

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

October 13, 1971

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

	Third Quarter		Fourth Quarter	
	Proj. of 9/15/71	Current	Proj. of 9/15/71	Current
-----Billions of dollars-----				
GNP	16.0	15.0	22.8	25.5
Final sales	17.9	18.0	21.1	23.7
Personal consumption	10.9	11.6	14.4	14.9
Residential construction	1.3	2.2	1.4	1.1
Business fixed investment	1.0	1.0	- .2	.0
Net exports	- .5	-1.5	.0	1.0
Federal purchases	1.8	1.8	2.5	3.7
State & local purchases	3.5	3.0	3.0	3.0
Inventory change	-1.9	-3.0	1.7	1.8
-----Per cent Per Year-----				
Real GNP	2.1	1.7	6.4	7.1
GNP deflator	4.1	3.9	2.2	2.5 <sup>1/</sup>

<sup>1/</sup> Excluding \$1.2 billion, annual rate, of voluntary army pay increase, 2.1 per cent per year.

modifications:

--the effective date of the military pay increase associated with the volunteer army is shifted to November 15th in line with the recently enacted legislation and with the end of Phase I of the price-wage freeze.

--the provisions of the House-passed Revenue Act of 1971, which contains some modifications, have been substituted for the Administration-proposed version. These provisions are discussed in the financial section of the Greenbook.

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

	First Quarter		Second Quarter	
	Proj. of 9/15/71	Current	Proj. of 9/15/71	Current
-----Billions of dollars-----				
GNP	30.5	31.0	25.4	27.0
Final sales	28.3	27.8	20.6	22.2
Personal consumption	16.7	17.2	13.4	15.3
Residential construction	1.4	1.8	.7	.4
Business fixed investment	1.7	1.5	2.5	2.5
Net exports	1.5	1.5	1.5	1.5
Federal purchases	3.0	1.8	- .5	- .5
State & local purchases	4.0	4.0	3.0	3.0
Inventory change	2.2	3.2	4.8	4.8
-----Per Cent Per Year-----				
Real GNP	7.3	7.9	7.5	7.1
GNP deflator	3.9	3.5 <sup>1/</sup>	1.6	2.5
<sup>1/</sup> Excluding remaining \$1.2 billion, annual rate, voluntary army pay increase, 3.1 per cent, per year.				

The effect of these modifications is to strengthen the substantial expansion previously indicated for these three quarters. The annual rate of real change through mid-1972 now averages 7-1/4 per cent per year with a price rise assumed to be in a range of about 2-1/2 to 3 per cent per year.

The stronger economic picture now projected seems likely to result in slightly larger gains in employment, and also in the labor force. We continue to anticipate an acceleration in output per manhour

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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	-----Projection-----		I	II
					III	IV		
Gross National Product	974.1	1051.4	1020.8	1043.1	1058.1	1083.6	1114.6	1141.6
Final purchases	971.3	1047.4	1017.6	1037.4	1055.4	1079.1	1106.9	1129.1
Private	751.9	813.6	789.4	807.2	820.4	837.4	859.4	879.1
Excluding net exports	748.3	813.4	785.2	807.7	822.4	838.4	858.9	877.1
Personal consumption expenditures	615.8	666.4	644.6	660.9	672.5	687.4	704.6	719.9
Durable goods	88.6	102.2	97.6	100.8	103.5	107.0	110.9	114.0
Nondurable goods	264.7	281.2	272.0	279.8	283.0	290.0	298.0	304.7
Services	262.5	283.0	275.0	280.4	286.0	290.4	295.7	301.2
Gross private domestic investment	135.3	151.1	143.8	152.4	152.6	155.5	162.0	169.7
Residential construction	30.4	40.3	36.4	39.7	41.9	43.0	44.8	45.2
Business fixed investment	102.1	106.8	104.3	107.0	108.0	108.0	109.5	112.0
Change in business inventories	2.8	4.0	3.2	5.7	2.7	4.5	7.7	12.5
Nonfarm	2.5	3.6	3.0	5.2	2.0	4.0	7.5	12.5
Net exports of goods and services	3.6	0.2	4.2	-0.5	-2.0	-1.0	0.5	2.0
Exports	62.9	66.5	66.1	66.4	66.9	66.5	71.0	72.7
Imports	59.3	66.3	61.9	66.9	68.9	67.5	70.5	70.7
Gov't. purchases of goods & services	219.4	233.8	228.2	230.2	235.0	241.7	247.5	250.0
Federal	97.2	97.8	96.7	95.7	97.5	101.2	103.0	102.5
Defense	75.4	72.3	73.0	71.8	71.5	72.7	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	136.0	131.5	134.5	137.5	140.5	144.5	147.5
Gross national product in constant (1958) dollars	720.0	741.1	729.7	738.4	741.6	754.7	769.6	783.3
GNP implicit deflator (1958 = 100)	135.3	141.9	139.9	141.3	142.7	143.6	144.8	145.7
Personal income	803.6	859.2	834.3	854.8	866.5	881.0	901.0	918.0
Wage and salary disbursements	541.4	576.5	562.3	572.4	580.2	590.9	605.2	617.2
Disposable income	687.8	744.0	721.6	740.8	750.2	764.1	784.0	799.3
Personal saving	54.1	58.6	58.4	60.9	58.5	57.2	59.5	59.2
Saving rate (per cent)	7.9	7.9	8.1	8.2	7.8	7.5	7.6	7.4
Corporate profits before tax	75.4	82.9	79.1	83.3	82.5	86.5	93.5	99.5
Corp. cash flow, net of div. (domestic)	69.8	81.2	77.2	81.2	81.3	85.1	90.9	96.2
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	191.5	199.5	195.6	198.3	200.9	203.3	208.3	213.4
Expenditures	205.1	222.3	213.2	220.9	224.5	230.4	237.0	238.9
Surplus or deficit (-)	-13.6	-22.7	-17.5	-22.6	-23.6	-27.1	-28.7	-25.5
High employment surplus or deficit (-)	0.9	0.9	2.9	1.1	3.4	-3.8	-7.2	4.9
Total labor force (millions)	85.9	86.9	86.5	86.5	87.0	87.6	87.9	88.2
Armed forces "	3.2	2.8	3.0	2.8	2.8	2.7	2.6	2.5
Civilian labor force "	82.7	84.1	83.6	83.7	84.2	84.9	85.3	85.7
Unemployment rate (per cent)	4.9	6.0	5.9	6.0	6.0	5.9	5.7	5.5
Nonfarm payroll employment (millions)	70.6	70.7	70.4	70.7	70.6	71.2	71.8	72.4
Manufacturing	19.4	18.6	18.7	18.6	18.5	18.7	18.9	19.1
Industrial production (1967 = 100)	106.7	106.5	105.5	106.7	105.6	108.0	110.8	113.6
Capacity utilization, manufacturing (per cent)	78.1	74.2	74.5	74.9	73.2	74.1	75.2	76.3
Housing starts, private (millions A.R.)	1.43	2.04	1.81	1.96	2.18	2.20	2.20	2.15
Sales new autos (millions, A.R.)								
Domestic models	7.12	8.71	8.39	8.29	8.76	9.40	9.40	9.40
Foreign models	1.23	1.53	1.50	1.53	1.59	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.

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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	45.0	77.3	32.4	22.3	15.0	25.5	31.0	27.0
Inventory change	-4.6	1.2	-0.5	2.5	-3.0	1.8	3.2	4.8
Final purchases	49.6	76.1	32.9	19.8	18.0	23.7	27.8	22.2
Private	39.9	61.7	28.4	17.8	13.2	17.0	22.0	19.7
Excluding net exports	38.3	65.1	26.9	22.4	14.7	16.0	20.5	18.2
Net exports	1.6	-3.4	1.5	-4.7	-1.5	1.0	1.5	1.5
Government	9.7	14.4	4.5	2.0	4.8	6.7	5.8	2.5
GNP in constant (1958) dollars	-4.7	21.1	13.8	8.7	3.2	13.1	14.9	13.7
Final purchases	-0.5	19.9	14.3	6.4	5.6	11.7	12.2	10.1
Private	5.7	20.6	15.0	6.9	3.6	9.8	11.0	10.1
	-----In Per Cent Per Year-----							
Gross National Product	4.8	7.9	13.8 <sup>1/</sup>	9.0 <sup>1/</sup>	5.8	9.6	11.4	9.7
Final purchases	5.4	7.8	13.4	7.8	6.9	9.0	10.3	8.0
Private	5.6	8.2	14.9	9.0	6.5	8.3	10.5	9.2
Personal consumption expenditures	6.2	8.2	12.7	10.1	7.0	8.9	10.0	8.7
Durable goods	-1.4	15.3	59.8	13.1	10.7	13.5	14.6	11.2
Nondurable goods	6.9	6.2	1.6	11.5	4.6	9.9	11.0	9.0
Services	8.4	7.8	9.1	7.9	8.0	6.2	7.3	7.4
Gross private domestic investment	-1.8	11.7	18.9	23.9	0.5	7.6	16.7	19.0
Residential construction	-4.4	32.6	43.9	36.3	22.2	10.5	16.7	3.6
Business fixed investment	3.5	4.6	13.9	10.4	3.7	0.0	5.6	9.1
Gov't. purchases of goods & services	4.6	6.6	8.0	3.5	8.3	11.4	9.6	4.0
Federal	-2.0	0.6	3.3	-4.1	7.5	15.2	7.1	-1.9
Defense	-3.8	-4.1	-1.1	-6.6	-1.7	6.7	4.4	0.0
Other	5.8	16.4	17.6	3.4	35.1	38.5	14.0	-6.8
State & local	10.5	11.3	11.3	9.1	8.9	8.7	11.4	8.3
GNP in constant (1958) dollars	-0.6	2.9	8.0 <sup>1/</sup>	4.8 <sup>1/</sup>	1.7	7.1	7.9	7.1
Final purchases	-0.1	2.8	8.0	3.5	3.1	6.4	6.5	5.3
Private	1.0	3.6	10.4	4.7	2.4	6.5	7.2	6.5
GNP implicit deflator	5.5	4.8	5.3 <sup>1/</sup>	4.0 <sup>1/</sup>	3.9	2.5 <sup>3/</sup>	3.5 <sup>4/</sup>	2.5
Private GNP fixed weight price index <sup>2/</sup>	4.8	4.9	5.6 <sup>1/</sup>	5.0 <sup>1/</sup>	4.3	2.4	3.3	2.9
Personal income	7.1	6.9	8.6	9.8	5.5	6.7	9.1	7.5
Wage and salary disbursements	6.2	6.5	11.0	7.2	5.5	7.4	9.7	7.9
Disposable income	8.5	8.2	11.5	10.6	5.1	7.4	10.4	7.8
Corporate profits before tax	-10.5	9.5	41.9	21.2	-8.6	24.5	32.4	25.7
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	-2.7	4.2	13.3	5.5	5.2	4.8	9.8	9.8
Expenditures	8.2	8.4	6.5	14.4	6.5	10.5	11.5	3.2
Nonfarm payroll employment	0.5	0.1	1.8	1.3	-0.2	3.4	3.4	3.3
Manufacturing	-4.0	-4.1	0.4	-0.6	-2.4	4.3	4.3	4.2
Industrial production	-3.6	-0.2	7.3	4.7	-4.2	9.1	10.3	10.1
Housing starts, private	-2.3	42.2	8.1	32.7	44.6	3.5	0.0	-9.3
Sales new autos								
Domestic models	-15.9	22.3	216.1	-4.7	22.7	29.3	0.0	0.0
Foreign models	16.0	24.4	60.2	8.3	16.2	-22.6	-26.7	-28.6

<sup>1/</sup> At compound rates.<sup>2/</sup> Using expenditures in 1967 as weights.<sup>3/</sup> Excluding first \$1.2 billion, annual rate, of voluntary army pay increase, 2.1 per cent, per year.<sup>4/</sup> Excluding remaining \$1.2 billion, annual rate, of voluntary army pay increase, 3.1 per cent, per year.

important impact on the total volume in any given month. Takedowns of private placements are apparently also continuing at a high level. However, the expected drop in public bond offerings from the first-half levels suggests a significant decline in total corporate securities offerings during the fourth quarter.

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

	<u>Bonds</u>		<u>Stocks</u>	<u>Total</u>
	<u>Public</u>	<u>Private</u>		
1970 - Year	2,099	403	713	3,245
Through September	1,951	334	665	3,001
1971 - Through September	2,183	562	1,134	3,879
QI	2,790	505	768	4,063
QII	2,182	586	1,128	3,896
QIII <u>e/</u>	1,577	596	1,505	3,678
September <u>e/</u>	2,000	750	1,370	4,120
October <u>e/</u>	1,300	550	700	3,050
November <u>e/</u>	1,700	550	1,200	3,450

e/ Estimated.

Offerings of long-term tax-exempt bonds amounted to \$2 billion in September; but this total included two issues of over \$250 million each, and there appears to be a slight reduction in the forward municipal bond calendar, as in the corporate sector. Commercial bank acquisitions of State and local bonds have picked up again in the last few weeks, and some casualty companies have also increased their purchases recently.

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

	Long-term	Net Short-term
1970 - Year	1,514	393
Through September	1,367	350
1971 - Through September	2,060	431
QI	2,229	540
QII	2,017	421
QIII <u>e/</u>	1,950	332
September <u>e/</u>	2,050	428
October <u>e/</u>	1,700	300
November <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.

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 II*	1971 III	1971 IV	1972 I	1972 II
<u>Federal Budget</u>									
(Quarterly data, unadjusted)									
Surplus/deficit	-23.2	-26.3	-27.5	-27.6	1.6	-8.2	-11.6	-11.2	3.4
Receipts	188.3	193.1	204.5	202.9	56.7	48.8	43.5	48.2	62.4
Outlays	211.6	219.4	232.0	230.5	55.1	57.0	55.1	59.4	59.0
Means of financing:									
Net borrowing from the public	19.4	20.0	n.a.	24.9	1.6	9.6	7.2	9.6	-1.5
Decrease in cash operating balance	-.8	3.1	n.a.	2.2	-4.3	-1.2	5.0	-.1	-1.5
Other <sup>3/</sup>	4.5	3.2	n.a.	.5	1.1	-.2	-.6	1.7	-.4
Cash operating balance, end of period	8.8	5.0	n.a.	6.6	8.8	10.0	5.0	5.1	6.6
Memo: Net agency borrowing <sup>4/</sup>	1.1	1.2	n.a.	n.e.	-.9	1.7	1.5	n.e.	n.e.
<u>National Income Sector:</u>									
(Seasonally adjusted annual rate)									
Surplus/deficit	-19.0	-22.7	n.a.	-26.2	-22.6	-23.6	-27.1	-28.7	-25.5
Receipts	193.6	199.5	n.a.	206.5	198.3	200.9	203.3	208.3	213.4
Expenditures	212.7	222.3	n.a.	232.7	220.9	224.5	230.4	237.0	238.9
High employment surplus/deficit (NIA basis) <sup>5/</sup>	1.4	.9	n.a.	- 3.1	1.1	3.4	-3.8	-7.2	-4.9

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

<sup>1/</sup> Reflects effects of House amendments to Treasury's newly-approved "asset 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.

PROJECTION OF TREASURY CASH OUTLOOK  
(In billions of dollars)

	Sept.	Oct.	Nov.
<u>Total net borrowing</u>	-1.5	1.4	3.2
Weekly and monthly bills	.8	.4	.8
Tax bills	-1.8	--	--
Coupon issues	1.2	--	--
As yet unspecified new borrowing	--	2.0	3.0
Other (debt repayments, etc.)	-1.7	-1.0	- .6
Plus: Other net financial sources <sup>a/</sup>	.9	1.0	- .9
Plus: <u>Budget surplus or deficit (-)</u>	1.1	-6.6	-4.1
Equals: <u>Change in cash balance</u>	.5 <sup>b/</sup>	-4.2	-1.8
Memoranda: Level of cash balance, end of period	10.0 <sup>b/</sup>	5.8	4.0
Derivation of budget surplus or deficit:			
Budget receipts	19.9	12.9	14.7
Budget outlays	18.8	19.5	18.8
Maturing coupon issues held by public	--	--	3.7
Net agency borrowing	.4	.7	.8

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

<sup>b/</sup> Actual.

CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

October 15, 1971

By the Staff  
Board of Governors  
of the Federal Reserve System

International Developments

On October 14 the Bank of Italy followed the lead of the Bundesbank (p. IV-16) and announced reductions, effective immediately, in its discount rate from 5 to 4-1/2 per cent and in its rate on advances from 5 to 4 per cent. In London many market participants had expected a Bank of England rate change on Thursday, but this did not occur.

CORRECTIONS:

Page II-5, line 6. The industrial production index figure should have been 105.1 for August as shown on page I-T-1. (However, this is subject to revision when the September index is released, October 18.)

Page II-4A. Gross National Product and Related Items - the high employment surplus or deficit should be -\$4.9 billion in QII 1972, not +\$4.9 billion, as shown.

Page III-8. Table footnote should include: "Beginning July 26, auctions are only for 3-month commitments."

Last paragraph should begin: "During the third quarter,...".