517e	467e	767e	3,750e
November	2,950e	300e	800e	4,050e
December	2,200e	700e	500e	3,400e
1971				
January	2,000e	600e	700e	3,300e

e/ Estimated.

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

	Fiscal Year		Calendar Years		Calendar Quarters					
	1970*	1971e/	F.R. Estimates		1970		1971 e/			
			1970	1971	III*	IVe/	I	II	III	IV
<u>Federal Budget</u>										
(Quarterly data, unadjusted)										
Surplus/deficit	-2.8	-15.5	-12.1	-18.2	-7.8	-9.5	-5.3	6.9	-9.0	-10.8
Receipts	193.7	197.0	190.7	203.2	46.5	41.2	48.0	61.1	49.4	44.7
Outlays	196.6	212.5	202.8	221.4	54.3	50.7	53.3	54.2	58.4	55.5
Means of financing:										
Net borrowing from the public ^{1/}	3.8	13.8	12.5	15.5	7.4	9.5	2.8	-5.9	9.3	9.3
Decrease in cash operating balance	-2.1	1.3	-2.4	2.0	-8	1.1	.5	.5	-1.6	2.6
Other ^{2/}	1.1	.5	2.1	.7	1.2	-1.1	2.0	-1.5	1.3	-1.1
Cash operating balance, end of period	8.0	6.7	7.7	5.7	8.8	7.7	7.2	6.7	8.3	5.7
<u>National Income Sector</u>										
(Seasonally adjusted annual rate)										
Surplus/deficit	-4	-14.2	-10.5	-15.4	-11.2	-14.8	-12.2	-18.4	-15.5	-15.3
Receipts	198.9	200.5	195.8	208.6	195.5	195.2	203.8	207.5	210.1	213.1
Expenditures	199.3	214.7	206.3	224.0	206.7	210.0	216.0	225.9	225.6	228.4
High employment surplus deficit ^{3/}	1.1	.9	-.9	4.0	-1.7	1.2	4.0	0.0	4.8	7.0

* Actual

e--projected

^{1/} 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.

^{2/} Includes such items as deposit fund accounts and clearing accounts.

^{3/} Estimated by Federal Reserve Board Staff.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Nov.	Dec.	Jan.	Feb.
<u>Total net borrowing:</u>	3.4	3.5	-.2	-.5
Weekly and monthly bills	.9	3.3	--	.3
Tax bills	--	--	--	--
Coupon issues	2.0	--	--	--
As yet unspecified new borrowing	--	--	--	--
Other (agency, debt repayments, etc.)	.5	.2	-.2	-.8
Plus: <u>Other net financial sources</u> ^{a/}	-.6	-1.6	-.9	.4
Plus: <u>Budget surplus or deficit (-)</u>	-3.3	-.1	-1.0	-.7
Equals: <u>Change in cash balance</u>	-.5 ^{b/}	1.8	-.3	-.8
Memoranda: Level of cash balance, end of period	5.9 ^{b/}	7.7	7.4	6.6
Derivation of budget surplus or deficit:				
Budget receipts	14.0	15.7	17.0	16.7
Budget outlays	17.3	15.8	18.0	17.4
Maturing coupon issues held by public	6.0	--	--	5.0

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

^{b/} Actual.

ahead, total imports were broken down into five broad categories.^{1/} The import categories were related to various indicators of economic activity. Ratios were derived from data covering the period 1964 to 1969-70. The ratios were then applied to forecasts of relevant indicators of economic activity in 1971 as recently revised by the OECD in the light of national official forecasts. In the derivation of the estimates for the second half of 1970, this procedure was supplemented, where possible, by using data of recorded imports for the third quarter of 1970.

The outlook for imports of the major industrial countries, derived in this manner, is summarized in the next table. For the six

OUTLOOK FOR IMPORTS^{a/} OF MAJOR INDUSTRIAL COUNTRIES
(Billions of U.S. \$, seasonally adjusted annual rates)

	1st Half 1970 (actual)	2nd Half 1970 (estimate)	1st Half 1971 (projection)
France	18.4	20.2	21.2
Germany	29.5	29.7	30.2
Italy	14.3	16.0	16.8
United Kingdom	21.3	22.1	23.1
Japan	17.9	20.3	21.8
Canada (excluding automotive imports) ^{b/}	10.2	11.2	12.0
Total	111.6	119.5	125.1

^{a/} Imports valued at c.i.f., except f.o.b. for Canada.

^{b/} For July-November 1970, import values expressed in Canadian dollars were converted into U.S. dollars by the average exchange rate prevailing during that period. For December 1970 and January-June 1971, an exchange rate of Can. \$1 = U.S. \$ 0.98 was used as the conversion factor. Imports in the first half of 1970 are staff estimates.

^{1/} Some adjustments in the data were made; automotive imports were treated separately in Canada, and imports of military equipment were excluded in several countries.

Table 7 summarizes the increasing trend of recent State and local borrowing, the moderating impact of monetary policy on postponements and cancellations of such borrowing, and the resultant smaller impacts of policy on capital outlays. The declining path of interest rates, the backlog of financing previously postponed, and the upward adjustment in respondent expectations, all suggest that borrowing by State and local governments in the first half of 1971 is likely to expand to record levels. Reflecting the need to makeup borrowing and projects previously postponed, capital outlays of State and local governments can also be expected to accelerate.

Table 7

SUMMARY OF STATE AND LOCAL LONG-TERM BORROWING, SHORTFALLS
OF BORROWING AND CAPITAL OUTLAYS DUE TO HIGH INTEREST RATES
(Billions of dollars)

	Gross Actual Long-term Borrowing	Gross Shortfalls Due to High Interest Rates	Cutbacks in Capital Outlays Initiated Due to High Interest Rates
1969 - III	2.5	1.67	0.68
IV	3.0	2.24	1.20
1970 - I	4.1	0.97	0.20
II	3.7	1.10	0.25
III	4.4	0.59	0.06
IV	4.8e	n.a.	n.a.

e/ Estimated.

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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

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(3) Different banks have been acting differently. Some have increased their borrowings since December 2. On the other hand, one or two banks that had previously given up substantial parts of their May 1969 bases have continued to reduce their borrowings.

The National Bank of Belgium reduced its discount rate effective December 10 from 7 to 6-1/2 per cent. Other discount rate reductions since the November 13 Greenbook Supplement include two changes in Germany, which are referred to on page IV-1 of this week's Greenbook. The first of these, from 7 to 6-1/2 per cent, took effect November 18; the second was to 6 per cent, effective December 3. The Bundesbank's rate on advances ("Lombard rate") went from 9 to 8 to 7-1/2 per cent.

Corrections

Section III, page 6, beginning paragraph 2, all of page III-7 and III-8 should be shifted to follow III-16.

Section II, page 2 table, the figure in the first line, GNP, second column, current projection, should be \$5.4 billion instead of \$1.4.

Section II, page 8 GNP table. Changes in Industrial production were left out. They should be:

1970 proj.	1971 proj.	1970		1971			
		III	IV	Projection			
				I	II	III	IV
3.0	0.8	-3.1	-13.1	11.1	2.4	2.9	5.7

Section II, page 27, Table Wholesale Prices. Please substitute the following corrected table.

WHOLESALE PRICES
(Seasonally adjusted percentage changes at annual rates)

	Dec 1969 to Mar 1970	Mar 1970 to June 1970	June 1970 to Sept 1970	Sept 1970 to Oct 1970	Oct 1970 to Nov 1970
All commodities	4.0	1.1	3.9	2.5	-1.1
Farm and food products	6.8	-9.9	8.9	-14.7	-4.1
Farm products	5.0	-14.9	12.2	-28.5	-17.1
Processed foods & feeds	8.7	6.2	5.6	-1.9	3.9
Industrial commodities	3.1	4.5	2.9	7.8	0.0
Selected groups					
Fuels and related products and power	.8	6.5	11.3	20.1	12.4
Metals and metal products	9.0	8.9	-1.0	4.0	-10.0
Nonferrous metals <u>1/</u>	9.1	4.2	-16.0	-7.0	-23.1
Machinery and equipment	4.0	4.1	5.2	5.9	2.4
Finished goods					
Producer finished goods	4.3	2.9	4.8	12.1	2.4
Consumer nonfoods	2.2	2.9	3.3	11.5	2.1
Nondurables	2.1	3.0	3.5	4.4	3.1
Durables	3.0	2.4	3.1	22.7	3.4

1/ Not seasonally adjusted.