

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

November 15, 1972

**By the Staff
Board of Governors
of the Federal Reserve System**

projection assumes Federal expenditures of \$253 billion in fiscal 1973 on a unified budget basis, well below the projection of five weeks ago but still somewhat above the Administration's target. Third, we have taken into account the sizable boost in social security taxes associated with "reform" legislation passed at the end of the Congressional session. Monetary policy, however, is still assumed to produce growth in the monetary aggregates at rates consistent with 6 per cent expansion in M_1 during 1973.

The quarterly pattern of GNP growth in 1973, as shown in the table, continues to be for gradual moderation in real terms, with the rate of price inflation accelerating appreciably less rapidly than in our preceding projection over the course of the year.

STAFF GNP PROJECTIONS

Date	Change in Nominal GNP \$ billion		Per cent increase, annual rate					
			Real GNP		Private GNP fixed weight price index		Unemployment rat	
	10/11/72	Current	10/11/72	Current	10/11/72	Current	10/11/72	Current
1971- ^{1/}	74.0	74.0	2.7	2.7	4.5	4.5	5.9	5.9
1972	101.3	100.5	6.4	6.4	3.2	3.2	5.6	5.6
1973	117.6	114.4	6.7	6.4	3.3	3.4	5.0	5.1
1972-I- ^{1/}	31.0	31.0	6.5	6.5	4.5	4.5	5.8	5.8
1972-II- ^{1/}	30.3	30.3	9.4	9.4	2.5	2.5	5.7	5.7
1972-III- ^{1/}	24.0	22.8	6.0	5.9	2.9	2.7	5.6	5.6
1972-IV	31.5	30.6	8.1	7.5	2.8	3.1	5.4	5.4
1973-I	32.5	32.0	7.1	6.6	3.2	3.5	5.2	5.2
1973-II	28.0	28.4	5.6	5.7	3.6	3.7	5.0	5.1
1973-III	28.0	25.4	4.8	4.5	4.2	3.9	4.9	5.0
1973-IV	27.5	26.0	4.3	4.3	4.3	3.9	4.8	4.9

^{1/} Actual; for 1972-III current GNP figures are preliminary Commerce estimates.

November 15, 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.)

	1971	1972 Proj.	1973 Proj.	1971 IV	1972				Proj. IV
					I	II	III		
Gross National Product	1050.4	1150.9	1265.3	1078.1	1109.1	1139.4	1162.2	1192.8	
Final purchases	1046.7	1145.7	1252.8	1076.4	1108.6	1134.4	1156.6	1183.3	
Private	813.9	890.1	977.5	835.5	859.2	880.3	900.0	920.9	
Excluding net exports	813.2	893.9	978.7	837.6	863.8	885.5	903.4	923.0	
Personal consumption expenditures	664.9	720.6	791.0	680.5	696.1	713.4	728.1	744.8	
Durable goods	103.5	115.8	130.1	106.1	111.0	113.9	118.4	120.0	
Nondurable goods	278.1	299.1	327.5	283.4	288.3	297.2	301.4	309.3	
Services	283.3	305.7	333.3	290.9	296.7	302.4	308.3	315.5	
Gross private domestic investment	152.0	178.5	200.2	158.8	168.1	177.0	181.0	187.7	
Residential construction	42.6	53.3	53.0	47.3	51.6	52.8	54.2	54.7	
Business fixed investment	105.8	120.0	134.8	109.8	116.1	119.2	121.1	123.5	
Change in business inventories	3.6	5.2	12.5	1.7	0.4	5.0	5.7	9.5	
Nonfarm	2.4	4.8	12.5	0.8	0.1	4.3	5.3	9.3	
Net exports of goods and services ^{1/}	0.7	-3.8	-1.2	-2.1	-4.6	-5.2	-3.4	-2.1	
Exports	66.1	73.6	84.5	63.0	70.7	70.0	75.0	78.8	
Imports	65.4	77.4	85.7	65.1	75.3	75.2	78.4	80.9	
Gov't. purchases of goods and services	232.8	255.6	275.3	240.9	249.4	254.1	256.6	262.4	
Federal	97.8	106.8	107.1	100.7	105.7	108.1	106.2	107.0	
Defense	71.4	76.6	76.9	71.9	76.7	78.6	75.2	76.0	
Other	26.3	30.1	30.3	28.7	28.9	29.6	31.0	31.0	
State & local	135.0	148.9	168.2	140.2	143.7	146.0	150.4	155.4	
Gross national product in constant (1958) dollars	741.7	788.9	839.2	754.5	766.5	783.9	795.3	810.1	
GNP implicit deflator (1958 = 100)	141.6	145.8	150.8	142.9	144.7	145.3	146.1	147.0	
Personal income	861.4	935.0	1019.8	881.5	907.0	922.1	939.5	971.2	
Wage and salary disbursements	572.9	626.3	684.6	585.9	608.0	620.5	630.4	646.4	
Disposable income	744.4	794.5	876.9	785.5	770.5	782.6	798.7	826.2	
Personal saving	60.9	54.8	66.1	59.3	55.7	50.1	51.3	61.9	
Saving rate (per cent)	8.2	6.9	7.5	7.8	7.2	6.4	6.4	7.5	
Corporate profits before tax	83.3	94.8	110.3	83.2	88.2	91.6	97.3	102.0	
Corp. cash flow, net of div. (domestic)	78.2	92.0	104.9	82.7	85.9	90.8	93.7	97.5	
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	199.1	228.1	247.5	202.8	221.4	224.9	230.2	235.8	
Expenditures	220.8	248.0	270.9	227.5	236.3	246.5	243.1	265.9	
Surplus or deficit (-)	-21.7	-19.9	-23.4	-24.7	-14.8	-21.6	-12.9	-30.1	
High employment surplus or deficit (-)	3.7	-2.0	-8.3	6.8	8.6	-2.4	2.2	-16.5	
Total labor force (millions)	86.9	89.1	90.9	87.7	88.4	88.8	89.2	89.8	
Armed forces "	2.8	2.4	2.4	2.7	2.5	2.4	2.4	2.4	
Civilian labor force "	84.1	86.6	88.5	85.0	85.9	86.4	86.8	87.4	
Unemployment rate (per cent)	5.9	5.6	5.1	5.9	5.8	5.7	5.6	5.4	
Nonfarm payroll employment (millions)	70.7	72.8	75.0	71.0	71.8	72.5	73.0	73.7	
Manufacturing	18.6	18.9	19.7	18.6	18.7	18.9	18.9	19.2	
Industrial production (1967 = 100)	106.8	113.8	122.9	107.4	109.9	113.3	114.9	117.4	
Capacity utilization, manufacturing (per cent)	75.0	77.5	80.5	74.6	75.3	77.4	78.0	79.1	
Housing starts, private (millions, A.R.)	2.05	2.35	2.08	2.24	2.51	2.26	2.34	2.28	
Sales new autos (millions, A.R.)	10.13	10.76	11.45	10.48	10.05	10.30	11.28	11.38	
Domestic models	8.68	9.37	10.07	9.20	8.65	8.91	9.90	10.00	
Foreign models	1.45	1.39	1.38	1.28	1.40	1.39	1.38	1.38	

^{1/} Revisions in underlying balance of payments data for 1972-II, not yet reflected in the GNP data, indicate a \$1 billion larger deficit in net exports of goods and services for that and following quarters.

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1971	1972 Proj.	1973 Proj.	1971 IV	1972				
					I	II	III	Proj. IV	
-----Billions Of Dollars-----									
Gross National Product	74.0	100.5	114.4	21.2	31.0	30.3	22.8	30.6	
Inventory change	-1.3	1.6	7.3	0.4	-1.3	4.6	0.7	3.4	
Final purchases	75.2	99.0	107.1	20.8	32.2	25.8	22.2	27.1	
Private	61.4	76.2	87.4	13.5	23.7	21.1	19.7	21.3	
Excluding net exports	64.3	80.7	84.8	16.0	26.2	21.7	17.9	19.6	
Net exports	-2.9	-4.5	2.6	-2.5	-2.5	-0.6	1.8	1.7	
Government	13.8	22.8	19.7	7.3	8.5	4.7	2.5	5.8	
GNP in constant (1958) dollars	19.6	47.2	50.3	12.0	12.0	17.4	11.4	14.8	
Final purchases	21.1	45.8	51.2	12.1	12.5	13.7	10.8	11.7	
Private	22.5	39.7	41.8	8.6	11.4	12.0	11.1	10.2	
-----Per Cent Per Year-----									
Gross National Product	7.6	9.6	9.9	8.3 ^{1/}	12.0 ^{1/}	11.4 ^{1/}	8.0	10.5	
Final purchases	7.7	9.5	9.3	7.9	12.0	9.3	7.8	9.4	
Private	8.2	9.4	9.8	6.6	11.3	9.8	9.0	9.5	
Personal consumption expenditures	7.8	8.4	9.8	5.8	9.2	9.9	8.2	9.2	
Durable goods	14.4	11.9	12.3	0.0	18.5	10.5	15.8	5.4	
Nondurable goods	5.2	7.6	9.5	7.0	6.9	12.3	5.7	10.5	
Services	8.2	7.9	9.0	6.7	8.0	7.7	7.8	9.3	
Gross private domestic investment	10.9	17.4	12.2	17.3	23.4	21.2	9.0	13.9	
Residential construction	36.5	25.1	-0.6	25.2	36.4	9.3	10.6	3.7	
Business fixed investment	4.9	13.4	12.3	13.2	23.0	10.7	6.4	7.9	
Gov't. purchases of goods & services	6.3	9.8	7.7	12.5	14.1	7.5	3.9	9.0	
Federal	1.3	9.2	0.3	11.4	19.9	9.1	-7.0	3.0	
Defense	-4.9	7.3	0.4	10.3	26.7	9.9	-17.3	4.3	
Other	22.3	14.4	0.7	12.9	2.8	9.7	18.9	0.0	
State & local	10.2	10.3	13.0	13.3	10.0	6.4	12.1	13.3	
GNP in constant (1958) dollars	2.7	6.4	6.4	6.7 ^{1/}	6.5 ^{1/}	9.4 ^{1/}	5.9 ^{1/}	7.5	
Final purchases	2.9	6.2	6.5	6.5	6.6	7.2	5.5	5.9	
Private	3.9	6.6	6.5	5.7 ^{1/}	7.4 ^{1/}	7.7 ^{1/}	7.0 ^{1/}	6.3	
GNP implicit deflator	4.7	3.0	3.4	1.5 ^{1/}	5.1 ^{1/}	1.8 ^{1/}	2.2 ^{1/}	3.0	
Private GNP fixed weight index ^{2/}	4.5	3.2	3.4	1.7 ^{1/}	4.5 ^{1/}	2.5 ^{1/}	2.7 ^{1/}	3.1	
Personal income	6.8	8.5	9.1	6.3	11.6	6.7	7.5	13.5	
Wage and salary disbursements	5.7	9.3	9.3	6.9	15.1	8.2	6.4	10.2	
Disposable income	8.0	6.7	10.4	4.3	6.3	6.3	8.2	13.8	
Corporate profits before tax	12.1	13.8	16.4	-4.3	24.0	15.4	24.9	19.3	
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	3.9	14.6	8.5	7.4	36.7	6.3	9.4	9.7	
Expenditures	8.0	12.3	9.2	9.5	15.5	17.3	-5.5	37.5	
Nonfarm payroll employment	0.1	2.9	3.1	2.5	3.8	4.1	2.5	3.8	
Manufacturing	-3.9	1.7	3.3	1.3	2.2	5.5	1.4	6.3	
Industrial production	0.2	6.6	8.0	3.4	9.3	12.4	5.6	8.8	
Housing starts, private	43.1	14.5	-11.4	24.2	48.5	-39.8	13.8	-11.3	
Sales new autos	21.3	6.2	6.4	7.4	-14.9	20.3	37.9	3.5	
Domestic models	21.9	7.9	7.5	20.1	-28.4	12.1	44.4	4.0	
Foreign models	17.9	-4.4	-0.7	-76.9	50.6	-3.0	-4.9	0.0	

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

CONSUMER PRICES
(Percentage changes, seasonally adjusted annual rates)

	1972			Pre-stab. period	Phase II
	Dec. 1971 to June 1972	June to Sept.	Aug. to Sept.	Dec. 1970 to Aug. 1971	Nov. 1971 to Sept. 1972
All items	2.9	4.6	5.7	3.8	3.5
Food	3.5	7.0	8.0	5.0	4.9
Commodities less food	2.6	4.1	5.1	2.9	3.0
Services <u>1/</u>	3.7	3.1	2.7	4.5	3.5

Addendum:

All items less mortgage costs <u>2/</u>	2.9	4.8	5.9	4.6	3.7
Services less home finance <u>1/</u> <u>2/</u> <u>3/</u>	3.5	2.5	2.8	6.7	3.2
Commodities less food, used cars, home purchase <u>3/</u>	2.2	3.4	6.3	2.5	2.6
Gasoline and motor oil	-3.1	17.5	25.7	.1	3.3

- 1/ Not seasonally adjusted.
2/ Home financing costs excluded from services reflect property taxes and insurance rates as well as mortgage costs, which in turn move with mortgage interest rates and house prices.
3/ Confidential.

The sharp rise in food costs in September was largely attributable to fresh fruit and vegetable prices which dropped much less than seasonally, as in August, because of short supplies. Beef prices fell, for the first time since May, but this was more than offset by advances for pork and poultry.

The increase in apparel prices in September--the first month in which fall and winter clothing are priced--followed three months of (seasonally adjusted) declines. Gasoline and motor oil prices rose

quarters of calendar 1973. However, since monthly withholding receipts for September and October have been lower than projected, there is the possibility of a moderate downward revision in these figures.

These changes in estimated receipts and expenditures resulted in rather substantial reductions in our projections of the high employment deficit--\$4.3 billion for fiscal 1973 and \$6.8 billion for calendar 1973. We are currently projecting a high employment deficit of \$12.0 billion for fiscal 1973 and one of \$8.3 billion for calendar 1973. For calendar year 1972 our estimate shows a deficit of \$2.0 billion. A sharp move toward fiscal restraint is foreseen for the last two quarters of calendar 1973 with the budget going from a deficit of \$16.1 billion (annual rate) in 1973 II to a surplus of \$2.2 billion (annual rate) in 1973 IV. The following table indicates the major factors accounting for these shifts.

HIGH EMPLOYMENT BUDGET SUMMARY--NIA BASIS
(In billions of dollars at annual rates)

	1972		1973			
	III	IV	I	II	III	IV
High employment surplus before special programs shown below:	-4.3	-3.4	-4.5	2.4	2.6	6.9
Effect of 20% social security benefit increase and HR-1	--	-8.0	--8.6	-9.0	-11.3	-11.7
Effect of wage base increase to \$10,800 and rate increase to 5.85%	--	--	10.0	10.0	10.0	10.0
Net effect of overwithholding	6.5	5.5	-4.0	-13.5	3.0	3.0
Revenue sharing	--	-10.6	-10.6	-6.0	-6.0	-6.0
Total surplus/deficit(-)	2.2	-16.5	-17.7	-16.1	-1.7	2.2

BUDGET OUTLAYS FOR FISCAL YEAR 1973
(Billions of dollars)

Total outlays, January 1972 Budget	<u>246.3</u>
Changes due to enacted budget amendments	<u>2.9</u>
Defense supplemental for Vietnam speed-up	1.2
Disaster relief, Hurricane Agnes	1.5
Other	.2
Changes due to Congressional action or inaction	<u>6.3</u>
Coal miner benefits	.9
General revenue sharing, shift of fiscal 1972 request to fiscal 1973	2.3
General revenue sharing above request	1.0
Social Security benefit increase (20% vs. 5%)	4.1
Social Security liberalization and medicare (HR-1)	-1.0
Defense appropriations	-1.7
Water pollution control	.7
Other, net	.0
"Uncontrollable" outlays	<u>2.5</u>
Interest on debt	.5
Public service grants, after allowance for Congressional ceiling of \$2.5 billion	1.3
Agriculture price supports	-.3
Other, net (including delay in asset sales and reduced unemployment compensation)	1.0
Total outlays, excluding Administration economies	<u>253.0</u>
Assumed Administration economies, etc.	<u>-5.0</u>
General revenue sharing, postponement of one payment until fiscal year 1974	-1.5
Defense, Vietnam settlement	-1.0
Nondefense purchases	-1.0
Grants	-1.5
Total outlays, current staff estimate	<u>253.0</u>

PROJECTION OF TREASURY CASH OUTLOOK
 (In billions of dollars)

	Oct.	Nov.	Dec.	Jan.
Total net borrowing	3.0	5.3	2.1	3.0
Weekly and monthly bills	1.2	1.1	0.8	1.0
Tax bills	--	2.0	2.5	--
Coupon issues	2.0	3.0	--	--
As yet unspecified new borrowing	--	--	--	2.0
Special issues to foreigners	-.6	--	--	--
Agency transactions, debt repayment, etc.	.4	-.8	-1.2	--
Plus: <u>Other net financial sources</u> ^{a/}	1.5	-.9	-1.0	1.6
Plus: <u>Budget surplus or deficit (-)</u>	-6.3	-3.6	-2.9	-5.4
Equals: <u>Change in cash balance</u>	-1.8 ^{b/}	0.8	-1.8	-0.8
Memoranda: Level of cash balance end of period	8.0 ^{b/}	8.8	7.0	6.2
Derivation of budget surplus or deficit:				
Budget receipts	14.2	17.6	18.8	19.1
Budget outlays	20.5	21.2	21.7	24.5
Maturing coupon issues held by public ^{c/}	--	1.3	1.2	--
Net borrowing by gov't- sponsored agencies	0.4	0.4	0.4	0.3

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

b/ Actual

c/ In the August prefunding, \$.9 billion and \$1.1 billion, respectively, were exchanged for the November and December maturities, leaving \$1.3 billion and \$1.2 billion to be redeemed in cash.

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

	Fiscal Year Year 1972*	Fiscal Year 1973 Adm. 1/ Estimate	Calendar Years F.R. Board 1972.	F.R.B. Staff Estimates							
				Calendar Quarters							
				1972		1973		I	II	III	IV
Federal Budget											
Surplus/deficit	-23.2	-25.0	-26.5	-19.8	-21.9	-2.0	-12.8	-13.3	1.7	-1.5	-8.8
Receipts	208.6	225.0	226.5	221.7	244.5	55.6	50.6	52.6	67.7	65.5	58.7
Outlays	231.9	250.0	253.0	241.4	266.4	57.6	63.4	65.9	66.0	67.0	67.5
Means of financing:						Unadjusted data					
Net borrowing from the public	19.4	n.a.	21.9	13.3	18.0	5.0	10.4	9.0	-2.5	2.0	9.5
Decrease in cash operating balance	-1.3	n.a.	3.6	4.3	0.5	0.3	2.8	1.3	-0.8	--	--
Other 2/	5.1	n.a.	1.0	2.2	3.4	-3.3	-.4	3.0	1.6	-.5	-.7
Cash operating balance, end of period	10.1	n.a.	6.5	7.0	6.5	9.8	7.0	5.7	6.5	6.5	6.5
Memo: Net agency borrowing 3/	4.7	n.a.	n.e.	3.5	n.e.	0.7	1.2	0.9	n.e.	n.e.	n.e.
National Income Sector											
Surplus/deficit	-22.1	n.a.	-27.0	-19.9	-23.4	-12.9	-30.1	-33.0	-32.0	-15.8	-12.8
Receipts	211.0	n.a.	234.9	228.1	247.5	230.2	235.8	239.5	234.1	255.6	260.8
Expenditures	233.1	n.a.	261.9	248.0	270.9	243.1	265.9	272.5	266.1	271.4	273.6
High employment surplus/deficit (NIA basis) 4/	4.1	n.a.	-12.0	-2.0	-8.3	2.2	-16.5	-17.7	-16.1	-1.7	2.2

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

1/ Revised Administration estimates were disclosed by Secretary Shultz in testimony before the House Ways and Means Committee on September 18, 1972.

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

4/ Estimated by F.R. Board Staff.