

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

February 3, 1971

THE ECONOMIC PICTURE IN DETAIL

Domestic Nonfinancial Scene

Gross national product. Preliminary Commerce Department GNP estimates show an increase of \$5.4 billion for the fourth quarter--just about what we had been projecting. The gain in final sales was somewhat smaller than we had expected, largely because of a disappointing rate of consumer outlays, particularly for autos. But weaker final sales--along with the beginnings of some inventory accumulation in anticipation of a possible steel strike--resulted in a somewhat greater rate of inventory accumulation than we had anticipated.

GNP AND RELATED ITEMS, 1970
(Changes in seasonally adjusted totals at annual rates)

	<u>Fourth quarter</u>	
	<u>Projection of</u>	<u>Commerce</u>
	<u>1/6/71</u>	<u>Preliminary</u>
<hr/>		
	-----Billions of dollars-----	
GNP	5.5	5.4
Final sales	8.5	6.8
Inventory change	-3.0	-1.4
<hr/>		
	-----Per cent per year-----	
Real GNP	-2.6	-3.3
GNP deflator	4.8	5.7

Real GNP declined by 3.3 per cent, annual rate--more than expected. The implicit GNP price deflator rose very sharply, at an annual rate of 5.7 per cent compared with 4.6 per cent the previous quarter. Although there was evidence of further sharp price increases, much of this accelerated rise was the result of compositional shifts in GNP resulting from the decline in auto sales because of the GM strike--which will be reversed in the first quarter. A GNP deflator with fixed weights (which assumes no change in composition) rose at a 5.0 per cent annual rate last quarter, up from a 4.7 per cent rate of increase in the third quarter.

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

	First Quarter		Second Quarter	
	Projection of 1/6/71	Current projection	Projection of 1/6/71	Current projection
-----Billions of dollars-----				
GNP	29.0	26.4	15.5	19.4
Final sales	28.5	29.7	14.5	14.7
Personal consumption	17.9	18.7	11.0	12.8
Residential construction	2.7	4.4	1.3	1.8
Business fixed investment	2.0	2.1	-1.0	- .5
Net exports	1.4	1.8	.0	-1.0
Federal purchases	1.5	- .1	- .3	-2.1
State & local purchases	3.0	2.7	3.5	3.7
Inventory change	.5	-3.3	1.0	4.7
-----Per cent per year-----				
Real GNP	7.0	6.1	2.2	3.7
GNP deflator	4.6 <u>1/</u>	4.5 <u>2/</u>	3.9	3.9

1/ Excluding effects of Federal pay increase, 3.8 per cent per year.

2/ Excluding effects of Federal pay increase, 3.6 per cent per year.

upon past experience it appears that production of autos, appliances and machinery can be maintained; pre-strike inventory accumulation will be augmented by continued production of steel companies not affected by the strike and by some increase in imports. The major impact of the strike would thus be a sharp reduction in the rate of inventory accumulation in the third quarter with a rebound in the fourth.

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

	Third Quarter		Fourth Quarter	
	Projection of 1/6/71	Current Projection	Projection of 1/6/71	Current Projection
-----Billions of dollars-----				
GNP	16.5	13.8	17.5	25.0
Final sales	16.0	18.3	17.0	20.0
Personal consumption	9.8	11.9	11.1	12.0
Residential construction	1.1	.7	1.2	.5
Business fixed investment	.5	.7	.5	1.3
Net exports	.0	- .5	.0	.5
Federal purchases	.6	1.3	.2	1.7
State & local purchases	4.0	4.2	4.0	4.0
Inventory change	.5	-4.5	.5	5.0
-----Per cent per year-----				
Real GNP	2.7	1.5	3.2	5.9
GNP deflator	3.6	3.8	3.4	3.6

Overall, we are now projecting a somewhat stronger second half than formerly. The new Budget calls for a turn-up in both Federal defense and nondefense purchases after midyear, and some increase in capital outlays appears likely as a result of the recent liberalization of

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1970p	1971 Proj.	1970		1971 Projection			
			III	IVp	I	II	III	IV
-----Billions of dollars-----								
Gross National Product	45.4	68.2	14.4	5.4	26.4	19.4	13.8	25.0
Inventory change	-4.9	-0.3	2.4	-1.4	-3.3	4.7	-4.5	5.0
Final purchases	50.3	68.5	11.9	6.8	29.7	14.7	18.3	20.0
Private	42.0	57.8	9.3	4.6	27.1	13.1	12.8	14.3
Excluding net exports	40.3	57.8	9.2	6.1	25.3	14.1	13.3	13.8
Net exports	1.7	0.0	0.1	-1.5	1.8	-1.0	-0.5	0.5
Government	8.3	10.7	2.6	2.2	2.6	1.6	5.5	5.7
GNP in constant (1958) dollars	-2.8	17.1	2.5	-6.1	11.0	6.8	2.7	10.8
Final purchases	1.3	17.5	0.9	-5.0	13.7	3.0	6.4	6.7
Private	7.3	20.1	1.6	-4.9	15.2	3.6	4.4	4.6
-----In Per Cent Per Year-----								
Gross National Product	4.9	7.0	6.1	2.2	10.7	7.6	5.5	9.5
Final purchases	5.5	7.0	4.9	2.8	12.0	5.8	7.1	7.6
Private	5.9	7.7	5.0	2.4	14.2	6.6	6.4	7.0
Personal consumption expenditures	6.8	7.8	5.0	3.5	11.9	7.9	7.2	7.2
Durable goods	-0.7	7.7	-3.0	-25.4	40.3	6.4	6.3	6.2
Nondurable goods	7.7	7.1	4.9	8.9	6.8	7.7	6.2	6.3
Services	8.7	8.5	8.0	8.1	8.1	8.7	8.5	8.3
Gross private domestic investment	-2.9	7.0	11.9	-2.3	9.3	17.1	-8.5	18.9
Residential construction	-7.5	29.1	11.3	38.4	55.0	19.8	7.3	5.1
Business fixed investment	3.3	1.2	3.1	-8.5	8.3	-1.9	2.7	5.0
Gov't. purchases of goods & services	3.9	4.9	4.8	4.0	4.7	2.8	9.7	9.8
Federal	-1.6	-1.9	-4.4	-0.8	-0.4	-8.5	5.4	7.0
Defense	-2.8	-5.5	-5.2	-6.3	-2.1	-12.9	-0.6	0.6
Other	2.2	10.0	0.0	15.7	5.0	5.0	22.9	24.8
State & local	9.0	10.4	12.5	7.8	8.7	11.6	12.8	11.8
GNP in constant (1958) dollars	-0.4	2.4	1.4	-3.3	6.1	3.7	1.5	5.9
Final purchases	0.2	2.4	0.5	-2.8	7.7	1.7	3.5	3.6
Private	1.0	3.5	1.1	-3.4	10.5	2.4	3.0	3.1
GNP implicit deflator	5.3	4.5	4.6	5.7	4.5*	3.9	3.8	3.6
Personal income	7.0	6.9	2.9	3.1	7.7	12.3	3.5	8.2
Wages and salaries	6.1	6.4	3.2	1.2	10.7	7.4	5.0	9.0
Disposable income	8.4	7.2	5.5	2.2	8.9	12.5	2.6	6.0
Corporate profits before tax	-9.8	-0.2	14.6	-19.4	-6.5	-15.2	-3.4	23.1
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	-2.6	6.1	-2.4	-1.6	13.4	8.6	4.7	17.4
Expenditures	7.8	9.6	11.5	5.4	13.7	20.1	-3.9	14.7
Nonfarm payroll employment	0.6	0.3	-2.0	-1.7	2.3	1.7	0.0	1.7
Manufacturing	-4.0	-2.6	-6.0	-12.4	4.3	2.1	-4.2	4.3
Industrial production	-2.7	-0.1	-3.3	-12.7	7.4	5.3	0.0	7.2
Housing starts, private	-2.7	30.1	70.0	63.8	11.4	11.1	10.8	0.0
Sales new domestic autos	-15.8	15.9	2.0	-130.5	217.0	0.0	0.0	9.6

* Excluding effects of Federal pay increase, 3.6 per cent.

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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.)

	1970p	1971 Proj.	1970		1971 Projection			
			III	IVp	I	II	III	IV
Gross National Product	976.8	1045.0	985.5	990.9	1017.3	1036.7	1050.5	1075.5
Final purchases	973.2	1041.7	980.0	986.8	1016.5	1031.2	1049.5	1069.5
Private	752.7	810.5	759.0	763.6	790.7	803.8	816.6	830.9
Excluding net exports	749.1	806.9	754.8	760.9	786.2	800.3	813.6	827.4
Personal consumption expenditures	616.8	664.9	622.1	627.6	646.3	659.1	671.0	683.0
Durable goods	89.4	96.3	91.2	85.4	94.0	95.5	97.0	98.5
Nondurable goods	264.7	283.6	265.8	271.7	276.3	281.6	286.0	290.5
Services	262.7	285.0	265.1	270.5	276.0	282.0	288.0	294.0
Gross private domestic investment	135.8	145.3	138.3	137.5	140.7	146.7	143.6	150.4
Residential construction	29.6	38.2	29.2	32.0	36.4	38.2	38.9	39.4
Business fixed investment	102.6	103.8	103.6	101.4	103.5	103.0	103.7	105.0
Change in business inventories	3.6	3.3	5.5	4.1	0.8	5.5	1.0	6.0
Nonfarm	3.0	3.3	5.0	3.6	0.5	5.5	1.0	6.0
Net exports of goods and services	3.6	3.6	4.2	2.7	4.5	3.5	3.0	3.5
Gov't. purchases of goods & services	220.5	231.2	221.0	223.2	225.8	227.4	232.9	238.6
Federal	99.7	97.8	98.6	98.4	98.3	96.2	97.5	99.2
Defense	76.6	72.4	75.8	74.6	74.2	71.8	71.7	71.8
Other	23.1	25.4	22.9	23.8	24.1	24.4	25.8	27.4
State & local	120.8	133.4	122.4	124.8	127.5	131.2	135.4	139.4
Gross national product in constant (1958) dollars	724.3	741.4	727.4	721.3	732.3	739.1	741.8	752.6
GNP implicit deflator (1958 = 100)	134.9	140.9	135.5	137.4	138.9	140.3	141.6	142.9
Personal income	801.0	856.3	807.2	813.4	829.1	854.5	862.0	879.6
Wages and salaries	540.1	574.6	543.8	545.4	560.0	570.4	577.5	590.5
Disposable income	684.7	734.2	693.0	696.9	712.4	734.7	739.4	750.4
Personal saving	50.0	49.8	52.7	50.9	47.1	56.2	48.7	47.3
Saving rate (per cent)	7.3	6.8	7.6	7.3	6.6	7.6	6.6	6.3
Corporate profits before tax	82.3	82.1	84.4	80.3	79.0	82.0	81.3	86.0
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	195.4	207.3	194.9	194.1	200.6	204.9	207.3	216.3
Expenditures	206.2	225.9	206.7	209.5	216.7	227.6	225.4	233.7
Surplus or deficit (-)	-10.8	-18.6	-11.8	-15.4	-16.1	-22.7	-18.1	-17.4
High employment surplus or deficit (-)	-0.7	-0.3	-1.7	1.7	0.7	-4.4	2.2	0.5
Total labor force (millions)	85.9	87.1	86.0	86.4	86.6	86.9	87.2	87.5
Armed forces "	3.2	2.8	3.1	3.0	2.9	2.8	2.7	2.7
Civilian labor force "	82.7	84.3	82.8	83.4	83.7	84.1	84.5	84.8
Unemployment rate (per cent)	4.9	6.4	5.2	5.8	6.1	6.3	6.5	6.5
Nonfarm payroll employment (millions)	70.7	70.9	70.5	70.2	70.6	70.9	70.9	71.2
Manufacturing	19.4	18.9	19.3	18.7	18.9	19.0	18.8	19.0
Industrial production (1957-59=100)	168.2	168.0	167.9	162.6	165.6	167.8	167.8	170.8
Capacity utilization, manufacturing (per cent)	76.6	73.0	76.2	72.3	73.0	73.3	72.5	73.0
Housing starts, private (millions A. R.)	1.43	1.86	1.51	1.75	1.80	1.85	1.90	1.90
Sales new domestic autos (millions, A.R.)	7.12	8.25	7.99	5.38	8.30	8.30	8.30	8.50

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 Testers.

SELECTED CONSUMER SURVEY RESULTS

	Year <u>1</u> / ago	Previous survey <u>2</u> / 	Latest survey <u>3</u> /
BUYING INTENTIONS (Seasonally adjusted)			
Census			
Index of expected unit car purchases, (Jan.-Apr. 1967=100)			
All households:	106.0	103.8	107.9
Households, above median incomes:	104.3	103.4	110.4
Conference Board			
Per cent of households planning to buy within 6 months:			
All cars	9.1	7.2	7.1
New	4.6	4.4	4.2
Census			
Index of expected house purchases (Jan.-Apr. 1967=100)	93.6	95.6	96.3
Conference Board			
Per cent of households planning to buy home:	2.3	2.8	2.1
INCOME EXPECTATIONS			
Census			
Probability of substantial:			
Increase	20.1	16.7	17.2
Decrease	<u>6.3</u>	<u>7.3</u>	<u>6.7</u>
Difference	13.8	9.4	10.5
Conference Board			
Per cent of households expecting:			
Increase	29.7	23.5	24.0
Decrease	<u>5.8</u>	<u>7.8</u>	<u>8.1</u>
Difference	23.9	15.7	15.9
CURRENT EXPERIENCE (per cent of households)			
Census			
Higher current income	35.4	37.3	35.0
Lower current income	<u>11.3</u>	<u>13.6</u>	<u>14.2</u>
Difference	24.1	23.7	20.8
Conference Board			
Business conditions			
Good	34.8	14.5	14.1
Bad	<u>8.8</u>	<u>23.8</u>	<u>34.4</u>
Difference	26.0	-9.3	-20.3

1/ Jan. 1970 for Census and Nov.-Dec. 1969 for NICB.

2/ Oct. 1970 for Census and Sept.-Oct. 1970 for NICB.

3/ Jan. 1971 for Census and Nov.-Dec. 1970 for NICB.

GNP AND PRIVATE GNP DEFLATORS

(Percentage changes from previous period at annual rates,
seasonally adjusted)

	Gross National Product			Gross Private Product		
	Implicit Deflator	Fixed-Weighted ^{1/} Index	Chain Index	Implicit Deflator	Fixed-Weighted ^{1/} Index	Chain Index
1967	3.5 ^{3/}	3.3 ^{3/}	3.3 ^{3/}	3.0 ^{3/}	2.8 ^{3/}	2.8 ^{3/}
1968	4.1 ^{3/}	4.5 ^{3/}	4.5 ^{3/}	3.8 ^{3/}	4.1 ^{3/}	3.9 ^{3/}
<u>1969</u>						
I	4.7	4.5	4.5	4.8	4.5	3.9
II	5.0	5.0	4.9	4.9	5.0	4.5
III	5.6	6.1	6.0	4.4	5.1	4.9
IV	4.9	5.0	4.9	4.6	4.8	4.6
<u>1970</u>						
I	6.4	5.9	5.9	5.3	4.8	4.7
II	4.3	5.0	5.0	4.0	4.8	4.8
III	4.6	4.7 ^{2/}	4.4 ^{2/}	4.7	4.8 ^{2/}	4.4 ^{2/}
IV ^{p/}	5.7	5.0 ^{2/}	5.0 ^{2/}	5.7	5.1 ^{2/}	5.1 ^{2/}

^{1/} Fourth quarter 1965 weights.

^{2/} Confidential.

^{3/} Average rates for 4 quarters.

^{p/} Preliminary.

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

	<u>Bonds</u>		Stocks	Total
	Public Offerings	Private Placements		
1969 - year	1,061	468	700	2,229
1970 - year	2,092	402e	703e	3,200e
1970 - QIII	1,995	304	553	2,853
QIV	2,516e	466e	816e	3,800e
1971 - QI	2,167e	333e	733e	3,233e
January	2,100e	300e	600e	3,000e
February	2,200e	300e	700e	3,200e
March	2,200e	400e	900e	3,500e

e/ Estimated.

Underwriters report that filings of bond issues by industrial companies will increase in the next 30 days, and the staff estimates that corporate public bond sales will exceed \$2 billion a month in February and March. The forward calendar of equity offerings is already beginning to build up, but an increase in private placement takedowns will probably not be evident until later in the year since the increase in new commitments began only recently.

Long-term debt offerings by State and local governments set a postwar record of over \$2.6 billion in January. An unusual supply of negotiated issues, including a \$250 million New York State Urban Development bond, contributed to the huge total. While the volume of negotiated issues is not expected to be so large in the immediate future, the staff does expect tax-exempt offerings to continue at a monthly average rate in excess of \$2 billion.

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

1969 - year	990
1970 - year	1,494e
1970 - QIII	1,473
QIV	1,391e
1971 - QI	2,300e
January	2,600e
February	2,100e
March	2,200e

e/ Estimated.

Bank acquisitions have been particularly heavy in the short-term end of the tax-exempt market--notes and early serial bond maturities--but banks have also been broadening the maturity range of their purchases. This support by the banking system enabled the tax-exempt market to absorb, at declining yields, an unusually heavy volume over the past few months. If business loan demand picks up later in this quarter, however, the pace of commercial bank buying will undoubtedly moderate. Although some increase in acquisitions by casualty insurance companies and mutual savings banks is expected in the quarter, it would be only a partial offset to the potential decline in bank buying.

Stock market. Recent sharp declines in long-term interest rates have made bond investments much less attractive relative to common stocks than has been the case in more than a year, especially when the return from both investments is viewed as the combination of current

FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS
(In billions of dollars)

	F.R. Board Staff estimates										
	Fiscal 1971e/		Fiscal 1972e/		Calendar Years			Calendar Quarters			
	Jan.	F.R.	Jan.	F.R.	1970	1971e/	1970	1971			
	Budget	Board	Budget	Board	Actual		IV	I	II	III	IV
Federal Budget											
(Quarterly data, unadjusted)											
Surplus/deficit	-18.6	-18.8	-11.6	-21.6	-11.4	-22.9	-8.9	-4.8	2.7	-9.6	-11.2
Receipts	194.2	194.2	217.6	213.4	190.5	201.4	41.1	47.2	59.5	49.9	44.8
Outlays	212.8	213.0	229.2	235.0	201.9	224.3	49.9	52.0	56.8	59.5	56.0
Means of financing:											
Net borrowing from the public	17.6	17.6	10.6	20.6	11.9	21.7	8.9	.2	1.1	8.4	12.0
Decrease in cash operating balance	n.a.	.1	n.a.	--	-2.8	.2	.7	2.6	-2.4	--	--
Other <u>1/</u>	n.a.	.9	n.a.	1.0	2.3	1.0	-.7	2.0	-1.4	1.2	-.8
Cash operating balance, end of period	n.a.	7.9	n.a.	7.9	8.1	7.9	8.1	5.5	7.9	7.9	7.9
Memo: Net agency borrowing <u>2/</u>	n.a.	3.0	n.a.	n.e.	8.8	n.e.	2.2	-.2	-.4	n.e.	n.e.
National Income Sector											
(Seasonally adjusted annual rate)											
Surplus/deficit	-15.0	-16.5	-4.2	n.e.	-10.8	-18.6	-15.4	-16.1	-22.7	-18.1	-17.4
Receipts	200.0	198.6	225.9	n.e.	195.4	207.3	194.1	200.6	204.9	207.3	216.3
Expenditures	215.0	215.1	230.1	n.e.	206.2	225.9	209.5	216.7	227.6	225.4	233.7
High employment surplus deficit (NIA basis) <u>3/</u>	n.a.	-.9	n.a.	-1.0	-.7	-.3	1.7	.7	-4.4	2.2	.5

* 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. Projections omit Changes In FNMA discount notes.

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.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Jan.	Feb.	March	Apr.
<u>Total net borrowing</u>	.7	-1.2	.7	1.5
Weekly and monthly bills	--	.3	.4	.1
Tax bills	--	--	-2.5	-2.3
Coupon issues	--	--	--	--
As yet unspecified new borrowing	--	--	3.0	3.6
Other (debt repayments, etc.)	.7	-1.5	-.2	.1
Plus: <u>Other net financial sources</u> ^{a/}	1.0	.3	.7	.6
Plus: <u>Budget surplus or deficit (-)</u>	-.2	-.8	-3.8	1.4
Equals: <u>Change in cash balance</u>	1.5 ^{b/}	-1.7	-2.4	3.5
Memoranda: Level of cash balance, end of period	9.6 ^{b/}	7.9	5.5	9.0
Derivation of budget surplus or deficit:				
Budget receipts	17.0	16.4	13.8	21.3
Budget outlays	17.2	17.2	17.6	19.9
Maturing coupon issues held by public	--	5.0	1.0	--
Net agency borrowing	*	.1	-.2	.1

* Less than \$50 million

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

b/ Actual

CHANGES FROM THE PRECEDING YEAR IN
SELECTED BUDGET FUNCTIONS
(billions of dollars)

Function	Fiscal Years	
	1971	1972
National Defense	<u>-3.9</u>	<u>1.1</u>
Human Resources	<u>15.2</u>	<u>7.2</u>
Health	1.9	1.1
Retirement and social insurance	8.7	3.0
Public assistance and welfare reform	2.3	1.9
Veterans benefits	1.3	.7
Education and manpower	1.0	.5
Physical resources	<u>2.5</u>	<u>2.2</u>
Agriculture and rural development	-.9	.5
Natural resources	.2	1.6
Commerce and transportation	2.1	-.5
Housing and community development	1.1	.6
Interest	<u>1.1</u>	<u>.2</u>
Revenue sharing	--	4.0
Miscellaneous	<u>1.3</u>	<u>1.8</u>
International affairs and finance	*	.4
Space research and technology	-.4	-.2
Other, net	1.7	1.6
Total outlays	16.2	16.4

* Less than \$50 million

Budget Estimate of Receipts. The Budget projects total receipts of \$217.6 billion in fiscal 1972, a \$23.4 billion increase in actual tax receipts. Since the full employment budget receipts increase by \$15 billion the economy is assumed to grow rapidly enough to begin reducing the gap between actual and potential output. These estimates include \$2.8 billion in receipts arising from proposed legislation to increase the social security tax base from \$7,800 to \$9,000, effective retroactively to January 1, 1971, and a revenue loss of \$2.7 billion because of the recent revision in depreciation guidelines.

The economic assumptions for calendar 1971 underlying the Budget receipts estimates are: (1) an \$88 billion increase in GNP to a level of \$1,065 billion; (2) a \$67 billion increase in personal

income to a level of \$368 billion; and (3) an increase in corporate profits before tax to \$98 billion. 1/

Staff Estimate of Receipts. The Board staff is currently projecting lower economic magnitudes for calendar 1971--\$1,045 billion for GNP, \$856.5 billion for personal income, and \$81.9 billion for corporate profits before taxes. Because of these lower income assumptions, the staff's estimate of unified budget receipts in fiscal 1972 is considerably lower than receipts in the Budget document,--by \$4.2 billion--even though the staff assumes somewhat greater marginal tax rates. For the current fiscal year the staff and the Budget estimates of receipts are in agreement.

Federal Borrowing Estimates. The Budget document indicates that net borrowing from the public will be \$17.6 billion in the current fiscal year and \$10.6 billion in fiscal 1972. Staff estimates for borrowing in fiscal year 1972 amount to \$20.6 billion.

Total debt subject to statutory limitation is projected by the Budget to increase \$24.9 and \$23.6 billion in fiscal years 1971 and 1972, respectively, necessitating an early increase in the legal debt ceiling.

II. Federal Sector in the National Income Accounts

On a national income accounts basis, the Budget forecasts deficits of \$15.0 billion and \$4.2 billion in the current fiscal year and in fiscal year 1972, respectively. Federal receipts, NIA basis, are projected to increase from \$200.0 billion in fiscal 1971 to \$225.9 billion in fiscal 1972. Due to our lower income assumptions, the staff estimate of receipts is \$1.3 billion lower in the current fiscal year. 2/ The staff has not projected receipts on a NIA basis for fiscal 1972.

Staff projections of Federal expenditures through fiscal 1972 (NIA basis) are shown in the table below. In these projections, total Federal purchases of goods and services are not expected to increase in calendar 1971 above the level in the second half of 1970. Defense expenditures through calendar 1971 are expected to continue the present downward trend while non-defense moves rapidly upward. In the first half of calendar 1972, the large increase in defense and non-defense purchases reflects a Federal pay increase for civilian and military personnel and the initial cost of the proposed move toward the all-volunteer army.

1/ Note: Apparently the corporate profits figure shown in the Budget document should have been \$93 billion because a \$4.5 billion downward adjustment for increased depreciation expense due to the revision of the depreciation guidelines was overlooked, although the adjustment was made in receipts.

2/ The lower staff estimate of NIA receipts, as compared to the same estimates for unified budget receipts, results from the way corporate profit taxes enter the two budget concepts.

Staff projections of Federal transfer payments call for a sharp increase in the projected period, especially in the first half of calendar 1971. The sharp rise in transfers to persons in the first half of calendar 1971 is due largely to an increase expected in social security benefits. Grants also are expected to grow sharply during the projected period, consistent with the Administration's intentions to accelerate programs that are currently lagging behind schedule and the effects of the proposed revenue sharing program beginning in the fourth quarter of 1971.

According to Staff estimates, the federal deficit (NIA basis) will be about \$ 9 billion in calendar 1971, about \$6 billion more than in the second half of 1970. To a large extent, the projected deficit in the current calendar year reflects a shortfall in receipts arising from the slowdown in economic activity. As shown in the table below, Staff estimates of the high employment budget (NIA basis) suggest little change in discretionary budget policy in calendar 1971 compared to the second half of 1970. The projected \$4.8 billion shift toward deficit in the high employment budget balance in the first half of calendar 1972 suggests that programs proposed in the Budget may result in a more expansive fiscal policy at that time.

STAFF ESTIMATES OF
FEDERAL SECTOR IN THE NATIONAL INCOME ACCOUNTS
AND THE HIGH EMPLOYMENT BUDGET ^{1/}

(Calendar years, billions of dollars, SAAR)

	1970			1972
	2nd half	1st half	2nd half	1st half
Total Receipts	194.5	202.9	210.3	na
Total Expenditures	<u>208.1</u>	<u>222.2</u>	<u>229.6</u>	<u>243.0</u>
Purchases	<u>98.5</u>	<u>97.3</u>	<u>98.4</u>	<u>106.1</u>
Defense	<u>75.2</u>	<u>73.0</u>	<u>71.8</u>	<u>76.3</u>
Nondefense	<u>23.3</u>	<u>24.3</u>	<u>26.6</u>	<u>29.8</u>
Other Expenditures	<u>109.6</u>	<u>124.9</u>	<u>131.2</u>	<u>137.0</u>
Transfers to persons	<u>62.2</u>	<u>72.6</u>	<u>76.9</u>	<u>80.0</u>
Grants	<u>24.8</u>	<u>29.2</u>	<u>32.8</u>	<u>36.0</u>
All other	<u>22.6</u>	<u>23.1</u>	<u>21.5</u>	<u>21.0</u>
Surplus/deficit (-)	-13.6	-19.3	-19.3	na
High Employment surplus/deficit (-)	0	- 1.8	1.3	-3.5

na--not available

^{1/} The staff estimate of expenditures for the projected period exceeds the budget estimate because (1) the staff assumes a 10 per cent increase in social security benefits in the first half of 1971 rather than the 6 per cent increase included in the budget; (2) the staff estimate includes a postal pay increase in the first half of 1972 that is
(continued)

- 1/ not financed by an additional rate increase; (3) the staff projects a higher level of unemployment compensation expenditures because of projected higher rate of unemployment than assumed in the budget.