

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

February 9, 1972

By the Staff  
Board of Governors  
of the Federal Reserve System

CONFIDENTIAL - FR

February 9, 1972

**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.)

	1971p	1972 Proj.	1971		1972			
			III	IVp	I	II	III	IV
Gross National Product	1046.8	1142.5	1053.4	1073.0 <sup>1/</sup>	1103.0	1129.5	1155.0	1182.6
Final purchases	1044.7	1135.3	1054.6	1071.2 <sup>1/</sup>	1098.7	1124.3	1146.8	1171.4
Private	811.6	878.7	820.8	830.3 <sup>1/</sup>	849.8	869.1	888.1	908.0
Excluding net exports	810.9	878.2	820.8	832.3	850.6	868.6	886.9	906.8
Personal consumption expenditures	662.2	713.5	668.9	677.7	690.8	705.3	720.5	737.4
Durable goods	100.4	109.6	102.9	103.2	105.0	108.0	111.0	114.5
Nondurable goods	278.8	299.3	280.2	283.9	289.5	295.8	302.3	309.5
Services	283.0	304.6	285.8	290.6	296.3	301.5	307.2	313.4
Gross private domestic investment	150.8	171.9	150.8	156.5 <sup>1/</sup>	164.1	168.5	174.6	180.6
Residential construction	40.6	46.8	42.7	44.2	46.9	47.4	47.0	46.0
Business fixed investment	108.2	117.9	109.3	110.4 <sup>1/</sup>	112.9	115.9	119.4	123.4
Change in business inventories	2.1	7.2	-1.2	1.9 <sup>1/</sup>	4.3	5.2	8.2	11.2
Nonfarm	1.5	7.1	-2.0	1.0 <sup>1/</sup>	3.8	5.0	8.2	11.2
Net exports of goods and services	0.7	0.5	0.0	-2.0 <sup>1/</sup>	-0.8	0.5	1.2	1.2
Exports	65.5	72.5	68.2	61.2 <sup>1/</sup>	70.3	71.6	73.1	74.9
Imports	64.8	72.0	68.2	63.2 <sup>1/</sup>	71.1	71.1	71.9	73.7
Gov't. purchases of goods & services	233.1	256.6	233.8	240.9	248.9	255.2	258.7	263.4
Federal	97.6	106.8	97.6	100.6	105.5	108.2	107.2	106.4
Defense	71.4	75.8	70.2	71.5	75.0	76.5	75.9	75.9
Other	26.2	31.0	27.4	29.2	30.5	31.7	31.3	30.5
State & local	135.4	149.7	136.2	140.3	143.4	147.0	151.5	157.0
Gross national product in constant (1958) dollars	739.5	781.2	740.7	751.7 <sup>1/</sup>	762.8	775.1	786.9	800.1
GNP implicit deflator (1958 = 100)	141.6	146.2	142.2	142.7	144.6	145.7	146.8	147.8
Personal income	857.0	919.5	864.6	876.6	894.9	909.7	927.8	945.7
Wage and salary disbursements	574.2	621.5	577.3	586.9	604.0	615.5	626.5	640.0
Disposable income	741.2	795.2	748.5	754.8	770.4	787.5	803.9	818.8
Personal saving	60.4	62.6	61.0	58.4	60.7	63.2	64.2	62.1
Saving rate (per cent)	8.1	7.9	8.2	7.7	7.9	8.0	8.0	7.6
Corporate profits before tax	85.2	97.0	85.8	85.0 <sup>2/</sup>	89.0	94.0	99.0	106.0
Corp. cash flow, net of div. (domestic)	80.8	95.4	82.4	84.7 <sup>2/</sup>	89.0	93.1	97.2	102.2
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	198.7	215.1	197.8	203.1 <sup>2/</sup>	211.6	211.5	215.7	221.4
Expenditures	222.0	248.2	224.6	229.4 <sup>2/</sup>	239.5	248.5	251.9	253.4
Surplus or deficit (-)	-23.3	-31.1	-26.7	-26.3 <sup>2/</sup>	-27.9	-37.0	-36.2	-32.0
High employment surplus or deficit(-)	2.7	-6.4	2.3	6.9	0.8	-7.6	-10.0	-8.8
Total labor force (millions)	86.9	88.9	87.0	87.7	88.4	88.6	89.0	89.5
Armed forces "	2.8	2.5	2.8	2.7	2.6	2.5	2.5	2.5
Civilian labor force "	84.1	86.4	84.2	85.0	85.8	86.1	86.5	87.0
Unemployment rate (per cent)	6.0	5.6	6.0	5.9	5.8	5.7	5.6	5.4
Nonfarm payroll employment (millions)	70.7	72.2	70.6	71.0	71.5	71.9	72.3	72.9
Manufacturing	18.6	18.9	18.5	18.6	18.7	18.8	18.9	19.1
Industrial production (1967 = 100)	106.3	112.8	105.9	107.1	109.0	111.6	114.0	116.5
Capacity utilization, manufacturing (per cent)	78.2	75.9	73.9	74.0	74.6	75.4	76.2	77.2
Housing starts, private (millions, A.R.)	2.05	2.11	2.16	2.28	2.20	2.15	2.10	2.00
Sales new autos (millions, A.R.)	10.13	10.51	10.27	10.43	10.10	10.40	10.65	10.90
Domestic models	8.68	9.09	8.74	9.18	8.75	9.00	9.20	9.40
Foreign models	1.46	1.42	1.53	1.25	1.35	1.40	1.45	1.50

<sup>1/</sup> Data now available suggest that net exports of goods and services will be revised to show a deficit in the fourth quarter of about \$4.5 billion, annual rate, (a downward revision of \$2.5 billion) and that inventory accumulation will be shown to be larger than is now indicated by the figures for the fourth quarter by about as much as the downward revision in net exports. Thus, these revisions taken together would not change the preliminary estimate of GNP, but total and private final purchases would be lower. New data for other sectors may also result in revisions in the preliminary estimates.

<sup>2/</sup> Estimated.

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CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1971p	1972 Proj.	1971		1972			
			III	IVp	I	II	Projected III	IV
-----Billions Of Dollars-----								
Gross National Product	72.7	95.7	13.4	19.6	30.0	26.5	25.5	27.6
Inventory change	-0.7	5.1	-5.8	3.11/	2.41/	0.9	3.0	3.0
Final purchases	73.4	90.6	19.2	16.61/	27.51/	25.6	22.5	24.6
Private	59.7	67.1	15.0	9.51/	19.51/	19.3	19.0	19.9
Excluding net exports	62.6	67.3	15.1	11.5	18.3	18.0	18.3	19.9
Net exports	-2.9	-0.2	-0.1	-2.01/	1.21/	1.3	0.7	0.0
Government	13.7	23.5	4.2	7.1	8.0	6.3	3.5	4.7
GNP in constant (1958) dollars	19.5	41.7	4.9	11.0	11.1	12.3	11.8	13.2
Final purchases	19.8	37.6	9.5	8.71/	9.21/	11.6	9.3	10.7
Private	19.9	30.9	6.9	5.41/	7.91/	9.3	9.4	10.2
-----In Per Cent Per Year-----								
Gross National Product	7.5	9.1	5.22/	7.72/	11.2	9.6	9.0	9.6
Final purchases	7.6	8.7	7.4	6.3	10.3	9.3	8.0	8.6
Private	7.9	8.3	7.4	4.6	9.4	9.1	8.7	9.0
Personal consumption expenditures	7.5	7.7	7.0	5.3	7.7	8.4	8.6	9.4
Durable goods	13.3	9.2	15.3	1.2	7.0	11.4	11.1	12.6
Nondurable goods	5.3	7.4	3.5	5.3	7.9	8.7	8.8	9.5
Services	7.8	7.6	7.6	6.7	7.8	7.0	7.6	8.1
Gross private domestic investment	11.5	14.0	-5.5	15.1	19.4	10.7	14.5	13.7
Residential construction	33.6	15.3	27.0	14.1	24.4	4.3	-3.4	-8.5
Business fixed investment	6.0	9.0	3.7	4.0	9.1	10.6	12.1	13.4
Gov't. purchases of goods & services	6.2	10.1	7.3	12.1	13.3	10.1	5.5	7.3
Federal	0.4	9.4	6.7	12.3	19.5	10.2	-3.7	-3.0
Defense	-5.3	6.2	-6.7	7.4	19.6	8.0	-3.1	0.0
Other	19.6	18.3	45.5	26.3	17.8	15.7	-5.0	-10.2
State & local	10.8	10.6	7.8	12.0	8.8	10.0	12.2	14.5
GNP in constant (1958) dollars	2.7	5.6	2.72/	6.12/	5.9	6.5	6.1	6.7
Final purchases	2.8	5.1	5.2	4.7	4.9	6.1	4.8	5.5
Private	3.4	5.2	4.6	3.6	5.2	6.0	6.0	6.4
GNP implicit deflator	4.6	3.3	2.52/	1.52/	5.2	3.1	2.9	2.8
Private GNP fixed weight index <sup>3/</sup>	5.2	3.2	3.62/	1.52/	4.0	3.1	2.9	2.8
Personal income	6.6	7.3	5.2	5.6	8.4	6.6	8.0	7.7
Wage and salary disbursements	6.1	8.2	4.4	6.7	11.7	7.6	7.1	8.6
Disposable income	7.8	7.5	4.8	3.4	8.3	8.9	8.3	7.4
Corporate profits before tax	14.0	13.8	-5.1	-3.7	18.8	22.5	21.3	28.3
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	3.8	8.2	0.2	10.7	16.7	-0.2	7.9	10.6
Expenditures	8.2	11.8	5.8	8.5	17.6	15.0	5.5	2.4
Nonfarm payroll employment	0.1	2.1	-0.2	2.2	2.7	2.2	2.2	3.3
Manufacturing	-3.9	1.4	-2.4	0.9	2.6	2.1	2.1	4.2
Industrial production	-0.4	6.3	-3.4	4.5	7.1	9.5	8.6	8.8
Housing starts, private	43.4	2.9	36.5	22.2	-14.0	-9.1	-9.3	-19.0
Sales new autos	21.3	3.8	19.0	6.2	-12.7	11.9	9.6	9.4
Domestic models	21.9	4.7	22.7	20.1	-18.7	11.4	8.9	8.7
Foreign models	18.6	-2.1	-1.0	-73.2	32.0	14.8	14.3	13.8

<sup>1/</sup> The changes in this table are based on figures shown on the preceding table. Changes in items to be revised as noted in footnote 1 on the preceding table in billions of dollars for '71-IV and '72-I, respectively, are as follows: inventory change, 5.6, -0.1; final purchases, 14.1, 30.0; private final purchases, 7.0, 22.0; and net exports, -4.5, 3.7.

<sup>2/</sup> At compound rates.

<sup>3/</sup> Using expenditures in 1967 as weights.

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

	Calendar Quarters									
	Fiscal 1972 e/		FY 1973 e/		Calendar Years		F.R.B Staff Estimates			
	Jan.	F.R.	Jan.	1971	1972	F.R.B e/	IV*	I	II	III
Budget	Board	Budget	Actual							
<u>Federal Budget</u>										
(Quarterly data, unadjusted)										
Surplus/deficit	-38.8	-35.1	-25.5	-24.8	-39.0	-10.6	-11.6	-5.1	-9.9	-12.4
Receipts	197.8	199.3	220.8	194.0	208.0	44.6	46.2	59.9	53.3	48.6
Outlays	236.6	234.4	246.3	218.8	247.0	55.2	57.8	65.0	63.2	61.0
Means of financing:										
Net borrowing from the public	39.5	32.0	27.5	24.8	32.4	12.5	4.1	6.3	8.9	13.1
Decrease in cash operating balance	--	1.8	--	-3.2	4.3	-1.3	6.1	-1.8	--	--
Other 1/	.7	1.3	-2.0	3.2	2.3	-.6	1.4	.6	1.0	.7
Cash operating balance, end of period	8.8.	7.0	8.8	11.3	7.0	11.3	5.2	7.0	7.0	7.0
Memo: Net agency borrowing <sup>2/</sup>	n.a.	5.6	n.e.	1.1	n.e.	1.4	1.0	1.6	n.e.	n.e.
<u>National Income Sector</u>										
(Seasonally adjusted annual rate)										
Surplus/deficit	-35.0	-29.5	-28.0	-23.2	-33.3	-26.3	-27.9	-37.0	-36.2	-32.0
Receipts	202.8	206.0	227.9	198.8	215.1	203.1	211.6	211.5	215.7	221.4
Expenditures	237.8	235.5	255.9	222.0	248.3	229.4	239.5	248.5	251.9	253.4
High employment surplus/deficit (NIA basis) 3/	n.a.	.6	n.a.	2.7	-6.4	6.9	.8	-7.6	-10.0	-8.8

\* 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 F.R. Board Staff.

**STAFF ESTIMATE OF FEDERAL SECTOR IN THE  
NATIONAL INCOME ACCOUNTS  
(Billions of dollars)**

	Calendar Half Years*			
	1971		1972	
	I	II	I	II
<b>A. Amounts</b>				
Receipts	197.0	200.4	211.6	218.5
Expenditures	217.1	227.0	248.6	252.7
Surplus/Deficit	-20.1	-26.6	-37.0	-34.2
<b>B. Changes</b>				
Receipts	6.7	3.4	11.2	6.9
Tax Structure				
changes <u>1/</u>	-5.2	-1.5	--	-6.6
Growth in tax base	11.9	4.9	11.2	13.5
Expenditures	3.8	9.9	17.0	3.7
Purchases	.2	2.9	7.7	--
Defense	-1.3	-1.5	4.9	.1
Other	1.5	4.5	2.8	-.2
Transfers to				
person	7.6	4.0	3.2	4.5
Grants in aid <u>2/</u>	3.0	2.7	5.6	3.2
Other	-1.7	.2	.6	.9

\* Half year figures are annual rates.

1/ Includes January 15, 1972 change in withholding schedules, assuming a lag in taxpayers' adjustments of their withholding exemptions.

2/ Includes general revenue sharing beginning in the second half of 1972.

**STAFF ESTIMATE OF THE HIGH EMPLOYMENT  
SURPLUS/DEFICIT, NIA BASIS  
(Billions of dollars, annual rates)**

<b>Calendar Half Years</b>	<b>Surplus/Deficit</b>
1969 I	5.1
II	5.6
1970 I	2.4
II	1.5
1971 I	.8
II	4.6
1972 I	-3.4
II	-9.5

in taxes from CY 1971 to CY 1972 are expected to reduce high employment receipts by \$4.6 billion this calendar year, but a portion of this stimulus is expected to be offset since taxpayers are not likely to fully adjust their declared exemptions in response to the new withholding schedules. The changes in high employment receipts from the corporate sector are timed to reflect tax liabilities and probably do not adequately capture the lagged stimulative impact of recently enacted tax incentives, such as the investment tax credit and accelerated depreciation.

The new budget projects total net borrowing from the public of \$39.5 billion in the current fiscal year. The staff estimate is about \$7 billion less because our projected deficit is \$3.7 billion smaller and because we expect that the Treasury will find other means

PROJECTION OF TREASURY CASH OUTLOOK  
(In billions of dollars)

	Jan.	Feb.	March	Apr.
<u>Total net borrowing</u>	.6	0.0	3.5	.9
Weekly and monthly bills	--	.6	1.5	1.2
Tax bills	--	--	--	-4.0
Coupon issues	--	--	--	--
As yet unspecified new borrowing	--	--	2.0	3.7
Other (debt repayments, etc.)	.6	-.6	--	--
Plus: <u>Other net financial sources</u> <sup>a/</sup>	1.8	-1.0	.6	.5
Plus: <u>Budget surplus or deficit (-)</u>	-2.6	-3.6	-5.4	2.2
Equals: <u>Change in cash balance</u>	-.2 <sup>b/</sup>	-4.6	-1.3	3.6
Memoranda: Level of cash balance end of period	11.1 <sup>b/</sup>	6.5	5.2	8.8
Derivation of budget surplus or deficit:				
Budget receipts	16.3	15.5	14.4	22.3
Budget outlays	18.9	19.1	19.8	20.1
Maturing coupon issues held by public	--	3.7	--	--
Net agency borrowing	*	0.4	0.5	0.4

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

b/ Actual.

\* Less than fifty million dollars.

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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

February 11, 1972

By the Staff  
Board of Governors  
of the Federal Reserve System

CORRECTIONS:

Section I, page I-5, GROSS NATIONAL PRODUCT AND RELATED ITEMS Table

The personal saving and saving rate figures for 1972 should be as follows:

	1972 Proj.	1972 Projected			
		I	II	III	IV
Personal saving	62.1	60.5	62.9	63.7	61.4
Saving rate (per cent)	7.8	7.9	8.0	7.9	7.5

Section II, page II-13, SELECTED SHORT TERM INTEREST RATES Table

Column 3, the date should be February 8 (not 9)

90-119 day commercial paper should be 3.88 (not 3.75)

Column 5, the change dates should be Jan 12-Feb 8

90-119 day commercial paper should be -.12

Text - following the table, line 7, exchanges should be followed by "into" (not "in")

Line 10 after of should be "a short-term issue."

Page II-22, Table "Staff Estimate of Federal Sector in the National Income Accounts."

Changes in receipts should read:

Calendar Half Years

1971		1972	
I	II	I	II

Tax Structure changes	-2.7	-1.5	+1.0	-4.0
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Growth in tax base	9.4	4.9	10.2	10.9
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Tax structure changes were reduced by \$2.5 billion from the Greenbook figure for first half 1971 because this amount was a drop in surtax which occurred in mid-1970, not between second half 1970 and first half 1971. The changes in 1972 reflect revision in individual income tax change estimates, particularly involving changes in withholding schedules and in final payments.