

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

May 17, 1972

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

The more rapid expansion now expected in real output has led the staff to raise its projection of employment, and to lower the unemployment rate further to 5.2 per cent in the fourth quarter. The projected increase in the GNP implicit price deflator is larger than anticipated earlier.

STAFF GNP PROJECTIONS

	Change in Nominal GNP \$ billion	4/12/72	Per cent increase, annual rate					
			Real GNP 4/12/72	Current	Private GNP fixed weight price index	4/12/72	Current	Unemployment Rate
<u>Actual</u>								
1971-IV	19.5	19.5	5.8	5.8	1.8	1.8	5.9	5.9
1972-I	30.0	30.7	5.6	5.6	4.3	4.4	5.8	5.8
<u>Projected</u>								
1972-II	27.0	30.2	6.2	6.9	3.5	4.0	5.7	5.7
1972-III	30.0	32.3	7.4	7.9	3.2	3.4	5.5	5.5
1972-IV	29.0	32.7	6.9	7.8	3.0	3.4	5.4	5.2

The more rapid growth now anticipated for the second quarter reflects in part an expected step-up in inventory accumulation from the minimal first quarter rate. Business fixed investment continues strong. Consumer spending is still expected to show a large advance, at an annual rate of 9 per cent, in response to an exceptionally strong rise in disposable income. Net exports are expected to show improvement, following the very poor first quarter performance.

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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 Proj.	1971			1972 Projected		
			III	IV	I	II	III	IV
Gross National Product	1046.8	1150.6	1053.4	1072.9	1103.6	1133.8	1166.1	1198.8
Final purchases	1044.5	1144.6	1054.6	1070.4	1103.0	1130.6	1157.9	1186.8
Private	811.5	885.7	820.8	829.6	853.4	875.5	896.0	917.8
Excluding net exports	811.5	889.3	820.8	834.2	859.6	879.5	898.8	919.4
Personal consumption expenditures	662.1	715.7	668.8	677.2	691.8	707.2	722.9	741.0
Durable goods	100.5	112.4	102.8	103.6	107.6	110.6	113.6	117.6
Nondurable goods	278.6	298.3	280.2	283.3	288.0	294.6	301.4	309.2
Services	282.9	305.1	285.8	290.3	296.2	302.0	307.9	314.2
Gross private domestic investment	151.6	179.6	150.8	159.4	168.3	175.5	184.1	190.4
Residential construction	40.6	49.7	42.7	44.4	49.0	50.3	50.4	48.9
Business fixed investment	108.7	123.9	109.3	112.6	118.7	122.0	125.5	129.5
Change in business inventories	2.2	6.0	-1.2	2.4	0.6	3.2	8.2	12.0
Nonfarm	1.7	5.8	-2.0	2.0	0.1	3.0	8.2	12.0
Net exports of goods and services ^{1/}	0.0	-3.7	0.0	-4.6	-6.2	-4.0	-2.8	-1.6
Exports	65.3	70.5	68.2	60.4	69.2	69.1	70.6	73.2
Imports	65.3	74.2	68.2	65.0	75.4	73.1	73.4	74.8
Gov't. purchases of goods and services	233.0	258.9	233.8	240.8	249.6	255.1	261.9	269.0
Federal	97.6	107.4	97.6	100.3	104.9	106.3	108.5	110.0
Defense	71.4	77.7	70.2	71.4	75.8	76.8	78.3	79.8
Other	26.2	29.7	27.4	28.9	29.0	29.5	30.2	30.2
State & local	135.5	151.5	136.2	140.5	144.8	148.8	153.4	159.0
Gross national product in constant (1958) dollars	739.4	782.9	740.7	751.3	761.6	774.7	790.1	805.4
GNP implicit deflator (1958 = 100)	141.6	146.9	142.2	142.8	144.9	146.3	147.6	148.8
Personal income	857.0	931.6	864.6	876.7	900.1	919.0	943.1	964.0
Wage and salary disbursements	574.2	631.5	577.3	587.0	609.0	623.8	638.6	654.4
Disposable income	741.3	794.8	748.5	755.0	764.3	782.6	807.2	825.0
Personal saving	60.5	59.8	61.0	59.0	53.5	56.2	64.9	64.4
Saving rate (per cent)	8.2	7.5	8.2	7.8	7.0	7.2	8.0	7.8
Corporate profits before tax	85.5	102.0	85.8	86.2	91.6	97.5	105.0	114.0
Corp. cash flow, net of div. (domestic)	81.0	98.1	82.4	85.6	90.0	94.9	100.8	106.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	198.8	227.1	197.8	203.1	222.1	225.2	227.3	233.9
Expenditures	221.9	248.4	224.6	228.7	235.4	244.0	255.1	258.9
Surplus or deficit (-)	-23.1	-21.2	-26.7	-25.6	-13.3	-18.8	-27.8	-25.0
High employment surplus or deficit (-)	2.9	1.0	1.3	6.6	10.4	3.5	-4.9	-5.1
Total labor force (millions)	86.9	88.6	87.0	87.7	88.4	88.9	87.3	89.8
Armed forces	2.8	2.4	2.8	2.7	2.5	2.4	2.4	2.4
Civilian labor force "	84.1	86.7	84.2	85.0	85.9	86.5	86.9	87.4
Unemployment rate (per cent)	5.9	5.6	6.0	5.9	5.8	5.7	5.5	5.2
Nonfarm payroll employment (millions)	70.7	72.7	70.6	71.0	71.8	72.4	73.0	73.7
Manufacturing	18.6	19.0	18.5	18.6	18.7	18.9	19.1	19.4
Industrial production (1967 = 100)	106.3	112.9	105.9	107.0	109.1	111.3	114.2	117.1
Capacity utilization, manufacturing (per cent)	74.6	76.7	74.1	74.1	75.1	76.0	77.3	78.6
Housing starts, private (millions, A.R.)	2.05	2.28	2.11	2.24	2.51	2.30	2.20	2.10
Sales new autos (millions, A.R.)	10.13	10.54	10.29	10.47	10.15	10.50	10.50	11.00
Domestic models	8.68	9.05	8.76	9.20	8.69	9.00	9.00	9.50
Foreign models	1.46	1.49	1.53	1.25	1.46	1.50	1.50	1.50

^{1/} The projected GNP exports and imports of goods and services, and their net, are based on quarter-to-quarter changes projected in balance of payments exports and imports, shown below. These are consistent with revised '71-IV figures not yet incorporated in the GNP accounts.

Net exports of goods and services	0.7	-1.0	0.2	-2.1	-3.6	-1.4	-0.2	1.0
Exports	65.9	72.8	68.3	62.7	71.5	71.4	72.9	75.5
Imports	65.2	73.8	68.1	64.8	75.1	72.8	73.1	74.5

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1971	1972 Proj.	1972		1972			
			1971		I	II	III	IV
	III	IV						
-----Billions Of Dollars-----								
Gross National Product	72.7	103.8	13.4	19.5	30.7	30.2	32.3	32.7
Inventory change	-0.6	3.8	-5.8	3.6	-1.8	2.6	5.0	3.8
Final purchases	73.2	100.0	19.2	15.8	32.6	27.6	27.3	28.9
Private	59.6	74.1	15.0	8.8	23.8	22.1	20.5	21.8
Excluding net exports	63.2	77.8	15.1	13.4	25.4	19.9	19.3	20.6
Net exports	-3.6	-3.7	-0.1	-4.6	-1.6	2.2	1.2	1.2
Government	13.6	25.9	4.2	7.0	8.8	5.5	6.8	7.1
GNP in constant (1958) dollars	19.4	43.5	4.9	10.6	10.3	13.1	15.4	15.3
Final purchases	19.6	40.9	9.5	7.7	12.4	10.9	11.3	12.3
Private	19.8	33.5	6.9	4.1	10.9	9.7	9.2	10.2
-----In Per Cent Per Year-----								
Gross National Product	7.5	9.9	5.2 ^{1/}	7.6 ^{1/}	12.0 ^{1/}	10.9	11.4	11.2
Final purchases	7.5	9.6	7.4	6.0	12.2	10.0	9.7	10.0
Private	7.9	9.1	7.4	4.3	11.5	10.4	9.4	9.7
Personal consumption expenditures	7.5	8.1	7.0	5.0	8.6	8.9	8.9	10.0
Durable goods	13.4	11.8	14.9	3.1	15.4	11.2	10.8	14.1
Nondurable goods	5.3	7.1	3.5	4.4	6.6	9.2	9.2	10.4
Services	7.8	7.8	7.6	6.3	8.1	7.8	7.8	8.2
Gross private domestic investment	12.0	18.5	-5.5	22.8	22.3	17.1	19.6	13.7
Residential construction	33.6	22.4	27.0	15.9	41.4	10.6	0.8	-11.9
Business fixed investment	6.5	14.0	3.7	12.1	21.7	11.1	11.5	12.7
Gov't. purchases of goods & services	6.2	11.1	7.3	12.0	14.6	8.8	10.7	10.8
Federal	0.4	10.0	6.7	11.1	18.3	5.3	8.3	5.5
Defense	-5.3	8.8	-6.7	6.8	24.6	5.3	7.8	7.7
Other	19.6	13.4	45.5	21.9	1.4	6.9	9.5	0.0
State & local	10.9	11.8	7.8	12.6	12.2	11.0	12.4	14.6
GNP in constant (1958) dollars	2.7	5.9	2.7 ^{1/}	5.8 ^{1/}	5.6 ^{1/}	6.9	7.9	7.8
Final purchases	2.7	5.5	5.2	4.2	6.6	5.7	5.8	6.3
Private	3.4	5.6	4.6	2.7	7.2	6.3	5.9	6.4
GNP implicit deflator	4.7	3.8	2.5 ^{1/}	1.7 ^{1/3/}	6.0 ^{1/}	4.0	3.4	3.4
Private GNP fixed weight index ^{2/}	5.3	3.6	3.6 ^{1/}	1.8 ^{1/}	4.4 ^{1/}	4.0	3.4	3.4
Personal income	6.6	8.7	5.2	5.6	10.7	8.4	10.5	8.9
Wage and salary disbursements	6.1	10.0	4.4	6.7	15.0	9.7	9.5	9.9
Disposable income	7.8	7.2	4.8	3.5	4.9	9.6	12.6	8.8
Corporate profits before tax	13.4	19.3	-5.1	1.9	25.1	25.8	30.8	34.3
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	3.8	14.2	0.2	10.7	37.4	5.6	3.7	11.6
Expenditures	8.2	11.9	5.8	7.3	11.7	14.6	18.2	6.0
Nonfarm payroll employment	0.1	2.8	-0.2	2.3	4.5	3.3	3.3	3.8
Manufacturing	-3.9	2.2	-2.4	2.2	2.2	4.3	4.2	6.3
Industrial production	-0.4	6.2	-3.4	4.2	7.9	8.1	10.4	10.2
Housing starts, private	43.4	11.2	36.5	22.7	48.2	-33.5	-17.4	-18.2
Sales new autos	21.3	4.0	19.0	6.2	-12.2	13.8	0.0	19.0
Domestic models	21.9	4.3	22.7	20.1	-22.2	14.3	0.0	22.2
Foreign models	18.7	2.1	-1.0	-73.2	67.2	11.0	0.0	0.0

^{1/} At compound rates.^{2/} Using expenditures in 1967 as weights.^{3/} Excluding the first \$1.2 billion, annual rate, of the volunteer army pay increase, 1.2 per cent per year.^{4/} Excluding the remaining \$1.2 billion, annual rate, of the volunteer army pay increase and the general Federal employees pay increase, 4.3 per cent per year.

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

	Fiscal 1972 e/						Calendar Years						Calendar Quarters			
	Jan.		F.R. Budget		FY 1973 e/ Jan. Budget		1971 Actual		1972 F.R.B.		IV*		F.R.B., Staff 1972		Staff Estimates	
													I*	II	III	IV
<u>Federal Budget</u>																
(Quarterly data, unadjusted)																
Surplus/deficit	-38.8	-26.7	-25.5		-24.8	-28.1	-10.6	-10.5	2.2	-9.8	-10.0					
Receipts	197.8	204.8	220.8		194.0	218.2	44.6	48.1	63.6	55.9	50.6					
Outlays	236.6	231.5	246.3		218.8	246.3	55.2	58.6	61.4	65.7	60.6					
Means of financing:																
Net borrowing from the public	39.5	20.9	27.5		24.8	20.0	12.5	3.9	-4.6	10.9	9.8					
Decrease in cash operating balance	--	1.6	--		-3.2	3.8	-1.3	3.6	.5	-1.0	.7					
Other 1/	-.7	4.2	-2.0		3.2	4.2	-.6	3.0	1.9	-.1	-.6					
Cash operating balance, end of period	8.8	7.2	8.8		11.3	7.5	11.3	7.7	7.2	8.2	7.5					
Memo: Net agency borrowing ^{2/}	n.a.	5.0	n.e.		1.1	n.e.	1.4	.4	1.4	1.1	n.e.					
<u>National Income Sector</u>																
(Seasonally adjusted annual rate)																
Surplus/deficit	-35.0	-21.1	-28.0		-23.1	-21.2	-25.7	-13.3	-18.8	-27.8	-25.0					
Receipts	202.8	212.0	227.9		198.8	227.1	203.0	222.1	225.2	227.3	233.9					
Expenditures	237.8	233.2	255.9		221.9	248.4	228.7	235.4	244.0	255.1	258.9					
High employment surplus/deficit (NIA basis) ^{3/}	n.a.	5.4	n.a.		2.9	1.0	6.6	10.4	3.5	-4.9	-5.1					

* 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.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	April	May	June	July
Total net borrowing	-1.7	--	-2.9	5.0
Weekly and monthly bills	--	-.2	-.4	--
Tax bills	-4.0	--	-3.0	--
Coupon issues	1.8	--	--	--
As yet unspecified new borrowing	--	--	--	5.0
Other (debt repayments, etc.)	.5	.2	.5	--
Plus: <u>Other net financial sources</u> ^{a/}	.6	1.6 ^{c/}	-.3	-.4
Plus: <u>Budget surplus or deficit (-)</u>	5.1	-4.5	1.6	-6.9
Equals: Change in cash balance	4.0^{b/}	-2.9	-1.6	-2.3
Memoranda: Level of cash balance end of period	11.7 ^{b/}	8.8	7.2	4.9
Derivation of budget surplus or deficit:				
Budget receipts	23.6	15.6	24.4	14.5
Budget outlays	18.5	20.1	22.8	21.4
Maturing coupon issues held by public	--	2.4 ^{d/}	1.1	--
Net agency borrowing	.3	.4	.7	.3

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

b/ Actual.

c/ Includes \$0.8 billion of capital gains from gold revaluation.

d/ The Treasury auctioned \$1.8 billion of notes and bonds in a partial refunding of the \$2.4 billion maturing. The remaining \$700 million was redeemed in cash.