

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**

January 29, 1969

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Board of Governors
of the Federal Reserve System

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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	1968p	1968				1969	
			I	II	III	IVp	Projected	
							I	II
Gross National Product	789.7	860.7	831.2	852.9	871.0	887.8	901.3	912.3
Final sales	783.6	853.1	829.1	842.1	863.5	877.8	891.8	906.3
Private	605.2	656.0	638.6	646.4	663.9	675.3	686.4	698.1
Personal consumption expenditures	492.2	533.7	519.4	527.9	541.1	546.3	555.1	563.4
Durable goods	72.6	82.5	79.0	81.0	85.1	84.8	84.3	84.3
Nondurable goods	215.8	230.2	226.5	228.2	232.7	233.5	238.4	242.4
Services	203.8	221.0	213.9	218.7	223.4	228.0	232.4	236.7
Gross private domestic investment	114.3	127.5	119.7	127.3	127.1	136.1	139.0	136.4
Residential construction	24.6	30.0	29.1	29.5	29.5	31.8	32.3	31.9
Business fixed investment	83.6	90.0	88.6	87.0	90.1	94.2	97.2	98.5
Change in business inventories	6.1	7.6	2.1	10.8	7.5	10.0	9.5	6.0
Nonfarm	5.6	7.2	1.6	10.4	7.3	9.2	9.2	6.2
Net Exports	4.8	2.4	1.5	2.0	3.3	3.0	1.8	4.3
Gov't. purchases of goods & services	178.4	197.1	190.5	195.7	199.6	202.5	205.4	208.2
Federal	90.6	100.0	97.1	100.0	101.2	101.6	101.6	101.6
Defense	72.4	78.9	76.8	79.0	79.6	80.0	80.0	80.0
Other	18.2	21.1	20.3	21.0	21.5	21.6	21.6	21.6
State & local	87.8	97.1	93.4	95.6	98.4	100.8	103.8	106.6
Gross national product in constant (1958) dollars	673.1	706.9	692.7	703.4	712.3	719.1	723.3	726.0
GNP implicit deflator (1958=100)	117.3	121.8	120.0	121.2	122.3	123.5	124.6	125.7
Personal income	628.8	685.8	662.7	678.1	694.3	708.2	719.5	730.0
Wages and salaries	423.4	463.5	448.3	457.6	469.0	479.0	488.0	495.4
Disposable income	546.3	589.0	574.4	586.3	592.7	602.5	608.7	616.5
Personal saving	40.2	40.8	40.8	44.0	37.1	41.4	38.6	37.9
Saving rate (per cent)	7.4	6.9	7.1	7.5	6.3	6.9	6.3	6.1
Corporate profits before tax	81.6	92.3	88.9	91.8	92.7	95.8*	92.8	90.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	151.2	176.9	166.6	171.8	182.1	187.1*	193.7	195.5
Expenditures	163.6	182.2	175.1	181.9	184.9	186.8	188.2	189.3
Surplus or deficit (-)	-12.4	-5.3	-8.6	-10.2	-2.8	.3*	5.5	6.2
Total labor force (millions)	80.8	82.3	81.9	82.2	82.4	82.6	83.2	83.4
Armed forces "	3.4	3.5	3.5	3.5	3.6	3.5	3.5	3.5
Civilian labor force "	77.3	78.7	78.4	78.7	78.8	79.1	79.6	79.9
Unemployment rate (per cent)	3.8	3.6	3.6	3.6	3.6	3.4	3.6	3.8
Nonfarm payroll employment (millions)	66.0	68.1	67.4	67.8	68.3	68.9	69.3	69.4
Manufacturing	19.4	19.7	19.6	19.7	19.8	19.9	19.9	19.7
Industrial production (1957-59=100)	158.1	164.7	162.1	164.2	165.2	167.3	168.8	169.1
Capacity utilization, manufacturing (per cent)	85.3	84.5	84.9	84.8	84.0	84.1	83.5	82.5
Housing starts, private (millions A.R.)	1.29	1.50	1.50	1.44	1.55	1.58	1.63	1.53
Sales new domestic autos (millions, A.R.)	7.57	8.62	8.19	8.44	9.01	8.82	8.75	8.50

* Projected.

CONFIDENTIAL - FR

January 29, 1969

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1967	1968p	1968				1969	
			I	II	III	IVp	Projected	
			I	II	III	IVp	I	II
-----In billions of dollars-----								
Gross National Product	42.1	71.0	20.2	21.7	18.1	16.8	13.5	11.0
Inventory change	-8.6	1.5	-6.2	8.7	-3.3	2.5	-0.5	-3.5
Final sales	50.8	69.5	26.4	13.0	21.4	14.3	14.0	14.5
Private	28.6	50.8	19.4	7.8	17.5	11.4	11.1	11.7
Government	22.2	18.7	7.0	5.2	3.9	2.9	2.9	2.8
GNP in constant (1958) dollars	16.0	33.8	10.9	10.7	8.9	6.8	4.2	2.7
Final sales	24.0	32.7	16.9	2.8	12.0	4.5	4.5	5.9
Private	9.8	24.2	12.4	0.1	11.1	3.6	3.0	6.1
-----In Per Cent Per Year-----								
Gross National Product	5.6	9.0	10.0	10.5	8.5	7.7	6.1	4.9
Final sales	6.9	8.9	13.2	6.3	10.2	6.6	6.4	6.5
Private	5.0	8.4	12.5	4.9	10.8	6.9	6.6	6.8
Personal consumption expenditures	5.7	8.4	13.7	6.5	10.0	3.8	6.4	6.0
Durable goods	3.0	13.6	25.9	10.1	20.2	-1.4	-2.4	0.0
Nondurable goods	4.4	6.7	14.8	3.0	7.9	1.4	8.4	6.7
Services	8.2	8.4	8.2	9.0	8.6	8.2	7.7	7.4
Gross private domestic investment	-5.4	11.5	-6.9	25.4	-0.6	28.3	8.5	-7.5
Residential construction	-0.8	22.0	8.4	5.5	0.0	31.2	6.3	-5.0
Business fixed investment	2.8	7.7	16.9	-7.2	14.3	18.2	12.7	5.3
Gov't. purchases of goods & services	14.2	10.5	15.3	10.9	8.0	5.8	5.7	5.5
Federal	17.1	10.4	15.4	11.9	4.8	1.6	0.0	0.0
Defense	19.5	9.0	11.8	11.5	3.0	2.0	0.0	0.0
Other	8.3	15.9	27.4	13.8	9.5	1.9	0.0	0.0
State & local	11.4	10.6	15.1	9.4	11.7	9.8	11.9	10.8
GNP in constant (1958) dollars	2.4	5.0	6.4	6.2	5.0	3.8	2.3	1.5
Final sales	3.7	4.9	10.0	1.6	6.9	2.5	2.5	3.3
Private	1.9	4.6	9.3	0.1	8.2	2.6	2.1	4.3
GNP implicit deflator	3.1	3.8	3.5	4.2	3.4*	3.9	3.7	3.4
Personal income	7.2	9.1	10.8	9.3	9.6	8.0	6.4	5.8
Wages and salaries	7.3	9.5	10.9	8.3	10.0	8.5	7.5	6.1
Disposable income	6.8	7.8	10.6	8.3	4.4	6.6	4.1	5.1
Corporate profits before tax	-4.7	13.1	16.4	13.0	1.7	13.4	-12.5	-8.6
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	5.7	17.0	26.1	12.5	23.5	11.0	14.1	3.7
Expenditures	14.9	11.4	15.4	15.5	6.6	4.1	3.0	2.3
Nonfarm payroll employment	3.1	3.2	4.2	2.4	2.9	3.5	2.3	0.6
Manufacturing	1.0	1.5	2.0	2.0	2.0	2.0	0.0	-4.0
Industrial production	1.2	4.2	6.0	5.2	2.4	5.1	3.6	0.7
Housing starts, private	10.9	16.4	15.5	-16.3	29.7	8.5	13.9	-24.6
Sales new domestic autos	-9.7	-14.0	40.6	12.0	27.3	-8.4	-3.2	-11.4

* Excluding Federal pay increase, 2.8 per cent.

PLANT AND EQUIPMENT EXPENDITURES - I
(Per cent changes, year-to-year)

	1967	1968 ^{1/}	1969 ^{2/}
All industries	1.7	4.7	10.0
Manufacturing	-1.1	.3	14.9
Durable goods	-2.1	-.9	15.8
Nondurable goods	0.0	1.5	14.0
Nonmanufacturing	4.0	7.9	6.6
Mining	-3.4	4.9	-8.1
Railroad	-22.7	-1.3	7.6
Transportation, other than rail	12.8	14.9	6.7
Public utilities	17.5	15.2	12.7
Communications	5.2	5.9	6.3
Commercial and other	-3.1	2.5	2.8

^{1/} November published survey.

^{2/} Anticipations from December confidential survey.

This survey, if combined with the November Commerce-SEC survey which provided data on investment plans for the first two quarters of 1969, suggests that the rate of rise in total outlays will slow substantially in the second half of the year. This slowing in expansion results largely from a decline in outlays by nonmanufacturing industries. It should be noted, however, that the two surveys may not be fully comparable. The December annual survey is consistent with the November quarterly survey with respect to their samples, but the later survey may reflect modifications of plans reported in the earlier one. In addition, the survey of annual plans may warrant a bias adjustment as does the survey of quarterly plans.

PLANT AND EQUIPMENT EXPENDITURES - II
(Annual rate, per cent change)

	1968		1969	
	1st half	2nd half	1st half	2nd half ^{1/}
All industries	6.1	5.2	15.7	3.1
Manufacturing	0.0	10.2	16.6	15.3
Durable goods	-4.1	10.2	19.4	13.1
Nondurable goods	4.0	9.7	13.7	17.6
Nonmanufacturing	10.6	1.9	14.9	-5.5

^{1/} Change implied by December annual survey and the November quarterly survey, combined.

The December survey was the fourth taken at yearend to ascertain businessmen's plans for the following year. Sufficient experience does not yet exist with these annual surveys to suggest what sort of adjustment may be appropriate for possible systematic bias (understatement or overstatement of actual expenditures). However, the three previous December annual surveys and the adjustment applicable to the quarterly surveys suggest that the increase in investment this year may be larger than was planned in December.

Residential construction and real estate. Seasonally adjusted private housing starts, which had soared to an exceptionally high annual rate of 1.72 million units (after a 2 per cent upward revision) in November dropped 15 per cent in December to a rate of 1.45 million, the lowest since last June. On a quarterly basis, however--to allow for the marked irregularity in the monthly series--starts for the fourth quarter as a whole were up moderately further from the advanced third quarter

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

	Fiscal years				1968		1969	
	Actual		Jan. budget	F.R. Bd	III	IV ^{e/}	I ^{e/}	II ^{e/}
	1967	1968	1969	1969				
<u>Quarterly data, unadjusted</u>								
New budget:								
Surplus/deficit	-8.8	-25.2	2.4	1.3	-3.2	-7.8	-1.1	13.5
Receipts	149.6	153.7	186.1	186.1	43.6	38.9	43.6	60.0
Total expenditures and net lending	158.4	178.9	183.7	184.8	46.9	46.8	44.7	46.5
Means of financing:								
Total borrowing from the public	2.9	23.1	-3.1	1.6	7.7	3.6	-0.8	-8.9
Decrease in cash operating balance	5.2	.4	n.a.	-4.0	-3.3	3.9	.7	-5.3
Other <u>1/</u>	.7	1.7	n.a.	1.1	-1.1	.3	1.2	.7
Cash operating balance, end of period	5.7	5.3	n.a.	9.3	8.6	4.7	4.0	9.3
<u>Seasonally adjusted annual rate</u>								
Federal surplus/deficit								
in national income accounts	-6.9	-11.0	2.7	2.3	-2.8	.3	5.5	6.2
Receipts <u>2/</u>	147.4	161.8	190.0	189.6	182.1	187.1	193.7	195.5
Expenditures	154.3	172.7	187.3	187.3	184.9	186.8	188.2	189.3

^{e--}Projected.

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

^{2/} Retroactive corporate surtax liability is included beginning first quarter 1968. Quarterly receipts do not add to fiscal year totals due to seasonal adjustment of social security taxes.

Table 1

FEDERAL BUDGET SUMMARY

Source: January 1969 Budget Document
(In billions of dollars)

	Fiscal Years				
	Amounts			Changes	
	1968 (actual)	1969 (estimated)	1970	1969 (estimated)	1970
<u>NEW BUDGET</u>					
Expenditure Account:					
Receipts	153.7	186.1	198.7	32.4	12.6
Expenditures (excludes net lending)	172.8	182.3	194.4	9.5	12.1
Surplus or deficit (-)	-19.2	3.8	4.3	23.0	.5
Loan Account:					
Net lending	6.0	1.4	.9	-4.6	- .5
Total Budget:					
Receipts	153.7	186.1	198.7	32.4	12.6
Outlays (expenditures and net lending)	178.9	183.7	195.3	4.8	11.6
Budget surplus or deficit (-)	-25.2	2.4	3.4	27.6	1.0
Budget Financing:					
Net borrowing from the public	23.1	-3.1	-4.0	-26.2	- .9
Other means of financing	2.1	.7	.6	-1.4	- .1
<u>Federal Sector in NIA Accounts:</u>					
Receipts	161.1	190.0	202.3	28.9	12.3
Expenditures	172.4	187.3	199.6	14.9	12.3
Surplus or deficit (-)	-11.3	2.7	2.7	14.0	--

ESTIMATES OF FEDERAL RECEIPTS^{1/}

Based on January 1969 Budget Document
(In billions of dollars)

	Fiscal Years				
	Amounts			Changes	
	1968 (actual)	1969 (estimated)	1970	1969 (estimated)	1970 (estimated)
TOTAL BUDGET RECEIPTS	153.7	186.1	198.7	32.4	12.6
Individual Income taxes	68.7	84.4	90.4	15.7	6.0
Corporate Income taxes	28.7	38.1	37.9	9.4	- .2
Social Insurance taxes and Contributions	34.6	40.5	45.9	5.9	5.4
Excise taxes	14.1	14.8	15.7	.7	.9
Estate & Gift taxes	3.1	3.2	3.4	.1	.2
Customs duties	2.0	2.3	2.3	.3	--
Miscellaneous Receipts	2.5	2.8	3.1	.3	.3

	Analysis of Changes 1968 to 1969			
	Total	Economic growth	Full year effect of tax rate changes	Timing of tax rate changes 1/
TOTAL	32.4	13.9	15.4	3.1
Individual Income taxes	15.7	7.3	7.4	1.0
Corporate Income taxes	9.4	3.5	2.8	3.1
Social Insurance taxes and Contributions	5.9	1.9	5.2 ^{2/}	-1.2
Excise taxes	.7	.5		.2
Estate and Gift taxes	.1	.1		
Customs duties	.3	.3		
Miscellaneous Receipts	.3	.3		

	Analysis of Changes 1969 to 1970				
	Total	Economic growth	Tax increases	Timing of tax change 3/	Memo: Effect no extension present rate
TOTAL	12.6	11.3	2.1	- .8	-9.5
Individual Income taxes	6.0	6.4		- .4	-7.2
Corporate Income taxes	- .2	2.1		-2.3	-1.8
Social Insurance taxes and Contributions	5.4	1.6	1.7	2.1	
Excise taxes	.9	.7	.4	- .2	- .5
Estate and Gift taxes	.2	.2			
Customs duties	--	--		--	
Miscellaneous Receipts	.3	.3		--	

Note: Economic Assumptions by calendar year

	1967	1968	1969
GNP	789.7	860.7	921
Personal Income	628.8	685.8	736
Corporate profits before tax	81.6	92.3	96

^{1/} For individual and corporate taxes, reflects the fiscal year 1969 revenue effect of the retroactive feature of the surtax and corporate acceleration. For social insurance taxes, reflects the increase in employment tax rates to 9.6% effective only on January 1, 1969.

Table 3

FEDERAL OUTLAYS
As Estimated in January 1969 Budget Document
(In billions of dollars)

	Fiscal Years				
	Amounts			Changes	
	1968 (actual)	1969 (estimated)	1970	1969 (estimated)	1970
<u>TOTAL OUTLAYS</u>	<u>178.9</u>	<u>183.7</u>	<u>195.3</u>	<u>4.8</u>	<u>11.6</u>
Net Lending	6.0	1.4	.9	-4.6	-.5
Agencies now privately owned ^{1/}	2.5	.1	--	-2.4	-.1
Other agencies	3.5	1.3	.9	-2.2	-.4
<u>Expenditures</u>	<u>172.8</u>	<u>182.3</u>	<u>194.4</u>	<u>9.5</u>	<u>12.1</u>
<u>National Defense</u>	<u>80.5</u>	<u>81.0</u>	<u>81.5</u>	<u>.5</u>	<u>.5</u>
Vietnam	26.5	28.8	25.4	2.3	-3.4
Other	54.0	52.2	56.1	-1.8	3.9
<u>Nondefense exempted from 1969 spending ceiling 2/</u>	<u>58.7</u>	<u>66.6</u>	<u>71.3</u>	<u>7.9</u>	<u>4.7</u>
Interest 3/	11.1	12.2	12.4	1.1	.2
Veterans	6.7	7.4	7.8	.7	.4
Social Security trust funds:					
Present programs	32.2	36.9	38.8	4.7	1.9
Proposed legislation	--	--	1.6	--	1.6
Commodity Credit Corporation	3.2	3.6	3.1	.4	-.5
Public assistance grants to States (incl. Medicaid)	5.5	6.5	7.6	1.0	1.1
<u>Other expenditures</u>	<u>33.6</u>	<u>34.7</u>	<u>41.6</u>	<u>1.1</u>	<u>6.9</u>
Education, Manpower, and Health (not above)	12.3	13.0	14.6	.7	1.6
Community development and housing	1.0	1.3	2.6	.3	1.3
All other	20.3	20.4	21.6	.1	1.2
Allowance for pay increase	--	--	2.8	--	2.8

^{1/} FNMA, Banks for Coops, and Federal Intermediate Credit Banks.

^{2/} Program definitions are slightly different than the categories exempted by law.

^{3/} Excludes interest received by trust funds.

Table 4

MAJOR SPENDING CUTS AND FUTURE PLANS IN PROGRAMS
UNDER 1969 SPENDING CEILING
(In billions of dollars)

	Fiscal years			
	1968 actual	Change 1969 original estimates 1/	1969 Spending revision	Planned change 1970
<u>Total</u> ^{2/}	<u>93.6</u>	<u>3.0</u>	<u>-8.3</u>	<u>10.3</u>
National Defense other than Vietnam	54.0	1.2	-3.0	3.9
International Affairs and Finance				
Export-Import Bank loans	.9	-.2	-.4	--
Other international	3.7	.8	-.8	-.2
Space	4.7	-.1	-.3	-.3
Agriculture other than CCC				
Farm Credit Administration	.5	.2	-.9	<u>3/</u>
Farmers Home Administra- tion	.3	-.2	-.3 ^{4/}	.3
Other agriculture	2.0	.1	+1.1 ^{4/}	.1
Natural resources	1.7	.8	-.6	--
Commerce and transportation				
Highways	4.3	--	-.3 ^{4/}	.7
Postal service	1.1	-.3	+1.2 ^{4/}	-.4
Other	2.7	.4	-.1	.6
Community development and housing				
FNMA	1.9	-1.2	-.7	<u>3/</u>
Other housing credit	1.1	-.4	+1.1	-.6
Other expenditures	1.1	1.2	-.8	1.1
Education	5.0	.1	-.2	.5
Health, welfare and manpower	7.8	-.1	--	1.8
All other ^{5/}	.8	.7	-.5	3.2

^{1/} Compares the January 1968 estimate for fiscal year 1969 with actual spending in fiscal year 1968.

^{2/} Differs from tabulations in Budget Document because interest paid to trust funds is not deducted from total shown here.

^{3/} Agencies now private; change from 1969 estimate to zero level in 1970 is not shown.

^{4/} Largely reflect July 1968 pay increase, shown in a separate category in original 1969 estimates.

^{5/} Includes general government functions, contingency fund, civilian part of July 1968 pay increase, all of July 1969 pay increase and deduction for Government contribution to employee retirement fund.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 30, 1969.

To Federal Open Market Committee

Subject: _____

From D. H. Brill, Economist

The Greenbook distributed on January 29 contained a note (page II-5) that "The outlook for the second half of calendar 1967 will be distributed Friday" The staff wishes to inform the Committee that this was a typographic error, and to assure the Committee that the staff has not so lost confidence in its prophetic powers as to limit its forecasting to the past. We will indeed be projecting the balance of calendar 1969, with our usual confidence and accuracy.


