

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

April 28, 1971

we had projected. We have adjusted our projections of these components for the remainder of 1971 to exclude the estimated impact of the liberalized schedules, pending a final Administration decision.

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

	First Quarter		Second Quarter	
	Proj. of 3/31/71	Prel. OBE Estimate	Proj. of 3/31/71	Current
-----Billions of dollars-----				
GNP	27.5	28.5	17.0	19.0
Final sales	28.8	29.7	14.3	16.4
Personal consumption	17.4	17.7	10.9	12.3
Residential construction	3.6	3.2	1.2	1.8
Business fixed investment	4.7	3.8	1.0	1.0
Net exports	.4	.2	-.5	-.3
Federal purchases	-.3	-.1	-2.0	-2.1
State & local purchases	3.0	4.9	3.7	3.7
Inventory change	-1.3	-1.2	2.7	2.6
-----Per Cent Per Year-----				
Real GNP	6.4	6.5	2.7	3.1
GNP deflator	4.7 <u>1/</u>	5.2 <u>2/</u>	4.0	4.3

1/ Excluding effects of Federal pay increase 3.8 per cent per year.

2/ Excluding effects of Federal pay increase 4.2 per cent per year.

We are now projecting a GNP increase of \$19 billion for the second quarter. This is \$2 billion more than estimated last month, reflecting largely the firmer tone in consumer markets evident in recent weeks and the assumption that this will persist. Retail sales picked up toward the end of the first quarter and weekly figures suggest that this strength has carried forward into April. Sales of nondurable goods in particular have

We have revised up slightly our price projections for the second and subsequent quarters of 1971, as a result both of the somewhat disappointing performance of the price deflator in the first quarter and the less-than-expected improvement in unit labor costs in the past half year. But with current dollar GNP projected to rise somewhat more strongly this quarter than formerly estimated, real GNP is expected to increase around 3 per cent, annual rate, a bit more than we had projected last month.

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

	<u>Third Quarter</u>		<u>Fourth Quarter</u>	
	Proj. of	Current	Proj. of	Current
	3/31/71		3/31/71	
-----Billions of dollars-----				
GNP	19.0	19.0	25.5	26.0
Final sales	23.0	23.0	20.5	21.0
Personal consumption	13.2	13.4	12.4	12.9
Residential construction	.9	.8	.8	.7
Business fixed investment	1.0	1.0	1.5	1.5
Net exports	.0	.0	.0	.0
Federal purchases	3.7	3.6	1.7	1.7
State & local purchases	4.2	4.2	4.1	4.2
Inventory change	-4.0	-4.0	5.0	5.0
-----Per Cent Per Year-----				
Real GNP	2.6 ^{1/}	2.4	6.0	6.0
GNP deflator	4.7 ^{1/}	4.9 ^{2/}	3.6	3.8
<hr/>				
<u>1/</u> Excluding effects of Federal military pay increase	3.8 per cent			
per year.				
<u>2/</u> Excluding effects of Federal military pay increase	4.0 per cent			
per year.				

CONFIDENTIAL - FR

April 28, 1971

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		Ip	1971 Projection		
			III	IV		II	III	IV
Gross National Product	976.5	1048.7	985.5	989.9	1018.4	1037.4	1056.4	1082.4
Final purchases	973.1	1045.4	980.0	986.3	1016.0	1032.4	1055.4	1076.4
Private	752.6	810.9	759.0	763.1	788.0	802.8	818.0	833.1
Excluding net exports	749.0	808.3	754.8	760.5	785.2	800.3	815.5	830.6
Personal consumption expenditures	616.7	663.8	622.1	627.0	644.7	657.0	670.4	683.3
Durable goods	89.4	98.7	91.2	85.3	96.1	97.7	99.5	101.5
Nondurable goods	264.7	280.5	265.8	271.5	272.5	277.8	283.4	288.3
Services	262.6	284.6	265.1	270.2	276.0	281.5	287.5	293.5
Gross private domestic investment	135.7	147.7	138.3	137.1	142.9	148.3	146.1	153.3
Residential construction	29.7	37.3	29.2	32.2	35.4	37.2	38.0	38.7
Business fixed investment	102.6	106.7	103.6	101.3	105.1	106.1	107.1	108.6
Change in business inventories	3.5	3.6	5.5	3.6	2.4	5.0	1.0	6.0
Nonfarm	2.9	3.6	5.0	3.0	2.2	5.0	1.0	6.0
Net exports of goods and services	3.6	2.6	4.2	2.6	2.8	2.5	2.5	2.5
Gov't. purchases of goods & services	220.5	234.6	221.0	223.2	228.0	229.6	237.4	243.3
Federal	99.7	98.8	98.6	98.2	98.1	96.0	99.6	101.3
Defense	76.6	73.5	75.8	74.6	73.9	71.7	74.0	74.2
Other	23.1	25.3	22.9	23.5	24.1	24.3	25.6	27.1
State & local	120.9	135.8	122.4	125.0	129.9	133.6	137.8	142.0
Gross national product in constant (1958) dollars	724.1	740.9	727.4	720.3	731.6	737.3	741.7	752.8
GNP implicit deflator (1958 = 100)	134.9	141.5	135.5	137.4	139.2	140.7	142.4	143.8
Personal income	801.0	857.7	807.2	813.3	831.4	851.8	864.4	883.2
Wage and salary disbursements	540.1	577.4	543.8	545.2	560.2	571.7	582.0	595.7
Disposable income	684.8	735.1	693.0	697.2	714.9	731.8	740.9	752.9
Personal saving	50.2	51.5	52.7	51.8	51.3	55.1	50.4	49.1
Saving rate (per cent)	7.3	7.0	7.6	7.4	7.2	7.5	6.8	6.5
Corporate profits before tax	81.3	85.4	84.4	76.3	81.0	84.0	85.5	91.0
Corporate cash flow, net of dividends	69.9	74.3	70.7	67.7	71.1	73.2	74.7	78.3
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	194.8	206.5	194.9	191.7	198.8	203.4	207.4	216.4
Expenditures	206.3	223.0	206.7	209.9	214.0	221.0	224.2	232.9
Surplus or deficit (-)	-11.5	-16.5	-11.8	-18.1	-15.2	-17.6	-16.8	-16.5
High employment surplus or deficit (-)	-0.8	0.5	-1.7	1.3	1.4	-0.2	1.9	-0.9
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	18.8	19.3	18.7	18.7	18.8	18.7	18.9
Industrial production (1957-59=100)	168.2	167.8	167.9	162.7	165.2	167.5	167.8	170.8
Capacity utilization, manufacturing (per cent)	76.6	73.2	76.2	72.4	73.1	73.4	72.9	73.5
Housing starts, private (millions A. R.)	1.43	1.85	1.51	1.78	1.79	1.83	1.88	1.90
Sales new domestic autos (millions, A. R.)	7.12	8.30	7.99	5.38	8.13	8.30	8.30	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 Teeters.

CONFIDENTIAL - FR

April 28, 1971

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1970	1971 Proj.	1970		1971 Projection			
			III	IV	Ip	II	III	IV
	-----Billions of dollars-----							
Gross National Product	45.1	72.5	14.4	4.4	28.5	19.0	19.0	26.0
Inventory change	-5.0	0.1	2.4	-1.9	-1.2	2.6	-4.0	5.0
Final purchases	50.2	72.3	11.9	6.3	29.7	16.4	23.0	21.0
Private	41.9	58.3	9.3	4.1	24.9	14.8	15.2	15.1
Excluding net exports	40.2	59.3	9.2	5.7	24.7	15.1	15.2	15.1
Net exports	1.7	-1.0	0.1	-1.6	0.2	-0.3	0.0	0.0
Government	8.3	14.1	2.6	2.2	4.8	1.6	7.8	5.9
GNP in constant (1958) dollars	-3.0	16.8	2.5	-7.1	11.3	5.7	4.4	11.1
Final purchases	1.2	17.9	0.9	-5.7	12.4	3.6	7.4	7.0
Private	7.2	25.4	1.6	-5.4	13.0	4.5	6.1	5.1
	-----In Per Cent Per Year-----							
Gross National Product	4.8	7.4	5.9	1.8	11.5	7.5	7.3	9.8
Final purchases	5.4	7.4	4.9	2.6	12.0	6.5	8.9	8.0
Private	5.9	7.7	5.0	2.2	13.1	7.5	7.6	7.4
Personal consumption expenditures	6.8	7.6	5.0	3.1	11.3	7.6	8.2	7.7
Durable goods	-0.7	10.4	-3.0	-25.9	50.6	6.7	7.4	8.0
Nondurable goods	7.7	6.0	4.9	8.6	1.5	7.8	8.1	6.9
Services	8.7	8.4	8.0	7.7	8.6	8.0	8.5	8.3
Gross private domestic investment	-2.9	8.8	11.9	-3.5	16.9	15.1	-5.9	19.7
Residential construction	-7.2	25.6	11.3	41.1	39.7	20.3	8.6	7.4
Business fixed investment	3.3	4.0	3.1	-8.9	15.0	3.8	3.8	5.6
Gov't. purchases of goods & services	3.9	6.4	4.8	4.0	8.6	2.8	13.6	9.9
Federal	-1.6	-0.9	-4.4	-1.6	-0.4	-8.6	15.0	6.8
Defense	-2.8	-4.0	-5.2	-6.3	-3.8	-11.9	12.8	1.1
Other	2.2	9.5	0.0	10.5	10.2	3.3	21.4	23.4
State & local	9.1	12.3	12.5	8.5	15.7	11.4	12.6	12.2
GNP in constant (1958) dollars	-0.4	2.3	1.4	-3.9	6.5	3.1	2.4	6.0
Final purchases	0.2	2.5	0.5	-3.2	6.9	2.0	4.2	3.8
Private	1.3	4.4	1.1	-3.7	9.0 ^{1/}	3.1	4.1 ^{1/}	3.4
GNP implicit deflator	5.3	4.9	4.6	5.9	5.2 ^{1/}	4.3	4.9 ^{1/}	3.8
Fixed weight index <u>2/</u>	5.1	4.5	4.6	4.9	4.7	4.2	3.9	3.8
Personal income	7.0	7.1	2.9	3.0	8.9	9.8	5.9	8.7
Wage and salary disbursements	6.1	6.9	3.2	1.0	11.0	8.2	7.2	9.4
Disposable income	8.4	7.3	5.5	2.4	10.2	9.5	5.0	6.5
Corporate profits before tax	-10.9	5.0	14.6	-38.4	24.6	14.8	7.1	25.7
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	-2.9	6.0	-2.4	-6.6	14.8	9.3	7.9	17.4
Expenditures	7.8	8.1	11.5	6.2	7.8	13.1	5.8	15.5
Nonfarm payroll employment	0.6	0.3	-2.0	-1.8	2.3	1.1	0.6	1.1
Manufacturing	-3.9	-3.1	-6.0	-13.1	0.8	2.1	-2.1	4.3
Industrial production	-2.7	-0.2	-3.3	-12.4	6.1	5.5	0.7	7.2
Housing starts, private	-2.6	28.9	70.3	70.1	2.7	8.0	11.0	5.3
Sales new domestic autos	-15.8	16.7	2.0	-130.5	204.4	8.3	0.0	9.6

^{1/} Excluding effects of Federal pay increase, 4.2 per cent in 71-I and 4.0 per cent in 71-III.

^{2/} Based on 1970-IV weights and excluding effects of Federal pay increases.

A major factor in the tapering of the recent and prospective pace of public bond offerings appears to be the reduced number of very large individual issues by industrial corporations. In March, 50 per cent of the dollar volume had been accounted for by issues of \$100 million or more, whereas such issues amount to only about one-third of the lower April and estimated May volume. The industrial composition of the public bond offerings in April and May also is more typical of the 1970 pattern, with issues by manufacturing firms accounting for about one-quarter of the volume, instead of one-half, as in March.

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

	Bonds		Stocks	Total
	Public Offerings	Private Placements		
1969 - Year	1,061	468	700	2,229
1970 - Year	2,099	403	713	3,245
1970 - QIII	1,995	304	553	2,853
QIV	2,609	473	897	3,979
1971 - QI	2,789e	519e	737e	4,046e
March	4,150e	800e	1,200e	6,150e
April	2,300e	450e	1,100e	3,850e
May	2,700e	500e	700e	3,900e

e/ Estimated.

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

	Long-term	Net Short-term
1969 - Year	991	294
1970 - Year	1,515	383
1970 - QIII	1,490	457
QIV	1,954	521
1971 - QI	2,230	554e
March	2,200e	700e
April	2,000e	750e
May	2,000e	n.a.

e/ Estimated.

Note: Long-term offerings are gross. Short-term offerings are Federal Reserve Board estimates of net sales.

Net short-term tax-exempt offerings continued to ~~rise~~ in March and April, in spite of a large volume of maturing issues, as gross offerings in both months exceeded sales of long-term bonds. Tax anticipation notes accounted for a growing proportion of short-term tax-exempt securities in recent months, perhaps reflecting the difficulties of some State and local authorities in meeting current operating expenses.

Stock market. In April, investors continued to project a sharp improvement in 1972 corporate profits and stock prices maintained the recent rate of advance that has made the recovery from 1970 lows one of the most rapid in recent years. As of late April, both the NYSE index and Dow Jones Industrial Average of stock prices had

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
<u>Federal Budget</u>											
(Quarterly data, unadjusted)											
Surplus/deficit	-18.6	-20.9	-11.6	-23.4	-11.4	-26.8	-8.9	-8.2	3.8	-10.2	-12.3
Receipts	194.2	190.5	217.6	211.0	190.5	196.4	41.1	44.1	58.9	49.2	44.2
Outlays	212.8	211.4	229.2	234.4	201.9	223.2	49.9	52.2	55.1	59.4	56.5
Means of financing:											
Net borrowing from the public	17.6	17.4	10.6	23.4	11.8	24.3	8.9	1.6	-.5	10.3	12.9
Decrease in cash operating balance	n.a.	2.0	n.a.	-1.0	-2.8	1.1	.7	3.6	-1.5	-1.2	.2
Other <u>1/</u>	n.a.	1.5	n.a.	1.0	2.4	1.5	-.7	2.9	-1.8	1.2	-.8
Cash operating balance, end of period	n.a.	6.0	n.a.	7.0	8.1	7.0	8.1	4.5	6.0	7.2	7.0
Memo: Net agency borrowing <u>2/</u>	n.a.	1.6	n.a.	n.e.	8.2	n.e.	1.5	-.7	-.8	n.e.	n.e.
<u>National Income Sector</u>											
(Seasonally adjusted annual rate)											
Surplus/deficit	-15.0	-15.7	-4.2	n.e.	-11.1	-16.5	-18.1	-15.2	-17.6	-16.8	-16.5
Receipts	200.0	197.2	225.9	n.e.	195.2	206.5	191.7	198.8	203.4	207.4	216.4
Expenditures	215.0	212.9	230.1	235.7	206.3	223.0	209.9	214.0	221.0	224.2	232.9
High employment surplus/deficit (NIA basis) <u>3/</u>	n.a.	.2	n.a.	-1.2	-.8	.5	1.3	1.4	-.2	1.9	-.9

* 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.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	April	May	June	July
<u>Total net borrowing</u>	-.1	-.9	.5	6.0
Weekly and monthly bills	2.8	--	--	--
Tax bills	-4.3	--	-2.5	--
Coupon issues	--	--	--	--
As yet unspecified new borrowing	--	--	3.0	6.0
Other (debt repayments, etc.)	1.4	-.9	--	--
Plus: <u>Other net financial sources</u> ^{a/}	.6	-.5	-1.9	.1
Plus: <u>Budget surplus or deficit (-)</u>	4.0	-4.2	4.0	-7.4
Equals: <u>Change in cash balance</u>	4.5	-5.6	2.6	-1.3
Memoranda: Level of cash balance, end of period	9.0	3.4	6.0	4.7
Derivation of budget surplus or deficit:				
Budget receipts	22.0	14.3	22.6	13.5
Budget outlays	18.0	18.5	18.6	20.9
Maturing coupon issues held by public	--	5.8	--	--
Net agency borrowing	*	-.5	-.2	.5

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

*--Less than 50 million dollars.