

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

June 23, 1971

Our projection of GNP increase for the second quarter of this year remains about \$20 billion--only two-thirds the rise of the preceding quarter, when the rise was temporarily inflated by the post-strike rebound in auto sales. In real terms, growth of GNP in the second quarter is projected at slightly over 3 per cent, annual rate.

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

	<u>First Quarter</u>	<u>Second Quarter</u>	
		Proj. of	
		6/2/71	Current
-----Billions of dollars-----			
GNP	30.8	19.5	20.0
Final sales	33.0	16.4	17.0
Personal consumption	19.4	11.6	11.8
Residential construction	3.6	2.4	2.4
Business fixed investment	3.8	.9	1.4
Net exports	.7	- .8	- .8
Federal purchases	.2	- .7	- .8
State and local purchases	5.2	3.1	3.1
Inventory change	-2.2	3.1	3.0
-----Per Cent Per Year-----			
Real GNP	7.1	2.9	3.2
GNP deflator	5.6 <u>1/</u>	4.7	4.6
<u>1/</u> Excluding effects of Federal pay increase, 4.6 per cent.			

Housing starts through May are consistent with an annual rate for the quarter in excess of 1.9 million units, indicating a further strong rise in residential construction activity, although by about \$1 billion less than in the first quarter. Recent shipments data suggest a slightly larger increase in capital expenditures

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

	Third Quarter		Fourth Quarter	
	Proj. of 6/2/71	Current	Proj. of 6/2/71	Current
-----Billions of dollars-----				
GNP	18.5	21.0	24.5	22.5
Final sales	22.0	24.1	19.0	20.1
Personal consumption	13.0	14.1	13.0	14.1
Residential construction	1.4	1.4	1.3	1.3
Business fixed investment	.5	.5	.5	.5
Net exports	.0	.0	.0	.0
Federal purchases	2.9	3.9	.0	.0
State & local purchases	4.2	4.2	4.2	4.2
Inventory change	-3.5	-3.1	5.5	2.4
-----Per Cent Per Year-----				
Real GNP	2.1	2.5	5.3	4.0
GNP deflator	4.9 <u>1/</u>	5.5 <u>2/</u>	3.9	4.4

1/ Excluding effects of Federal pay increase, 4.25 per cent.

2/ Excluding effects of Federal pay increase, 4.5 per cent.

The outlook for GNP growth in the second half of the year also remains about unchanged overall from the preceding Greenbook-- with expected gains averaging over \$20 billion a quarter. However, the quarterly pattern has been changed, and we have raised the third quarter increase by \$2-1/2 billion. We are now assuming enactment shortly of a military pay increase amounting to \$2.7 billion, about \$1 billion larger than we had formerly estimated, and this should also increase consumption. Moreover, we believe that the odds have shifted against the likelihood of a steel strike, and have not allowed for one in the current projection. Industry acceptance of something

CONFIDENTIAL - FR

June 23, 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.	1971				1972	
			I	II	III	IV	I	II
Gross National Product	976.5	1051.8	1020.7	1040.7	1061.7	1084.2	1111.2	1137.2
Final purchases	973.1	1049.1	1019.3	1036.3	1060.4	1080.5	1104.6	1128.2
Private	752.6	813.7	790.6	805.4	821.4	837.3	854.6	873.6
Excluding net exports	749.0	811.0	787.3	802.9	818.9	834.8	852.1	871.6
Personal consumption expenditures	616.7	665.8	646.4	658.2	672.3	686.4	701.3	717.2
Durable goods	89.4	99.8	97.5	98.2	100.5	103.0	105.5	108.5
Nondurable goods	264.7	281.4	272.8	278.5	284.3	289.9	296.1	302.7
Services	262.6	284.7	276.1	281.5	287.5	293.5	299.7	306.0
Gross private domestic investment	135.7	147.9	142.4	149.1	147.9	152.1	157.4	163.4
Residential construction	29.7	38.6	35.8	38.2	39.6	40.9	42.1	42.9
Business fixed investment	102.6	106.5	105.1	106.5	107.0	107.5	108.7	111.5
Change in business inventories	3.5	2.7	1.4	4.4	1.3	3.7	6.6	9.0
Nonfarm	2.9	2.7	1.2	4.4	1.3	3.7	6.6	9.0
Net exports of goods and services	3.6	2.7	3.3	2.5	2.5	2.5	2.5	2.0
Gov't. purchases of goods & services	220.5	235.5	228.7	230.9	239.0	243.2	250.0	254.6
Federal	99.7	99.8	98.4	97.6	101.5	101.5	104.5	105.3
Defense	76.6	73.9	74.0	72.8	74.8	73.8	75.3	75.3
Other	23.1	26.0	24.5	24.9	26.7	27.7	29.2	30.0
State & local	120.9	135.7	130.2	133.3	137.5	141.7	145.5	149.3
Gross national product in constant (1958) dollars	724.1	741.3	732.7	738.5	743.2	750.7	759.6	769.3
GNP implicit deflator (1958 = 100)	134.9	141.9	139.3	140.9	142.5	144.4	146.3	147.8
Personal income <sup>1/</sup>	801.0	858.9	830.7	852.2	868.1	884.6	905.1	923.0
Wage and salary disbursements	540.1	578.0	560.6	571.2	584.3	595.9	609.6	622.2
Disposable income <sup>1/</sup>	684.8	737.2	714.3	733.6	745.2	755.5	775.6	790.0
Personal saving <sup>1/</sup>	50.2	52.1	49.0	56.2	53.3	49.1	53.9	52.0
Saving rate (per cent) <sup>1/</sup>	7.3	7.1	6.9	7.7	7.2	6.5	6.9	6.6
Corporate profits before tax <sup>1/</sup>	81.3	85.2	80.8	84.3	85.8	89.7	94.1	100.5
Corp. cash flow, net of div. (domestic) <sup>1/</sup>	69.9	79.8	76.7	79.2	80.5	82.9	85.6	89.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts <sup>1/</sup>	194.8	205.5	198.2	202.2	206.9	214.6	219.8	225.7
Expenditures	206.3	224.3	214.2	223.0	228.9	231.0	240.0	243.2
Surplus or deficit (-) <sup>1/</sup>	-11.5	-18.8	-16.0	-20.8	-22.0	-16.4	-20.2	-17.5
High employment surplus or deficit (-) <sup>1/</sup>	-0.8	-0.4	1.3	-2.0	-2.6	1.6	-1.7	1.0
Total labor force (millions)	85.9	87.0	86.5	86.9	87.2	87.4	87.6	88.0
Armed forces "	3.2	2.8	3.0	2.9	2.8	2.7	2.6	2.6
Civilian labor force "	82.7	84.2	83.6	84.1	84.4	84.7	85.0	85.4
Unemployment rate (per cent)	4.9	6.3	5.9	6.2	6.5	6.6	6.5	6.3
Nonfarm payroll employment (millions)	70.7	71.0	70.6	70.8	71.1	71.4	71.8	72.3
Manufacturing	19.4	18.7	18.7	18.7	18.7	18.8	18.9	19.0
Industrial production (1957-59=100)	168.2	167.7	165.4	167.2	168.0	170.0	172.5	175.5
Capacity utilization, manufacturing (per cent)	76.6	72.8	73.0	73.0	72.6	72.7	73.1	73.6
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	8.42	8.39	8.40	8.40	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.

<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.

CONFIDENTIAL - FR

June 23, 1971

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1970	1971 Proj.	1971 -----Projection-----				1972	
			I	II	III	IV	I	II
	-----Billions of dollars-----							
Gross National Product	45.1	75.3	30.8	20.0	21.0	22.5	27.0	26.0
Inventory change	-5.0	-0.8	-2.2	3.0	-3.1	2.4	2.9	2.4
Final purchases	50.2	76.0	33.0	17.0	24.1	20.1	24.1	23.6
Private	41.9	61.1	27.5	14.8	16.0	15.9	17.3	19.0
Excluding net exports	40.2	62.0	26.8	15.6	16.0	15.9	17.3	19.5
Net exports	1.7	-0.9	0.7	-0.8	0.0	0.0	0.0	-0.5
Government	8.3	15.0	5.5	2.2	8.1	4.2	6.8	4.6
GNP in constant (1958) dollars	-3.0	17.2	12.4	5.8	4.7	7.5	8.9	9.7
Final purchases	1.2	18.0	14.4	3.6	6.9	5.6	6.7	7.8
Private	7.2	19.3	14.6	4.2	5.6	5.1	5.9	7.2
	-----In Per Cent Per Year-----							
Gross National Product	4.8	7.7	13.1	7.8	8.1	8.5	10.0	9.4
Final purchases	5.4	7.8	13.4	6.7	9.3	7.6	8.9	8.5
Private	5.9	8.1	14.4	7.5	7.9	7.7	8.3	8.9
Personal consumption expenditures	6.8	8.0	12.4	7.3	8.6	8.4	8.7	9.1
Durable goods	-0.7	11.6	57.2	2.9	9.4	10.0	9.7	11.4
Nondurable goods	7.7	6.3	1.9	8.4	8.3	7.9	8.6	8.9
Services	8.7	8.4	8.7	7.8	8.5	8.3	8.4	8.4
Gross private domestic investment	-2.9	9.0	15.5	18.8	-3.2	11.4	13.9	15.2
Residential construction	-7.2	30.0	44.7	26.8	14.7	13.1	11.7	7.6
Business fixed investment	3.3	3.8	15.0	5.3	1.9	1.9	4.5	10.3
Gov't. purchases of goods & services	3.9	6.8	9.9	3.8	14.0	7.0	11.2	7.4
Federal	-1.6	0.1	0.8	-3.3	16.0	0.0	11.8	3.1
Defense	-2.8	-3.5	-3.2	-6.5	11.0	-5.3	8.1	0.0
Other	2.2	12.6	17.0	6.5	28.9	15.0	21.7	11.0
State & local	9.1	12.2	16.6	9.5	12.6	12.2	10.7	10.4
GNP in constant (1958) dollars	-0.4	2.4	7.1 <sup>1/</sup>	3.2	2.5	4.0	4.8	5.1
Final purchases	0.2	2.5	8.1	2.0	3.8	3.0	3.6	4.1
Private	1.3	3.3	10.1	2.9	3.7	3.4	3.9	4.7
GNP implicit deflator	5.3	5.2	5.6 <sup>1/</sup>	4.6	5.5 <sup>2/</sup>	4.4	5.1 <sup>3/</sup>	4.2
Private GNP fixed weight index <sup>4/</sup>	4.9	4.9	5.2 <sup>1/</sup>	4.8	4.5	4.5	4.4	4.2
Personal income <sup>5/</sup>	7.0	7.2	8.6	10.4	7.5	7.6	9.3	7.9
Wage and salary disbursements	6.1	7.0	11.3	7.6	9.2	7.9	9.2	8.3
Disposable income <sup>5/</sup>	8.4	7.7	9.8	10.8	6.3	5.5	10.6	7.4
Corporate profits before tax <sup>5/</sup>	-10.9	4.8	23.6	17.3	7.1	18.2	19.6	27.2
Federal government receipts and expenditures (N.I.A. basis)								
Receipts <sup>5/</sup>	-2.9	5.5	13.6	8.1	9.3	14.9	9.7	10.7
Expenditures	7.8	8.7	8.2	16.4	10.6	3.7	15.6	5.3
Nonfarm payroll employment	0.6	0.4	2.5	1.1	1.7	1.7	2.2	2.8
Manufacturing	-3.9	-3.6	1.1	0.0	0.0	2.1	2.1	2.1
Industrial production	-2.7	-0.3	6.6	4.2	2.1	4.7	6.0	6.7
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	18.3	216.4	0.6	0.0	4.8	4.7	7.0

<sup>1/</sup> At compounded rates.<sup>2/</sup> Excluding effects of military pay increase, 4.5 per cent per year.<sup>3/</sup> Excluding effects of general Federal government pay increase, 4.3 per cent per year.<sup>4/</sup> Using expenditures in 1965-IV as weights.<sup>5/</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.

that July volume will be about \$1.7 billion. This would be the first time in almost a year that public bond volume dropped below \$2 billion, but it is still significantly above the average monthly volume in this market in any year before 1970.

New stock issues continued at high levels, even aside from the \$1.4 billion AT&T rights issue, which will boost the July total to a record level. The relatively high level of public bond offerings and the surge in equity financing, combined with an apparent pickup in private placements in recent months, have resulted in a near-record monthly average volume of total corporate security offerings from April through July.

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

	Bonds		Stocks	Total
	Public	Private		
1969 - Year	1,061	468	700	2,229
1970 - Year	2,099	403	713	3,245
1971 - QI	2,790	505	769	4,063
QII <sup>e/</sup>	2,187	550	1,033	3,770
May <sup>e/</sup>	2,200	500	900	3,600
June <sup>e/</sup>	2,200	700	900	3,800
July <sup>e/</sup>	1,700	500	2,000	4,000

<sup>e/</sup> Estimated.

Although total second-quarter volume of State and local long-term debt issues is below the record first-quarter level, tax exempt bonds are still being offered at levels close to \$2 billion a month. In the last few weeks, the pace of acquisitions by both banks and fire and casualty companies has slackened somewhat, and this has exerted upward pressure on municipal yields. Municipal demands for long-term funds have not abated, but there may be some seasonal tapering in new issues in July.

**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
1971 - QI	2,230	535
QII <sup>e/</sup>	1,996	436
May <sup>e/</sup>	2,200	207
June <sup>e/</sup>	1,900	100
July <sup>e/</sup>	1,800	n. a.

<sup>e/</sup> Estimated.

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

Net short-term offerings by State and local governments fell in May and June. Even though gross short-term issues averaged more than \$2 billion a month over the second quarter--rising to an anticipated \$3 billion in June--the increasing volume of maturing issues largely offset the recent rise in gross offerings, with a number of governments apparently deciding to fund their maturing short-term obligations rather than renew them.

PROJECTION OF TREASURY CASH OUTLOOK  
(In billions of dollars)

	June	July	Aug.
<u>Total net borrowing</u>	-1.1	6.8	2.1
Weekly and monthly bills	.1	.5	.1
Tax bills	--	1.8	--
Coupon issues	2.3	--	--
As yet unspecified new borrowing	--	4.5	2.6
Other (debt repayments, etc.)	-3.5 <sup>a/</sup>	--	-.6
Plus: <u>Other net financial sources</u> <sup>b/</sup>	-1.9	.1	-.4
Plus: <u>Budget surplus or deficit (-)</u>	3.6	-7.2	-3.5
Equals: <u>Change in cash balance</u>	.6	-.3	-1.8
Memoranda: Level of cash balance, end of period	7.5	7.2	5.4
Derivation of budget surplus or deficit:			
Budget receipts	22.6	13.5	16.1
Budget outlays	19.0	20.7	19.6
Maturing coupon issues held by public	--	--	4.1
Net agency borrowing	.3	.5	.2

a/ Includes about \$1.0 billion in redemptions of Treasury securities issued to foreign central banks during May.

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



FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS  
(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*	Ile/	IIle/	IVe/	I	II
<b>Federal Budget</b>											
(Quarterly data, unadjusted)											
Surplus/deficit	-18.6	-22.0	-11.6	-23.5	-27.5	-8.2	2.6	-10.9	-12.0	-8.3	7.7
Receipts	194.2	189.0	217.6	211.0	194.8	44.1	57.3	49.2	44.2	50.8	66.8
Outlays	212.8	211.0	229.2	234.5	222.2	52.2	54.7	60.1	56.2	59.1	59.1
Means of financing:											
Net borrowing from the public	17.6	19.0	10.6	22.0	25.1	1.6	1.1	9.0	13.4	4.6	-5.0
Decrease in cash operating balance	n.a.	.2	n.a.	.5	.3	3.6	-3.3	.7	-.6	1.7	-1.3
Other 1/	n.a.	2.8	n.a.	1.0	2.0	2.9	-.4	1.2	-.8	2.0	-1.4
Cash operating balance, end of period	n.a.	7.8	n.a.	7.3	7.8	4.5	7.8	7.1	7.7	6.0	7.3
Memo: Net agency borrowing 2/	n.a.	1.7	n.a.	n.e.	n.e.	-1.0	-0.3	1.2	n.e.	n.e.	n.e.
<b>National Income Sector</b>											
(Seasonally adjusted annual rate)											
Surplus/deficit	-15.0	-16.7	-4.2	-19.0	-13.8	-16.0	-20.8	-22.0	-16.4	-20.2	-17.5
Receipts	200.0	196.0	225.9	216.8	205.5	198.2	202.2	206.9	214.6	219.8	225.7
Expenditures	215.0	213.5	230.1	235.8	224.3	214.2	223.0	228.9	231.0	240.0	243.2
High employment surplus/deficit (NIA basis)	n.a.	-.2	n.a.	-.4	-.4	1.3	-2.0	-2.6	1.6	-1.7	1.0

\* 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 proposed by the Treasury.