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CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

February 4, 1970

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February 4, 1970

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	932.3	976.8	924.8	942.8	953.1	960.0	969.0	981.5	996.5
Final sales	858.4	924.3	972.5	917.9	932.0	945.3	954.5	966.0	977.5	991.9
Private	658.1	709.6	751.4	705.0	715.0	726.4	735.5	746.2	756.0	768.0
Excluding net exports	655.6	707.5	747.9	703.4	712.3	723.8	731.5	742.1	753.3	764.6
Personal consumption expenditures	536.6	576.0	612.8	572.8	579.8	589.2	597.1	608.6	618.5	627.0
Durable goods	83.3	89.6	89.3	90.6	89.8	89.6	88.3	89.0	89.5	90.5
Nondurable goods	230.6	243.8	260.8	242.1	245.1	249.4	253.8	259.4	263.8	266.3
Services	222.8	242.5	262.7	240.1	244.9	250.2	255.0	260.2	265.2	270.2
Gross private domestic investment	126.3	139.6	139.4	137.4	143.3	142.4	139.9	136.5	138.8	142.2
Residential construction	30.2	32.2	27.6	32.7	31.4	31.6	28.9	26.0	26.3	29.1
Business fixed investment	88.8	99.3	107.5	97.8	101.1	103.0	105.5	107.5	108.5	108.5
Change in business inventories	7.3	8.0	4.3	6.9	10.7	7.8	5.5	3.0	4.0	4.6
Nonfarm	7.4	7.8	4.3	6.7	10.3	7.6	5.5	3.0	4.0	4.6
Net exports of goods and services	2.5	2.1	3.6	1.6	2.7	2.6	4.0	4.1	2.7	3.4
Gov't. purchases of goods & services	200.3	214.7	221.0	212.9	217.0	218.9	219.0	219.8	221.5	223.9
Federal	99.5	102.0	97.5	100.6	103.2	102.7	100.0	98.1	96.6	95.5
Defense	78.0	79.3	74.2	78.5	80.3	79.2	77.3	74.9	73.1	71.6
Other	21.5	22.8	23.3	22.1	22.9	23.5	22.7	23.2	23.5	23.9
State & local	100.7	112.7	123.5	112.3	113.8	116.2	119.0	121.7	124.9	128.4
Gross national product in constant (1958) dollars	707.6	727.7	730.3	726.7	730.6	730.5	728.1	727.8	730.3	735.0
GNP implicit deflator (1958 = 100)	122.3	128.1	133.7	127.3	129.0	130.5	131.9	133.2	134.4	135.6
Personal income	687.9	747.1	793.4	740.5	756.5	766.9	775.4	791.7	798.1	808.4
Wages and salaries	465.0	509.8	539.9	504.3	516.9	524.8	530.3	535.9	542.4	550.8
Disposable income	590.0	629.6	675.2	622.0	639.0	647.1	657.5	671.5	681.9	689.7
Personal saving	38.4	37.6	45.6	33.3	43.1	41.6	44.0	46.3	46.5	45.7
Saving rate (per cent)	6.5	6.0	6.8	5.3	6.7	6.4	6.7	6.9	6.8	6.6
Corporate profits before tax	91.1	94.3*	85.3	95.4	92.5	92.5*	87.5	85.0	84.0	84.5
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	176.3	201.5*	196.5	202.8	201.3	203.4*	197.2	198.5	193.9	196.5
Expenditures	181.5	191.9	201.1	189.3	193.6	196.2	197.4	205.2	201.0	200.9
Surplus or deficit (-)	-5.2	9.6*	-4.6	13.5	7.7	7.2*	-0.2	-6.7	-7.1	-4.4
Total labor force (millions)	82.3	84.3	85.6	83.8	84.6	84.9	85.1	85.3	85.7	86.1
Armed forces "	3.5	3.5	3.2	3.5	3.5	3.5	3.4	3.2	3.1	3.1
Civilian labor force "	78.7	80.8	82.4	80.3	81.1	81.5	81.8	82.1	82.6	83.1
Unemployment rate (per cent)	3.6	3.6	4.7	3.5	3.7	3.6	4.2	4.6	4.9	5.1
Nonfarm payroll employment (millions)	67.9	70.1	70.8	70.0	70.4	70.6	70.7	70.6	70.6	71.2
Manufacturing	19.8	20.1	19.7	20.1	20.2	20.1	19.9	19.7	19.5	19.7
Industrial production (1957-59=100)	165.5	172.7	168.8	172.6	174.3	171.8	168.7	167.5	168.5	170.5
Capacity utilization, manufacturing (per cent)	84.6	83.8	78.3	84.5	84.2	81.8	79.7	78.2	77.7	77.5
Housing starts, private (millions A.R.)	1.51	1.46	1.15	1.51	1.43	1.31	1.13	1.03	1.15	1.30
Sales new domestic autos (millions, A.R.)	8.62	8.46	7.75	8.54	8.45	8.13	7.50	7.75	7.75	8.00

* Estimated.

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1968	1969	1970 Proj.	1969			1970 Projected			
				II	III	IV	I	II	III	IV
	-----In Billions of Dollars-----									
Gross National Product	72.2	66.6	44.5	16.1	18.0	10.3	6.9	9.0	12.5	15.0
Inventory change	-0.1	0.7	-3.7	0.3	3.8	-2.9	-2.3	-2.5	1.0	0.6
Final sales	72.2	65.9	48.2	15.8	14.1	13.3	9.2	11.5	11.5	14.4
Private	52.0	51.5	41.8	12.9	10.0	11.4	9.1	10.7	9.8	12.0
Excluding net exports	54.7	51.9	40.4	12.8	8.9	11.5	7.7	10.6	11.2	11.3
Net exports	-2.7	-0.4	1.5	0.1	1.1	-0.1	1.4	0.1	-1.4	0.7
Government	20.2	14.4	6.3	2.9	4.1	1.9	0.1	0.8	1.7	2.4
GNP in constant (1958) dollars	33.0	20.1	2.6	3.6	3.9	-0.1	-2.4	-0.3	2.5	4.7
Final sales	33.3	19.8	5.8	3.5	0.6	2.5	-0.4	1.7	1.8	4.2
Private	24.9	18.4	9.3	3.9	1.4	2.9	1.2	3.0	2.1	3.8
	-----In Per Cent Per Year-----									
Gross National Product	9.1	7.7	4.8	7.1	7.8	4.4	2.9	3.7	5.2	6.1
Final sales	9.2	7.7	5.2	7.0	6.1	5.7	3.9	4.8	4.8	5.9
Private	8.5	7.8	5.9	7.5	5.7	6.4	5.0	5.8	5.3	6.3
Personal consumption expenditures	9.0	7.3	6.4	7.7	4.9	6.5	5.4	7.7	6.5	5.5
Durable goods	14.1	7.6	-0.3	10.0	-3.5	-0.9	-5.8	3.2	2.2	4.5
Nondurable goods	7.2	5.7	7.0	5.9	5.0	7.0	7.1	8.8	6.8	3.8
Services	9.1	8.8	8.3	8.7	8.0	8.7	7.7	8.2	7.7	7.5
Gross private domestic investment	8.9	10.5	-0.1	6.5	17.2	-2.5	-7.0	-9.7	6.7	9.8
Residential construction	20.8	6.6	-14.3	-7.2	-15.9	2.5	-34.2	-40.1	4.6	42.6
Business fixed investment	6.1	11.8	8.3	10.5	13.5	7.5	9.7	7.6	3.7	0.0
Gov't. purchases of goods & services	11.2	7.2	2.9	5.5	7.7	3.5	0.2	1.5	3.1	4.3
Federal	9.7	2.5	-4.4	-3.9	10.3	-1.9	-10.5	-7.6	-6.1	-4.6
Defense	7.7	1.7	-6.4	-2.5	9.2	-5.5	-9.6	-12.4	-9.6	-8.2
Other	16.8	6.0	2.2	-8.9	14.5	10.5	-13.6	8.8	5.2	6.8
State & local	12.8	11.9	9.6	14.0	5.3	8.4	9.6	9.1	10.5	11.2
GNP in constant (1958) dollars	4.9	2.8	0.4	2.0	2.1	-0.1	-1.3	-0.2	1.5	2.6
Final sales	5.0	2.8	0.8	2.0	0.3	1.4	-0.2	0.9	1.0	2.3
Private	4.7	3.3	1.6	2.8	1.0	2.0	0.8	2.1	1.5	2.6
GNP implicit deflator *	4.0	4.7	4.4	5.1	5.6 ^{1/}	4.4	4.2	4.0	3.7	3.5
Personal income	9.3	8.6	6.2	8.9	8.6	5.5	4.4	8.4	3.2	5.2
Wages and salaries	9.8	9.6	5.9	8.9	10.0	6.1	4.2	4.2	4.8	6.2
Disposable income	8.0	6.7	7.2	7.7	10.9	5.1	6.4	8.5	6.2	4.6
Corporate profits before tax	13.4	3.5	-9.5	0.4	-12.2	0.0	-21.6	-11.4	-4.7	2.4
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	16.7	14.3	-2.5	8.5	-3.0	4.2	-12.2	2.6	-9.3	5.4
Expenditures	10.8	5.7	4.8	1.7	9.1	5.4	2.4	15.8	-8.2	-0.2
Nonfarm payroll employment	3.0	3.2	0.9	2.9	2.3	1.1	0.6	-0.6	0.0	3.4
Manufacturing	2.1	1.5	-2.1	0.0	2.0	-2.0	-4.0	-4.0	-4.1	4.1
Industrial production	4.7	4.4	-2.3	5.6	3.9	-5.7	-7.2	-2.8	2.4	4.7
Housing starts, private	16.7	-3.3	-20.4	-48.3	-21.5	-33.8	-56.8	-35.6	48.8	52.2
Sales new domestic autos	14.0	-1.9	-8.4	8.4	-4.2	-15.1	-31.0	13.3	0.0	12.9

* Based on deflators calculated to three decimals.

^{1/} Excluding Federal pay increase 4.3 per cent.

CONSUMER DURABLE GOODS
Per cent change from previous quarter

	1969			1970
	II	III	IV	Ie
Personal consumption, in constant dollars (GNP)	1.9	-1.4	- .7	- 2.0
Production (FRB)				
Total, consumer dur. goods	- .7	1.4	- 7.0	- 6.0
Automotive products	-3.0	5.9	- 7.4	-12.0
Autos	-6.7	12.9	-12.9	-15.0
Home goods	.8	-1.4	- 6.7	- 1.0
Inventories				
Autos	-9.2	9.8	1.9	- 5.0
Home goods				
Factory	0.1	7.8	- 8.4	- 8.0
Retail stores*	-4.2	1.9	2.0	- 2.0

e - Estimated.

* Current dollars.

If the G.E. strike is settled this week, the rise in output of home goods in February should about offset the decline indicated in automotive products. The settlement would also result in an increase in production of business and defense equipment and industrial materials which should counter-balance decreases in other industrial materials and products. The net result of the return to work at G.E. would appear to be little changed in February in the total industrial production index.

Retail sales. Weekly figures suggest that January sales may have been about unchanged both from the December level and the fourth quarter average. A sizable decline is indicated in sales at durable goods stores, largely because of the sharp drop in deliveries of new cars. Sales at most types of nondurable goods stores apparently rose in January.

Although there was some decline in new stock offerings in January, probably reflecting the decline in stock prices, gross new corporate financing for the month is estimated to have been about \$2.6 billion. Staff projections for the balance of the quarter assume that low corporate liquidity, reduced cash flow, and limited availability of bank credit will continue to result in a high pace of new issue volume. February public bond issues are now estimated at about \$1.3 billion. Underwriters report that stock issue volume will rise from the January level, as a number of utilities seek to reduce their debt-equity ratios. This quarter's stock total will also be swelled by a \$500 million rights offer by a major oil company in March. Taking into account a probable downward drift in private placements, reflecting prior decreases in insurance company commitments,^{1/} the staff estimates that total corporate security offerings will be about \$2.4 billion in February and somewhat higher in March.

CORPORATE SECURITY OFFERINGS^{1/}
(Monthly or monthly averages
in millions of dollars)

	Bonds				Stocks		Total	
	Public Offerings		Private Placements		1969	1970	1969	1970
	1969	1970	1969	1970				
Year	1,052e	--	513e	--	711e	--	2,280e	--
Q I	886	1,417e	513	433e	674	750e	2,073	2,600e
January	980	1,550e	636	500e	460	550e	2,075	2,600e
February	842	1,300e	395	400e	807	700e	2,045	2,400e
March	835	1,400e	509	400e	755	1,000e	2,098	2,800e

^{1/} Data are gross proceeds.

_{e/} Data estimated.

^{1/} For full information on the activity of life insurance companies in 1969, see Appendix A.

on shorter maturities have caused a reversal of earlier optimism and municipal yields have risen 25 basis points from the low. At the end of January the Bond Buyer index was only 12 basis points below its December 1969 peak.

LONG-TERM STATE AND LOCAL GOVERNMENT OFFERINGS
(Monthly or monthly averages
in millions of dollars)

	1969	1970
Year	983	--
QI	929	1,067e
January	1,262	1,200e
February	987	1,000e
March	538	1,000e

e -- Estimated.

Because of the ever-growing backlog of displacements and the steady build-up in the forward calendar, the staff estimates that February and March volume will decrease only slightly, if at all,^{1/} In addition to the raising of interest rate ceilings by several large borrowers in late 1969, legislation to relax rate limitations is now under consideration in a number of other areas.

^{1/} The results of the Board's survey of state and local borrowing plans for the fourth quarter will not be available until mid-February.

Federal finance. The Administration's new Budget projects small unified budget surpluses in the current fiscal year and in Fiscal 1971, are as follows:

UNIFIED BUDGET
(Billions of Dollars)

	Fiscal years		
	1969 Actual	1970 estimated	1971
Receipts	187.8	199.4	202.1
Outlays	184.6	197.9	200.8
Expenditures	(183.1)	(195.0)	(200.1)
Net lending	(1.5)	(2.9)	(0.7)
Budget surplus	3.2	1.5	1.3

Growth of Federal outlays is expected to slow sharply in fiscal 1971 to an increase of \$2.9 billion (compared to increases of \$5.8 billion and \$13.3 billion in fiscal 1969 and 1970, respectively) despite an expected \$6.8 billion increase in outlays for social security and public assistance. To achieve this small net increase in outlays the Administration plans, among other things, a \$5.8 and \$.5 billion cut in the defense and space programs, respectively, as well as \$2.2 billion reduction in net lending and a \$.9 billion reduction in net outlays for the Post Office.

CHANGES IN TOTAL BUDGET OUTLAYS FROM YEAR PRECEDING
(In billions of dollars)

	Fiscal Year	
	1970	1971
Total outlays	<u>13.3</u>	<u>2.9</u>
Net lending	<u>1.4</u>	<u>-2.2</u>
Expenditures, excluding net lending	<u>11.9</u>	<u>5.1</u>
National defense	- 1.8	-5.8
Space	- .4	- .5
Post Office	.3	- .9
Social insurance trust funds	5.8	6.0
Public assistance (including medicaid)	1.2	.8
Future federal pay raises <u>1/</u>	.2	1.2
Family assistance and revenue sharing programs	--	.8
All other, net <u>2/</u>	6.6	3.5

1/ Includes certain postal pay adjustments projected for fiscal year 1970.

2/ For fiscal 1971, includes negative expenditures in the amount of \$0.8 billion resulting from sales of stockpiled commodities.

As indicated in the table some of the Administration's new proposals, such as the family assistance and revenue sharing programs, are scheduled to be introduced only on a modest scale in fiscal 1971, and thus their major impact will be delayed until after that. The Budget also calls for the Federal pay increase to be deferred six months beyond the present schedule, that is, until January 1971.

The \$197.9 billion estimate of outlays for the current fiscal year is \$5.0 billion above the level projected in the Summer Budget Review and about \$2.2 billion above the estimated level of the Congressionally imposed ceiling on outlays. The President requested a change in the ceiling in his budget message.

The \$5 billion upward revision in current year outlays is chiefly accounted for by increased payments for social security programs, higher interest costs, and a postponement until the next fiscal year of planned sales of financial assets, such as Farmers' Home Administration loans.

Total tax receipts in the budget message are expected to increase \$11.6 billion in the current fiscal year and by \$2.7 billion in fiscal 1971. The lower increase in receipts in fiscal 1971 results from the expiration of the surtax and the recent enactment of the Tax Reform Act of 1969--a total reduction of \$9.6 billion from fiscal 1970 levels--and from reduced economic expansion. Partially offsetting the effect of tax rate reductions and lessened growth are (1) a planned Administration action to speed up the collection of excise taxes and withheld income taxes, yielding a one-time \$1.2 billion increase in fiscal 1971 and (2) several new legislative proposals to increase tax receipts by a total of \$1.6 billion, which are listed in the following table.

CHANGES IN BUDGET RECEIPTS
FISCAL 1970 to FISCAL 1971
(Billions of dollars)

	Changes
Growth in receipts under Dec. 1969 tax rates	8.5
Change in receipts under existing laws	<u>-7.4</u>
Speed up of collections of excise and income taxes	1.2
Social security rate increase (Jan. 1, 1971)	1.6
Expiration of surcharge	-8.5
Other effects of Tax Reform Act, net	-1.1
Scheduled decrease in excise tax rates (Jan. 1, 1971)	- .6
Total receipts under existing law	<u>1.1</u>
Increased receipts under proposed legislation	<u>1.6</u>
Transportation user charges	.7
Extension of excise tax rates (to Jan. 1, 1972)	.6
Increased social security wage base (Jan. 1, 1971)	.2
Increased railroad retirement revenues	.1
Total projected change in receipts	<u>2.7</u>

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Jan.	Feb.	March	April
<u>Borrowing operations</u>				
New cash raised				
Unspecified new borrowing	--	--	2.5	2.5
Weekly and monthly bills	.5	--	--	--
Tax bills	--	--	--	--
Coupon issues	--	--	--	--
Other (agency, debt repayment, etc.)	-.4	-.3	-2.2	-3.1
Total net borrowing from public	.1	-.3	.3	- .6
Plus: Other net financial sources ^{a/}	.8	-.5	1.3	-1.1
Plus: <u>Budget surplus or deficit</u> (-)	.2	-.2	-2.9	5.2
Equals: <u>Change in cash balance</u>	1.1 ^{b/}	-1.0	-1.3	3.5
Memoranda: Level of cash balance end of period	6.4 ^{b/}	5.4	4.1	7.6
Derivation of budget surplus or deficit				
Budget receipts	16.5	15.3	14.0	23.2
Budget outlays	16.3	15.5	16.9	18.0

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

^{b/} Actual

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

	Fiscal 1970e/		Fiscal 1971e/	Calendar Years		Calendar Quarters				
	Jan.	F.R.	January			1969	1970 1/			
	Budget	Board	Budget	1969	1970 ^{1/}	IV	I	II	III	IV
<u>Quarterly data, unadjusted</u>										
New budget:										
Surplus/deficit	1.5	-.9	1.3	5.3	-3.3	-5.7	-2.9	10.2	-2.3	-8.3
Receipts	199.4	197.0	202.1	195.6	195.2	42.9	45.8	60.5	47.2	41.7
Total expenditures and net lending	197.9	197.9	200.8	190.3	198.5	48.5	48.7	50.3	49.5	50.0
Means of financing:										
Total borrowing from the public	-2.6	2.7 ^{2/}	-1.2	-4.1	4.2	5.1	.1	-5.7	1.7	8.1
Decrease in cash operating balance		-1.7		-.6	-.7	1.3	1.2	-3.5	.6	1.0
Other ^{3/}	n.a.	-.2	n.a.	-.7	-.2	-.8	1.6	-1.0	--	-.8
Cash operating balance, end of period		7.6		5.3	6.0	5.3	4.1	7.6	7.0	6.0
<u>Seasonally adjusted annual rate</u>										
Federal surplus/deficit										
in national income accounts	3.6	2.0	1.6	9.6	-4.6	7.2	-.2	-6.7	-7.1	-4.4
Receipts	201.7	200.1	205.4	201.5	196.5	203.4	197.2	198.5	193.9	196.5
Expenditures	198.1	198.1	203.8	191.9	201.1	196.2	197.4	205.2	201.0	200.9
High employment budget surplus/deficit ^{1/}	n.a.	6.6	n.a.	9.6	5.2	10.0	6.1	2.7	4.1	8.0

e--Projected.

n.a.--Not available.

^{1/} Estimated by Federal Reserve staff.

^{2/} Excludes effect of reclassification of \$1.6 billion of CCC certificates of interest from Budget transactions to borrowing from the public.

^{3/} Includes such items as deposit fund accounts and clearing accounts.

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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

February 6, 1970

Corrections

Page I - 3, line 7. Substitute pressure for "business" near the end of the sentence.

Page I - 7. The second sentence under "Balance of Payments Outlook" should read: "The December dip in imports held down the fourth-quarter advance in imports to less than we had expected".

Page III - 20. The new 8-1/8 per cent note has a 42-month maturity rather than the 39-months stated in the Greenbook.

Page IV - 13. In the table on this page, the estimated rate of increase in Japanese real GNP from the second half of 1968 to the second half of 1969 should be 14 per cent. For Germany, in place of the OECD projection of a 3.3 per cent rise in real GNP from the second half of 1969 to the second half of 1970, the Board staff projects a 4-1/4 per cent increase.

Page IV - C - 1. In the U.S. merchandise trade chart (in the top left position on this page) the import moving average for October-December should be \$37.7 billion, annual rate, instead of \$35.9 billion (which was the one-month annual rate in December).

Page II - 17, line 7. 548,000 should be 654,000.