

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

October 2, 1968

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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)

	1967	1968	1967		1968				<u>Projected</u>
			III	IV	I	IIr			
					III	IV			
Gross National Product	789.7	858.2	795.3	811.0	831.2	852.9	867.5	881.0	
Final sales	783.6	851.7	789.9	802.7	829.1	842.1	862.0	873.5	
Private	605.2	654.6	610.3	619.2	638.6	646.4	662.1	671.2	
Personal consumption expenditures	492.2	533.9	495.5	502.2	519.4	527.9	540.5	547.8	
Durable goods	72.6	81.7	73.1	74.2	79.0	81.0	84.0	82.8	
Nondurable goods	215.8	231.5	216.4	218.4	226.5	228.2	233.5	237.7	
Services	203.8	220.7	205.9	209.6	213.9	218.7	223.0	227.3	
Gross private domestic investment	114.3	124.7	114.7	121.8	119.7	127.3	124.5	127.2	
Residential construction	24.6	29.6	26.0	28.5	29.1	29.5	29.6	30.2	
Business fixed investment	83.6	88.6	83.3	85.0	88.6	87.0	89.4	89.5	
Change in business inventories	6.1	6.5	5.3	8.3	2.1	10.8	5.5	7.5	
Nonfarm	5.6	6.0	4.8	7.1	1.6	10.4	5.0	7.0	
Net Exports	4.8	2.5	5.4	3.4	1.5	2.0	2.6	3.7	
Gov't. purchases of goods & services	178.4	197.1	179.6	183.5	190.5	195.7	199.9	202.3	
Federal	90.6	100.2	91.3	93.5	97.1	100.0	101.8	102.0	
Defense	72.4	79.1	72.9	74.6	76.8	79.0	80.5	80.2	
Other	18.2	21.1	18.4	19.0	20.3	21.0	21.3	21.8	
State & local	87.8	96.9	88.4	90.0	93.4	95.6	98.1	100.3	
Gross national product in constant (1958) dollars	673.1	704.2	675.6	681.8	692.7	703.4	708.0	712.5	
GNP implicit deflator (1958=100)	117.3	121.8	117.7	118.9	120.0	121.2	122.5	123.6	
Personal income	628.8	684.8	633.7	645.2	662.7	678.1	693.4	705.0	
Wages and salaries	423.4	462.8	426.3	436.4	448.3	457.6	468.2	477.0	
Disposable income	546.3	589.2	550.0	559.6	574.4	586.3	593.6	602.4	
Personal saving	40.2	40.8	40.5	43.4	40.8	44.0	38.5	39.9	
Saving rate (per cent)	7.4	6.9	7.4	7.8	7.1	7.5	6.5	6.6	
Corporate profits before tax	81.6	90.2	80.8	85.4	88.9	91.8	90.3	89.8	
Federal government receipts and expenditures (N.I.A. basis)									
Receipts	151.2	175.4	152.2	156.4	166.6	171.8	179.7	183.5	
Expenditures	163.6	182.3	165.1	168.6	175.1	181.9	185.8	186.4	
Surplus or deficit (-)	-12.4	-7.0	-12.9	-12.2	-8.6	-10.2	-6.2	-2.9	
Total labor force (millions)	80.8	82.4	81.1	81.6	81.9	82.2	82.4	82.9	
Armed forces "	3.4	3.6	3.5	3.5	3.5	3.5	3.6	3.6	
Civilian labor force "	77.3	78.8	77.6	78.2	78.4	78.7	78.8	79.3	
Unemployment rate (per cent)	3.8	3.7	3.9	3.9	3.6	3.6	3.6	3.9	
Nonfarm payroll employment (millions)	66.0	68.0	66.1	66.7	67.4	67.8	68.3	68.5	
Manufacturing	19.4	19.7	19.3	19.5	19.6	19.7	19.8	19.7	
Industrial production (1957-59=100)	158.0	163.8	157.2	159.5	162.1	164.0	164.5	164.5	
Capacity utilization, manufacturing (per cent)	85.3	84.0	84.3	84.7	84.9	84.7	83.6	82.6	
Housing starts, private (millions A.R.)	1.27	1.47	1.38	1.43	1.47	1.44	1.49	1.49	
Sales new domestic autos (millions, A.R.)		7.57	8.49	7.57	7.44	8.19	8.44	8.83	8.50

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CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1967	1968	1967		1968			
			III	IV	I	IIr	Projected	III
			-----In billions of dollars-----					
Gross National Product	42.1	68.5	15.1	15.7	20.2	21.7	14.6	13.5
Final sales	50.8	68.1	11.9	12.8	26.4	13.0	19.9	11.5
Private	28.6	49.4	9.6	8.9	19.4	7.8	15.7	9.1
GNP in constant (1958) dollars	16.0	31.1	6.4	6.2	10.9	10.7	4.6	4.5
Final sales	24.0	31.1	3.5	3.4	16.9	2.8	9.4	2.9
Private	9.8	22.7	3.1	2.8	12.4	0.1	8.7	2.1
-----In Per Cent Per Year-----								
Gross National Product	5.6	8.7	7.7	7.9	10.0	10.4	6.8	6.2
Final sales	6.9	8.7	6.1	6.5	13.2	6.3	9.5	5.3
Private	5.0	8.2	6.4	5.8	12.5	4.9	9.7	5.5
Personal consumption expenditures	5.7	8.5	4.2	5.4	13.7	6.5	9.5	5.4
Durable goods	3.0	12.5	-1.6	6.0	25.9	10.1	14.8	-5.7
Nondurable goods	4.4	7.3	2.0	3.7	14.8	3.0	9.3	7.2
Services	8.2	8.3	8.5	7.2	8.2	9.0	7.9	7.7
Gross private domestic investment	-5.4	9.1	26.4	24.8	-6.9	25.4	-8.8	8.7
Residential construction	-0.8	20.3	58.1	38.5	8.4	5.5	1.4	8.1
Business fixed investment	2.8	6.0	2.9	8.2	16.9	-7.2	11.0	0.4
Gov't purchases of goods & services	14.2	10.5	5.2	8.7	15.3	10.9	8.6	4.8
Federal	17.1	10.6	5.8	9.6	15.4	11.9	7.2	0.8
Defense	19.5	9.3	4.4	9.3	11.8	11.5	7.6	-1.5
Other	8.3	15.9	11.2	13.0	27.4	13.8	5.7	9.4
State & local	11.4	10.4	5.5	7.2	15.1	9.4	10.5	9.0
GNP in constant (1958) dollars	2.4	4.6	3.8	3.7	6.4	6.2	2.6	2.5
Final sales	3.7	4.7	2.1	2.0	10.0	1.6	5.4	1.7
Private	1.9	4.3	2.4	2.1	9.3	0.1	6.4	1.5
GNP implicit deflator	3.1	3.8	3.8	4.1	3.7	4.0	4.3	3.6
Personal income	7.2	8.9	7.8	7.3	10.8	9.3	9.0	6.7
Wages and salaries	7.3	9.3	8.3	9.5	10.9	8.3	9.3	7.5
Disposable income	6.8	7.9	6.3	7.0	10.6	8.3	5.0	5.9
Corporate profits before tax	-4.7	10.5	2.5	22.8	16.4	13.0	-6.5	-2.2
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	5.7	16.0	10.8	11.0	26.1	12.5	18.4	8.5
Expenditures	14.9	11.4	8.9	8.5	15.4	15.5	8.6	1.3
Nonfarm payroll employment	3.1	3.0	2.4	3.6	4.2	2.4	2.9	1.2
Manufacturing	1.0	1.5	-2.1	4.1	2.0	2.0	2.0	-2.0
Industrial production	1.1	3.7	3.3	5.9	6.5	4.7	1.2	0.0
Housing starts, private	11.4	15.7	63.9	14.5	11.2	-8.2	13.9	0.0
Sales new domestic autos	-9.7	12.2	-26.6	-6.9	40.3	12.2	18.5	-14.9

CORPORATE SECURITY OFFERINGS<sup>1/</sup>  
(Millions of dollars)

	Bonds				Total bonds and stocks	
	Public Offerings <sup>2/</sup>		Private Placements		1967	1968
	1967	1968	1967	1968		
QI monthly avg.	1,088	822	604	575	1,821	1,726
QII monthly avg.	1,339	1,035	489	548	2,069	1,901
QIII monthly avg.	1,534	875e	517	620e	2,277	1,837e
August	1,813	615e	412	600e	2,481	1,565e
September	902	725e	647	700e	1,763	1,725e
October	1,375	850e	566	600e	2,409	1,750e

e/ Estimated.

1/ Data are gross proceeds.

2/ Includes refundings.

Flotations of corporate bond offerings in October are expected to increase from the volume of public issues in September and are tentatively estimated at \$850 million. Although offerings remain below the previous outsized volume, they still are relatively large. Public utility companies have been financing in record volume this year and the forward calendar continues to carry a sizable number of such issues. In addition to these offerings, there are a notable number of issues by small to medium size manufacturing corporations that have partially offset the reduced number of large offerings by prime industrial borrowers. At least some of these offerings may represent financing that was deferred earlier when the calendar was pre-empted by prime companies. Many of these non-utility offerings carry convertible features as some borrowers are taking advantage of the more favorable stock market outlook indicated by the recent rise in stock prices. The total volume of

APPENDIX A: SUMMER REVIEW OF THE FEDERAL BUDGET\*

The Budget Bureau in the Summer Budget Review released on September 12 made the following summary adjustments in its view of the likely budget outcome for fiscal 1969.

FISCAL YEAR BUDGET TOTALS  
(Billions of dollars)

	Fiscal 1968	Fiscal 1969	
		Jan. est.	Summer review
Expenditures	173.0	18 .8	182.3
Net lending	5.9	3.3	2.1
Total outlays	178.9	186.1	184.4
Total receipts	153.5	178.1	179.4
Deficit	25.4	8.0	5.0

While the Summer Review revises the estimate of fiscal year receipts upward by \$1.3 billion--to take account of tax legislation which shifted some revenues from fiscal 1968 to fiscal 1969, its major focus is on adjustments in spending. For the most part these reflect the spending constraints introduced by the Revenue and Expenditure Control Act, passed in late June. Allowance has also had to be made, however, for sizeable increases beyond January forecasts in crop purchases by the Commodity Credit Corporation and in public assistance grants, chiefly payments for Medicaid.

Despite the \$6 billion spending cut required by the new law, estimated budget outlays for fiscal 1969 have been reduced by only \$1.7 billion from the January forecast. The failure to produce a more significant cut reflects increases beyond January forecasts in the four key programs exempted from the act's expenditure ceiling. The net effect of these diverse adjustments in the overall spending forecast is shown in the table.

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**SPENDING CHANGES IN SUMMER BUDGET REVIEW**  
 (Billions of dollars)

Total Federal outlays--January, 1968 budget estimate	186.1
Plus: Estimated increases for programs exempt from expenditure control	<u>4.4</u>
Vietnam support operations	2.3
Interest	.9
Social security trust funds	.7
Veterans benefits	.4
Plus: Selected increases in programs not exempt	<u>1.2</u>
Farm price support purchases (CCC)	.7
Public assistance grants (including Medicaid)	.5
Less: Budget cuts	<u>(-) 7.2</u>
Department of Defense, military and military assistance	3.0
Net lending	1.2
All other expenditures	3.0
Equals: Federal outlays--Summer budget review	184.4

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It is difficult at this point to evaluate the overall reasonableness of these summary estimates on changes in spending. Special question has already been raised by some analysts regarding the reasonableness of the \$2.3 billion increase projected for Vietnam support operations. Two leading indicators of defense spending, obligations and contract awards, suggest that without a sharp near-term reduction in defense contracting, total defense spending for fiscal 1969 is likely to be \$80 billion. This would be \$2.5 billion more than projected in the Summer Review, and hence would raise the estimate of change in Vietnam support spending to \$4.8 billion.

Since the Summer Budget Review was released, Budget Director Zwick has also indicated that CCC spending is now expected to exceed the January forecast by \$900 million rather than the \$700 million shown in the preceding table. At the same time, however, the Senate has voted to add CCC spending to programs exempted from the spending cut--presumably because such outlays reflect legislative provisions and are not subject to executive discretion. The Senate has also voted to cut spending for Medicaid by \$500 million. In effect, this

decision would disallow all of the estimated increase in spending for this program, forcing the states to cover the resultant shortfall in funds or cut back the size of payments. It is not yet clear whether the House of Representatives will go along with these Senate changes, particularly with regard to the Medicaid program where complaints from the states have already been volatile. If the Senate changes are not accepted, however, the required cut-back of Federal spending in all non-exempted programs would be \$7.4 billion--the \$6 billion originally legislated, plus the \$1.2 billion of added CCC and Medicaid spending, shown in the Summer Review, plus the \$200 million of further CCC outlays recently projected by Mr. Zwick.

The exact allocation of these spending cuts has not been fully determined, since several pending appropriations bills have yet to receive final Congressional approval. But for planning purposes, the Summer Budget Review assumes that Congressional and Administration cuts together will be distributed about as follows:

#### EXPECTED DISTRIBUTION OF STATUTORY SPENDING CUT

Program	Amount of Reduction (In billions)
Defense other than Vietnam support	\$3.0
Lending programs	1.2
Other programs	<u>3.2</u>
Agriculture	0.9
Non-exempted HEW programs	0.5
Interior	1/ 0.4
Transportation	0.3
NASA	0.3
Foreign aid	0.2
All other	0.6
Total	<u>7.4</u>

1/ Reflects in part an increase in the estimate of returns from mineral leases on the Continental Shelf. Such returns appear in the budget as a negative expenditure.

As the table shows, a key part of the projected spending cut has been allocated to various lending programs. A third of a billion dollars will be cut from the Export-Import Bank's net lending because many new loans will be financed by selling seasoned portfolio loans to private investors. The Small Business Administration will substitute guaranteed bank loans for direct lending to reduce its outlays on the