

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

July 21, 1971

goods sales at department stores. The rise in nondurables reflected particularly large sales increases at general merchandise and department stores, although all major groups of stores reported relatively good gains.

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

	QI		QII	
	OBE Former Estimate	OBE Revised	Proj. of 6/23/71	OBE Prelim.
-----Billions of dollars-----				
GNP	30.8	32.4	20.0	19.7
Final sales	33.0	32.9	17.0	18.2
Personal consumption	19.4	19.9	11.8	15.5
Residential construction	3.6	3.6	2.4	2.9
Business fixed investment	3.8	3.5	1.4	1.8
Net exports	.7	1.5	- .8	-4.1
Federal purchases	.2	.8	- .8	- .7
State & local purchases	5.2	3.6	3.1	2.7
Inventory change	-2.2	- .5	3.0	1.5
-----Per Cent Per Year-----				
Real GNP	7.1 ^{2/}	8.0 ^{1/}	3.2	3.6 ^{1/}
GNP deflator	5.6 ^{2/}	5.3 ^{1/}	4.6	4.2 ^{1/}

^{1/} At compound rates.

^{2/} Excluding effects of Federal pay increase, 4.6 per cent.

Offsetting the unexpected strength in consumer demand was a sharp deterioration of the net export position and a smaller than projected rise in inventory investment. The Commerce Department estimates that net exports dropped to virtually zero in the second quarter from an upward revised level of over \$4 billion in the first

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

	QIII Proj. of 6/23/71	Current	QIV Proj. of 6/23/71	Current
-----Billions of dollars-----				
GNP	21.0	19.0	22.5	27.5
Final sales	24.1	22.1	20.1	24.0
Personal consumption	14.1	16.0	14.1	15.8
Residential construction	1.4	1.6	1.3	1.3
Business fixed investment	.5	.5	.5	.5
Net exports	.0	-1.1	.0	.0
Federal purchases	3.9	1.1	.0	2.4
State & local purchases	4.2	4.0	4.2	4.0
Inventory change	-3.1	-3.1	2.4	3.5
-----Per Cent Per Year-----				
Real GNP	2.5	2.7	4.0	5.0
GNP deflator	5.5 ^{1/}	4.5	4.4	5.3 ^{2/}
<u>1/</u> Excluding the effects of military pay increase, 4.5 per cent per year.				
<u>2/</u> Excluding the effects of military pay increase, 4.4 per cent per year.				

offset anticipated productivity gains and labor force growth and a renewed rise in unemployment is expected to persist into the autumn. But the additional strength now foreseen for late 1971 suggests that the unemployment rate may level off below 6-1/2 per cent toward year end.

A continued improvement in the rate of growth of real GNP is still anticipated for the first half of next year. A rise in the minimum wage, a scheduled increase in personal income tax exemptions, and a prospective Federal pay raise--should further stimulate consumer

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

	QI		QII	
	Proj. of 6/23/71	Current	Proj. of 6/23/71	Current
-----Billions of dollars-----				
GNP	27.0	28.0	26.0	27.5
Final sales	24.1	25.0	23.6	24.6
Personal consumption	14.9	15.6	15.9	16.1
Residential construction	1.2	1.2	.8	.9
Business fixed investment	1.2	1.2	2.8	2.8
Net exports	.0	.0	-.5	.0
Federal purchases	3.0	3.0	.8	.8
State & local purchases	3.8	4.0	3.8	4.0
Inventory change	2.9	3.0	2.4	2.9
-----Per Cent Per Year-----				
Real GNP	4.8	5.1 _{1/}	5.1	5.6
GNP deflator	5.1 _{1/}	5.1 _{1/}	4.2	4.2
<u>1/</u> Excluding effects of general Federal government pay increase, 4.3 per cent per year.				

outlays. Another increase in Social Security benefits also seems likely. We expect the additional buoyancy of the economy and the strength in consumer outlays to be reflected in somewhat higher inventory investment than we had formerly projected. Increases in GNP in the first half of 1972 are now expected to average almost \$28 billion a quarter, a rate of growth in real GNP of about 5-1/3 per cent--enough to cut unemployment to around 6 per cent by mid-year.

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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				1971	
			I	IIp	III	IV	I	II
Gross National Product	974.1	1052.0	1020.8	1040.5	1059.5	1087.0	1115.0	1142.5
Final purchases	971.3	1048.3	1017.6	1035.8	1057.9	1081.9	1106.9	1131.5
Private	751.9	814.5	789.4	805.6	822.6	840.2	858.2	878.0
Excluding net exports	748.3	813.9	785.2	805.5	823.6	841.2	859.2	879.0
Personal consumption expenditures	615.8	668.2	644.6	660.1	676.1	691.9	707.5	723.6
Durable goods	88.6	101.9	97.6	100.0	103.2	106.7	110.2	113.2
Nondurable goods	264.7	282.6	272.0	279.4	286.4	292.7	298.7	305.5
Services	262.5	283.7	275.0	280.7	286.5	292.5	298.6	304.9
Gross private domestic investment	135.3	149.4	143.8	150.1	149.1	154.4	159.8	166.4
Residential construction	30.4	39.7	36.4	39.3	40.9	42.2	43.4	44.3
Business fixed investment	102.1	106.0	104.3	106.1	106.6	107.1	108.3	111.1
Change in business inventories	2.8	3.7	3.2	4.7	1.6	5.1	8.1	11.0
Nonfarm	2.5	3.4	3.0	4.2	1.3	4.9	8.1	11.0
Net exports of goods and services	3.6	0.6	4.2	0.1	-1.0	-1.0	-1.0	-1.0
Gov't purchases of goods & services	219.4	223.9	228.2	230.2	235.3	241.7	248.7	253.5
Federal	97.2	97.3	96.7	96.0	97.1	99.5	102.5	103.3
Defense	75.4	72.3	73.0	72.0	71.3	72.7	74.2	74.2
Other	21.9	25.1	23.7	24.0	25.8	26.8	28.3	29.1
State & local	122.2	136.5	131.5	134.2	138.2	142.2	146.2	150.2
Gross national product in constant (1958) dollars	720.0	739.5	729.7	736.3	741.3	750.7	760.2	770.9
GNP implicit deflator (1958 = 100)	135.3	142.2	139.9	141.3	142.9	144.8	146.7	148.2
Personal income ^{1/}	803.6	861.3	833.9	854.2	867.9	889.3	910.5	928.0
Wage and salary disbursements	541.4	579.4	562.3	572.6	583.1	599.6	614.3	627.2
Disposable income ^{1/}	687.8	745.9	721.3	740.4	751.8	769.9	790.2	804.5
Personal saving ^{1/}	54.1	58.6	58.1	61.4	56.5	58.5	62.9	60.7
Saving rate (per cent) ^{1/}	7.9	7.9	8.1	8.3	7.5	7.6	8.0	7.6
Corporate profits before tax ^{1/}	75.4	80.8	76.8	80.0	81.5	85.0	89.0	95.5
Corp. cash flow, net of div. (domestic) ^{1/}	69.8	81.9	78.1	81.0	83.0	85.5	88.5	92.9
Federal government receipts and expenditures (N.I.A. basis)								
Receipts ^{1/}	191.5	199.9	194.7	197.8	201.0	206.2	211.8	218.2
Expenditures	205.1	221.8	213.2	220.1	224.1	229.6	238.4	241.6
Surplus or deficit (-) ^{1/}	-13.6	-21.8	-18.5	-22.3	-23.1	-23.4	-26.6	-23.4
High employment surplus or deficit (-) ^{1/}	0.9	2.9	2.5	1.7	3.3	4.0	0.6	2.6
Total labor force (millions)	85.9	86.8	86.5	86.5	86.9	87.3	87.6	87.9
Armed forces "	3.2	2.8	3.0	2.8	2.8	2.7	2.6	2.6
Civilian labor force "	82.7	84.0	83.6	83.7	84.1	84.6	85.0	85.3
Unemployment rate (per cent)	4.9	6.1	5.9	6.0	6.2	6.4	6.3	6.1
Nonfarm payroll employment (millions)	70.7	70.9	70.6	70.7	71.0	71.3	71.7	72.2
Manufacturing	19.4	18.7	18.7	18.7	18.7	18.8	18.9	19.0
Industrial production (1957-59=100)	168.2	167.8	165.4	167.1	168.1	170.5	173.2	176.3
Capacity utilization, manufacturing (per cent)	76.6	73.2	73.1	73.2	73.2	73.2	73.7	74.2
Housing starts, private (millions A.R.)	1.43	1.97	1.81	1.95	2.05	2.08	2.10	2.10
Sales new domestic autos (millions, A.R.)	7.12	8.37	8.39	8.28	8.30	8.50	8.60	8.75

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/} 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.

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1970	1971 Proj.	1971				1972	
			I	IIp	III	IV	I	II
	-----Billions of dollars-----							
Gross National Product	45.0	77.9	32.4	19.7	19.0	27.5	28.0	27.5
Inventory change	-4.6	0.9	-0.5	1.5	-3.1	3.5	3.0	2.9
Final purchases	49.6	77.0	32.9	18.2	22.1	24.0	25.0	24.6
Private	39.9	62.6	28.4	16.2	17.0	17.6	18.0	19.8
Excluding net exports	38.3	65.6	26.9	20.3	18.1	17.6	18.0	19.8
Net exports	1.6	-3.0	1.5	-4.1	-1.1	0.0	0.0	0.0
Government	9.7	4.5	4.5	2.0	5.1	6.4	7.0	4.8
GNP in constant (1958) dollars	-4.7	19.5	13.8	6.6	5.0	9.4	9.5	10.0
Final purchases	-0.5	18.8	14.3	5.2	7.7	6.6	7.2	8.4
Private	5.7	19.0	15.0	5.6	4.6	5.2	6.4	7.3
	-----In Per Cent Per Year-----							
Gross National Product	4.8	8.0	13.8 ^{1/}	8.0 ^{1/}	7.3	10.4	10.3	9.9
Final purchases	5.4	7.9	13.4	7.2	8.5	9.1	9.2	8.9
Private	5.6	8.3	14.9	8.2	8.4	8.6	8.6	9.2
Personal consumption expenditures	6.2	8.5	12.7	9.6	9.7	9.3	9.0	9.1
Durable goods	-1.4	15.0	59.8	9.8	12.8	13.6	13.1	10.9
Nondurable goods	6.9	6.8	1.6	10.9	10.0	8.8	8.2	9.1
Services	8.4	8.1	9.1	8.3	8.3	8.4	8.3	8.4
Gross private domestic investment	-1.8	10.4	18.9	17.5	-2.7	14.2	14.0	16.5
Residential construction	-4.4	30.6	43.9	31.9	16.3	12.7	11.4	8.3
Business fixed investment	3.5	3.8	13.9	6.9	1.9	1.9	4.5	10.3
Gov't. purchases of goods & services	4.6	2.1	8.0	3.5	8.9	10.9	11.6	7.7
Federal	-2.0	0.1	3.3	-2.9	4.6	9.9	12.1	3.1
Defense	-3.8	-4.1	-1.1	-5.5	-3.9	7.9	8.3	0.0
Other	5.8	14.6	17.6	5.1	30.0	15.5	22.4	11.3
State & local	10.5	11.7	11.3	8.2	11.9	11.6	11.3	10.9
GNP in constant (1958) dollars	-0.6	2.7	8.0 ^{1/}	3.6 ^{1/}	2.7	5.0	5.1	5.6
Final purchases	-0.1	2.6	8.0	2.9	4.2	3.6	3.9	4.5
Private	1.0	3.3	10.4 ^{1/}	3.8 ^{1/}	3.1	3.5 ^{2/}	4.2 ^{3/}	4.8
GNP implicit deflator	5.5	5.1	5.3 ^{1/}	4.2 ^{1/}	4.5	5.3 ^{2/}	5.1 ^{2/}	4.2
Private GNP fixed weight index ^{4/}	4.8	5.1	5.6 ^{1/}	4.9 ^{1/}	4.5	4.5	4.4	4.2
Personal income ^{5/}	7.1	7.2	8.4	9.7	6.4	9.9	9.5	7.7
Wage and salary disbursements	6.2	7.0	11.0	7.3	7.3	11.3	9.8	8.4
Disposable income ^{5/}	8.5	8.4	11.3	10.6	6.2	9.6	10.5	7.2
Corporate profits before tax ^{5/}	-10.5	7.2	29.1	16.7	7.5	17.2	18.8	29.2
Federal government receipts and expenditures (N.I.A. basis)								
Receipts ^{5/}	-2.7	4.4	11.4	6.4	6.5	10.3	10.9	12.1
Expenditures	8.2	8.1	6.5	12.9	7.3	9.8	15.3	5.4
Nonfarm payroll employment	0.6	0.3	2.5	0.6	1.7	1.7	2.2	2.8
Manufacturing	-3.8	-3.6	1.0	-1.4	0.0	2.1	2.1	2.1
Industrial production	-2.7	-0.3	6.6	4.1	2.3	5.7	6.3	7.2
Housing starts, private	-2.6	37.7	8.1	30.4	20.3	6.4	3.3	0.0
Sales new domestic autos	-15.9	17.5	216.4	-5.1	0.9	9.6	4.7	7.0

^{1/} At compounded rates.^{2/} Excluding effects of military pay increase, 4.4 per cent per year.^{3/} Excluding effects of general Federal government pay increase, 4.3 per cent per year.^{4/} Using expenditures in 1965-IV as weights.^{5/} 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.

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 ^{1/}	2,498	532	954	3,933
QI	2,790	505	769	4,063
QII <u>e/</u>	2,206	558	1,138	3,902
June <u>e/</u>	2,300	700	900	3,900
July <u>e/</u>	1,500	500	2,000 ^{1/}	4,000
August <u>e/</u>	1,700	500	800	3,000

^{1/} Including \$1.375 billion of AT&T preferred stock.

e/ Estimated.

As in the corporate market, the summer months are expected to bring some tapering of the volume of tax-exempt debt offerings. Current interest rate levels are undoubtedly restricting sales of some revenue bonds and issues by lower-rated borrowers. But even with a somewhat reduced volume of offerings, a significant decline in yields is not likely to occur unless bank acquisitions increase; commercial bank purchases have been slackening in recent weeks and still appear to be mainly in the shorter maturities.

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

1970 - Year	1,515
First half	1,306
1971 - First half <u>e/</u>	2,089
QI	2,230
QII <u>e/</u>	1,965
June <u>e/</u>	1,939
July <u>e/</u>	1,800
August <u>e/</u>	1,700

e/ Estimated.

Government securities market. Yields in the Treasury note and bond market have increased only moderately in the wake of the rise in the discount rate, with long-term rates moving about 10 basis points higher and intermediate-term yields gaining about 15 basis points. In the Treasury bill market, rate increases have been more pronounced, ranging from 10 to about 25 basis points--the 3-month bill is now bid at about 5.50 per cent, compared with 5.38 per cent just before the discount rate change and 5.22 per cent at the end of June.

receipts so that the estimated deficit for fiscal 1971 and the projected deficit for fiscal 1972 are now a little larger. While figures for purchases of goods and services were lowered for fiscal years 1971 and 1972, figures for transfer payments to individuals in FY 1971 and to State and local governments in both fiscal years were revised upward somewhat, resulting in a small net reduction in expenditure figures.

Comparison of Actual and High Employment NIA Budget Figures, Before and After OBE Revision of the GNP Data*
(Billions of dollars)

	F. R. Board Staff Estimates (SAAR)					
	Fiscal 1971		Fiscal 1972		Calendar Year 1971	
	6-25 Greenbook	Current Greenbook	6-25 Greenbook	Current Greenbook	6-25 Greenbook	Current Greenbook
Surplus/deficit	-16.7	-19.2	-19.0	-24.6	-18.8	-22.0
Receipts	196.8	193.3	216.8	208.9	205.5	199.8
Expenditures	213.5	212.5	235.8	233.4	224.3	221.8
High employment*						
Surplus deficit	~ .2	1.4	-.4	2.6	-.4	2.9

* The staff's high employment estimates use the Okun method for price deflation.

The revision of NIA statistics also affected the staff estimate of the high employment budget, as shown in the accompanying table. Federal expenditures were revised downward. High employment GNP and high employment Federal receipts were revised upward as a result of an upward revision of the price deflator for past periods.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	June	July	Aug.
<u>Total net borrowing</u>	- .2	4.2	2.6
Weekly and monthly bills	.1	.5	.1
Tax bills	-2.5	--	--
Coupon issues	2.3	1.8	3.1
As yet unspecified new borrowing	--	--	--
Other (debt repayments, etc.)	-.1	1.9	- .6
Plus: <u>Other net financial sources</u> ^{a/}	-1.1	-.2	-.4
Plus: <u>Budget surplus or deficit (-)</u>	3.2	-7.7	-2.9
Equals: <u>Change in cash balance</u>	1.9 ^{b/}	-3.7	-.7
Memoranda: Level of cash balance, end of period	8.8 ^{b/}	5.1	4.4
Derivation of budget surplus or deficit:			
Budget receipts	22.9	13.0	16.1
Budget outlays	19.7	20.7	19.0
Maturing coupon issues held by public	--	--	4.1
Net agency borrowing	.3	.6	.2

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

^{b/} Actual

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

	F.R. Board Staff estimates										
	Fiscal 1971e/		Fiscal 1972e/		Calendar	Calendar Quarters					
	Jan.	F.R.	Jan.	F.R.	Year	1971				1972 e/	
	Budget	Board	Budget	Board	1971e/	I*	IIe/	IIIe/	IVe/	I	II
Federal Budget											
(Quarterly data, unadjusted)											
Surplus/deficit	-18.6	-22.2	-11.6	-23.4	-28.5	-8.2	2.4	-10.7	-12.0	-8.4	7.7
Receipts	194.2	188.8	217.6	210.6	194.1	44.1	57.1	48.7	44.2	50.8	66.9
Outlays	212.8	211.0	229.2	234.0	222.5	52.2	54.7	59.4	56.2	59.2	59.2
Means of financing:											
Net borrowing from the public	17.6	19.6	10.6	21.4	25.1	1.6	1.7	6.9	14.9	4.6	-5.0
Decrease in cash operating balance	n.a.	-.8*	n.a.	1.3	.1	3.6	-4.3	2.9	-2.1	1.8	-1.3
Other <u>2/</u>	n.a.	3.4	n.a.	.7	3.2	2.9	.2	.9	-.8	2.0	-1.4
Cash operating balance, end of period	n.a.	8.8*	n.a.	7.5	8.0	4.5	8.8	5.9	8.0	6.2	7.5
Memo: Net agency borrowing <u>3/</u>	n.a.	1.8	n.a.	n.e.	2.1	-1.0	-0.3	1.3	2.0	n.e.	n.e.
National Income Sector											
(Seasonally adjusted annual rate)											
Surplus/deficit	-15.0	-19.2	-4.2	-24.1	-21.8	-18.5	-22.3	-23.1	-23.4	-26.6	-23.4
Receipts	200.0	193.3	225.9	209.3	199.9	194.7	197.8	201.0	206.2	211.8	218.2
Expenditures	215.0	212.5	230.1	233.4	221.8	213.2	220.1	224.1	229.6	238.4	241.6
High employment surplus/deficit (NIA basis) <u>4/</u>	n.a.	1.4	n.a.	2.6	2.9	2.5	1.7	3.3	4.0	.6	2.8

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

1/ 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.

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.

Footnote

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