

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

September 15, 1971

in capital spending, are expected to raise real GNP growth to an annual rate of about 7 per cent in the next three quarters--not usually high for a period of cyclical recovery.

GNP AND RELATED ITEMS 1971 - III THROUGH 1972 - II  
(Changes in seasonally adjusted annual rates)

	1971		1972	
	Q III	Q IV	Q I	Q II
-----Billions of Dollars-----				
GNP	16.0	22.8	30.5	25.4
Final sales	17.9	21.1	28.3	20.6
Personal consumption	10.9	14.4	16.7	13.4
Residential construction	1.1	1.4	1.4	.7
Business fixed investment	1.0	- .2	1.7	2.5
Net exports	- .5	-	1.5	1.5
Federal purchases	1.8	2.5	3.0	- .5
State & local purchases	3.5	3.0	4.0	3.0
Inventory change	-1.9	1.7	2.2	4.8
-----Per Cent Per Year-----				
Real GNP	2.0	6.4	7.3	7.5
GNP deflator	4.0	2.2	3.9	1.6

Relatively little impact from these policy changes is likely to be evident in the current quarter. We now expect a GNP increase of only \$16 billion almost \$6-1/2 billion less than the rise last quarter.<sup>1/</sup> This reflects in part a slower increase in prices as a result of the freeze, but the gain in real GNP is also expected to fall far short of that in the second quarter, 2.0 per cent as compared with 4.8 per cent.

<sup>1/</sup> We have revised up second quarter GNP to reflect new figures which suggest a net export total of \$-0.5 billion instead of \$-2.2 billion. Commerce plans to make a similar adjustment.

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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.)

	1970	1971 Proj.	1971				1972	
			I	II	III	IV	I	II
Gross National Product	974.1	1051.2	1020.8	1043.1 <sup>r</sup>	1059.1	1081.9	1112.4	1137.8
Final purchases	971.3	1046.7	1017.6	1037.4 <sup>r</sup>	1055.3	1076.4	1104.7	1125.3
Private	751.9	813.0	789.4	807.2 <sup>r</sup>	819.8	835.4	856.7	874.8
Excluding net exports	748.3	812.5	785.2	807.6	820.8	836.4	856.2	872.8
Personal consumption expenditures	615.8	665.9	644.6	660.9	671.8	686.2	702.9	716.3
Durable goods	88.6	101.9	97.6	100.8	103.0	106.0	109.4	111.9
Nondurable goods	264.7	281.2	272.0	279.8	283.0	290.0	298.0	303.5
Services	262.5	282.9	275.0	280.4	285.8	290.2	295.5	300.9
Gross private domestic investment	135.3	151.2	143.8	152.4	152.8	155.7	161.0	169.0
Residential construction	30.4	39.9	36.4	39.7	41.0	42.4	43.8	44.5
Business fixed investment	102.1	106.8	104.3	107.0	108.0	107.8	109.5	112.0
Change in business inventories	2.8	4.6	3.2	5.7	3.8	5.5	7.7	12.5
Nonfarm	2.5	4.1	3.0	5.2	3.0	5.0	7.5	12.5
Net exports of goods and services	3.6	0.4	4.2	-0.5 <sup>r</sup>	-1.0	-1.0	0.5	2.0
Exports	62.9	66.5	66.1	66.4 <sup>r</sup>	66.9	66.5	71.0	72.7
Imports	59.3	66.1	61.9	66.9	67.9	67.5	70.5	70.7
Gov't. purchases of goods & services	219.4	233.7	228.2	230.2	235.5	241.0	248.0	250.5
Federal	97.2	97.5	96.7	95.7	97.5	100.0	103.0	102.5
Defense	75.4	72.0	73.0	71.8	71.5	71.5	73.5	73.5
Other	21.9	25.5	23.7	23.9	26.0	28.5	29.5	29.0
State & local	122.2	136.3	131.5	134.5	138.0	141.0	145.0	148.0
Gross national product in constant (1958) dollars	720.0	741.1	729.7	738.4 <sup>r</sup>	742.2	754.1	767.8	782.2
GNP implicit deflator (1958 = 100)	135.3	141.9	139.9	141.3	142.7	143.5	144.9	145.5
Personal income	803.6	858.7	834.3	854.8	866.5	879.3	900.2	916.7
Wage and salary disbursements	541.4	576.0	562.3	572.4	580.2	589.2	604.7	616.0
Disposable income	687.8	743.4	721.6	740.8	750.2	760.9	781.0	795.2
Personal saving	54.1	58.4	58.4	60.9	59.2	55.2	58.3	58.8
Saving rate (per cent)	7.9	7.9	8.1	8.2	7.9	7.3	7.5	7.4
Corporate profits before tax	75.4	82.9	79.1	83.3	82.5	86.5	92.5	98.0
Corp. cash flow, net of div. (domestic)	69.8	82.8	77.2	81.2	83.7	89.2	94.1	98.6
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	191.5	198.8	195.6	198.3	199.4	202.0	207.6	213.3
Expenditures	205.1	222.0	213.2	220.9	224.5	229.2	237.0	238.9
Surplus or deficit (-)	-13.6	-23.2	-17.5	-22.6	-25.1	-27.2	-29.4	-25.6
High employment surplus or deficit (-)	0.9	1.7	2.5	0.9	2.4	1.1	-3.4	-0.7
Total labor force (millions)	85.9	86.8	86.5	86.5	87.0	87.3	87.6	88.0
Armed forces "	3.2	2.8	3.0	2.8	2.8	2.7	2.6	2.5
Civilian labor force "	82.7	84.0	83.6	83.7	84.2	84.6	85.0	85.5
Unemployment rate (per cent)	4.9	6.0	5.9	6.0	6.1	6.0	5.8	5.5
Nonfarm payroll employment (millions)	70.6	70.7	70.4	70.7	70.6	71.0	71.6	72.3
Manufacturing	19.4	18.6	18.7	18.6	18.5	18.6	18.8	19.0
Industrial production (1967=100)	106.7	106.4	105.5	106.7	105.8	107.8	110.0	112.5
Capacity utilization, manufacturing (per cent)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Housing starts, private (millions A.R.)	1.43	2.00	1.81	1.96	2.11	2.13	2.13	2.13
Sales new autos (millions, A.R.)								
Domestic models	7.12	8.63	8.39	8.29	8.60	9.25	9.25	9.25
Foreign models	1.23	1.58	1.50	1.57	1.75	1.50	1.40	1.30

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.

n.a. - not available.

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CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1970	1971 Proj.	1971				1972	
			I	II	III	IV	I	II
	-----Billions Of Dollars-----							
Gross National Product	45.0	77.1	32.4	22.3 <sup>r</sup>	16.0	22.7	30.6	25.4
Inventory change	-4.6	1.8	-0.5	2.5	-1.9	1.7	2.2	4.8
Final purchases	49.6	75.4	32.9	19.8	17.9	21.1	28.3	20.6
Private	39.9	61.1	28.4	17.8	12.6	15.6	21.3	18.1
Excluding net exports	38.3	64.2	26.9	22.4	13.2	15.6	19.8	16.6
Net exports	1.6	-3.2	1.5	-4.7 <sup>r</sup>	-0.5	0.0	1.5	1.5
Government	9.7	14.3	4.5	2.0	5.3	5.5	7.0	2.5
GNP in constant (1958) dollars	-4.7	21.1	13.8	8.7	3.8	11.9	13.7	14.4
Final purchases	-0.5	19.6	14.3	6.4	5.5	10.4	11.9	10.4
Private	5.7	20.3	15.0	6.9	3.7	8.3	11.1	9.5
	-----In Per Cent Per Year-----							
Gross National Product	4.8	7.9	13.8 <sup>1/</sup>	9.0 <sup>r 1/</sup>	6.1	8.6	11.3	9.1
Final purchases	5.4	7.8	13.4	7.8	6.9	8.0	10.5	7.5
Private	5.6	8.1	14.9	9.0	6.2	7.6	10.2	8.5
Personal consumption expenditures	6.2	8.1	12.7	10.1	6.6	8.6	9.7	7.6
Durable goods	-1.4	15.0	59.8	13.1	8.7	11.7	50.6	-25.1
Nondurable goods	6.9	6.2	1.6	11.5	4.6	9.9	11.0	7.4
Services	8.4	7.8	9.1	7.9	7.7	6.2	7.3	7.3
Gross private domestic investment	-1.8	11.8	18.9	23.9	1.0	7.6	13.6	19.9
Residential construction	-4.4	31.3	43.9	36.3	13.1	13.7	13.2	6.4
Business fixed investment	3.5	4.6	13.9	10.4	3.7	-0.7	6.3	9.1
Gov't. purchases of goods & services	4.6	6.5	8.0	3.5	9.2	9.3	11.6	4.0
Federal	-2.0	0.3	3.3	-4.1	7.5	10.3	12.0	-1.9
Defense	-3.8	-4.5	-1.1	-6.6	-1.7	0.0	11.2	0.0
Other	5.8	16.4	17.6	3.4	35.1	38.5	14.0	-6.8
State & local	10.5	11.5	11.3	9.1	10.4	8.7	11.3	8.3
GNP in constant (1958) dollars	-0.6	2.9	8.0 <sup>1/</sup>	4.8 <sup>r 1/</sup>	2.1	6.4	7.3	7.5
Final purchases	-0.1	2.7	8.0	3.5 <sup>r</sup>	3.0	5.6	6.4	5.4
Private	1.0	3.5	10.4	4.7 <sup>r</sup>	2.5	5.6	7.3	6.1
GNP implicit deflator	5.5	4.9	5.3 <sup>1/</sup>	4.0 <sup>r 1/</sup>	4.1	2.2	3.9	1.6
Private GNP fixed weight price index <sup>2/</sup>	4.8		5.6 <sup>1/</sup>	5.0 <sup>1/</sup>	4.0	1.9	3.2	2.5
Personal income	7.1	6.9	8.6	9.8	5.5	5.9	9.5	7.3
Wage and salary disbursements	6.2	6.4	11.0	7.2	5.5	6.2	10.5	7.5
Disposable income	8.5	8.1	11.5	10.6	5.1	5.7	10.6	7.3
Corporate profits before tax	-10.5	9.9	41.9	21.2	-3.8	19.4	27.7	23.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	-2.7	3.8	13.3	5.5	2.2	5.2	11.1	11.0
Expenditures	8.2	8.2	6.5	14.4	6.5	8.4	13.6	3.2
Nonfarm payroll employment	0.5	0.1	1.8	1.3	-0.4	2.3	3.4	3.9
Manufacturing	-4.0	-4.0	0.4	-0.6	-3.2	2.2	4.3	4.3
Industrial production	-3.6	-1.0	7.3	4.7	-3.6	7.5	8.5	8.7
Housing starts, private	-2.3	39.9	8.1	32.7	29.6	5.1	0.0	0.0
Sales new autos								
Domestic models	-15.9	21.2	216.1	-4.7	15.1	30.2	0.0	0.0
Foreign models	16.0	28.5	60.2	18.1	46.5	-57.1	-26.7	-28.6

<sup>1/</sup> At compound rates.<sup>2/</sup> Using expenditures in 1967 as weights.

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

	1970		1971			
	III (Actual)	IV (Actual)	I (Actual)	II (Actual)	III (Anticipated)	IV (Anticipated)
Total	81.9	78.6	79.3	81.6	82.4	82.4
Addendum: Totals as shown in May 1971 survey	81.9	78.6	79.3	82.4	82.8	82.7
Manufacturing	32.2	31.0	30.5	30.1	29.7	30.2
Durable goods	15.7	14.9	14.2	14.1	14.5	14.5
Nondurable goods	16.4	16.1	16.3	16.1	15.2	15.8
Nonmanufacturing <sup>1/</sup>	49.7	47.7	48.9	51.5	52.6	52.2
Railroads	2.0	1.6	1.5	1.9	1.8	1.5
Other transportation	4.5	4.3	2.6	3.7	2.9	3.4
Public utilities <sup>1/</sup>	13.8	13.7	14.6	14.9	16.1	16.4
Electric	11.3	11.2	12.2	12.6	13.7	13.8
Communications	10.6	10.2	10.7	11.2	11.2 <sup>2/</sup>	10.9 <sup>2/</sup>
Commercial and other	17.0	16.0	17.4	17.7	18.6 <sup>2/</sup>	18.0 <sup>2/</sup>

<sup>1/</sup> Includes series not shown separately.

<sup>2/</sup> Confidential, not published separately.

MANUFACTURERS' NEW CAPITAL APPROPRIATIONS  
(Seasonally adjusted, quarterly rates)

	1971	1970				1971	
	II p	I	II	III	IV	I r	II p
	Millions of \$	Per Cent Change from Preceding Quarter					
All manufacturing	5,432	-13.4	-1.1	1.6	-9.3	-4.0	-5.7
Durable goods	2,514	-10.6	-2.2	3.8	-18.9	.2	-7.4
Nondurable goods	2,918	-15.9	.0	.5	.5	-7.5	-4.1

SOURCE: Conference Board.

corporations anticipating issues over the next six months or so that might accelerate their offerings if it appeared that interest rates were trending upward again. Prospective offerings in other sectors of the long-term securities markets are expected to remain close to the monthly averages for the first half of the year. It is estimated that takedowns of private placements will continue at a monthly rate of about \$550 million during the latter part of the year, after the usual end-of-the-quarter upswing in September. New equity volume, while varying somewhat from month to month because of the timing of rights offerings, is expected to average \$800 to \$900 million a month.

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

	Bonds		Stocks	Total
	Public	Private		
1970 - Year	2,099	403	713	3,245
First half	1,929	424	721	3,074
1971 - First half	2,486	546	948	3,980
QI	2,790	505	769	4,063
QII	2,182	586	1,128	3,896
QIII <u>e/</u>	1,677	596	1,382	3,655
August <u>e/</u>	1,400	500	950	2,850
September <u>e/</u>	2,300	750	1,000	4,050
October <u>e/</u>	1,900	550	750	3,200

e/ Estimated.

Long-term offerings by State and local governments were about \$1.8 billion in August, and the September total is estimated at \$1.9 billion, since a few previously postponed offerings apparently were

drawn back into the market by the rapid fall in rates since mid-August. On the basis of current schedulings, the staff expects a slight decline in long-term tax-exempt volume in October.

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

	Long-term	Net Short-term
1970 - Year	1,514	393
First half	1,306	291
1971 - First half <u>e/</u>	2,123	481
QI	2,229	540
QII <u>e/</u>	2,017	421
QIII <u>e/</u>	1,809	261
August <u>e/</u>	1,828	265
September <u>e/</u>	1,900	200
October <u>e/</u>	1,700	n.a.

e/ Estimated.

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

Net additions to short-term tax-exempt debt in recent months have been at their lowest level in almost a year. Legal restraints on roll-over of bond anticipation notes, as well as the lower level of long-term interest rates in 1971, have encouraged State and local units to fund much of the short-term debt incurred in 1970.

Table 1  
FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS<sup>1/</sup>  
(In billions of dollars)

	Fiscal Year 1971*	Calendar Year 1971 F.R. Board	Fiscal Year 1972e/ Adm. Estimate <sup>2/</sup>	F.R. Board	F. R. Board Staff estimates Calendar Quarters				
					1971			1972	
					II*	III	IV	I	II
<u>Federal Budget</u>									
(Quarterly data, unadjusted)									
Surplus/deficit	-23.2	-26.6	-27.5	-27.6	1.6	-8.7	-11.3	-10.6	3.1
Receipts	188.3	193.5	204.5	202.9	56.7	48.9	43.8	48.5	61.7
Outlays	211.6	220.0	232.0	230.5	55.1	57.6	55.1	59.1	58.6
Means of financing:									
Net borrowing from the public	19.4	20.3	n.a.	24.2	1.6	8.5	8.6	8.1	-1.0
Decrease in cash operating balance	-.8	2.8	n.a.	2.6	-4.3	.2	3.2	.8	-1.7
Other <sup>3/</sup>	4.5	3.4	n.a.	.7	1.1	-.1	-.5	1.7	-.4
Cash operating balance, end of period	8.8	5.3	n.a.	6.2	8.8	8.5	5.3	4.5	6.2
Memo: Net agency borrowing <sup>4/</sup>	1.1	1.6	n.a.	n.e.	-.9	1.5	2.0	n.e.	n.e.
<u>National Income Sector</u>									
(Seasonally adjusted annual rate)									
Surplus/deficit	-19.0	-23.1	n.a.	-26.8	-22.6	-25.1	-27.2	-29.4	-25.6
Receipts	193.6	198.8	n.a.	205.6	198.3	199.4	202.0	207.6	213.3
Expenditures	212.7	222.0	n.a.	232.4	220.9	224.5	229.2	237.0	238.9
High employment surplus/deficit (NIA basis) <sup>5/</sup>	1.3	1.7	n.a.	-.1	.9	2.4	1.1	-3.4	-.7

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

<sup>1/</sup> Reflects effects of total additional depreciation allowable under Treasury's newly-approved "accelerated depreciation range" guidelines, which are effective as of the beginning of 1971.

<sup>2/</sup> In testimony before the House Ways & Means Committee on Sept. 8, 1971, Secretary Connally disclosed the current Administration budget deficit estimate of \$27.0--28.0 billion and the updated outlays estimate of \$232.0 billion. These figures would imply a receipts estimate ranging from \$204.0--205.0 billion.



Footnotes  
continued

FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS<sup>1/</sup>  
(In billions of dollars)

- 3/ Includes such items as deposit fund accounts and clearing accounts.
- 4/ 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.
- 5/ Estimated by F.R. Board staff.

Table 2

PROJECTION OF TREASURY CASH OUTLOOK  
(In billions of dollars)

	Aug.	Sept.	Oct.
<u>Total net borrowing</u>	6.9	-2.6	2.8
Weekly and monthly bills	.6	.6	.4
Tax bills	--	--	--
Coupon issues	2.7	1.2	--
As yet unspecified new borrowing	--	--	3.5
Other (debt repayments, etc.)	3.6	-4.4	-1.1
Plus: Other net financial sources <sup>a/</sup>	-.9	1.2	1.1
Plus: <u>Budget surplus or deficit (-)</u>	-3.7	.4	-6.6
Equals: <u>Change in cash balance</u>	2.3 <sup>b/</sup>	-1.0	-2.7
Memoranda: Level of cash balance, end of period	9.5 <sup>b/</sup>	8.5	5.8
Derivation of budget surplus or deficit:			
Budget receipts	16.0	19.7	12.8
Budget outlays	19.7	19.3	19.4
Maturing coupon issues held by public	4.1 <sup>c/</sup>	--	--
Net agency borrowing	0.2	0.4	0.8

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

<sup>b/</sup> Actual.

<sup>c/</sup> The August refunding fell short of its goal by \$1.4 billion.

CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

September 17, 1971

By the Staff  
Board of Governors  
of the Federal Reserve System

**CORRECTIONS:**

Attached are Greenbook pages II-C-1 and II-C-2 inadvertently left out of the Greenbook.

Page II-22 footnote 2 should be SA (seasonally adjusted), not SAAR as indicated.

GNP tables pages II-6 and II-7 should be re-numbered II-7 and II-8.