

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

June 2, 1971

The outlook for the second half of the year still suggests a moderate strengthening of the economy, although by somewhat less than we had projected in the last Greenbook. We continue to assume a steel strike of about 60 days duration beginning August 1. Inventory accumulation should drop sharply as a result of a runoff of steel stocks in the third quarter, but rebound in the fourth.

GNP AND RELATED ITEMS, 1971
(Changes in seasonally adjusted totals at annual rates)

	Third Quarter		Fourth Quarter	
	Proj. of 4/28/71	Current	Proj. of 4/28/71	Current
-----Billions of dollars-----				
GNP	19.0	18.5	26.0	24.5
Final sales	23.0	22.0	21.0	19.0
Personal consumption	13.4	13.0	12.9	13.0
Residential construction	.8	1.4	.7	1.3
Business fixed investment	1.0	.5	1.5	.5
Net exports	.0	.0	.0	.0
Federal purchases	3.6	2.9	1.7	.0
State & local purchases	4.2	4.2	4.2	4.2
Inventory change	-4.0	-3.5	5.0	5.5
-----Per Cent Per Year-----				
Real GNP	2.4	2.1	6.0	5.3
GNP deflator	4.9 <u>1/</u>	4.9 <u>2/</u>	3.8	3.9
<u>1/</u> Excluding effects of Federal pay increase, 4.0 per cent.				
<u>2/</u> Excluding effects of Federal pay increase, 4.25 per cent.				

For the third quarter, we are projecting a GNP increase of \$18-1/2 billion, about the same as last month. Recent survey results suggest an even more modest growth in capital spending than we had been projecting for the second half. We continue to anticipate a pay

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of dollars, with quarter figures at annual rates.)

	1970	1971 Proj.	1970		I	1971 Projection		
			III	IV		II	III	IV
Gross National Product	976.5	1050.7	985.5	989.9	1020.7	1040.2	1058.7	1083.2
Final purchases	973.1	1047.3	980.0	986.3	1019.3	1035.7	1057.7	1076.7
Private	752.6	812.3	759.0	763.1	790.6	804.7	819.6	834.4
Excluding net exports	749.0	809.6	754.8	760.5	787.3	802.2	817.1	831.9
Personal consumption expenditures	616.7	664.9	622.1	627.0	646.4	658.0	671.0	684.0
Durable goods	89.4	99.8	91.2	85.3	97.5	98.5	100.5	102.5
Nondurable goods	264.7	280.5	265.8	271.5	272.8	278.0	283.0	288.0
Services	262.6	284.6	265.1	270.2	276.1	281.5	287.5	293.5
Gross private domestic investment	135.7	148.1	138.3	137.1	142.4	148.7	147.1	154.4
Residential construction	29.7	38.6	29.2	32.2	35.8	38.2	39.6	40.9
Business fixed investment	102.6	106.1	103.6	101.3	105.1	106.0	106.5	107.0
Change in business inventories	3.5	3.4	5.5	3.6	1.4	4.5	1.0	6.5
Nonfarm	2.9	3.3	5.0	3.0	1.2	4.5	1.0	6.5
Net exports of goods and services	3.6	2.7	4.2	2.6	3.3	2.5	2.5	2.5
Gov't. purchases of goods & services	220.5	235.0	221.0	223.2	228.7	231.0	238.1	242.3
Federal	99.7	99.3	98.6	98.2	98.4	97.7	100.6	100.6
Defense	76.6	73.4	75.8	74.6	74.0	73.0	73.9	72.9
Other	23.1	25.9	22.9	23.5	24.5	24.7	26.7	27.7
State & local	120.9	135.7	122.4	125.0	130.2	133.3	137.5	141.7
Gross national product in constant (1958) dollars	724.1	741.1	727.4	720.3	732.7	738.0	742.0	751.8
GNP implicit deflator (1958 = 100)	134.9	141.8	135.5	137.4	139.3	140.9	142.7	144.1
Personal income	801.0	857.4	807.2	813.3	831.5	851.2	864.2	882.6
Wage and salary disbursements	540.1	576.5	543.8	545.2	560.6	570.2	580.9	594.4
Disposable income	684.8	734.9	693.0	697.2	715.1	731.5	740.7	752.4
Personal saving	50.2	50.7	52.7	51.8	49.8	54.3	50.1	48.7
Saving rate (per cent)	7.3	6.9	7.6	7.4	7.0	7.4	6.8	6.5
Corporate profits before tax	81.3	90.5	84.4	76.3	86.4p	89.5	91.0	95.0
Corp. cash flow, net of div. (domestic)	69.9	77.2	70.7	67.7	74.1p	76.3	77.9	80.6
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	194.8	208.5	194.9	191.7	200.8p	205.3	209.8	217.9
Expenditures	206.3	223.5	206.7	209.9	214.2	222.8	227.3	229.9
Surplus or deficit (-)	-11.5	-15.0	-11.8	-18.1	-13.3p	-17.5	-17.5	-12.0
High employment surplus or deficit (-)	-0.8	0.3	-1.7	1.3	1.3	-1.8	-1.0	2.6
Total labor force (millions)	85.9	87.0	86.0	86.5	86.5	86.8	87.1	87.5
Armed forces "	3.2	2.8	3.1	3.0	3.0	2.9	2.8	2.7
Civilian labor force "	82.7	84.2	82.8	83.5	83.6	84.0	84.3	84.8
Unemployment rate (per cent)	4.9	6.2	5.2	5.9	5.9	6.2	6.4	6.4
Nonfarm payroll employment (millions)	70.7	70.9	70.5	70.2	70.6	70.8	70.9	71.1
Manufacturing	19.4	18.7	19.3	18.7	18.7	18.7	18.6	18.9
Industrial production (1957-59=100)	168.2	167.3	167.9	162.7	165.4	166.5	167.2	170.0
Capacity utilization, manufacturing (per cent)	76.6	72.8	76.2	72.4	73.1	72.8	72.3	72.8
Housing starts, private (millions A.R.)	1.43	1.97	1.51	1.78	1.81	1.95	2.05	2.08
Sales new domestic autos (millions, A. R.)	7.12	8.42	7.58	5.44	8.39	8.40	8.40	8.50

NOTE: Projection of related items such as employment and industrial production index are based on projection of deflated GNP. Federal budget high employment surplus or deficit (N.I.A. basis) are staff estimates and projections by method suggested by Okun and Feeters.

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1970	1971 Proj.	1970		1971 Projection			
			III	IV	I	II	III	IV
-----Billions of dollars-----								
Gross National Product	45.1	74.2	14.4	4.4	30.8	19.5	18.5	24.5
Inventory change	-5.0	-0.1	2.4	-1.9	-2.2	3.1	-3.5	5.5
Final purchases	50.2	74.3	11.9	6.3	33.0	16.4	22.0	19.0
Private	41.9	59.7	9.3	4.1	27.5	14.1	14.9	14.8
Excluding net exports	40.2	60.6	9.2	5.7	26.8	14.9	14.9	14.8
Net exports	1.7	-0.9	0.1	-1.6	0.7	-0.8	0.0	0.0
Government	8.3	14.5	2.6	2.2	5.5	2.3	7.1	4.2
GNP in constant (1958) dollars	-3.0	17.0	2.5	-7.1	12.4	5.3	4.0	9.8
Final purchases	1.2	17.3	0.9	-5.7	14.4	3.0	6.6	5.3
Private	7.2	18.6	1.6	-5.4	14.6	3.5	5.2	5.1
-----In Per Cent Per Year-----								
Gross National Product	4.8	7.6	5.9 ^{1/}	1.8 ^{1/}	13.1 ^{1/}	7.6	7.1	9.3
Final purchases	5.4	7.6	4.9	2.6	13.4	6.4	8.5	7.2
Private	5.9	7.9	5.0	2.2	14.4	7.1	7.4	7.2
Personal consumption expenditures	6.8	7.8	5.0	3.1	12.4	7.2	7.9	7.7
Durable goods	-0.7	11.6	-3.0	-25.9	57.2	4.1	8.1	8.0
Nondurable goods	7.7	6.0	4.9	8.6	1.9	7.6	7.2	7.1
Services	8.7	8.4	8.0	7.7	8.7	7.8	8.5	8.3
Gross private domestic investment	-2.9	9.2	11.9	-3.5	15.5	17.7	-4.3	19.8
Residential construction	-7.2	30.0	11.3	41.1	44.7	26.8	14.7	13.1
Business fixed investment	3.3	3.4	3.1	-8.9	15.0	3.4	1.9	1.9
Gov't. purchases of goods & services	3.9	6.6	4.8	4.0	9.9	4.0	12.3	7.1
Federal	-1.6	-0.4	-4.4	-1.6	0.8	-2.8	11.9	0.0
Defense	-2.8	-4.0	-5.2	-6.3	-3.2	-5.4	4.9	-5.4
Other	2.2	12.1	0.0	10.5	17.0	3.3	32.4	15.0
State & local	9.1	12.2	12.5	8.5	16.6	9.5	12.6	12.2
GNP in constant (1958) dollars	-0.4	2.4	1.4 ^{1/}	-3.9 ^{1/}	7.1 ^{1/}	2.9	2.1	5.3
Final purchases	0.2	2.4	0.5 ^{1/}	-3.2 ^{1/}	8.1	1.6	3.6	2.9
Private	1.3	3.2	1.1 ^{1/}	-3.7 ^{1/}	10.1	2.4	3.5	3.4
GNP implicit deflator	5.3	5.1	4.6 ^{1/}	5.9 ^{1/}	5.6 ^{1/}	4.7	4.9 ^{2/}	3.9
Private GNP fixed weight index ^{3/}	4.9	4.8	4.6 ^{1/}	4.9 ^{1/}	5.2 ^{1/}	4.6	4.1	3.9
Personal income	7.0	7.0	2.9	3.0	9.0	9.5	6.1	8.5
Wage and salary disbursements	6.1	6.7	3.2	1.0	11.3	6.8	7.5	9.3
Disposable income	8.4	7.3	5.5	2.4	10.3	9.2	5.0	6.3
Corporate profits before tax	-10.9	11.3	14.6	-38.4	52.9	14.4	6.7	17.6
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	-2.9	7.0	-2.4	-6.6	19.0	9.0	8.8	15.4
Expenditures	7.8	8.3	11.5	6.2	8.2	16.1	8.1	4.6
Nonfarm payroll employment	0.6	0.3	-2.0	-1.8	2.5	1.1	0.6	1.1
Manufacturing	-3.9	-3.4	-6.0	-13.1	1.1	0.0	-2.1	6.5
Industrial production	-2.7	-0.5	-3.3	-12.4	6.6	2.5	1.7	6.7
Housing starts, private	-2.6	37.7	70.3	70.1	7.4	31.2	20.3	6.4
Sales new domestic autos	-15.9	18.3	-18.3	-112.7	216.4	0.6	0.0	4.8

^{1/}Compounded rates.^{2/}Excluding effects of military pay increase, 4.25 per cent.^{3/}Using expenditures in 1965-IV as weights.

QUARTERLY PATTERN OF EXPENDITURE
FOR NEW PLANT AND EQUIPMENT
(Billions of dollars, seasonally adjusted, annual rates)

	1970		I Actual	1971		
	III Actual	IV		II Anticipated	III Anticipated	IV
Total	81.9	78.6	79.3	82.4	82.8	82.7
[Addendum: Total as shown in February 1971 survey	81.9	78.6	80.6	82.5	84.6]
Manufacturing	32.2	31.0	30.5	30.5	30.7	30.7
Durable goods	15.7	14.9	14.2	14.7	14.9	14.9
Nondurable goods	16.4	16.1	16.3	15.9	15.8	15.8
Nonmanufacturing	49.7	47.7	48.9	51.8	52.2	52.0

Continued weakness in capital spending is also suggested by the latest Conference Board survey of manufacturers appropriations for new plant and equipment. Manufacturers reduced appropriations by 6 per cent in the first quarter--the sixth decline in the last seven quarters. However, excluding petroleum appropriations (which are quite volatile) the total showed an increase of about 2-1/2 per cent in the first quarter. Appropriations by durable goods producers were off by about 3 per cent.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	May	June	July
<u>Total net borrowing</u>	2.5	-2.5	5.5
Weekly and monthly bills	1.6	--	--
Tax bills	--	-2.5	--
Coupon issues	-1.7	--	--
As yet unspecified new borrowing		--	5.5
Other (debt repayments, etc.)	2.6 ^{a/}	--	--
Plus: <u>Other net financial sources</u> ^{b/}	-.9	-1.9	.1
Plus: <u>Budget surplus or deficit (-)</u>	-3.6	4.0	-7.5
Equals: <u>Change in cash balance</u>	-2.0 ^{c/}	-.4	-1.9
Memoranda: Level of cash balance, end of period	6.9 ^{c/}	6.5	4.6
Derivation of budget surplus or deficit:			
Budget receipts	13.7	22.6	13.5
Budget outlays	17.3	18.6	21.0
Maturing coupon issues held by public	5.8 ^{d/}	--	--
Net agency borrowing	-.4	.3	.5

^{a/} Includes about \$2.8 billion in sales of Treasury securities to foreign central banks.

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

^{c/} Actual

^{d/} The May refunding fell short of its goal by \$1.8 billion.

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

	F.R. Board Staff estimates										
	Fiscal 1971e/		Fiscal 1972e/		Calendar Years		Calendar Quarters				
	Jan.	F.R.	Jan.	F.R.	1970	1971e/	1970	1971			
	Budget	Board	Budget	Board	Actual		IV*	I*	II	III	IV
Federal Budget											
(Quarterly data, unadjusted)											
Surplus/deficit	-18.6	-21.0	-11.6	-21.5	-11.4	-26.6	-8.9	-8.2	3.6	-10.6	-11.4
Receipts	194.2	189.0	217.6	211.0	190.5	194.8	41.1	44.1	57.3	49.2	44.2
Outlays	212.8	210.0	229.2	232.5	201.9	221.3	49.9	52.2	53.7	59.8	55.6
Means of financing:											
Net borrowing from the public	17.6	17.6	10.6	20.5	11.8	24.0	8.9	1.6	-.3	10.8	11.9
Decrease in cash operating balance	n.a.	1.5	n.a.	--	-2.8	.5	.7	3.6	-2.0	-1.4	.3
Other <u>1/</u>	n.a.	1.9	n.a.	1.0	2.4	2.0	-.7	2.9	-1.3	1.2	-.8
Cash operating balance, end of period	n.a.	6.5	n.a.	6.5	8.1	7.6	8.1	4.5	6.5	7.9	7.6
Memo: Net agency borrowing <u>2/</u>	n.a.	1.7	n.a.	n.e.	8.2	n.e.	1.5	-1.0	-.3	1.2	n.e.
National Income Sector											
(Seasonally adjusted annual rate)											
Surplus/deficit	-15.0	-15.2	-4.2	n.e.	-11.1	-15.1	-18.1	-13.3	-17.5	-17.2	-12.2
Receipts	200.0	198.2	225.9	n.e.	195.2	208.5	191.7	200.8	205.3	209.8	217.9
Expenditures	215.0	213.4	230.1	233.7	206.3	223.6	209.9	214.2	222.8	227.3	229.9
High employment surplus/deficit (NIA basis) <u>3/</u>	n.a.	-.2	n.a.	1.5	-.8	.3	1.3	1.3	-1.8	-1.0	2.6

*Actual e--projected n.e.--not estimated n.a.--not available

1/ Includes such items as deposit fund accounts and clearing accounts.

2/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

3/ Estimated by Federal Reserve Board Staff. The level of the estimated series shown here differs considerably from the estimates by the Council of Economic Advisers. Continues to show effect of accelerated depreciation recently proposed by the Treasury.