

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

August 9, 1972

a more liberal minimum wage measure--a compromise between the House bill and the much larger Senate measure. And the projection now allows for general revenue sharing retroactive to January 1, 1972--with payments beginning in the fourth quarter. We are assuming that the retroactive feature will act to improve the financial position of State and local governments rather than to raise State and local purchases appreciably.

The recent improved performance of wage rates, unit costs, and prices has led the staff to lower somewhat its projection of the rate of price increase, though the prospect of higher food prices at retail in the near term will probably keep the rise in the private GNP fixed-weight price index above the 3.1 per cent annual rate of the second quarter. The unemployment rate is still projected to average 5.3 per cent in the fourth quarter.

STAFF GNP PROJECTIONS

Date	Change in Nominal GNP \$ billion		Per cent increase, annual rate					
			Real GNP		Private GNP fixed weight price index		Unemployment rate	
	7/12/72	Current	7/12/72	Current	7/12/72	Current	7/12/72	Current
1971-1/	72.7	74.0	2.7	2.7	4.8	4.5	5.9	5.9
1972	100.5	102.3	5.9	6.3	3.5	3.4	5.6	5.6
1973	117.3	114.3	6.4	6.3	3.6	3.5	5.1	5.1
1972-I-1/	30.7	31.0	5.6	6.5	4.4	4.5	5.8	5.8
1972-II-1/	29.1	29.9	7.8	8.9	3.5	3.1	5.8	5.8
1972-III	27.8	27.2	6.5	6.2	3.4	3.3	5.6	5.5
1972-IV	32.0	30.3	7.7	7.5	3.4	3.0	5.3	5.3
1973-I	30.9	31.0	6.3	6.5	3.5	3.4	5.2	5.2
1973-II	27.6	26.5	5.6	5.4	3.7	3.6	5.1	5.1
1973-III	27.3	26.0	4.7	4.4	4.2	4.0	5.0	5.0
1973-IV	27.4	26.5	4.5	4.2	4.2	4.2	5.0	5.0

1/ Actual

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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.)

	1971	1972	1973	1971	1972		Projected	
	Proj.	Proj.	IV	I	IIp	III	IV	
Gross National Product	1050.4	1152.7	1267.0	1078.1	1109.1	1139.0	1166.2	1196.5
Final purchases	1046.7	1147.0	1252.5	1076.4	1108.6	1134.7	1159.2	1185.5
Private	813.9	839.1	972.8	835.5	859.2	880.1	898.8	918.3
Excluding net exports	813.2	892.9	974.2	837.6	863.8	885.0	902.2	920.6
Personal consumption expenditures	664.9	720.1	791.1	680.5	696.1	712.5	727.5	744.4
Durable goods	103.5	115.3	130.0	106.1	111.0	113.6	116.6	120.0
Non durable goods	278.1	299.0	328.6	283.4	288.3	296.3	302.3	309.0
Services	283.3	305.8	332.5	290.9	296.7	302.6	308.6	315.4
Gross private domestic investment	152.0	178.5	197.6	158.8	168.1	176.8	181.7	187.2
Residential construction	42.6	52.1	48.4	47.3	51.6	52.4	52.6	51.6
Business fixed investment	105.8	120.7	134.7	109.8	116.1	120.1	122.1	124.6
Change in business inventories	3.6	5.7	14.5	1.7	0.4	4.3	7.0	11.0
Nonfarm	2.4	5.4	14.5	0.8	0.1	3.6	6.8	11.0
Net exports of goods and services ^{1/}	0.7	-3.8	-1.4	-2.1	-4.6	-4.9	-3.4	-2.3
Exports	66.1	71.7	81.8	63.0	70.7	70.0	71.9	74.1
Imports	65.4	75.5	83.2	65.1	75.3	74.9	75.3	76.4
Gov't. purchases of goods and services	232.8	257.9	279.8	240.9	249.4	254.6	260.4	267.2
Federal	97.8	108.9	111.4	100.7	105.7	108.2	110.0	111.8
Defense	71.4	79.1	80.2	71.9	76.7	78.6	79.7	81.5
Other	26.3	29.8	31.2	28.7	28.9	29.6	30.3	30.3
State & local	135.0	149.0	168.4	140.2	143.7	146.4	150.4	155.4
Gross national product in constant (1958) dollars	741.7	788.5	852.2	754.5	766.5	783.1	795.3	810.2
GNP implicit deflator (1958 = 100)	141.6	146.1	115.1	142.9	144.7	145.4	146.6	147.7
Personal income	861.4	934.1	1019.5	881.5	907.0	922.5	939.5	967.4
Wage and salary disbursements	572.9	627.0	687.1	585.9	608.0	620.2	632.9	646.9
Disposable income	744.4	795.5	876.9	758.5	770.5	782.9	802.0	826.6
Personal saving	60.9	56.4	66.2	59.3	55.7	51.5	55.4	62.9
Saving rate (per cent)	8.2	7.1	7.5	7.8	7.2	6.6	6.9	7.6
Corporate profits before tax	83.3	97.1	113.3	83.2	88.2	94.7	99.5	106.0
Corp. cash flow, net of div. (domestic)	78.2	94.4	108.2	82.7	85.9	93.0	97.1	101.6
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	199.1	226.4	243.1	202.8	221.5	225.6	226.1	232.4
Expenditures	220.8	252.0	272.1	227.5	236.3	246.6	261.3	263.7
Surplus or deficit (-)	-21.7	-25.6	-29.0	-24.7	-14.8	-21.0	-35.2	-31.3
High employment surplus or deficit (-)	3.7	-4.6	-10.6	6.8	8.6	-1.7	-13.5	-11.8
Total labor force (millions)	86.9	89.0	90.6	87.7	88.4	88.8	89.1	89.5
Armed forces "	2.8	2.4	2.4	2.7	2.5	2.4	2.4	2.4
Civilian labor force "	84.1	86.5	88.2	85.0	85.9	86.4	86.7	87.1
Unemployment rate (per cent)	5.9	5.6	5.1	5.9	5.8	5.7	5.5	5.3
Nonfarm payroll employment (millions)	70.7	72.7	74.9	71.0	71.8	72.5	72.9	73.6
Manufacturing	18.6	19.0	19.7	18.6	18.7	18.9	19.1	19.3
Industrial production (1967 = 100)	106.8	113.5	122.7	107.4	109.9	112.4	114.5	117.2
Capacity utilization, manufacturing (per cent)	75.0	77.0	80.3	74.6	75.3	76.7	77.4	78.5
Housing starts, private (millions, A.R.)	2.05	2.27	1.93	2.24	2.51	2.25	2.20	2.10
Sales new autos (millions, A.R.)	10.13	10.65	11.06	10.48	10.09	10.74	10.75	11.00
Domestic models	8.68	9.17	9.59	9.20	8.69	9.21	9.25	9.50
Foreign models	1.45	1.48	1.47	1.28	1.40	1.53	1.50	1.50

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

	1971	1972	1973	1971	1972		Projected	
	Proj.	Proj.	IV	I	IIp	III		
-----Billions of Dollars-----								
Gross National Product	74.0	102.3	114.3	21.2	31.0	29.9	27.2	30.3
Inventory change	-1.3	2.1	8.8	0.4	-1.3	3.9	2.7	4.0
Final purchases	75.2	100.3	105.5	20.8	32.2	26.1	24.5	26.3
Private	61.4	75.2	83.7	13.5	23.7	20.9	18.7	19.5
Excluding net exports	64.3	79.7	81.3	16.0	26.2	21.2	17.2	18.4
Net exports	-2.9	-4.5	2.4	-2.5	-2.5	-0.3	1.5	1.1
Government	13.8	25.1	21.9	7.3	8.5	5.2	5.8	6.8
GNP in constant (1958) dollars	19.6	47.1	49.6	12.0	12.0	16.6	12.2	14.9
Final purchases	21.1	45.5	43.4	12.1	12.4	13.6	10.5	11.9
Private	22.5	38.1	39.7	8.6	11.3	11.7	8.8	9.7
-----Per Cent Per Year-----								
Gross National Product	7.6	9.7	9.9	8.3 ^{1/}	12.0 ^{1/}	11.2 ^{1/}	9.6	10.4
Final purchases	7.7	9.6	9.2	7.9	12.0	9.4	8.6	9.1
Private	8.2	9.2	9.4	6.6	11.4	9.7	8.5	8.7
Personal consumption expenditures	7.8	8.3	9.9	5.8	9.2	9.4	8.4	9.3
Durable goods	14.4	11.4	12.7	0.0	18.5	9.4	10.6	11.7
Nondurable goods	5.2	7.5	9.9	7.0	6.9	11.1	8.1	8.9
Services	8.2	7.9	8.7	6.7	8.0	8.0	7.9	8.8
Gross private domestic investment	10.9	17.4	10.7	17.3	23.4	20.7	11.1	12.1
Residential construction	36.5	22.3	-7.1	25.2	36.4	6.2	1.5	-7.6
Business fixed investment	4.9	14.1	11.6	13.2	23.0	13.8	6.7	8.2
Gov't. purchases of goods & services	6.3	10.8	8.5	12.5	14.1	8.3	9.1	10.4
Federal	1.3	11.3	2.3	11.4	19.9	9.5	6.7	6.5
Defense	-4.9	10.8	1.4	10.3	26.7	9.9	5.6	9.0
Other	22.3	13.3	4.7	12.9	2.8	9.7	9.5	0.0
State & local	10.2	10.4	13.0	13.3	10.0	7.5	10.9	13.3
GNP in constant (1958) dollars	2.7	6.3	6.3	6.7 ^{1/}	6.5 ^{1/}	8.9 ^{1/}	6.2	7.5
Final purchases	2.9	6.2	5.5	6.5	6.6	7.1	5.4	6.0
Private	3.9	6.3	6.2	5.7	7.4	7.5	5.5	6.0
GNP implicit deflator	4.7	3.2	3.4	1.5 ^{1/}	5.1 ^{1/}	2.1 ^{1/}	3.3	2.9
Private GNP fixed weight index ^{2/}	4.5	3.4	3.5	1.7 ^{1/}	4.5 ^{1/}	3.1 ^{1/}	3.3	3.0
Personal income	6.8	8.4	9.1	6.3	11.6	6.8	7.4	11.9
Wage and salary disbursements	5.7	9.4	9.6	6.9	15.1	8.0	8.2	8.8
Disposable income	8.0	6.9	10.2	4.3	6.3	6.4	9.8	12.3
Corporate profits before tax	12.1	16.6	16.6	-4.3	24.0	29.5	20.3	26.1
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	3.9	13.7	7.4	7.4	36.9	7.4	0.9	11.1
Expenditures	8.0	14.1	8.0	9.5	15.5	17.4	23.8	3.7
Nonfarm payroll employment	0.1	2.8	3.0	2.2	4.3	3.7	2.2	3.8
Manufacturing	-3.9	2.1	3.4	0.9	2.5	4.7	4.2	4.2
Industrial production	0.2	6.3	8.1	3.4	9.3	9.1	7.6	9.3
Housing starts, private	43.1	10.7	-15.0	24.2	48.5	-42.5	-12.3	-18.2
Sales new autos	21.3	5.1	3.8	7.4	-14.9	25.8	0.4	9.3
Domestic models	21.9	5.6	4.6	20.1	-22.2	23.9	1.7	10.8
Foreign models	17.9	1.4	-0.5	-65.4	37.5	37.1	7.8	0.0

^{1/} At compound rates.^{2/} Using expenditures in 1967 as weights.

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

	Fiscal Year 1972*	Fiscal Mid-year Review	1973e/ F.R. Board	Calendar Year 1/ 1972	Calendar Quarters									
					F.R.B. Staff Estimates			1972						
					I*	II*	III	IV	I	II				
Federal Budget														
(Quarterly data, unadjusted)														
Surplus/deficit	-23.0	-27.0	-31.0	-22.1	-10.5	5.8	-7.9	-9.5	-14.3	0.7				
Receipts	208.6	223.0	226.0	224.1	48.1	67.3	56.9	51.8	51.2	66.1				
Outlays	231.6	250.0	257.0	246.2	58.6	61.5	64.8	61.3	65.5	65.4				
Means of financing:														
Net borrowing from the public	19.4	n.a.	27.1	11.7	3.9	-6.0	4.9	8.9	12.3	1.0				
Decrease in cash operating balance	-1.3	n.a.	3.3	5.6	3.6	-2.4	3.2	1.2	--	-1.1				
Other 2/	4.9	n.a.	.6	4.8	3.0	2.6	-.2	-.6	2.0	-.6				
Cash operating balance, end of period	10.1	n.a.	6.8	5.7	7.7	10.1	6.9	5.7	5.7	6.8				
Memo: Net agency borrowing ^{3/}	4.7	n.a.	n.e.	n.e.	.4	1.2	0.9	n.e.	n.e.	n.e.				
National Income Sector														
(Seasonally adjusted annual rate)														
Surplus/deficit	-20.9 ^{1/}	n.a.	-35.9	-25.6	-14.8	-21.0 ^{1/}	-35.2	-31.3	-36.2	-40.6				
Receipts	212.2	n.a.	230.6	226.4	221.4	225.6 ^{1/}	226.1	232.4	233.8	230.0				
Expenditures	233.2	n.a.	266.4	252.0	236.3	246.6	261.3	263.7	270.0	270.6				
High employment surplus/deficit (NIA basis) 1/	4.3	n.a.	-16.5	-4.6	8.6	-1.7	-13.5	-11.8	-18.0	-22.6				

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

^{1/} Estimated by F.R. Board Staff.

^{2/} Includes such items as deposit fund accounts and clearing accounts.

^{3/} Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal

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

Footnote continued

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

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	July	Aug.	Sept.	Oct.
Total net borrowing	4.1	0.8	--	4.0
Weekly and monthly bills	0.6	0.4	--	--
Tax bills	--	--	--	--
Coupon issues	--	--	--	--
As yet unspecified new borrowing	--	--	0.5	4.0
Special issues to foreigners	3.1	-.1	--	--
Agency transactions, debt repayment, etc.	.4	0.5	-0.5	--
Plus: <u>Other net financial sources</u> ^{a/}	-0.8	-0.4	1.0	1.3
Plus: <u>Budget surplus or deficit</u> (-)	-4.4	-3.4	- .1	-6.8
Equals: <u>Change in cash balance</u>	<u>-1.1</u> ^{b/}	-3.0	.9	-1.5
Memoranda: Level of cash balance end of period	9.0 ^{b/}	6.0	6.9	5.4
Derivation of budget surplus or deficit:				
Budget receipts	14.8	18.3	23.8	14.6
Budget outlays	19.2	21.7	23.9	21.4
Maturing coupon issues held by public	--	2.3 ^{c/}	1.8 ^{c/}	--
Net borrowing by gov't- sponsored agencies	0.3	0.2	0.5	0.5

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

b/ Actual

c/ In the refunding, \$1.7 billion and \$1.3 billion, respectively, were exchanged for the August and September maturities, leaving \$600 million and \$500 million to be redeemed in cash.

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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

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By the Staff
Board of Governors
of the Federal Reserve System

Private financial assets. The sharp swing by individuals and business as investors from deposits to Government securities was within a total flow into financial assets--deposits and credit market instruments--that was consistent with the 11 per cent growth rate in GNP during the quarter. These private financial assets, which had been 101 per cent of GNP in 1960 and 100 per cent in 1965 were again at that relationship at the end of 1970, after a sharp dip to 97 per cent in 1969. The high rate of credit expansion in 1971 built these asset holdings up to the 1960 level of 101 per cent of GNP at the end of the year. While private financial asset flows continued large in the first half of this year, the higher rates of GNP growth we have had were sufficient to hold the relationship through June to slightly under the 101 per cent relationship. Private debt has been about 111.5 per cent of financial assets since the end of 1969. That relationship was maintained through the first half of this year.

CORRECTIONS: Table 1-5, GROSS NATIONAL PRODUCT AND RELATED ITEMS, should read:

	1973 <u>Projection</u>
Gross national product in constant (1958) dollars	838.8
GNP implicit price deflator	151.1