

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

March 3, 1971

 THE ECONOMIC PICTURE IN DETAIL

Domestic Nonfinancial Scene

Gross national product. While there is still a good deal of uncertainty with respect to the strength of consumer expenditures and inventory accumulation, the first quarter rise in GNP now seems likely to total about \$29 billion, as compared to the \$26-1/2 billion we projected last month. In real terms, the current projection implies an annual rate increase in GNP in excess of 7 per cent; real GNP declined by almost 4 per cent, annual rate, in the fourth quarter of 1970.

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

	<u>First Quarter</u>		<u>Second Quarter</u>	
	Projection of 2/3/71	Current Projection	Projection of 2/3/71	Current Projection
-----Billions of dollars-----				
GNP	26.4	29.1	19.4	19.0
Final sales	29.7	30.4	14.7	16.3
Personal consumption	18.7	17.8	12.8	12.9
Residential construction	4.4	4.4	1.8	1.8
Business fixed investment	2.1	4.2	- .5	.0
Net exports	1.8	1.1	-1.0	- .2
Federal purchases	- .1	.2	-2.1	-1.9
State and local purchases	2.7	2.7	3.7	3.7
Inventory change	-3.3	-1.3	4.7	2.7
-----Per cent per year-----				
Real GNP	6.1	7.2	3.7	3.6
GNP deflator	4.5 <u>1/</u>	4.5 <u>1/</u>	3.9	3.9

^{1/} Excluding effects of Federal pay increase, 3.6 per cent per year.

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

	Third Quarter		Fourth Quarter	
	Projection of 2/3/71	Current Projection	Projection of 2/3/71	Current Projection
-----Billions of dollars-----				
GNP	13.8	14.0	25.0	25.0
Final sales	18.3	18.0	20.0	20.0
Personal consumption	11.9	12.2	12.0	12.0
Residential construction	.7	.7	.5	.5
Business fixed investment	.7	.7	1.3	1.3
Net exports	- .5	- .5	.5	.5
Federal purchases	1.3	.7	1.7	1.7
State & local purchases	4.2	4.2	4.0	4.0
Inventory change	-4.5	-4.0	5.0	5.0
-----Per cent per year-----				
Real GNP	1.5	1.6	5.9	5.9
GNP deflator	3.8	3.8	3.6	3.6

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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	1046.5	985.5	989.9	1019.0	1038.0	1052.0	1077.0
Final purchases	973.1	1042.9	980.0	986.3	1016.7	1033.0	1051.0	1071.0
Private	752.6	811.6	759.0	763.1	790.6	805.1	818.2	832.5
Excluding net exports	749.0	808.2	754.8	760.5	786.9	801.6	815.2	829.0
Personal consumption expenditures	616.7	663.6	622.1	627.0	644.8	657.7	669.9	681.9
Durable goods	89.4	96.7	91.2	85.3	94.3	96.0	97.5	99.0
Nondurable goods	264.7	282.2	265.8	271.5	274.8	280.0	284.7	289.2
Services	262.6	284.7	265.1	270.3	275.7	281.7	287.7	293.7
Gross private domestic investment	135.7	148.2	138.3	137.1	144.4	148.9	146.3	153.1
Residential construction	29.7	38.4	29.2	32.2	36.6	38.4	39.1	39.6
Business fixed investment	102.6	106.2	103.6	101.3	105.5	105.5	106.2	107.5
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	3.4	4.2	2.6	3.7	3.5	3.0	3.5
Gov't. purchases of goods & services	220.5	231.3	221.0	223.2	226.1	227.9	232.8	238.5
Federal	99.7	97.7	98.6	98.2	98.4	96.5	97.2	98.9
Defense	76.6	72.6	75.8	74.6	74.6	72.4	71.7	71.8
Other	23.1	25.1	22.9	23.5	23.8	24.1	25.5	27.1
State & local	120.9	133.6	122.4	125.0	127.7	131.4	135.6	139.6
Gross national product in constant (1958) dollars	724.1	742.4	727.4	720.3	733.2	739.8	742.8	753.7
GNP implicit deflator (1958 = 100)	134.9	141.0	135.5	137.4	139.0	140.3	141.6	142.9
Personal income	801.0	856.6	807.2	813.3	829.0	855.0	862.5	880.0
Wage and salary disbursements	540.1	575.2	543.8	545.2	560.5	570.9	578.2	591.2
Disposable income	684.8	734.5	693.0	697.2	712.6	735.1	739.7	750.6
Personal saving	50.2	51.7	52.7	51.8	49.1	58.3	50.4	49.0
Saving rate (per cent)	7.3	7.0	7.6	7.4	6.9	7.9	6.8	6.5
Corporate profits before tax	82.1e	82.6	84.4	79.5e	80.0	82.5	81.8	86.0
Corporate cash flow, net of dividends	69.3e	77.7	70.7	69.8e	75.1	77.3	77.8	80.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	195.2	207.6	194.9	193.3e	200.8	205.3	207.9	216.5
Expenditures	206.3	225.7	206.7	209.9	216.4	227.9	225.1	233.4
Surplus or deficit (-)	-11.1	-18.1	-11.8	-16.6e	-15.6	-22.6	-17.2	-16.9
High employment surplus or deficit (-)	-0.8	0.6	-1.7	1.3	1.6	-4.4	3.8	1.3
Total labor force (millions)	85.9	87.3	86.0	86.5	86.9	87.2	87.5	87.8
Armed forces "	3.2	2.9	3.1	3.0	3.0	2.9	2.8	2.7
Civilian labor force "	82.7	84.4	82.8	83.5	83.9	84.3	84.7	85.1
Unemployment rate (per cent)	4.9	6.3	5.2	5.9	6.0	6.2	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	167.9	167.9	162.6	165.5	167.6	167.8	170.8
Capacity utilization, manufacturing (per cent)	76.6	73.0	76.2	72.3	73.0	73.2	72.7	73.2
Housing starts, private (millions A. R.)	1.43	1.86	1.51	1.77	1.80	1.85	1.90	1.90
Sales new domestic autos (millions, A.R.)	7.12	8.30	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 Teters.

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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	70.0	14.4	4.4	29.1	19.0	14.0	25.0
Inventory change	-5.0	0.1	2.4	-1.9	-1.3	2.7	-4.0	5.0
Final purchases	50.2	69.8	11.9	6.3	30.4	16.3	18.0	20.0
Private	41.9	59.0	9.3	4.1	27.5	14.5	13.1	14.3
Excluding net exports	40.2	59.2	9.2	5.7	26.4	14.7	13.6	13.8
Net exports	1.7	-0.2	0.1	-1.6	1.1	-0.2	-0.5	0.5
Government	8.3	10.8	2.6	2.2	2.9	1.8	4.9	5.7
GNP in constant (1958) dollars	-3.0	18.3	2.5	-7.1	13.0	6.5	3.0	11.0
Final purchases	1.2	18.2	0.9	-5.7	14.1	4.4	6.4	6.8
Private	7.2	19.9	1.6	-5.4	15.3	4.8	4.6	4.7
-----In Per Cent Per Year-----								
Gross National Product	4.8	7.2	5.9	1.8	11.8	7.5	5.4	9.5
Final purchases	5.4	7.2	4.9	2.6	12.3	6.4	7.0	7.0
Private	5.9	7.8	5.0	2.2	14.4	7.3	6.5	6.8
Personal consumption expenditures	6.8	7.6	5.0	3.1	11.4	8.0	7.4	7.2
Durable goods	-0.7	8.2	-3.0	-25.9	42.2	7.2	6.2	6.2
Nondurable goods	7.7	6.6	4.9	8.6	4.9	7.6	6.7	6.3
Services	8.7	8.4	8.0	7.8	8.0	8.7	8.5	8.3
Gross private domestic investment	-2.9	9.2	11.9	-3.5	21.3	12.5	-7.0	18.6
Residential construction	-7.2	29.3	11.3	41.1	54.7	19.7	7.3	5.1
Business fixed investment	3.3	3.5	3.1	-8.9	16.6	0.0	2.7	4.9
Gov't. purchases of goods & services	3.9	4.9	4.8	4.0	5.2	3.2	8.6	9.8
Federal	-1.6	-2.0	-4.4	-1.6	0.8	-7.7	2.9	7.0
Defense	-2.8	-5.2	-5.2	-6.3	0.0	-11.8	-3.9	0.6
Other	2.2	8.7	0.0	10.5	5.1	5.0	23.2	25.1
State & local	9.1	10.5	12.5	8.5	8.6	11.6	12.8	11.8
GNP in constnat (1958) dollars	-0.4	2.5	1.4	-3.9	7.2	3.6	1.6	5.9
Final purchases	0.2	2.5	0.5	-3.2	7.9	2.4	3.5	3.7
Private	1.3	3.4	1.1	-3.7	10.6*	3.2	3.1	3.1
GNP implicit deflator	5.3	4.5	4.6	5.9	4.5	3.9	3.8	3.6
Personal income	7.0	6.9	2.9	3.0	7.7	12.5	3.5	8.1
Wage and salary disbursements	6.1	6.5	3.2	1.0	11.2	7.4	5.1	9.0
Disposable income	8.4	7.3	5.5	2.4	8.8	12.6	2.5	5.9
Corporate profits before tax	-10.0	0.6	14.6	-23.2	2.5	12.5	-3.4	20.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	-2.7	6.4	-2.4	-3.3	15.5	9.0	5.1	16.5
Expenditures	7.8	9.4	11.5	6.2	12.4	21.3	-4.9	14.7
Nonfarm payroll employment	0.6	0.3	-2.0	-1.9	2.4	1.7	0.0	1.7
Manufacturing	-3.9	-2.6	-6.0	-13.3	4.7	2.1	-4.2	4.2
Industrial production	-2.7	-0.2	-3.3	-12.7	7.2	5.0	0.5	7.2
Housing starts, private	-2.6	30.1	70.0	67.7	7.2	11.1	10.8	0.0
Sales new domestic autos	-15.8	16.6	2.0	-130.5	202.1	9.9	0.0	9.6

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

displacement of scheduled March issues into that month; the staff considers the April estimate to be on the low side; the volume may well be larger.

Bond offerings by financial firms, or financial subsidiaries of industrial firms, have become increasingly important in the first quarter of 1971. In particular, a number of banks and bank holding companies have announced debt issues recently, and there are reports that there will be more in the near future as banks seek to improve their capital positions. There has also been a marked increase in issues and filings, especially in recent weeks, by firms with bond ratings of Baa or lower and by commercial and consumer-oriented corporations. Public utility issues still continue at a high level, and the proportion of offerings by the communications industry in the first quarter may be even higher than it was last year.

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	2,500e	366e	683e	3,550e
January	2,000e	300e	450e	2,750e
February	2,300e	300e	600e	3,200e
March	3,200e	500e	1,000e	4,700e
April	2,600e	400e	900e	3,900e

e/ Estimated.

Because of an unusually small volume of new stock issues in January, estimated monthly average equity issues for the first quarter of 1971 seem likely to fall below the fourth quarter 1970 average; but scheduled equity financing appears to be building rapidly now, and both March and April are estimated at about \$1 billion. There is also evidence of an increase in new commitment activity at life insurance companies, which may be reflected in an upward trend in takedowns in the second quarter of 1971. Except for the normal seasonal bulge in December of 1970, takedowns as reported by the SEC have changed little since mid-1970. Total corporate security offerings for the first quarter of 1971 are expected to be about 10 per cent below the record-setting fourth quarter of 1970, but the monthly average estimated for March and April marks a return to the late 1970 level.

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

1969 - year	2,228
1970 - year	1,515
1970 - QIII	1,490
QIV	1,954
1971 - QI	2,233e
January	2,700e
February	1,800e
March	2,200e
April	2,000e

e/ Estimated.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Feb.	March	April	May
<u>Total net borrowing</u>	--	.3	1.3	2.6
Weekly and monthly bills	1.4	--	--	--
Tax bills	--	-2.5	-2.3	--
Coupon issues	--	--	--	--
As yet unspecified new borrowing	--	2.0	3.5	3.5
Other (debt repayments, etc.)	-1.4	.8	.1	-.9
Plus: <u>Other net financial sources</u> ^{a/}	-.8	.7	.6	-.2
Plus: <u>Budget surplus or deficit (-)</u>	-.9	-4.9	3.5	-5.4
Equals: <u>Change in cash balance</u>	-1.7 ^{b/}	-3.9	5.4	-3.0
Memoranda: Level of cash balance, end of period	7.9 ^{b/}	4.0	9.4	6.4
Derivation of budget surplus or deficit:				
Budget receipts	16.1	13.5	22.3	14.6
Budget outlays	17.0	18.4	18.8	20.0
Maturing coupon issues held by public	5.0 ^{c/}	1.0 ^{c/}	--	5.8
Net agency borrowing	-.2	-.1	-.1	-.2

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

^{b/} Actual

^{c/} Refunded during February quarterly refinancing.

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	-19.9	-11.6	-21.6	-11.4	-24.1	-8.9	-7.1	3.3	-9.6	-11.2
Receipts	194.2	193.4	217.6	213.4	190.5	200.6	41.1	45.4	60.5	49.9	44.8
Outlays	212.8	213.3	229.2	235.0	201.9	224.7	49.9	52.5	56.7	59.5	56.0
Means of financing:											
Net borrowing from the public	17.6	18.7	10.6	20.6	11.8	22.8	8.9	1.0	1.4	8.4	12.0
Decrease in cash operating balance	n.a.	.1	n.a.	--	-2.8	.2	.7	4.1	-3.9	--	--
Other <u>1/</u>	n.a.	1.1	n.a.	1.0	2.4	1.1	-.7	2.0	-1.3	1.2	-.8
Cash operating balance, end of period	n.a.	7.9	n.a.	7.9	8.1	7.9	8.1	4.0	7.9	7.9	7.9
Memo: Net agency borrowing <u>2/</u>	n.a.	2.4	n.a.	n.e.	8.2	n.e.	1.5	-.4	-.3	n.e.	n.e.
National Income Sector											
(Seasonally adjusted annual rate)											
Surplus/deficit	-15.0	-16.7	-4.2	n.e.	-11.1	-18.1	-16.6	-15.6	-22.6	-17.2	-16.9
Receipts	200.0	198.6	225.9	n.e.	195.2	207.6	193.3	200.8	205.3	207.9	216.5
Expenditures	215.0	215.2	230.1	n.e.	206.3	225.7	209.9	216.4	227.9	225.1	233.4
High employment surplus deficit (NIA basis) <u>3/</u>	n.a.	-.8	n.a.	-1.0	-.8	.6	1.3	1.6	-4.4	3.8	1.3

* 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.

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SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

March 5, 1971

CORRECTIONS:

Page II-30 Table, line 2, used cars, June to September should be minus 13.2, December 1970 to January 1971 should be minus 24.2.

Page III-9, table for March 1 change 7.48 to 7.43.

Page III-10, line 9 change 7.48 to 7.43.

Page III-10, line 10 change December to November.

Erratum: Page III-17 line 3 erroneously stated the amount of System purchases of over 5-year coupon issues since the last meeting at \$38 million. The correct number is \$381 million.

Appendix A, Page 1, paragraph 3 last line should include ... and a similar proportion expect a modest increase.