

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

March 31, 1971

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

	First Quarter		Second Quarter	
	Proj. of 3/3/71	Current	Proj. of 3/3/71	Current
-----Billions of dollars-----				
GNP	29.1	27.5	19.0	17.0
Final sales	30.4	28.8	16.3	14.3
Personal consumption	17.8	17.4	12.9	10.9
Residential construction	4.4	3.6	1.8	1.2
Business fixed investment	4.2	4.7	.0	1.0
Net exports	1.1	.4	-.2	-.5
Federal purchases	.2	-.3	-1.9	-2.0
State & local purchases	2.7	3.0	3.7	3.7
Inventory change	-1.3	-1.3	2.7	2.7
-----Per Cent Per Year-----				
Real GNP	7.2	6.4	3.6	2.7
GNP deflator	4.5 <u>1/</u>	4.7 <u>2/</u>	3.9	4.0
<u>1/</u> Excluding the effects of Federal pay increase, 3.6 per cent per year.				
<u>2/</u> Excluding the effects of Federal pay increase, 3.8 per cent per year.				

It now appears likely that GNP growth in the second quarter will slow down more rapidly than earlier expected following the post-strike first quarter rebound. This revision reflects largely the difference between the recently enacted increase in social security benefits (10 per cent retroactive to the first of the year), and what we had earlier assumed.

with the third quarter, as a step towards introduction of a volunteer army. In addition to this stimulus, personal consumption expenditures during this quarter should benefit from the impact of the late second quarter payment of the retroactive increase in social security payments.

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

	<u>Third Quarter</u>		<u>Fourth Quarter</u>	
	Proj. of	Current	Proj. of	Current
	3/3/71		3/3/71	
-----Billions of dollars-----				
GNP	14.0	19.0	25.0	25.5
Final sales	18.0	23.0	20.0	20.5
Personal consumption	12.2	13.2	12.0	12.4
Residential construction	.7	.9	.5	.8
Business fixed investment	.7	1.0	1.3	1.5
Net exports	- .5	.0	.5	.0
Federal purchases	.7	3.7	1.7	1.7
State & local purchases	4.2	4.2	4.0	4.1
Inventory change	-4.0	-4.0	5.0	5.0
-----Per Cent Per Year-----				
Real GNP	1.6	2.6	5.9	6.0
GNP deflator	3.8	4.7 ^{1/}	3.6	3.6

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

We are still projecting a large gain, \$25 billion, in GNP for the fourth quarter, reflecting in part the assumption of a steel strike settlement by about the end of September. We expect a sizable rise in inventory investment of \$5 billion, following the liquidation of steel stocks the previous quarter, moderate acceleration in business

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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 Proj.	1970		1971 Projection			
			III	IV	I	II	III	IV
Gross National Product	976.5	1046.0	985.5	989.9	1017.4	1034.4	1053.4	1078.9
Final purchases	973.1	1042.4	980.0	986.3	1015.1	1029.4	1052.4	1072.9
Private	752.6	809.9	759.0	763.1	789.2	801.8	816.9	831.6
Excluding net exports	749.0	807.3	754.8	760.5	786.2	799.3	814.4	829.1
Personal consumption expenditures	616.7	662.3	622.1	627.0	644.4	655.3	668.5	680.9
Durable goods	89.4	98.1	91.2	85.3	95.5	97.0	99.0	101.0
Nondurable goods	264.7	279.8	265.8	271.5	273.2	277.0	282.2	286.6
Services	262.6	284.4	265.1	270.2	275.7	281.3	287.3	293.3
Gross private domestic investment	135.7	148.6	138.3	137.1	144.1	149.0	146.9	154.2
Residential construction	29.7	37.4	29.2	32.2	35.8	37.0	37.9	38.7
Business fixed investment	102.6	107.6	103.6	101.3	106.0	107.0	108.0	109.5
Change in business inventories	3.5	3.6	5.5	3.6	2.3	5.0	1.0	6.0
Nonfarm	2.9	3.5	5.0	3.0	2.0	5.0	1.0	6.0
Net exports of goods and services	3.6	2.6	4.2	2.6	3.0	2.5	2.5	2.5
Gov't. purchases of goods & services	220.5	232.6	221.0	223.2	225.9	227.6	235.5	241.3
Federal	99.7	98.7	98.6	98.2	97.9	95.9	99.6	101.3
Defense	76.6	73.6	75.8	74.6	74.2	71.8	74.1	74.2
Other	23.1	25.1	22.9	23.5	23.7	24.1	25.5	27.1
State & local	120.9	133.9	122.4	125.0	128.0	131.7	135.9	140.0
Gross national product in constant (1958) dollars	724.1	740.6	727.4	720.3	731.8	736.6	741.4	752.6
GNP implicit deflator (1958 = 100)	134.9	141.2	135.5	137.4	139.0	140.4	142.1	143.4
Personal income	801.0	854.2	807.2	813.3	829.0	848.1	860.7	879.0
Wage and salary disbursements	540.1	575.9	543.8	545.2	560.6	569.8	579.9	593.3
Disposable income	684.8	732.0	693.0	697.2	712.5	728.6	737.7	749.3
Personal saving	50.2	50.3	52.7	51.8	49.2	54.1	49.6	48.4
Saving rate (per cent)	7.3	6.9	7.6	7.4	6.9	7.4	6.7	6.5
Corporate profits before tax	81.6	81.0	84.4	77.5	77.5	80.0	81.0	86.5
Corporate cash flow, net of dividends	69.1	76.9	70.7	68.4	73.7	75.9	77.2	80.6
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	194.9	204.3	194.9	192.2	197.2	201.2	205.0	213.9
Expenditures	206.3	223.0	206.7	209.9	213.9	221.0	224.3	232.9
Surplus or deficit (-)	-11.4	-18.7	-11.8	-17.6	-16.7	-19.8	-19.3	-19.0
High employment surplus or deficit (-)	-0.8	0.7	-1.7	1.3	1.6	0.0	2.0	-0.8
Total labor force (millions)	85.9	87.1	86.0	86.5	86.6	87.0	87.2	87.6
Armed forces "	3.2	2.8	3.1	3.0	2.9	2.9	2.8	2.7
Civilian labor force "	82.7	84.3	82.8	83.5	83.7	84.1	84.4	84.9
Unemployment rate (per cent)	4.9	6.3	5.2	5.9	6.0	6.3	6.5	6.5
Nonfarm payroll employment (millions)	70.7	70.9	70.5	70.2	70.6	70.8	70.9	71.1
Manufacturing	19.4	18.8	19.3	18.7	18.7	18.8	18.7	18.9
Industrial production (1957-59=100)	168.2	167.4	167.9	162.7	165.2	166.7	167.4	170.4
Capacity utilization, manufacturing (per cent)	76.6	72.8	76.2	72.3	72.8	72.8	72.4	73.0
Housing starts, private (millions A. R.)	1.43	1.84	1.51	1.78	1.75	1.83	1.88	1.90
Sales new domestic autos (millions, A.R.)	7.12	8.25	7.99	5.38	8.10	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 Teeters.

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1970	1971 Proj.	1970		1971 Projection			
			III	IV	I	II	III	IV
-----Billions of dollars-----								
Gross National Product	45.1	69.5	14.4	4.4	27.5	17.0	19.0	25.5
Inventory change	-5.0	0.1	2.4	-1.9	-1.3	2.7	-4.0	5.0
Final purchases	50.2	69.3	11.9	6.3	28.8	14.3	23.0	20.5
Private	41.9	57.2	9.3	4.1	26.1	12.6	15.1	14.7
Excluding net exports	40.2	58.2	9.2	5.7	25.7	13.1	15.1	14.7
Net exports	1.7	-1.0	0.1	-1.6	0.4	-0.5	0.0	0.0
Government	8.3	12.1	2.6	2.2	2.7	1.7	7.9	5.8
GNP in constant (1958) dollars	-3.0	16.5	2.5	-7.1	11.5	4.8	4.8	11.2
Final purchases	1.2	16.4	0.9	-5.7	12.6	2.7	8.1	7.1
Private	7.2	18.3	1.6	-5.4	14.0	3.4	5.9	5.1
-----In Per Cent Per Year-----								
Gross National Product	4.8	7.1	5.9	1.8	11.1	6.7	7.3	9.7
Final purchases	5.4	7.1	4.9	2.6	11.7	5.6	8.9	7.8
Private	5.9	7.6	5.0	2.2	13.7	6.4	7.5	7.2
Personal consumption expenditures	6.8	7.4	5.0	3.1	11.1	6.8	8.1	7.4
Durable goods	-0.7	9.7	-3.0	-25.9	47.8	6.3	8.2	8.1
Nondurable goods	7.7	5.7	4.9	8.6	2.5	5.6	7.5	6.2
Services	8.7	8.3	8.0	7.7	8.1	8.1	8.5	8.4
Gross private domestic investment	-2.9	9.5	11.9	-3.5	20.4	13.6	-5.6	19.9
Residential construction	-7.2	25.9	11.3	41.1	44.7	13.4	9.7	8.4
Business fixed investment	3.3	4.9	3.1	-8.9	18.6	3.8	3.7	5.6
Gov't. purchases of goods & services	3.9	5.5	4.8	4.0	4.8	3.0	13.9	9.8
Federal	-1.6	-1.0	-4.4	-1.6	-1.2	-8.2	15.4	6.8
Defense	-2.8	-3.9	-5.2	-6.3	-2.1	-12.9	12.8	0.5
Other	2.2	8.7	0.0	10.5	3.4	6.7	23.2	25.1
State & local	9.1	10.8	12.5	8.5	9.6	11.6	12.8	12.1
GNP in constant (1958) dollars	-0.4	2.3	1.4	-3.9	6.4	2.7	2.6	6.0
Final purchases	0.2	2.3	0.5	-3.2	7.0	1.5	4.4	3.8
Private	1.3	3.2	1.1	-3.7	9.7 ^{1/}	2.3	4.0 ^{1/}	3.4
GNP implicit deflator	5.3	4.7	4.6	5.9	4.7 ^{1/}	4.0	4.7 ^{1/}	3.6
Fixed-weight index ^{2/}	5.1	4.3	4.6	4.9	4.5	3.9	3.7	3.6
Personal income	7.0	6.6	2.9	3.0	7.7	9.2	5.9	8.5
Wage and salary disbursements	6.1	6.6	3.2	1.0	11.3	6.6	7.1	9.2
Disposable income	8.4	6.9	5.5	2.4	8.8	9.0	5.0	6.3
Corporate profits before tax	-10.0	-0.7	14.6	-32.7	0.0	12.9	5.0	27.2
Federal government receipts and expenditures (N I.A. basis)								
Receipts	-2.7	4.8	-2.4	-5.5	10.4	8.1	7.6	17.4
Expenditures	7.8	8.1	11.5	6.2	7.6	13.3	6.0	15.3
Nonfarm payroll employment	0.6	0.3	-2.0	-1.9	2.3	1.1	0.6	1.1
Manufacturing	-3.9	-3.1	-6.0	-13.3	0.0	2.1	-2.1	4.3
Industrial production	-2.7	-0.5	-3.3	-12.4	6.1	3.6	1.7	7.2
Housing starts, private	-2.6	28.5	70.3	70.1	-6.1	17.1	11.0	5.3
Sales new domestic autos	-15.8	16.6	2.0	-130.5	202.1	9.9	0.0	9.6

^{1/} Excluding effects of Federal pay increase, 3.8 per cent in both 71-I and 71-III^{2/} Based on 1970-IV weights (Excludes effects of Federal pay increases.)

period in which public bond offerings exceeded \$900 million each week. Sale of this volume was facilitated by the fact that much of it was in the form of large, high-quality, negotiated offerings. About half of the enlarged offerings for the month were accounted for by manufacturing corporations, which normally represent about one-third of the total. Banks and bank holding companies--which have seldom financed in long-term markets--accounted for almost one-tenth of the new issues. Bond sales by utilities and communications companies, while high in absolute terms, represented only a little more than one-fifth of offerings; these firms usually account for one-half of the total. And with the steady improvement in stock prices over the month, sales of convertible bonds increased appreciably, amounting to over \$500 million.

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

	Bonds		Stocks	Total
	Public Offerings	Private Placements		
1969 - year	1,061	468	700	2,229
1970 - year	2,099	403	713	3,245
1970 - QIII	1,995	304	553	2,853
QIV	2,609	473	896	3,979
1971 - QI	2,777e	432e	696e	3,906e
March	4,100e	500e	1,000e	5,600e
April	3,000e	400e	1,100e	4,500e
May	2,500e	400e	900e	3,800e

e/ Estimated.

quarter will be high. It is possible that local government officials are temporarily withholding announcements in the expectation of further interest rate declines and perhaps temporarily relying on short-term borrowing to take advantage of the wide spread between long and short rates.

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
1970 - QIII	1,490	457
QIV	1,954	521
1971 - QI	2,233e	518e
March	2,200e	500e
April	1,800e	n.a.
May	1,800e	n.a.

e/ Estimated.

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

Net sales of short-term tax-exempt securities in the first quarter remained close to the record pace of late 1970. Issues of short-term debt are geographically concentrated, with much of the recent activity in this area attributable to New York, which has special financial problems. However, some banks report that there has recently been an increase in the volume of direct short-term bank loans to local government units. Since these loans would not be reflected in the securities data, the series on net short-term financing probably understates the volume of such financing by State and local governments.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	March	April	May	June
<u>Total net borrowing</u>	1.3	-2.3	3.6	-2.5
Weekly and monthly bills	.2	2.8	--	--
Tax bills	2.0	--	--	--
Coupon issues	-.2	--	-.9	--
As yet unspecified new borrowing	--	--	4.5	--
Other (debt repayments, etc.)	-.7	-5.1	--	-2.5
Plus: <u>Other net financial sources</u> ^{a/}	.6	.4	-.2	-1.7
Plus: <u>Budget surplus or deficit (-)</u>	-5.4	3.7	-4.0	4.9
Equals: <u>Change in cash balance</u>	-3.5	1.8	-.6	.7
Memoranda: Level of cash balance, end of period	4.4	6.2	5.6	6.3
Derivation of budget surplus or deficit:				
Budget receipts	12.7	22.0	14.6	23.6
Budget outlays	18.1	18.3	18.6	18.7
Maturing coupon issues held by public	1.0 ^{b/}	--	5.8	--
Net agency borrowing	*	-.1	-.2	*

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

^{b/} Refunded during February quarterly refinancing.

*--Less than 50 million dollars.

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
<u>Federal Budget</u>											
(Quarterly data, unadjusted)											
Surplus/deficit	-18.6	-20.0	-11.6	-23.4	-11.4	-25.1	-8.9	-8.1	4.6	-10.0	-11.6
Receipts	194.2	191.4	217.6	211.0	190.5	197.2	41.1	43.6	60.2	49.2	44.2
Outlays	212.8	211.4	229.2	234.4	201.9	222.3	49.9	51.7	55.6	59.2	55.8
Means of financing:											
Net borrowing from the public	17.6	17.3	10.6	24.2	11.8	23.9	8.9	2.2	-1.2	10.5	12.4
Decrease in cash operating balance	n.a.	1.7	n.a.	-1.7	-2.8	.1	.7	3.7	-1.9	-1.7	--
Other 1/	n.a.	1.0	n.a.	1.0	2.4	1.1	-.7	2.2	-1.5	1.2	-.8
Cash operating balance, end of period	n.a.	6.3	n.a.	8.0	8.1	8.0	8.1	4.4	6.3	8.0	8.0
Memo: Net agency borrowing 2/	n.a.	2.3	n.a.	n.e.	8.2	n.e.	1.5	-.4	-.3	n.e.	n.3.
<u>National Income Sector</u>											
(Seasonally adjusted annual rate)											
Surplus/deficit	-15.0	-16.5	-4.2	n.e.	-11.1	-18.7	-17.6	-16.7	-19.8	-19.3	-19.0
Receipts	200.0	196.4	225.9	n.e.	195.2	204.3	192.2	197.2	201.2	205.0	213.9
Expenditures	215.0	212.9	230.1	n.e.	206.3	223.0	209.9	213.9	221.0	224.3	232.9
High employment surplus/deficit (NIA basis) 3/	n.a.	.3	n.a.	-1.3	-.8	.7	1.3	1.6	0.0	2.0	-.8

* 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.