

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

April 1, 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	932.1	980.2	924.8	942.8	952.2	958.7	970.3	987.1	1004.6
Final sales	858.4	924.1	977.1	917.9	932.0	944.5	955.5	967.8	984.1	1001.1
Private	658.1	709.5	755.4	705.0	715.0	726.2	737.2	748.7	760.5	775.1
Excluding net exports	655.6	707.4	751.7	703.4	712.3	723.5	733.2	744.4	757.6	771.5
Personal consumption expenditures	536.6	576.0	616.0	572.8	579.8	589.5	598.9	610.6	622.3	632.3
Durable goods	83.3	89.8	91.5	90.6	89.8	90.4	90.0	91.0	92.0	93.0
Nondurable goods	230.6	243.6	260.7	242.1	245.1	248.7	253.3	258.5	263.7	267.3
Services	222.8	242.6	263.8	240.1	244.9	250.3	255.6	261.1	266.6	272.0
Gross private domestic investment	126.3	139.4	138.7	137.4	143.3	141.8	137.5	136.3	138.3	142.6
Residential construction	30.2	32.2	28.7	32.7	31.4	31.6	30.2	27.3	27.3	30.1
Business fixed investment	88.8	99.2	106.9	97.8	101.1	102.5	104.1	106.5	108.0	109.0
Change in business inventories	7.3	8.0	3.1	6.9	10.7	7.7	3.2	2.5	3.0	3.5
Nonfarm	7.4	7.8	3.0	6.7	10.3	7.4	3.0	2.5	3.0	3.5
Net exports of goods and services	2.5	2.1	3.7	1.6	2.7	2.7	4.0	4.3	2.9	3.6
Gov't. purchases of goods & services	200.3	214.6	221.8	212.9	217.0	218.3	218.3	219.1	223.6	226.0
Federal	99.5	101.9	98.8	100.6	103.2	102.3	100.1	98.1	99.1	98.0
Defense	78.0	79.2	75.2	78.5	80.3	79.2	77.2	75.0	75.0	73.5
Other	21.5	22.7	23.7	22.1	22.9	23.1	22.9	23.1	24.1	24.5
State & local	100.7	112.7	122.9	112.3	113.8	116.0	118.2	121.0	124.5	128.0
Gross national product in constant (1958) dollars	707.6	727.5	731.6	726.7	730.6	729.8	727.1	728.6	732.2	738.5
GNP implicit deflator (1958 = 100)	122.3	128.1	134.0	127.3	129.0	130.5	131.9	133.2	134.8	136.0
Personal income	687.9	747.2	798.8	740.5	756.5	767.4	777.5	794.4	805.9	817.4
Wages and salaries	465.0	509.9	544.6	504.3	516.9	525.0	531.5	538.1	549.7	559.0
Disposable income	590.0	629.7	679.7	622.0	639.0	647.5	659.5	674.0	688.1	697.0
Personal saving	38.4	37.6	46.9	33.3	43.1	41.7	44.1	46.7	49.0	47.6
Saving rate (per cent)	6.5	6.0	6.9	5.3	6.7	6.4	6.7	6.9	7.1	6.8
Corporate profits before tax	91.1	93.8	85.6	95.4	92.5	91.6	86.0	85.0	85.0	86.5
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	176.3	201.5	197.6	202.8	201.3	203.3	196.7	198.7	195.8	199.0
Expenditures	181.5	192.0	203.6	189.3	193.6	196.7	198.4	205.8	205.0	205.1
Surplus or deficit (-)	-5.2	9.5	-6.0	13.5	7.7	6.7	-1.7	-7.1	-9.2	-6.1
Total labor force (millions)	82.3	84.2	85.9	83.9	84.6	85.0	85.6	85.7	85.9	86.2
Armed forces "	3.5	3.4	3.2	3.5	3.5	3.5	3.3	3.2	3.1	3.1
Civilian labor force "	78.7	80.7	82.7	80.4	81.0	81.5	82.3	82.5	82.8	83.1
Unemployment rate (per cent)	3.6	3.5	4.5	3.5	3.6	3.6	4.2	4.4	4.7	4.9
Nonfarm payroll employment (millions)	67.9	70.1	71.0	70.0	70.4	70.6	70.9	70.8	71.0	71.4
Manufacturing	19.8	20.1	19.8	20.1	20.2	20.1	19.9	19.7	19.7	19.8
Industrial production (1957-59=100)	165.5	172.8	170.3	172.6	174.3	171.9	169.5	169.0	170.2	172.5
Capacity utilization, manufacturing (per cent)	84.6	83.7	78.3	84.5	84.2	81.7	79.2	78.2	77.8	77.8
Housing starts, private (millions A.R.)	1.51	1.46	1.18	1.51	1.43	1.33	1.22	1.03	1.15	1.30
Sales new domestic autos (millions, A.R.)	8.62	8.46	7.73	8.54	8.45	8.13	7.41	7.75	7.75	8.00

* Assumes pay increase for postal workers in 70-II (\$.4 billion with half retroactive for 70-I) and in 70-III (\$.2 billion) and for Federal civil service employees and military personnel in 70-III (totaling \$2.8 billion).

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	66.4	48.1	16.1	18.0	9.4	6.5	11.6	16.8	17.5
Inventory change	-0.1	0.7	-4.9	0.3	3.8	-3.0	-4.5	-0.7	0.5	0.5
Final sales	72.2	65.7	53.0	15.8	14.1	12.5	11.0	12.3	16.3	17.0
Private	52.0	51.4	45.9	12.9	10.0	11.2	11.0	11.5	11.8	14.6
Excluding net exports	54.7	51.8	44.3	12.8	8.9	11.2	9.7	11.2	13.2	13.9
Net exports	-2.7	-0.4	1.6	0.1	1.1	0.0	1.3	0.3	-1.4	0.7
Government	20.2	14.3	7.2	2.9	4.1	1.3	0.0	0.8	4.5	2.4
GNP in constant (1958) dollars	33.0	19.9	4.1	3.6	3.9	-0.8	-2.7	1.5	3.6	6.3
Final sales	33.3	19.6	8.4	3.5	0.6	1.8	1.2	2.2	3.1	6.0
Private	24.9	18.3	12.1	3.9	1.4	2.8	2.8	3.2	3.3	5.9
-----In Per Cent Per Year-----										
Gross National Product	9.1	7.7	5.2	7.1	7.8	4.0	2.7	4.8	6.9	7.1
Final sales	9.2	7.7	5.7	7.0	6.1	5.4	4.7	5.1	6.7	6.9
Private	8.5	7.8	6.5	7.5	5.7	6.3	6.1	6.2	6.3	7.7
Personal consumption expenditures	9.0	7.3	6.9	7.7	4.9	6.7	6.4	7.8	7.7	6.4
Durable goods	14.1	7.8	1.9	10.0	-3.5	2.7	-1.8	4.4	4.4	4.3
Nondurable goods	7.2	5.6	7.0	5.9	5.0	5.9	7.4	8.2	8.0	5.5
Services	9.1	8.9	8.7	8.7	8.0	8.8	8.5	8.6	8.4	8.1
Gross private domestic investment	8.9	10.4	-0.5	6.5	17.2	-4.2	-12.1	-3.5	5.9	12.4
Residential construction	20.8	6.6	-10.9	-7.2	-15.9	2.5	-17.7	-38.4	0.0	41.0
Business fixed investment	6.1	11.7	7.8	10.5	13.5	5.5	6.2	9.2	5.6	3.7
Gov't purchases of goods & services	11.2	7.1	3.4	5.5	7.7	2.4	0.0	1.5	8.2	4.3
Federal	9.7	2.4	-3.0	-3.9	10.3	-3.5	-8.6	-8.0	4.1	-4.4
Defense	7.7	1.5	-5.1	-2.5	9.2	-5.5	-10.1	-11.4	0.0	-8.0
Other	16.8	5.6	4.4	-8.9	14.5	3.5	-3.5	3.5	17.3	6.6
State & local	12.8	11.9	9.1	14.0	5.3	7.7	7.6	9.5	11.6	11.2
GNP in constant (1958) dollars	4.9	2.8	0.7	2.0	2.1	-0.4	-1.5	0.8	2.0	3.5
Final sales	5.0	2.8	1.2	2.0	0.3	1.0	0.7	1.2	1.7	3.3
Private	4.7	3.3	2.1	2.8	1.0	2.0	2.0	2.2	2.3	4.0
GNP implicit deflator *	4.0	4.7	4.6	5.1	5.6	<u>1/</u> 4.5	4.2	4.0	4.9	<u>2/</u> 3.6
Personal income	9.3	8.6	6.9	8.9	8.6	5.8	5.3	8.7	5.8	5.7
Wages and salaries	9.8	9.7	6.8	8.9	10.0	6.3	5.0	5.0	8.6	6.8
Disposable income	8.0	6.7	7.9	7.7	10.9	5.3	7.4	8.8	8.4	5.2
Corporate profits before tax	13.4	3.0	-8.7	0.4	-12.2	-3.9	-24.5	-4.6	0.0	7.1
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	16.7	14.3	-1.9	8.5	-3.0	4.0	-13.0	4.1	-5.8	6.5
Expenditures	10.8	5.8	6.0	1.7	9.1	6.4	3.5	14.9	-1.6	0.2
Nonfarm payroll employment	3.0	3.4	1.3	3.3	2.0	1.5	1.7	-0.6	1.1	2.3
Manufacturing	2.1	1.8	-1.5	1.6	1.8	-3.4	-4.0	-4.0	0.0	2.0
Industrial production	4.7	4.4	-1.4	5.6	3.9	-5.5	-5.6	-1.2	2.8	5.4
Housing starts, private	16.7	-2.7	-19.3	-48.3	-21.5	-28.8	-31.9	-64.8	48.8	52.2
Sales new domestic autos	14.0	-1.9	-8.7	8.4	-4.2	-15.1	-35.4	18.4	0.0	12.9

* Based on deflators calculated to three decimals.

^{1/} Excluding Federal pay increase 4.3 per cent per year.^{2/} Excluding Federal pay increase 3.8 per cent per year.

CORPORATE SECURITY OFFERING ^{1/}
(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	866	1,537e	513	333e	674	700e	2,073	2,537e
March	835	1,900e	509	400e	755	1,100e	2,098	3,400
April	1,268	1,500e	649	300e	830	600e	2,748	2,400e
May	871	2,700e	510	300e	694	700e	2,076	3,700e
April-May Avg. ^{2/}	1,070	2,100e	580	300e	762	650e	2,412	3,050e

^{1/} Data are gross proceeds.

^{2/} An AT&T bond subscription offer will be made on April 13 and the rights will expire on May 18. The two-month average distributes the impact of this offering, which is large enough to distort month-to-month changes substantially.

e/ Estimated.

While the staff now expects a decline in public bond issues to about \$1.5 billion in April, the volume will remain quite large by 1969 standards and will continue to include a large share of industrial issues.^{1/} Moreover, a \$1.6 billion AT&T offering to stockholders will begin in April, although it will appear in the Board's May statistics because the rights expire in that month. The staff estimates that May volume of public bond offerings, including the AT&T issue, will rise to \$2.7 billion as utilities and manufacturing corporations continue to seek to improve their liquidity position. Perhaps more

^{1/} For an analysis of the changing composition of public bond offerings, see Appendix A.

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

	1969	1970
Year	990	--
Q 1	927	1,308e
March	538	1,400e
April	1,801	1,500e
May	1,110	1,300e

Government securities market. Yields on Treasury obligations increased somewhat just after the last meeting of the Committee, particularly in the intermediate- and longer-term coupon sector where the extraordinarily large calendar of corporate bond offerings encouraged switching from Governments. At mid-month, however, signs of an easier stance for monetary policy rallied the market once again, and yields on Treasury notes and bonds moved back below the most recent lows reached earlier in March.

WEEKLY AVERAGE INVESTMENT YIELDS ON TREASURY BILLS
AND C.D. CEILINGS
(Per cent)

	Bills		C.D. Ceilings
	March 10	March 31	
1-month	6.60	6.66	6.25
3-month	7.07	6.47	6.75
6-month	7.06	6.70	7.00
1-year	7.03	6.73	7.50

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	March	April	May	June
<u>Borrowing operations</u>				
New cash raised				
Unspecified new borrowing	--	--	--	--
Weekly and monthly bills	.8	.7	.3	.2
Tax bills	3.5	--	--	--
Coupon issues	--	--	--	--
Other (agency, debt repayment, etc.)	-1.9	-4.9	- .6	-4.5
Total net borrowing from public	2.4	-4.2	- .3	-4.3
Plus: Other net financial sources ^{a/}	1.0	-1.1		- .9
Plus: <u>Budget surplus or deficit (-)</u>	-3.1	5.9	-4.2	8.7
Equals: <u>Change in cash balance</u>	.3 ^{b/}	.6	-3.5	3.5
Memoranda: Level of cash balance end of period	6.9 ^{b/}	7.5	4.0	7.5
Derivation of budget surplus or deficit				
Budget receipts	13.7	23.7	13.2	24.4
Budget outlays	16.8	17.8	17.4	15.7

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

b/ Actual

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

	Fiscal 1970 e/		Fiscal 1971 e/	Calendar Years			Calendar Quarters				
	Jan.	F.R.	January	1969	1970	1/1969	1970 1/				
	Budget	Board	Budget			IV	I	II	III	IV	
<u>Federal Budget</u>											
(Quarterly data, unadjusted)											
Surplus/deficit	1.5	-.9	1.3	5.3	-4.4	-5.7	-3.2	10.4	-5.2	-6.4	
Receipts	199.4	197.0	202.1	195.6	196.6	42.9	44.9	61.3	47.7	42.7	
Outlays	197.9	197.9	200.8	190.3	201.0	48.5	48.1	50.9	52.9	49.1	
Means of financing:											
Net borrowing from the public	-2.6	1.6 ^{2/}	-1.2	-4.1	3.5	5.1	2.1	-8.8	4.2	6.0	
Decrease in cash operating balance		-1.6		-.6	--	1.3	-1.6	-.6	1.0	1.2	
Other ^{3/}	n.a.	.9	n.a.	-.7	.9	-.8	2.7	-1.0	--	-.8	
Cash operating balance, end of period		7.5		5.3	5.3	5.3	6.9	7.5	6.5	5.3	
<u>National Income Sector</u>											
(Seasonally adjusted annual rate)											
Surplus/deficit	3.6	1.4	1.6	9.6	-6.0	6.7	-1.7	-7.1	-9.2	-6.1	
Receipts	201.7	200.0	205.4	201.6	197.6	203.3	196.7	198.7	195.8	199.0	
Expenditures	198.1	198.6	203.8	192.0	203.6	196.7	198.4	205.8	205.0	205.1	
High employment budget surplus/deficit ^{1/}	n.a.	6.1	n.a.	9.5	3.4	9.7	5.0	2.0	1.4	5.0	

e--Projected.

n.a.--Not available

^{1/} Estimated by Federal Reserve Board 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.

for individual, as well as institutional, investors during the stock market decline, as they have normally been offered at a slight yield premium over longer-term investments. And choosing this financing option effectively reduces potential interest cost to the borrower as well. While most carry no-call-prior-to-maturity provisions, some include an option--exercisable by the investor--to have the bond mature before the certificate maturity, or accept a lower-than-coupon yield from that date to maturity. This effectively reduces the borrower risk of being locked into high costs over the long-term and/or calling longer-term bonds at high prices in 5 years (assuming lower future interest rates, of course).

Although corporate bond yields declined early this year, the substantial volume of current and prospective new issues led to a reversal of bond yields in March. However, the recent yield increase was probably restrained somewhat by the compositional change in bond offerings, as the characteristics of industrial and intermediate-term issues generated some increase in investor interest. Industrial bonds, relative to comparably-rated utility bonds, tend to carry lower yields because of their longer call protection--10 years as compared with 5-years on utilities. In addition, individual industrial firms tend to be infrequent issuers of straight debt, in contrast to the heavy issuance by individual utilities. Bond portfolio managers, therefore, have relatively limited opportunities to acquire new debt of selected industrial firms and, as a result, the debt issues of such firms are priced somewhat higher. Finally, the substitution of intermediate-term offerings for longer-term issues has served to reduce pressure on long-term markets.