

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

December 8, 1971

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

	Fourth quarter	
	Projections	
	11/10/71	Current
---Billions of Dollars---		
GNP	22.0	22.2
Final sales	20.1	21.3
Excluding net exports	20.6	23.8
Personal consumption	12.9	14.3
Residential construction	.9	.9
Business fixed investment	.5	2.2
Net exports	- .5	-2.5
Federal purchases	3.6	3.6
State & local purchases	2.7	2.7
Inventory change	1.9	.9
---Per Cent Per Year---		
Real GNP	5.8 <sub>1/</sub>	5.9 <sub>1/</sub>
GNP deflator	2.4 <sub>1/</sub>	2.4 <sub>1/</sub>
1/ Excluding the first \$1.2 billion, annual rate, of military pay increase, 2.0 per cent per year.		

Expected developments in the first quarter appear likely to provide further thrust to the economy. We now anticipate an increase in GNP at an annual rate of \$29-1/2 billion as compared with \$28 billion projected last month -- with the extra strength reflecting a stronger gain in capital outlays as suggested in the recent business anticipation surveys as well as some rebound in net exports following the return of striking dockworkers. Growth in real GNP would be at about a 6-3/4 per cent rate. Some tax relief and higher social security benefits should help sustain a high rate of increase in consumer outlays.

The large increase in disposable personal income is also reflected in a somewhat higher saving rate for the quarter. Auto sales are expected to recede somewhat from their levels in the fourth quarter, but remain relatively strong, and we project a further rise in residential construction expenditures. Early next year, the housing upswing will enter its sixth quarter and in view of the mounting volume of housing completions, may be expected to provide an increased stimulus for sales of furniture, household furnishings and appliances.

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

	<u>First Quarter</u>		<u>Second Quarter</u>	
	Projections of		Projections of	
	11/10/71	Current	11/10/71	Current
-----Billions of Dollars-----				
GNP	28.0	29.5	27.0	27.0
Final sales	25.0	27.0	24.7	25.0
Personal consumption	15.1	15.2	16.9	16.8
Residential construction	1.7	1.7	.6	.6
Business fixed investment	1.1	2.0	2.8	2.5
Net exports	2.0	3.0	.5	1.0
Federal purchases	2.0	2.0	.3	.5
State & local purchases	3.1	3.1	3.6	3.6
Inventory change	3.0	2.5	2.3	2.0
-----Per Cent Per Year-----				
Real GNP	6.3	6.8 <sup>1/</sup>	6.6	6.6
GNP deflator	4.0 <sup>1/</sup>	4.0 <sup>1/</sup>	3.1	3.1
<sup>1/</sup> Excluding remaining 1.2 billion, annual rate, of military pay increase, 3.6 per cent per year.				

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

	<u>Third Quarter</u>		<u>Fourth Quarter</u>	
	Projections of		Projections of	
	11/10/71	Current	11/10/71	Current
-----Billions of Dollars-----				
GNP	27.0	28.0	26.5	27.0
Final sales	25.5	24.8	23.3	24.0
Personal consumption	16.0	16.0	16.5	17.0
Residential construction	- .9	- .9	- .9	- .9
Business fixed investment	3.8	3.5	3.7	3.8
Net exports	1.0	.5	.5	.5
Federal purchases	1.9	2.0	- .6	- .5
State & local purchases	3.7	3.7	4.1	4.1
Inventory change	1.5	3.2	3.2	3.0
-----Per Cent Per Year-----				
Real GNP	5.8	6.1	6.3	6.4
GNP deflator	3.6 <sup>1/</sup>	3.6 <sup>1/</sup>	2.8	2.8
<sup>1/</sup> Excluding Federal governmental general pay increase, 2.9 per cent per year.				

CONFIDENTIAL - FR

December 8, 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.)

	1971 Proj.	1972 Proj.	1971		1972 Projected			
			III	IV	I	II	III	IV
Gross National Product	1051.9	1155.6	1060.8	1083.0	1112.5	1139.5	1167.5	1194.5
Final purchases	1048.9	1145.2	1059.7	1081.0	1108.0	1133.0	1157.8	1181.8
Private	815.7	892.7	825.5	840.5	862.4	883.3	902.4	922.8
Excluding net exports	815.1	890.6	825.0	842.5	861.4	881.3	899.9	919.8
Personal consumption expenditures	666.2	726.9	672.5	686.8	702.0	718.8	734.8	751.8
Durable goods	102.8	115.8	104.7	108.2	111.5	114.5	117.3	119.9
Nondurable goods	280.6	307.7	282.0	288.6	295.4	303.8	311.5	320.2
Services	282.8	303.3	285.7	290.0	295.1	300.5	306.0	311.7
Gross private domestic investment	151.9	172.1	153.6	157.7	163.9	169.0	174.8	180.7
Residential construction	40.9	45.7	43.3	44.2	45.9	46.5	45.6	44.7
Business fixed investment	108.0	118.1	109.3	111.5	113.5	116.0	119.5	123.3
Change in business inventories	3.0	8.4	1.1	2.0	4.5	6.5	9.7	12.7
Nonfarm	2.5	8.3	0.3	1.5	4.3	6.5	9.7	12.7
Net exports of goods and services	0.6	2.1	0.5	-2.0	1.0	2.0	2.5	3.0
Exports	65.0	72.6	68.9	58.5	70.5	72.2	72.8	75.0
Imports	64.4	70.5	68.4	60.5	69.5	70.2	70.3	72.0
Gov't. purchases of goods & services	233.3	252.4	234.2	240.5	245.6	249.7	255.4	259.0
Federal	97.7	104.3	97.4	101.0	103.0	103.5	105.5	105.0
Defense	71.9	74.1	70.8	72.0	73.5	73.5	75.0	74.5
Other	25.8	30.1	26.6	29.0	29.5	30.0	30.5	30.5
State & local	135.6	148.2	136.8	139.5	142.6	146.2	149.9	154.0
Gross national product in constant (1958) dollars	742.5	787.9	745.5	756.4	769.3	781.9	793.9	806.6
GNP implicit deflator (1958 = 100)	141.7	146.4	142.3	143.2	144.6	145.7	147.1	148.1
Personal income <sup>1/</sup>	858.8	927.0	866.5	879.2	900.8	916.2	936.7	954.2
Wage and salary disbursements	575.4	621.9	579.0	588.0 <sup>2/</sup>	603.5 <sup>2/</sup>	614.5 <sup>2/</sup>	628.5	641.0
Disposable income <sup>1/</sup>	742.9	805.2	750.0	758.2 <sup>2/</sup>	782.1 <sup>2/</sup>	797.6 <sup>2/</sup>	813.2	828.0
Personal saving <sup>1/</sup>	57.7	58.1	58.5	52.1 <sup>2/</sup>	60.3 <sup>2/</sup>	58.7 <sup>2/</sup>	58.0	55.5
Saving rate (per cent) <sup>1/</sup>	7.8	7.2	7.8	6.9 <sup>2/</sup>	7.7 <sup>2/</sup>	7.4 <sup>2/</sup>	7.1	6.7
Corporate profits before tax <sup>1/</sup>	86.2	103.5	86.7	89.5	93.0	101.0	106.5	113.5
Corp. cash flow, net of div. (domestic) <sup>1/</sup>	80.4	95.2	81.2	84.3	89.3	92.9	96.9	101.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts <sup>1/</sup>	202.4	219.5	203.5	210.1	212.2	215.2	222.5	228.1
Expenditures	222.0	243.4	223.9	230.1	237.7	240.1	246.8	249.1
Surplus or deficit (-) <sup>1/</sup>	-19.6	-23.9	-20.4	-20.0	-25.5	-24.9	-24.3	-21.0
High employment surplus or deficit (-)	2.3	-2.7	2.5	5.6	-0.4	-1.7	-5.6	-3.1
Total labor force (millions)	86.9	88.6	87.0	87.7	88.1	88.4	88.8	89.2
Armed forces "	2.8	2.5	2.8	2.7	2.6	2.5	2.5	2.5
Civilian labor force "	84.1	86.1	84.2	85.0	85.5	85.9	86.3	86.7
Unemployment rate (per cent)	6.0	5.5	6.0	5.9	5.7	5.6	5.5	5.3
Nonfarm payroll employment (millions)	70.7	72.3	70.7	71.0	71.6	72.0	72.5	73.1
Manufacturing	18.6	19.0	18.5	18.6	18.7	18.9	19.0	19.2
Industrial production (1967 = 100)	106.3	113.4	105.8	107.1	109.5	112.0	114.6	117.3
Capacity utilization, manufacturing (per cent)	74.2	76.1	73.4	73.7	74.6	75.6	76.5	77.7
Housing starts, private (millions, A.R.)	2.03	2.10	2.14	2.20	2.18	2.15	2.10	2.00
Sales new autos (millions, A.R.)	10.25	10.88	10.29	11.00	10.80	10.80	10.85	11.05
Domestic models	8.80	9.58	8.76	9.75	9.40	9.50	9.60	9.80
Foreign models	1.45	1.30	1.53	1.25	1.40	1.30	1.25	1.25

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> Incorporates provisions of Revenue Act of 1971 as passed by House.

<sup>2/</sup> Incorporates effects of accelerating payment of estate and gift taxes.

CONFIDENTIAL - FR

December 8, 1971

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1971	1972	1971		1972			
	Proj.	Proj.	III	IV	Projected			
					I	II	III	IV
	-----Billions Of Dollars-----							
Gross National Product	77.8	101.6	17.7	22.2	29.5	27.0	28.0	27.0
Inventory change	0.2	5.4	-4.6	0.9	2.5	2.0	3.2	3.0
Final purchases	77.6	96.3	22.3	21.3	27.0	25.0	24.8	24.0
Private	63.8	77.0	18.3	15.0	21.9	20.9	19.1	20.4
Excluding net exports	66.8	75.5	17.3	17.5	18.9	19.9	18.6	19.9
Net exports	-3.0	1.5	1.0	-2.5	3.0	1.0	0.5	0.5
Government	13.9	19.1	4.0	6.3	5.1	4.1	5.7	3.6
GNP in constant (1958) dollars	22.5	45.4	7.1	10.9	12.9	12.6	12.0	12.7
Final purchases	22.1	41.2	10.6	10.5	10.8	11.1	9.4	10.3
Private	22.7	37.5	8.2	8.8	10.4	10.3	9.1	9.9
	-----In Per Cent Per Year-----							
Gross National Product	8.0	9.7	7.0	8.4	10.9	9.7	9.8	9.3
Final purchases	8.0	9.2	8.6	8.0	10.0	9.0	8.8	8.3
Private	8.5	9.4	9.1	7.3	10.4	9.7	8.6	9.0
Personal consumption expenditures	8.2	9.1	7.0	8.5	8.9	9.6	8.9	9.3
Durable goods	16.0	12.6	15.5	13.4	12.2	10.8	9.8	8.9
Nondurable goods	6.0	9.7	3.1	9.4	9.4	11.4	10.1	11.2
Services	7.7	7.2	7.6	6.0	7.0	7.3	7.3	7.5
Gross private domestic investment	12.3	13.3	3.1	10.7	15.7	12.4	13.7	13.5
Residential construction	34.5	11.7	36.3	8.3	15.4	5.2	-7.7	-7.9
Business fixed investment	5.8	9.4	8.6	8.1	7.2	8.8	12.1	12.7
Gov't. purchases of goods & services	6.3	8.2	7.0	10.8	8.5	6.7	9.1	5.6
Federal	0.5	6.8	7.1	14.8	7.9	1.9	7.7	-1.9
Defense	-4.6	3.1	-5.6	6.8	8.3	0.0	8.2	-2.7
Other	17.8	16.7	45.2	36.1	6.9	6.8	6.7	0.0
State & local	11.0	9.3	6.8	7.9	8.9	10.1	10.1	10.9
GNP in constant (1958) dollars	3.1	6.1	3.9 <sup>1/</sup>	5.9	6.8	6.6	6.1	6.4
Final purchases	3.1	5.7	5.8	5.7	5.7	5.8	4.8	5.2
Private	3.9	6.2	5.5	5.8	6.8	6.6	5.7	6.1
GNP implicit deflator	4.7	3.3	3.3 <sup>1/</sup>	2.4 <sup>3/</sup>	4.0 <sup>4/</sup>	3.1	3.6 <sup>5/</sup>	2.8
Private GNP fixed weight price index <sup>2/</sup>	4.9	3.3	4.1 <sup>1/</sup>	2.0	3.6	3.1	2.9	2.8
Personal income	6.9	7.9	5.5	5.9	9.8	6.8	9.0	7.5
Wage and salary disbursements	6.3	8.1	4.6	6.2	10.5	7.3	9.1	8.0
Disposable income	8.0	8.4	5.0	4.4	12.6	7.9	7.8	7.3
Corporate profits before tax	14.4	20.0	1.4	12.9	15.6	34.4	21.8	26.3
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	5.7	8.4	8.6	13.0	4.0	5.7	13.6	10.1
Expenditures	8.2	9.6	5.4	11.1	13.2	4.0	11.2	3.7
Nonfarm payroll employment	0.1	2.3	-0.2	1.7	3.4	2.2	2.8	3.3
Manufacturing	-3.9	1.8	-2.4	2.2	2.1	4.3	2.1	4.2
Industrial production	-0.4	6.6	-3.6	4.8	9.0	10.4	9.1	9.6
Housing starts, private	41.5	3.7	36.5	11.0	-4.5	-4.6	-9.3	-19.0
Sales new autos	22.7	6.1	19.0	27.8	-7.3	0.0	1.9	7.4
Domestic models	23.6	8.9	22.7	45.3	-14.4	4.3	4.2	8.3
Foreign models	18.0	-10.5	-1.0	-72.6	48.0	-28.6	-15.4	0.0

<sup>1/</sup> At compound rates.<sup>2/</sup> Using expenditures in 1967 as weights.<sup>3/</sup> Excluding the first \$1.2 billion, annual rate, of voluntary army pay increase, 2.0 per cent per year.<sup>4/</sup> Excluding the remaining \$1.2 billion, annual rate, of voluntary army pay increase, 3.6 per cent per year.<sup>5/</sup> Excluding Federal government general pay increase, 2.9 per cent per year.

**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 November	2,086	367	725	3,178
1971 - Through November <u>e/</u>	2,140	538	1,030	3,708
1971 - QIII	1,575	547	1,360 <sup>1/</sup>	3,482
QIV <u>e/</u>	1,733	567	737	3,037
October <u>e/</u>	1,950	500	560	3,010
November <u>e/</u>	1,950	500	1,000	3,450
December <u>e/</u>	1,300	700	650	2,650
1972 - January <u>e/</u>	2,000	500	800	3,300

e/ Estimated

<sup>1/</sup> Includes \$1.4 billion AT&T stock offering.

Tax-exempt bond issues reached a total of almost \$2.2 billion in November, and gross sales of short-term municipal securities were more than \$2.7 billion. The staff expects the December volume to decline seasonally, but State and local government borrowing plans suggest a continued large volume of long-term financing early next year.

Revised data show a smaller-than-expected paydown of short-term municipal debt in October, and in November the surge in gross issues resulted in an unusually large addition to short-term debt. The staff now estimates that the total rise in short-term debt outstanding in 1971 will be over \$4.0 billion. Although this increase in short-term

debt is appreciably below the \$4.7 billion total for 1970, it indicates the continued reliance of municipalities on short-term financing. For the period from 1960 through 1963, the average annual volume of net short-term sales was about \$900 million; but from 1969 through 1971, the average yearly addition to short-term debt outstanding was \$4.0 billion.

State and Local Government Offerings  
(Monthly or monthly averages in millions of dollars)

	Long Term	Net Short Term
1970 - Year	1,514	393
Through November	1,452	361
1971 - Through November <u>e/</u>	2,052	410
QIII	1,972	332
QIV <u>e/</u>	1,820	107
October <u>e/</u>	1,700	-20
November <u>e/</u>	2,160	+600
December <u>e/</u>	1,600	-300
1972 - January <u>e/</u>	1,800	n.a.

e/ - Estimated.

Government securities market. Interest rates in the Government securities market have risen only slightly on balance since the last Committee meeting. Rates rose until around Thanksgiving when they stabilized and then moved back toward mid-November levels. Over the whole period, yields on coupon issues are generally unchanged to 12 basis points higher, with most of the increases in the over 7-year maturity



PROJECTION OF TREASURY CASH OUTLOOK  
(In billions of dollars)

	Nov.	Dec.	Jan.
<u>Total net borrowing</u>	2.5	5.7	-.4
Weekly and monthly bills	.8	.6	--
Tax bills	--	4.5	--
Coupon issues	2.7	--	--
As yet unspecified new borrowing	--	--	--
Other (debt repayments, etc.)	-1.0	.6	-.4
Plus: <u>Other net financial sources</u> <sup>a/</sup>	-1.2	-.7	1.4
Plus: <u>Budget surplus or deficit (-)</u>	-3.7	-.8	-3.7
Equals: <u>Change in cash balance</u>	-2.4 <sup>b/</sup>	4.2	-2.7
Memoranda: Level of cash balance end of period	4.3 <sup>b/</sup>	8.5	5.8
Derivation of budget surplus or deficit:			
Budget receipts	14.9	16.8	16.6
Budget outlays	18.6	17.6	20.3
Maturing coupon issues held by public	3.7 <sup>c/</sup>	--	--
Net agency borrowing	.2	.4	.4

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

<sup>b/</sup> Actual.

<sup>c/</sup> The November refunding fell short of its goal by \$1.3 billion.

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

	Fiscal Year		Calendar Years F.R. Estimates		F.R.B. Staff Estimates					
					Calendar Quarters					
					1971		1972			
	1971*	1972 e/	1971	1972	III*	IV	I	II	III	IV
<b>Federal Budget</b>										
(Quarterly data, unadjusted)										
Surplus/deficit	-23.0	-28.7	-25.0	-29.7	-7.8	-10.8	-11.7	1.6	-9.0	-10.6
Receipts	188.4	201.3	193.6	209.4	48.6	44.2	47.3	61.4	52.7	48.0
Outlays	211.4	230.0	218.4	239.1	56.3	55.0	59.0	59.8	61.7	58.6
Means of financing:										
Net borrowing from the public	19.4	27.2	21.9	27.1	9.1	9.6	7.6	.9	8.0	10.6
Decrease in cash operating balance	-.8	.6	-.4	1.0	-1.2	1.5	2.4	-2.1	--	.7
Other <sup>2/</sup>	4.4	.9	3.4	1.6	-.1	-.3	1.7	-.4	1.0	-.7
Cash operating balance, end of period	8.8	8.2	8.5	7.6	10.0	8.5	6.1	8.2	8.2	7.5
Memo: Net agency borrowing <sup>3/</sup>	1.1	n.e.	1.4	n.e.	1.7	1.7	2.2	n.e.	n.e.	n.e.
<b>National Income Sector</b>										
(Seasonally adjusted annual rate)										
Surplus/deficit	-18.5	-22.7	-19.6	-23.9	-20.4	-20.0	-25.5	-24.9	-24.3	-21.0
Receipts	194.2	210.3	202.4	219.5	203.5	210.1	212.2	215.2	222.5	228.1
Expenditures	212.7	233.0	222.0	243.4	223.9	230.1	237.7	240.1	246.8	249.1
High employment surplus/deficit (NIA basis) <sup>4/</sup>	.6	1.5	2.3	-2.7	2.5	5.6	-.4	-1.7	-5.6	-3.1

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

<sup>1/</sup> Estimates reflect effects of House Revenue Bill, which provides \$.8 billion less in tax cuts in fiscal year 1972 than the President's program. The Administration budget deficit estimate on the basis of the President's program is \$27.0--28.0 billion for FY 1972 with outlays estimated at \$232.0 billion. These figures would imply a receipts estimate ranging from \$204.0--205.0 billion.

<sup>2/</sup> Includes such items as deposit fund accounts and clearing accounts.

<sup>3/</sup> Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal

FOOTNOTES CONTINUED

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

3/ Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives

4/ Estimated by F.R. Board Staff.