

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

January 6, 1971

THE ECONOMIC PICTURE IN DETAIL

Domestic Nonfinancial Scene

Gross national product. It now appears likely that GNP in the fourth quarter will increase by \$5-1/2 billion, the same as our Greenbook estimate of last month. However, the implicit GNP deflator appears to have risen substantially more than indicated earlier and real GNP is now estimated to have declined by about 2-1/2 per cent, annual rate. The greater rise in the deflator apparently resulted in significant part from the sharp decline in auto sales which reduced their relative importance in GNP and raised the deflator since auto prices have increased less than the average of goods and services since the base period. The rebound of auto sales expected in the first quarter should have the reverse effect and operate to moderate the rise in the deflator.

GNP AND RELATED ITEMS, 1970
(Changes in seasonally adjusted totals at annual rates)

	Fourth Quarter	
	Projection of 12/9/70	Current Projection
-----Billions of dollars-----		
GNP	5.4	5.5
Final sales	10.9	8.5
Personal consumption	6.7	7.0
Residential construction	2.8	3.2
Business fixed investment	-1.6	-2.6
Net exports	.7	-1.2
Federal purchases	- .8	- .6
State & local purchases	3.0	2.6
Inventory change	-5.5	-3.0
-----Per cent per year-----		
Real GNP	-2.0	-2.6
GNP deflator	4.2	4.8

the weakness in final demands and substantial increases in the book value of manufacturers' inventories in October and November. The projected decline in the rate of inventory investment between the third and fourth quarter is thus \$2-1/2 billion less than we had previously estimated.

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

	First Quarter		Second Quarter	
	Projection of 12/9/70	Current Projection	Projection of 12/9/70	Current Projection
-----Billions of dollars-----				
GNP	26.6	29.0	16.5	15.5
Final sales	24.6	28.5	14.5	14.5
Personal consumption	16.7	17.9	9.9	11.0
Residential construction	2.3	2.7	1.5	1.3
Business fixed investment	.5	2.0	- .5	-1.0
Net exports	.5	1.4	.0	.0
Federal purchases	1.5	1.5	- .1	- .3
State & local purchases	3.1	3.0	3.7	3.5
Inventory change	2.0	.5	2.0	1.0
-----Per cent per year-----				
Real GNP	5.8	7.0	2.7	2.2
GNP deflator	4.9 <u>1/</u>	4.6 <u>2/</u>	3.8	3.9

1/ Excluding effects of Federal pay increase, 4.0 per cent per year.

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

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

	Third Quarter		Fourth Quarter	
	Projection of 12/9/70	Current Projection	Projection of 12/9/70	Current Projection
-----Billions of dollars-----				
GNP	16.0	16.5	17.5	17.5
Final sales	15.5	16.0	17.0	17.0
Personal consumption	9.6	9.8	11.0	11.1
Residential construction	1.5	1.1	1.4	1.2
Business fixed investment	.0	.5	.5	.5
Net exports	.0	.0	.0	.0
Federal purchases	.6	.6	.1	.2
State & local purchases	3.8	4.0	4.0	4.0
Inventory change	.5	.5	.5	.5
-----Per cent-----				
Real GNP	2.6	2.7	3.2	3.2
GNP deflator	3.6	3.6	3.4	3.4

We continue to expect moderately larger gains in real GNP in the second half of 1971. A more favorable financial atmosphere (we are now assuming 6 per cent growth in money supply in 1971) should be reflected in continued expansion of residential construction activity and in a more rapid rate of growth of State and local outlays. Growth of consumer outlays is expected to expand moderately further in line with disposable income, but recent surveys suggest little change in 1971 in fixed investment spending.

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.)

	1970 Proj.	1971 Proj.	1970		1971 Projection			
			III	IV	I	II	III	IV
Gross National Product	976.8	1044.3	985.5	991.0	1020.0	1035.5	1052.0	1069.5
Final purchases	973.6	1040.2	980.0	988.5	1017.0	1031.5	1047.5	1064.5
Private	753.1	806.9	759.0	765.5	789.5	800.8	812.2	825.0
Excluding net exports	749.4	802.5	754.8	762.5	785.1	796.4	807.8	820.6
Personal consumption expenditures	617.2	662.9	622.1	629.1	647.0	658.0	667.8	678.9
Durable goods	89.7	95.5	91.2	86.5	94.6	95.5	95.5	96.5
Nondurable goods	264.8	283.1	265.8	272.1	276.4	280.9	285.3	289.9
Services	262.7	284.3	265.1	270.5	276.0	281.6	287.0	292.5
Gross private domestic investment	135.4	143.7	138.3	135.9	141.1	142.4	144.5	146.7
Residential construction	29.8	36.9	29.2	32.4	35.1	36.4	37.5	38.7
Business fixed investment	102.5	102.6	103.6	101.0	103.0	102.0	102.5	103.0
Change in business inventories	3.2	4.1	5.5	2.5	3.0	4.0	4.5	5.0
Nonfarm	2.8	4.1	5.0	2.5	3.0	4.0	4.5	5.0
Net exports of goods and services	3.7	4.4	4.2	3.0	4.4	4.4	4.4	4.4
Gov't. purchases of goods & services	220.5	233.3	221.0	223.0	227.5	230.7	235.3	239.5
Federal	99.7	99.6	98.6	98.0	99.5	99.2	99.8	100.0
Defense	76.5	73.9	75.8	74.0	74.5	73.5	73.7	73.9
Other	23.2	25.7	22.9	24.0	25.0	25.7	26.1	26.1
State & local	120.9	133.6	122.4	125.0	128.0	131.5	135.5	139.5
Gross national product in constant (1958) dollars	724.7	742.4	727.4	722.7	735.4	739.4	744.4	750.4
GNP implicit deflator (1958 = 100)	134.8	140.7	135.5	137.1	138.7	140.1	141.3	142.5
Personal income	801.0	853.1	807.2	813.1	833.0	846.5	859.5	873.5
Wages and salaries	540.1	572.0	543.8	545.1	560.0	567.5	575.5	585.0
Disposable income	684.9	733.8	693.0	697.8	717.0	728.3	739.0	751.0
Personal saving	49.8	51.4	52.7	50.1	51.0	51.0	51.5	52.1
Saving rate (per cent)	7.3	7.0	7.6	7.2	7.1	7.0	7.0	6.9
Corporate profits before tax	82.6	88.8	84.4	81.5	86.5	88.0	89.0	91.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	195.5	209.0	194.9	194.4	204.3	207.3	210.3	213.9
Expenditures	206.4	224.1	206.7	210.2	219.0	223.1	225.6	228.5
Surplus or deficit (-)	-10.9	-15.1	-11.9	-15.8	-14.7	-15.8	-15.3	-14.6
High employment surplus or deficit (-)	-0.9	3.9	-1.7	1.0	1.0	2.5	4.8	7.3
Total labor force (millions)	86.0	87.2	86.0	86.4	86.7	87.0	87.3	87.6
Armed forces "	3.2	2.9	3.1	3.0	3.0	2.9	2.8	2.8
Civilian labor force "	82.8	84.3	82.8	83.4	83.7	84.1	84.5	84.8
Unemployment rate (per cent)	5.0	6.4	5.2	5.8	6.0	6.3	6.6	6.7
Nonfarm payroll employment (millions)	70.7	70.8	70.5	70.2	70.6	70.7	70.8	71.0
Manufacturing	19.4	19.0	19.3	18.7	19.1	19.0	19.0	19.0
Industrial production (1957-59=100)	167.6	169.1	167.9	162.5	167.2	168.0	169.3	171.7
Capacity utilization, manufacturing (per cent)	76.5	72.0	76.2	72.0	74.0	73.4	73.0	73.1
Housing starts, private (millions A.R.)	1.43	1.78	1.51	1.65	1.71	1.75	1.82	1.85
Sales new domestic autos (millions, A.R.)	7.20	8.38	7.99	5.50	8.50	8.50	8.25	8.25

January 6, 1971

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1970 Proj.	1971 Proj.	1970		1971 Projection			
			III	IV	I	II	III	IV
-----Billions of dollars-----								
Gross National Product	45.4	67.5	14.4	5.5	29.0	15.5	16.5	17.5
Inventory change	-5.3	0.9	2.4	-3.0	0.5	1.0	0.5	0.5
Final purchases	50.7	66.6	11.9	8.5	28.5	14.5	16.0	17.0
Private	42.4	53.8	9.3	6.5	24.0	11.3	11.4	12.8
Excluding net exports	40.6	53.1	9.2	7.7	22.6	11.3	11.4	12.8
Net exports	1.8	0.7	0.1	-1.2	1.4	0.0	0.0	0.0
Government	8.3	12.8	2.6	2.0	4.5	3.2	4.6	4.2
GNP in constant (1958) dollars	-2.4	17.7	2.5	-4.7	12.7	4.0	5.0	6.0
Final purchases	2.0	16.9	0.9	-2.3	12.4	3.0	4.6	5.5
Private	7.8	17.8	1.6	-2.7	13.2	2.8	3.4	4.4
-----In Per Cent Per Year-----								
Gross National Product	4.9	6.9	6.1	2.2	11.7	6.1	6.4	6.7
Final purchases	5.5	6.8	4.9	3.5	11.5	5.7	6.2	6.5
Private	6.0	7.1	5.0	3.4	12.5	5.7	5.7	6.3
Personal consumption expenditures	6.9	7.4	5.0	4.5	11.4	6.8	6.0	6.6
Durable goods	-0.3	6.5	-3.0	-20.6	37.5	3.8	0.0	4.2
Nondurable goods	7.7	6.9	4.9	9.5	6.3	6.5	6.3	6.4
Services	8.7	8.2	8.0	8.1	8.1	8.1	7.7	7.7
Gross private domestic investment	-3.1	6.1	11.9	-6.9	15.3	3.7	5.9	6.1
Residential construction	-6.9	23.8	11.3	43.8	33.3	14.8	12.1	12.8
Business fixed investment	3.2	0.1	3.1	-10.0	7.9	-3.9	2.0	1.9
Gov't. purchases of goods & services	3.9	5.8	4.8	3.6	8.1	5.6	8.0	7.1
Federal	-1.6	-0.1	-4.4	-2.4	6.1	-1.2	2.4	0.8
Defense	-2.9	-3.4	-5.2	-9.5	2.7	-5.4	1.1	1.1
Other	2.7	10.8	0.0	19.2	16.7	11.2	6.2	0.0
State & local	9.1	10.5	12.5	8.5	9.6	10.9	12.2	11.8
GNP in constant (1958) dollars	-0.3	2.4	1.4	-2.6	7.0	2.2	2.7	3.2
Final purchases	0.3	2.3	0.5	-1.3	6.9	1.6	2.5	3.0
Private	1.4	3.1	1.1	-1.9	9.1	1.9	2.3	2.9
GNP implicit deflator	5.2	4.3	4.6	4.8 *	4.6 *	3.9	3.6	3.4
Personal income	7.0	6.5	2.9	2.9	9.8	6.5	6.1	6.5
Wages and salaries	6.1	5.9	3.2	1.0	10.9	5.4	5.6	6.6
Disposable income	8.4	7.1	5.5	2.8	11.0	6.3	5.9	6.5
Corporate profits before tax	-9.4	7.5	14.6	-13.7	24.5	6.9	4.5	11.2
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	-2.5	6.9	-2.4	-1.0	20.4	5.9	5.8	6.8
Expenditures	7.9	8.6	11.5	6.8	16.7	8.0	3.9	5.1
Nonfarm payroll employment	0.6	0.1	-2.0	-1.7	2.3	0.6	0.6	1.1
Manufacturing	-4.0	-2.1	-6.0	-12.4	8.6	-2.1	0.0	0.0
Industrial production	-3.0	0.9	-3.3	-12.9	11.6	1.9	3.1	5.7
Housing starts, private	-2.7	24.5	70.0	37.1	14.5	9.4	16.0	6.6
Sales new domestic autos	-14.9	16.4	2.0	-124.7	218.2	0.0	-11.8	0.0

* Reduction in auto sales in 1970-IV and rise projected for 1971-I are reflected in GNP deflator for these quarters, also reflected in deflator is the Federal pay increase projected for 1971-I; excluding the impact of these, the deflator is projected to rise at an annual rate of 4.4 per cent in 1970-IV and 4.2 per cent in 1971-I.

Industrial production. Industrial production is tentatively estimated to have increased in December by about 2 points to a level around 163.5 per cent. At this level the total index would be 6.4 per cent below the July 1969 high.

With the return of GM to production, the rise in output in December was centered in the automotive and supplying industries. The earlier decline in the index resulting from the strike, will be made up by the end of January with a further possible boost in February, based on schedules published by Ward's Automotive News. There have been, however, reports of production cutbacks scheduled for January at Chrysler and AMC because of high inventories.

OUTPUT OF MOTOR VEHICLES AND PARTS
ESTIMATED EFFECT ON INDUSTRIAL PRODUCTION INDEX

	August	1970 Nov.	Dec. ^e	Jan. ^p	1971 Feb. ^p
Auto assemblies* (Millions of units)	8.5	4.1	6.8	8.6	9.7
		<u>Change in points in total index from preceding period</u>			
Motor vehicles & parts	0	-3.1	1.8	1.5	.4
Supplying industries	0	-1.1	.6	.5	.3
Total	0	-4.4	2.4	2.0	.7

* S.A. annual rates

e - estimated; p - projected

Anticipated plant and equipment expenditures. Businesses report plans to increase spending for new plant and equipment by only 1.4 per cent in 1971, according to the December Commerce-SEC survey. Expenditures of manufacturing industries are projected to decline nearly 3 per cent with only nonferrous metals and petroleum producers showing increases over 1970. In nonmanufacturing, anticipated increases of 19 per cent in electric utilities and 14 per cent in communications more than offset projected declines in all other sectors; overall spending by nonmanufacturing industries is expected to increase by about 4 per cent. The results of this survey are similar to the November McGraw-Hill survey, which showed a 2 per cent increase for 1971.

BUSINESS SPENDING FOR NEW PLANT AND EQUIPMENT

	<u>Billions of dollars</u>			<u>Per cent change from prior year</u>		
	<u>1969</u> (act.)	<u>1970</u> (est.)	<u>1971</u> (ant.)	<u>1969</u> (act.)	<u>1970</u> (est.)	<u>1971</u> (ant.)
Total	75.56	80.58	81.67	11.5	6.6	1.4
Manufacturing	31.68	32.26	31.39	11.7	1.8	-2.7
Durable goods	15.96	15.91	15.42	13.0	- .4	-3.1
Nondurable goods	15.72	16.36	15.97	10.3	4.1	-2.4
Nonmanufacturing	43.88	48.31	50.28	11.4	10.1	4.1

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

	Bonds		Stocks	Total
	Public Offerings	Private Placements		
1969 - entire year	1,061	468	700	2,229
1970 - entire year	2,092	402e	703e	3,200e
1970 - QIII	1,995	304	553	2,853
QIV	2,516e	466e	816e	3,800e
December	2,200e	700e	650e	3,550e
1971 - January	2,300e	350e	500e	3,150e
February	2,000e	400e	500e	2,900e

e/ Estimated.

The staff now estimates that public bond offerings by corporations in the first quarter of 1971, even though they will probably be 20 per cent below the fourth quarter 1970 pace, may approximate the \$2.0 billion monthly average volume of 1970. Underwriters suggest that a number of corporations that have delayed filing new issues in expectation of lower interest rates will probably now schedule issues during the first quarter. Furthermore, prospective issuers with lower ratings and less well-known names than the large industrials that were responsible for much of the 1970 bond total are finding access to the market somewhat easier at the lower rate levels now prevailing. Such issuers are reported to be having difficulty in obtaining accommodation at commercial banks. As in December, the January and February calendar contains a lower-than-normal proportion of utility bonds and a larger number of issues under \$100 million and issues by financial firms and transportation companies.

There is as yet no evidence of a pickup in private placements in the next few months, and the staff estimates of takedowns have been reduced accordingly. Announced stock issues by public utilities in the first quarter of 1971 have returned to normal levels; and, despite the recent strength in the stock market, the equity calendar remains below the monthly average levels of 1969 and 1970.

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

1969 - entire year	990
1970 - entire year	1,494e
1970 - QIII	1,473
QIV	1,891e
December	2,200e
1971 - January	2,000e
February	1,800e

e/ Estimated.

Long-term debt issues by State and local governments in 1970 also set a new record, an annual volume of \$17.8 billion, which was 45 per cent higher than the 1969 total. Municipal long-term bond offerings in December far exceeded staff estimates made a month earlier as issuers rushed into the market on the heels of sharp declines in the Bond Buyer index. The addition of a number of large revenue issues boosted the December total for tax-exempt offerings to \$2.2 billion.

This unseasonally heavy volume and the normal end-of-the-year slowing in trading activity contributed to the buildup of large dealer

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

	Fiscal Year		Calendar Years		Calendar Quarters					
	1970*	1971 <u>e</u> /	F.R. Estimates		1970				1971	
			1970	1971	I*	II*	III*	IV	I	II
<u>Federal Budget</u>										
(Quarterly data, unadjusted)										
Surplus/deficit	-2.8	-15.4	-11.1	-18.7	-3.5	8.7	-7.8	-8.5	-5.4	6.3
Receipts	193.7	196.6	190.5	203.4	44.4	58.6	46.5	41.0	48.2	60.9
Outlays	196.6	212.0	201.4	222.1	47.8	49.8	54.3	49.5	53.6	54.6
Means of financing:										
Net borrowing from the public <u>1</u> /	3.8	14.1	12.0	16.6	2.0	-6.4	7.4	9.0	2.4	-4.7
Decrease in cash operating balance	-2.1	.5	-2.8	1.1	-1.6	-1.1	-.8	.7	1.0	-.4
Other <u>2</u> /	1.1	.7	1.9	1.0	3.1	-1.2	1.2	-1.2	2.0	-1.2
Cash operating balance, end of period	8.0	7.5	8.1	7.0	6.9	8.0	8.8	8.1	7.1	7.5
Memo: Net agency borrowing <u>3</u> /	10.8	3.8	8.8	n.e.	3.6	1.5	1.4	2.2	.2	<u>5</u> /
<u>National Income Sector</u>										
(Seasonally adjusted annual rate)										
Surplus/deficit	-.4	-14.6	-10.9	-15.2	-1.7	-14.2	-11.9	-15.8	-14.7	-15.8
Receipts	198.9	200.2	195.5	209.0	195.9	196.7	194.9	194.4	204.3	207.3
Expenditures	199.3	214.8	206.4	224.1	197.7	210.9	206.7	210.2	219.0	223.1
High employment surplus deficit <u>4</u> /	1.1	.7	-.9	3.9	2.7	-5.6	-1.7	1.0	1.0	2.5

* Actual

e--projected n.e.--not estimated

1/ Excludes effect of reclassification of \$1.6 billion of CCC certificates of interest, as of July 1, 1969. This reclassification increased Federal debt, but is not treated as borrowing from the public.

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. Projections omit Changes in FNMA (continued)

Footnotes continued

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

3/ discount notes.

4/ Estimated by Federal Reserve Board Staff.

5/ Less than \$50 million.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Dec.	Jan.	Feb.	March
<u>Total net borrowing</u>	3.1	-.3	1.5	1.2
Weekly and monthly bills	3.3	--	.3	.4
Tax bills	--	--	--	--
Coupon issues	--	--	2.0	--
As yet unspecified new borrowing	--	--	--	3.4
Other (debt repayments, etc.)	-.2	-.3	-.8	-2.6
Plus: <u>Other net financial sources</u> ^{a/}	-1.1	.9	.4	.7
Plus: <u>Budget surplus or deficit (-)</u>	.2	-.4	-.9	-4.1
Equals: <u>Change in cash balance</u>	2.2 ^{b/}	.2	1.0	-2.2
Memoranda: Level of cash balance, end of period	8.1 ^{b/}	8.3	9.3	7.1
Derivation of budget surplus or deficit:				
Budget receipts	15.4	17.0	16.8	14.4
Budget outlays	15.2	17.4	17.7	18.5
Maturing coupon issues held by public	--	--	5.0	1.0
Net agency borrowing	.9	*	*	.2

* Less than \$50 million

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

b/ Actual