

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

November 10, 1971

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

	QIII	QIV	
	OBE	Proj. of	
	Prel.	10/13/71	Current
	-----Billions of dollars-----		
GNP	15.9	25.5	22.0
Final Sales	20.0	23.7	20.1
Personal consumption	11.2	14.9	12.9
Residential construction	2.0	1.1	.9
Business fixed investment	2.7	.0	.5
Net exports	.0	1.0	- .5
Federal purchases	1.9	3.7	3.6
State & local purchases	2.3	3.0	2.7
Inventory change	-4.1	1.8	1.9
	-----Per Cent Per Year-----		
Real GNP	2.9 ^{3/}	7.1	5.8
GNP deflator	3.3 ^{3/}	2.5 ^{1/}	2.4 ^{2/}

1/ Excluding the first \$1.2 billion, annual rate, of voluntary army pay increase, 2.1 per cent per year.

2/ Excluding the first \$1.2 billion, annual rate, of voluntary army pay increase, 2.0 per cent per year.

3/ At compound rates.

consumer income and purchases should be supported during both quarters by a series of stimuli: larger employment gains, increased Federal payments to the military in furtherance of a volunteer army, lower withholding taxes, and appreciable tax refunds resulting from retroactive tax concessions which we assume will be enacted shortly by Congress.

GNP AND RELATED ITEMS, 1972
(Changes in seasonally adjusted totals at annual rates)

	Q1		QII	
	Proj. of 10/13/71	Current	Proj. of 10/13/71	Current
-----Billions of dollars-----				
GNP	31.0	28.0	27.0	27.0
Final sales	27.8	25.0	22.2	24.7
Personal consumption	17.2	15.1	15.3	16.9
Residential construction	1.8	1.7	.4	.6
Business fixed investment	1.5	1.1	2.5	2.8
Net exports	1.5	2.0	1.5	.5
Federal purchases	1.8	2.0	- .5	.3
State & local purchases	4.0	3.1	3.0	3.6
Inventory change	3.2	3.0	4.8	2.3
-----Per Cent Per Year-----				
Real GNP	7.9	6.3	7.1	6.6
GNP deflator	3.5 ^{1/}	4.0 ^{2/}	2.5	3.1
^{1/} Excluding the remaining \$1.2 billion, annual rate, of voluntary army pay increase, 3.1 per cent per year. ^{2/} Excluding the remaining \$1.2 billion, annual rate, of voluntary army pay increase, 3.6 per cent per year.				

CONFIDENTIAL - FR

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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.)

	1971 Proj.	1972 Proj.	1971		1972			
			III	IV	Projected			
					I	II	III	IV
Gross National Product	1051.0	1149.4	1059.0	1081.0	1109.0	1136.0	1163.0	1189.5
Final purchases	1047.5	1139.6	1057.4	1077.5	1102.5	1127.2	1152.7	1176.0
Private	814.1	887.2	823.0	836.8	856.7	877.5	897.4	917.2
Excluding net exports	813.6	885.2	823.5	837.8	855.7	876.0	894.9	914.2
Personal consumption expenditures	665.7	724.9	672.1	685.0	700.1	717.0	733.0	749.5
Durable goods	102.8	115.8	104.7	108.2	111.5	114.5	117.3	119.9
Nondurable goods	280.1	305.8	281.7	286.8	293.5	302.0	309.7	317.9
Services	282.8	303.3	285.7	290.0	295.1	300.5	306.0	311.7
Gross private domestic investment	151.4	170.1	152.9	156.3	162.1	167.8	172.2	178.2
Residential construction	40.1	44.1	41.7	42.6	44.3	44.9	44.0	43.1
Business fixed investment	107.8	116.2	109.7	110.2	111.3	114.1	117.9	121.6
Change in business inventories	3.5	9.8	1.6	3.5	6.5	8.8	10.3	13.5
Nonfarm	3.0	9.7	0.8	3.0	6.3	8.8	10.3	13.5
Net exports of goods and services	0.6	2.0	-0.5	-1.0	1.0	1.5	2.5	3.0
Exports	65.9	72.0	68.5	62.7	69.1	71.2	72.8	75.0
Imports	65.4	70.0	69.0	63.7	68.1	69.7	70.3	72.0
Gov't. purchases of goods & services	233.4	252.4	234.4	240.7	245.8	249.7	255.3	258.8
Federal	97.8	104.2	97.6	101.2	103.2	103.5	105.4	104.8
Defense	72.2	74.4	71.4	72.6	74.0	73.9	75.1	74.4
Other	25.6	29.8	26.2	28.6	29.2	29.6	30.3	30.4
State & local	135.6	148.2	136.8	139.5	142.6	146.2	149.9	154.0
Gross national product in constant (1958) dollars	741.6	784.5	743.6	754.5	766.3	778.9	790.2	802.6
GNP implicit deflator (1958 = 100)	141.7	146.5	142.4	143.3	144.7	145.8	147.2	148.2
Personal income ^{1/}	858.6	925.6	866.3	878.2	899.0	915.0	935.5	953.0
Wage and salary disbursements	575.1	620.7	578.8	587.0	601.7	613.3	627.3	640.3
Disposable income ^{1/}	743.2	804.2	750.0	759.5 ^{2/}	780.3 ^{2/}	795.9 ^{2/}	812.9	827.8
Personal saving ^{1/}	58.6	59.1	58.8	55.2 ^{2/}	60.4 ^{2/}	58.8 ^{2/}	59.5	57.6
Saving rate (per cent) ^{1/}	7.9	7.4	7.8	7.3 ^{2/}	7.7 ^{2/}	7.4 ^{2/}	7.3	7.0
Corporate profits before tax ^{1/}	86.4	102.3	86.9	90.0	92.5	100.0	105.0	111.5
Corp. cash flow, net of div. (domestic) ^{1/}	81.7	96.5	82.8	86.9	89.3	94.5	98.6	103.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts ^{1/}	200.7	216.9	201.7	206.1	210.2	213.7	219.3	224.5
Expenditures	222.4	243.4	224.9	230.4	237.9	240.1	246.7	248.9
Surplus or deficit (-) ^{1/}	-21.7	-26.5	-23.2	-24.3	-27.7	-26.4	-27.4	-24.4
High employment surplus or deficit (-)	1.9	-4.5	3.0	0.4	-6.2	-3.5	-5.5	-2.9
Total labor force (millions)	86.9	88.3	87.0	87.5	87.8	88.1	88.4	88.8
Armed forces "	2.8	2.5	2.8	2.7	2.6	2.5	2.5	2.5
Civilian labor force "	84.1	85.8	84.2	84.8	85.2	85.6	85.9	86.3
Unemployment rate (per cent)	5.9	5.5	6.0	5.8	5.7	5.6	5.5	5.3
Nonfarm payroll employment (millions)	70.7	72.3	70.7	71.1	71.6	72.0	72.5	73.0
Manufacturing	18.6	18.9	18.5	18.6	18.7	18.9	19.0	19.1
Industrial production (1967 = 100)	106.0	112.3	105.4	106.5	108.7	111.2	113.5	116.0
Capacity utilization, manufacturing (per cent)	74.0	75.3	73.2	73.3	74.0	74.9	75.7	76.6
Housing starts, private (millions A.R.)	2.03	2.10	2.14	2.20	2.18	2.15	2.10	2.00
Sales new autos (millions, A.R.)	10.25	10.88	10.29	11.00	10.80	10.80	10.85	11.05
Domestic models	8.80	9.58	8.76	9.75	9.40	9.50	9.60	9.80
Foreign models	1.45	1.30	1.53	1.25	1.40	1.30	1.25	1.25

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 Teeters.

^{1/} Incorporates provisions of Revenue Act of 1971 as passed by House.

^{2/} Incorporates effect of acceleration of payment of estate and gift taxes.

CONFIDENTIAL - FR

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1971	1972	1971		1972			
	Proj.	Proj.	III	IV	I	II	III	IV
-----Billions Of Dollars-----								
Gross National Product	76.9	98.4	15.9	22.0	28.0	27.0	27.0	26.5
Inventory change	0.7	6.3	-4.1	1.9	3.0	2.3	1.5	3.2
Final purchases	76.2	92.1	20.0	20.1	25.0	24.7	25.5	23.3
Private	62.2	73.1	15.8	13.8	19.9	20.8	19.9	19.8
Excluding net exports	65.2	71.7	15.8	14.3	17.9	20.3	18.9	19.3
Net exports	-3.0	1.4	0.0	-0.5	2.0	0.5	1.0	0.5
Government	14.0	19.0	4.2	6.3	5.1	3.9	5.6	3.5
GNP in constant (1958) dollars	21.6	42.9	5.2	10.9	11.8	12.6	11.3	12.4
Final purchases	20.8	37.9	8.4	9.5	9.3	10.9	10.1	9.8
Private	21.1	34.0	5.8	7.2	9.1	10.2	9.8	9.3
-----In Per Cent Per Year-----								
Gross National Product	7.9	9.4	6.3 ^{1/}	8.3	10.4	9.7	9.5	9.1
Final purchases	7.8	8.8	7.7	7.6	9.3	9.0	9.0	8.1
Private	8.3	9.0	7.8	6.7	9.5	9.7	9.1	8.8
Personal consumption expenditures	8.1	8.9	6.8	7.7	8.8	9.7	8.9	9.0
Durable goods	16.0	12.6	15.5	13.4	12.2	10.8	9.8	8.9
Nondurable goods	5.8	9.2	2.7	7.2	9.3	11.6	10.2	10.6
Services	7.7	7.2	7.6	6.0	7.0	7.3	7.3	7.5
Gross private domestic investment	11.9	12.4	1.3	8.9	14.9	14.1	10.5	13.9
Residential construction	31.9	10.0	20.2	8.6	16.0	5.4	-8.0	-8.2
Business fixed investment	5.6	7.8	10.1	1.8	4.0	10.1	13.3	12.6
Gov't. purchases of goods & services	6.4	8.1	7.3	10.8	8.5	6.3	9.0	5.5
Federal	0.6	6.5	7.9	14.8	7.9	1.2	7.3	-2.3
Defense	-4.2	3.0	-2.2	6.7	7.7	-0.5	6.5	-3.7
Other	16.9	16.4	38.5	36.6	8.4	5.5	9.5	1.3
State & local	11.0	9.3	6.8	7.9	8.9	10.1	10.1	10.9
GNP in constant (1958) dollars	3.0	5.8	2.9 ^{1/}	5.8	6.3	6.6	5.8	6.3
Final purchases	2.9	5.1	4.6	5.1	5.0	5.7	5.2	5.0
Private	3.6	5.7	3.9	4.8	6.0	6.6	6.2	5.8
GNP implicit deflator	4.7	3.4	3.3 ^{1/}	2.4 ^{3/}	4.0 ^{4/}	3.1	3.6 ^{5/}	2.8
Private GNP fixed weight price index ^{2/}	4.9	3.3	4.4 ^{1/}	2.0	3.6	3.1	2.9	2.8
Personal income	6.8	7.8	5.2	5.5	9.5	7.1	9.0	7.5
Wage and salary disbursements	6.2	7.9	4.5	5.7	10.0	7.7	9.1	8.3
Disposable income	8.1	8.2	4.6	5.1	11.0	8.0	8.5	7.3
Corporate profits before tax	14.6	18.4	2.3	14.3	11.1	32.4	20.0	24.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	4.8	8.1	7.3	8.7	8.0	6.7	10.5	9.5
Expenditures	8.4	9.4	7.2	9.8	13.0	3.7	11.0	3.6
Nonfarm payroll employment	0.1	2.3	0.0	2.3	2.8	2.2	2.8	2.8
Manufacturing	-4.1	2.7	-2.2	2.2	2.2	4.3	2.1	2.1
Industrial production	-0.7	5.9	-5.2	4.2	8.3	9.2	8.3	8.8
Housing starts, private	41.5	3.7	36.5	11.0	-4.5	-4.6	-9.3	-19.0
Sales new autos	22.7	6.1	19.0	27.8	-7.3	0.0	1.9	7.4
Domestic models	23.6	8.9	22.7	45.3	-14.4	4.3	4.2	8.3
Foreign models	18.0	-10.5	-1.0	-72.6	48.0	-28.6	-15.4	0.0

^{1/} At compound rates.^{2/} Using expenditures in 1967 as weights.^{3/} Excluding the first \$1.2 billion, annual rate, of voluntary army pay increase, 2.0 per cent per year.^{4/} Excluding the remaining \$1.2 billion, annual rate, of voluntary army pay increase, 3.6 per cent per year.^{5/} Excluding Federal government general pay increase, 2.9 per cent per year.

of issues ready for filing, suggesting that the December calendar could be at least \$1.5 billion. Thus, it appears that total corporate public bond offerings for the year will approach the \$25 billion level, about matching the record 1970 volume. Although the most recently available SEC data suggest a leveling off in the growth of takedowns on private placements, the 1971 total for direct placements will be substantially above that of 1970.

CORPORATE SECURITY OFFERINGS
(Monthly or monthly averages in millions of dollars seasonally unadjusted)

	Bonds		Stocks	Total
	Public	Private		
1970 - Year	2,099	403	713	3,245
Through October	1,995	375	708	3,078
1971 - Through October <u>e/</u>	2,163	537	1,049	3,749
1971 - QII	2,132	586	1,128	3,896
QIII <u>e/</u>	1,577	596	1,505 ^{1/}	3,678
QIV <u>e/</u>	1,817	533	787	3,137
October <u>e/</u>	1,950	500	560	3,010
November <u>e/</u>	2,000	400	1,000	3,400
December <u>e/</u>	1,500	700	800	3,000

e/ Estimated.

^{1/} Includes \$1.4 billion AT&T stock offering.

In the stock market, prices over the last three weeks have generally drifted downward to the pre-Phase I levels of August 1971. As of November 5, however, both the NYSE and AMEX indices remained above their May 1970 lows by 39 and 27 per cent, respectively. Volume over the last three weeks has continued low relative to early 1971 levels, with daily trading on the NYSE, for example, averaging 12 to 13 million shares.

unusually large and the normal seasonal pattern would indicate a reduction in outstandings.

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

	Long Term	Net Short Term
1970 - Year	1,514	393
Through October	1,422	326
1971 - Through October	2,041	379
QII	2,032	423
QIII <u>e/</u>	1,972	331
QIV <u>e/</u>	1,767	-253
October	1,700	-93
November <u>e/</u>	1,900	-343
December <u>e/</u>	1,700	-329
<u>e/</u> Estimated		

FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS^{1/}
(In billions of dollars)

	F.R.B. Staff Estimates									
	Fiscal Year		Calendar Years		Calendar Quarters					
	1971*	1972 ^{e/}	F.R. Estimates		1971		1972			
			1971	1972	III*	IV	I	II	III	IV
<u>Federal Budget</u>										
(Quarterly data, unadjusted)										
Surplus/deficit	-23.2	-29.5	-25.8	-31.0	-7.8	-11.4	-11.3	1.0	-9.6	-11.2
Receipts	188.3	200.5	192.3	208.6	48.6	42.9	47.8	61.2	52.1	47.4
Outlays	211.6	230.0	217.9	239.6	56.3	54.3	59.1	60.2	61.7	58.6
Means of financing:										
Net borrowing from the public	19.4	27.2	20.9	29.6	9.1	8.6	9.6	-.1	8.6	11.5
Decrease in cash operating balance	-.8	1.9	1.6	--	-1.2	3.5	.1	-.5	--	.4
Other ^{2/}	4.5	.5	3.2	1.4	-.1	-.7	1.7	-.4	1.0	-.7
Cash operating balance, end of period	8.8	6.9	6.5	6.5	10.0	6.5	6.4	6.9	6.9	6.5
Memo: Net agency borrowing ^{3/}	1.1	n.e.	1.3	n.e.	1.7	1.5	2.4	n.e.	n.e.	n.e.
<u>National Income Sector</u>										
(Seasonally adjusted annual rate)										
Surplus/deficit	-18.8	-25.4	-21.7	-26.5	-23.2	-24.3	-27.7	-26.4	-27.4	-24.4
Receipts	193.9	207.9	200.7	216.9	201.7	206.1	210.2	213.7	219.3	224.5
Expenditures	212.7	233.3	222.4	243.4	224.9	230.4	237.9	240.1	246.7	248.9
High employment surplus/deficit (NIA basis) ^{4/}	1.4	-1.5	1.9	-4.5	3.0	.4	-6.2	-3.5	-5.5	-2.9

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

^{1/} Estimates reflect effects of House Revenue Bill, which provides \$.8 billion less in tax cuts in fiscal year 1972 than the President's program. The Administration budget deficit estimate on the basis of the President's program is \$27.0--28.0 billion for FY 1972 with outlays estimated at \$232.0 billion. These figures would imply a receipts estimate ranging from \$204.0--205.0 billion.

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

^{3/} 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 ^{4/} Estimated by F.R. Board staff.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Oct.	Nov.	Dec.
<u>Total net borrowing</u>	1.8	4.2	2.6
Weekly and monthly bills	.4	.8	.6
Tax bills	--	--	--
Coupon issues	2.0	--	--
As yet unspecified new borrowing	--	4.0	2.0
Other (debt repayments, etc.)	-.6	-.6	--
Plus: Other net financial sources ^{a/}	1.1	-1.1	-.7
Plus: <u>Budget surplus or deficit</u> (-)	-6.2	-4.5	-.7
Equals: <u>Change in cash balance</u>	-3.3 ^{b/}	-1.4	1.2
Memoranda: Level of cash balance end of period	6.7 ^{b/}	5.3	6.5
Derivation of budget surplus or deficit:			
Budget receipts	12.4	14.4	16.1
Budget outlays	18.6	18.9	16.8
Maturing coupon issues held by public	--	3.7	--
Net agency borrowing	.7	.5	.4

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

^{b/} Actual.