

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

August 18, 1971

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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		Change from Preceding Quarter			
		I	II	Billions of Dollars		Per Cent, Annual Rates	
				I	II	I	II
Gross National Product	974.1	1020.8	1041.3	32.4	20.5	13.8 ^{1/}	8.2 ^{1/}
Final purchases	971.3	1017.6	1035.6	32.9	18.0	13.4	7.1
Private	751.9	789.4	805.4	28.4	16.0	14.9	8.1
Excluding net exports	748.3	785.2	807.6	26.9	22.4	14.2	11.4
Personal consumption expenditures	615.8	644.6	660.9	19.9	16.3	12.7	10.1
Durable goods	88.6	97.6	100.8	12.7	3.2	59.8	13.1
Nondurable goods	264.7	272.0	279.8	1.1	7.8	1.6	11.5
Services	262.5	275.0	280.4	6.1	5.4	9.1	7.9
Gross private domestic investment	135.3	143.8	152.4	6.5	8.6	18.9	23.9
Residential construction	30.4	36.4	39.7	3.6	3.3	43.9	36.3
Business fixed investment	102.1	104.3	107.0	3.5	2.7	13.9	10.4
Change in business inventories	2.8	3.2	5.7	-0.5	2.5	--	--
Nonfarm	2.5	3.0	5.2	-0.3	2.2	--	--
Net exports of goods and services	3.6	4.2	-2.2	1.5	-6.4	--	--
Gov't. purchases of goods & services	219.4	228.2	230.2	4.5	2.0	8.0	3.5
Federal	97.2	96.7	95.7	0.8	-1.0	3.3	-4.1
Defense	75.4	73.0	71.8	-0.2	-1.2	-1.1	-6.6
Other	21.9	23.7	23.9	1.0	0.2	17.6	3.4
State & local	122.2	131.5	134.5	3.6	3.0	11.3	9.1
Gross national product in constant (1958) dollars	720.0	729.7	737.0	13.8	7.3	8.0 ^{1/}	4.0 ^{1/}
GNP implicit deflator (1958 = 100) ^{4/}	135.3	139.9	141.3	--	--	5.3 ^{1/2/}	4.1 ^{1/}
Private GNP fix weight price index ^{4/}	--	--	--	--	--	5.5 ^{1/2/}	5.0 ^{1/}
Personal income ^{3/}	803.6	834.3	854.8	17.6	20.5	8.4	9.8
Wage and salary disbursements	541.4	562.3	572.4	15.1	10.1	11.0	7.2
Disposable income ^{3/}	687.8	721.6	740.8	20.1	19.2	11.3	10.6
Personal saving ^{3/}	54.1	58.4	60.9	-0.1	2.5	--	--
Saving rate (per cent) ^{3/}	7.9	8.1	8.2	--	--	--	--
Corporate profits before tax ^{3/}	75.4	79.1	82.0	7.5	2.9	41.9	14.7
Corp. cash flow, net of div. (domestic) ^{3/}	69.8	n.a.	n.a.	--	--	--	--
Federal government receipts and expenditures (N.I.A. basis)							
Receipts ^{3/}	191.5	195.6	198.3	6.3	2.7	13.3	5.5
Expenditures	205.1	213.2	220.9	3.4	7.7	6.5	14.4
Surplus or deficit (-) ^{3/}	-13.6	-17.5	-22.5	3.0	-5.0	--	--
High employment surplus or deficit (-) ^{3/}	0.9	2.5	0.9	0.4	-1.6	--	--
Total labor force (millions)	85.9	86.5	86.5	--	--	0.2	0.0
Armed forces "	3.2	3.0	2.8	--	--	-12.1	-14.0
Civilian labor force "	82.7	83.6	83.7	--	--	0.6	0.5
Unemployment rate (per cent)	4.9	5.9	6.0	--	--	--	--
Nonfarm payroll employment (millions)	70.7	70.6	70.7	--	--	2.5	0.6
Manufacturing	19.4	18.7	18.7	--	--	1.0	-1.4
Industrial production (1957-59=100)	106.7	105.5	106.7	--	--	7.3	4.4
Capacity utilization, manufacturing (per cent)	n.a.	n.a.	n.a.	--	--	--	--
Housing starts, private (millions A.R.)	1.43	1.81	1.96	--	--	8.1	32.6
Sales new autos (millions, A.R.)							
Domestic models	7.12	8.39	8.28	--	--	216.4	-5.1
Foreign models	1.23	1.50	1.57	--	--	60.2	19.7

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/} At compounded annual rates as published by Commerce.

^{2/} Excluding effects of Federal government pay increase, 4.3 per cent per year.

^{3/} As of the beginning of 1971 figures reflect effects of additional depreciation allowable under Treasury's newly-approved "accelerated depreciation range" guidelines. ^{4/} Using expenditures in 1967 as weights.

however, will probably be barely large enough to meet demands and prices may average about a fourth above the loan rate.

SUPPLY AND UTILIZATION OF GRAINS AND SOYBEANS
Marketing years, 1970-71 and 1971-72 projected

	Feed grains (million tons)		All wheat (million bushels)		Soybeans (million bushels)	
	1970-71	1971-72	1970-71	1971-72	1970-71	1971-72
Supply	<u>208</u>	<u>234</u>	<u>2264</u>	<u>2330</u>	<u>1366</u>	<u>1345</u>
Beginning stocks	48	34	885	730	230	110
Production ^{1/}	159	200e	1378	1600e	1136	1235e
Use	<u>174</u>	<u>178e</u>	<u>1534</u>	<u>1430e</u>	<u>1256</u>	<u>1255e</u>
Domestic	155	157e	799	780e	831	845e
Exports	19	21e	735	650e	425	410e
Ending stock ^{2/}	34	56e	730	900e	110	90e

^{1/} 1971 crop production based on August 1 conditions.

^{2/} Fall of 1972.

The impact of the big grain crops is likely to show up in the Federal Budget before it is felt by consumers in the form of increased supplies and lower priced livestock food products. Expanded demand for price support loans beginning this fall may boost Commodity Credit Corporation spending by \$0.8 to \$1.0 billion above the 1972 Budget estimate. Substantially expanded meat supplies will probably reach consumers sometime around mid-1972.

Producers will probably respond to cheaper livestock feed by increasing output. Broiler numbers can be expanded fastest. Broiler output, now below a year ago, is expected to move higher by late fall and possibly average 6 to 8 per cent above a year earlier by next spring. Supplies of feeder cattle are larger than last year and beef output can

issues reflects the usual summer lull in new issue activity. Much more important, however, is the considerable slowdown in offerings by industrial firms in July and those expected over the near term. Underwriters continue to report a sizable decline in the prospective number of such offerings.

Despite the drop off in public bond issues, total corporate security offerings are expected to remain quite large. New equity offerings remain at a high level, and it appears that the monthly average of stock issues during the third quarter will be about \$850 million, exclusive of the large AT&T issue. Revised data indicate that takedowns of private placements in the second quarter were even larger than originally estimated, and this higher rate of activity is expected to continue in the third quarter. Total corporate security offerings in August and September, therefore, are still expected to be around \$3 billion.

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
- Q I	2,790	505	769	4,063
- Q II	2,182	586	1,128	3,896
- Q III <u>e/</u>	1,367	567	1,300	3,233
July <u>e/</u>	1,200	500	2,200 ^{1/}	3,900
August <u>e/</u>	1,400	500	900	2,800
September <u>e/2/</u>	1,500	700	800	3,000

^{3/} Estimated.

^{1/} Including \$1,375 billion of AT&T preferred stock.

^{2/} Estimates were made prior to the Presidential message of August 15.

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

	Long-term	Net Short-term 1/
1970 - Year	1,515	393
First half	1,306	297
1971 - First half	2,123	478
Q I	2,230	536
Q II	2,016	420
Q III <u>e</u> /	1,833	n.a.
July <u>e</u> /	1,900	-319
August <u>e</u> /	1,800	n.a.
September <u>e</u> <u>2</u> /	1,800	n.a.

1/ Estimated by Federal Reserve.

2/ Estimate was made prior to the Presidential message of August 15.

Corporate profits in manufacturing. Available information on manufacturing profits in the second quarter suggests that the preliminary estimate of aggregate corporate profits in that quarter, which will become available at the end of this week, will show only a modest rise from the first quarter level. Profits in the important manufacturing sector appear to have increased very little from the first quarter, after rough allowance for seasonal fluctuation, and profits per dollar of sales apparently remained at the first quarter level.

To a considerable extent, this sluggish first-to-second quarter performance in manufacturing reflects developments in the motor vehicle industry. Profits in this industry, which normally

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	July	Aug.	Sept.
<u>Total net borrowing</u>	4.3	4.1	-1.8
Weekly and monthly bills	.5	.6	.6
Tax bills	1.8	--	-1.8
Coupon issues	--	2.7	--
As yet unspecified new borrowing	--	--	--
Other (debt repayments, etc.)	2.0	.8	-.6
Plus: <u>Other net financial sources</u> ^{a/}	.8	--	1.1
Plus: <u>Budget surplus or deficit</u> (-)	-6.7	-4.1	.1
Equals: <u>Change in cash balance</u>	-1.6 ^{b/}	--	-.6
Memoranda: Level of cash balance, end of period	7.2 ^{b/}	7.2	6.6
Derivation of budget surplus or deficit:			
Budget receipts	13.3	15.6	19.5
Budget outlays	20.0	19.7	19.4
Maturing coupon issues held by public	--	4.1	--
Net agency borrowing	.6	.3	.4

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

^{b/} Actual

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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

August 20, 1971

By the Staff
Board of Governors
of the Federal Reserve System

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

	QIII		QIV	
	Proj. of 7/21/71	Current	Proj. of 7/21/71	Current
-----Billions of dollars-----				
GNP	19.0	18.0	27.5	25.5
Final sales	22.1	22.2	24.0	20.0
Personal consumption	16.0	14.1	15.8	13.5
Residential construction	1.6	1.3	1.3	1.1
Business fixed investment	.5	.7	.5	-.4
Net exports	-1.1	1.7	.0	1.5
Federal purchases	1.1	.7	2.4	1.1
State & local purchases	4.0	3.7	4.0	3.2
Inventory change	-3.1	-4.2	3.5	5.5
-----Per Cent Per Year-----				
Real GNP	2.7	3.1	5.0	6.6
GNP deflator	4.5	3.8	5.3 ^{1/}	3.0
^{1/} Excluding the effects of military pay increase, 4.4 per cent per year.				

amounting to around \$200 per car. We are now projecting sales of domestic-type autos at an annual rate of 8.6 million units, compared with 8.3 last time, and also some temporary rise in sales of imports.

The decline in inventory investment is larger, in part because the second quarter rate of accumulation was revised up and in part because we have reduced our earlier estimate of third quarter inventory investment. The expected improvement in auto sales should be reflected in a lower end-of-quarter level of dealer stocks than earlier anticipated and steel output has been cut very sharply.

August 20, 1971

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			
			I	II	Projection	
					III	IV
Gross National Product	974.1	1051.6	1020.8	1041.3	1059.3	1084.8
Final purchases	971.3	1047.2	1017.6	1035.6	1057.8	1077.8
Private	751.9	814.2	789.4	805.4	823.2	838.9
Excluding net exports	748.3	813.6	785.2	807.6	823.7	837.9
Personal consumption expenditures	615.8	667.3	644.6	660.9	675.0	688.5
Durable goods	88.6	102.4	97.6	100.8	104.0	107.0
Nondurable goods	264.7	282.3	272.0	279.8	285.3	292.0
Services	262.5	282.6	275.0	280.4	285.7	289.5
Gross private domestic investment	135.3	150.7	143.8	152.4	150.2	156.4
Residential construction	30.4	39.8	36.4	39.7	41.0	42.1
Business fixed investment	102.1	106.6	104.3	107.0	107.7	107.3
Change in business inventories	2.8	4.4	3.2	5.7	1.5	7.0
Nonfarm	2.5	3.9	3.0	5.2	1.0	6.5
Net exports of goods and services	3.6	0.6	4.2	-2.2	-0.5	1.0
Gov't. purchases of goods & services	219.4	233.0	228.2	230.2	234.6	238.9
Federal	97.2	96.6	96.7	95.7	96.4	97.5
Defense	75.4	71.3	73.0	71.8	71.0	69.4
Other	21.9	25.3	23.7	23.9	25.4	28.1
State & local	122.2	136.4	131.5	134.5	138.2	141.4
Gross national product in constant (1958) dollars	720.0	741.1	729.7	737.0	742.7	754.9
GNP implicit deflator (1958 = 100)	135.3	141.9	139.9	141.3	142.6	143.7
Personal income ^{1/}	803.6	858.4	834.3	854.8	865.6	878.8
Wage and salary disbursements	541.4	575.6	562.3	572.4	579.6	588.2
Disposable income ^{1/}	687.8	743.3	721.6	740.8	750.0	760.8
Personal saving ^{1/}	54.1	57.0	58.4	60.9	55.8	52.8
Saving rate (per cent) ^{1/}	7.9	7.7	8.1	8.2	7.4	6.9
Corporate profits before tax ^{1/}	75.4	83.8	79.1	82.0	84.0	90.0
Corp. cash flow, net of div. (domestic) ^{1/}	69.8	81.7	77.2	80.5	82.6	86.5
Federal government receipts and expenditures (N.I.A. basis)						
Receipts ^{1/}	191.5	200.5	195.6	198.3	201.1	206.8
Expenditures	205.1	221.5	213.2	220.9	224.0	227.7
Surplus or deficit (-) ^{1/}	-13.6	-21.0	-17.5	-22.5	-22.9	-20.9
High employment surplus or deficit (-) ^{1/}	0.9	1.8	2.5	0.9	2.1	1.6
Total labor force (millions)	85.9	86.8	86.5	86.5	86.8	87.2
Armed forces "	3.2	2.8	3.0	2.8	2.8	2.7
Civilian labor force "	82.7	84.0	83.6	83.7	84.0	84.5
Unemployment rate (per cent)	4.9	6.0	5.9	6.0	6.1	6.0
Nonfarm payroll employment (millions)	70.7	70.8	70.6	70.8	70.7	71.1
Manufacturing	19.4	18.7	18.7	18.7	18.6	18.7
Industrial production (1967=100)	106.7	107.1	105.5	106.7	107.4	108.7
Capacity utilization, manufacturing (per cent)	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
Sales new autos (millions, A.R.)						
Domestic models	7.12	8.67	8.39	8.29	8.60	9.40
Foreign models	1.23	1.54	1.50	1.57	1.70	1.40

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.

n.a. - not available.

August 20, 1971

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1970	1971 Proj.	1971 Projection			
			I	II	III	IV
-----Billions of Dollars-----						
Gross National Product	45.0	77.5	32.4	20.5	18.0	25.5
Inventory change	-4.6	1.6	-0.5	2.5	-4.2	5.5
Final purchases	49.6	76.0	32.9	18.0	22.2	20.0
Private	39.9	62.3	28.4	16.0	17.8	15.7
Excluding net exports	38.3	65.3	26.9	22.4	16.1	14.2
Net exports	1.6	-3.0	1.5	-6.4	1.7	1.5
Government	9.7	13.6	4.5	2.0	4.4	4.3
GNP in constant (1958) dollars	-4.7	21.1	13.8	7.3	5.7	12.2
Final purchases	-0.5	19.9	14.3	5.0	9.6	7.8
Private	5.7	21.0	15.0	5.5	8.3	6.2
-----In Per Cent Per Year-----						
Gross National Product	4.8	8.0	13.8 ^{1/}	8.3 ^{1/}	6.9	9.6
Final purchases	5.4	7.8	13.4	7.1	8.6	7.6
Private	5.6	8.3	14.9	8.1	8.8	7.6
Personal consumption expenditures	6.2	8.4	12.7	10.1	8.5	8.0
Durable goods	-1.4	15.6	59.8	13.1	12.7	11.5
Nondurable goods	6.9	6.6	1.6	11.5	7.9	9.4
Services	8.4	7.7	9.1	7.9	7.6	5.3
Gross private domestic investment	-1.8	11.4	18.9	23.9	-5.8	16.5
Residential construction	-4.4	30.9	43.9	36.3	13.1	10.7
Business fixed investment	3.5	4.4	13.9	10.4	2.6	-1.5
Gov't. purchases of goods & services	4.6	6.2	8.0	3.5	7.6	7.3
Federal	-2.0	-0.6	3.3	-4.1	2.9	4.6
Defense	-3.8	-5.4	-1.1	-6.6	-4.5	-9.0
Other	5.8	15.5	17.6	3.4	25.1	42.5
State & local	10.5	11.6	11.3	9.1	11.0	9.3
GNP in constant (1958) dollars	-0.6	2.9	8.0 ^{1/}	4.0 ^{1/}	3.1	6.6
Final purchases	-0.1	2.8	8.0	2.8	5.2	4.2
Private	1.0	3.6	10.4	3.7	5.6	4.1
GNP implicit deflator	5.5	4.9	5.3 ^{1/}	4.1 ^{1/}	3.8	3.0
Private GNP fixed weight price index ^{2/}	4.8	5.0	5.6 ^{1/}	5.0 ^{1/}	4.0	3.0
Personal income ^{3/}	7.1	6.8	8.6	9.8	5.1	6.1
Wage and salary disbursements	6.2	6.3	11.0	7.2	5.0	5.9
Disposable income ^{3/}	8.5	8.1	11.5	10.6	5.0	5.8
Corporate profits before tax ^{3/}	-10.5	11.1	41.9	14.7	9.8	28.6
Federal government receipts and expenditures (N.I.A. basis)						
Receipts ^{3/}	-2.7	4.7	13.3	5.5	5.6	11.3
Expenditures	8.2	8.0	6.5	14.4	5.6	6.6
Nonfarm payroll employment	0.6	0.1	2.5	0.7	-0.6	2.3
Manufacturing	-3.8	-3.6	1.0	-1.0	-2.1	2.2
Industrial production	-3.6	0.4	7.3	4.4	2.5	7.5
Housing starts, private	-2.3	39.7	8.1	32.7	29.6	5.1
Sales new autos						
Domestic models	-15.9	21.8	216.1	-4.7	15.1	37.2
Foreign models	16.0	25.4	60.2	19.7	32.1	-70.6

^{1/} At compounded rates.^{2/} Using expenditures in 1967 as weights.^{3/} 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.

Table 2

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	July	Aug.	Sept.
<u>Total net borrowing</u>	4.3	4.9	-1.8
Weekly and monthly bills	.5	.6	.6
Tax bills	1.8	--	-1.8
Coupon issues	--	2.7	--
As yet unspecified new borrowing	--	--	--
Other (debt repayments, etc.)	2.0	1.6	-.6
Plus: <u>Other net financial sources</u> ^{a/}	.8	--	1.1
Plus: <u>Budget surplus or deficit (-)</u>	-6.7	-4.1	.2
Equals: <u>Change in cash balance</u>	-1.6 ^{b/}	.8	-.5
Memoranda: Level of cash balance, end of period	7.2 ^{b/}	8.0	7.5
Derivation of budget surplus or deficit:			
Budget receipts	13.3	15.6	19.5
Budget outlays	20.0	19.7	19.3
Maturing coupon issues held by public	--	4.1	--
Net agency borrowing	.6	.3	.4

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

^{b/} Actual.

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

	Fiscal	Calendar	Fiscal Year 1972e/		F.R. Board Staff estimates			
	Year	Year 1971	Jan.	F.R.	Calendar Quarters			
	1971*	F.R. Board	Budget	Board 2/	1971			
					I*	II*	IIIe/	IVe/
<u>Federal Budget</u>								
(Quarterly data, unadjusted)								
Surplus/deficit	-23.2	-28.2	-11.6	-29.5	-8.2	1.6	-10.6	-11.0
Receipts	188.3	192.7	217.6	201.5	44.1	56.7	48.4	43.5
Outlays	211.6	220.8	229.2	231.0	52.2	55.1	59.0	54.5
Means of financing:								
Net borrowing from the public	19.4	21.0	10.6	n.e.	1.6	1.6	7.4	10.4
Decrease in cash operating balance	-.8	2.0	n.a.	n.e.	3.6	-4.3	1.3	1.4
Other <u>3/</u>	4.5	5.0	n.a.	1.0	2.9	1.1	1.9	-.9
Cash operating balance, end of period	8.8	6.1	n.a.	n.e.	4.5	8.8	7.5	6.1
Memo: Net agency borrowing ^{<u>4/</u>}	1.1	1.4	n.a.	n.e.	-1.0	-.9	1.3	2.0
<u>National Income Sector</u>								
(Seasonally adjusted annual rate)								
Surplus/deficit	-19.0	-21.0	-4.2	n.e.	-17.5	-22.5	-22.9	-20.9
Receipts	193.6	200.5	225.9	n.e.	195.6	198.3	201.1	206.8
Expenditures	212.7	221.5	230.1	n.e.	213.2	220.9	224.0	227.7
High employment surplus/deficit (NIA basis) <u>5/</u>	1.3	1.8	n.a.	n.e.	2.5	.9	2.1	1.6

* 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. (continued)

Footnotes
continued

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

- 2/ Estimates are tentative because projections of income assumptions for second half of fiscal 1972 are not complete.
- 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.

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