

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

September 13, 1972

With final demands for goods up appreciably, we continue to project a sizable rise in inventory investment, but this source of stimulus should level off after the first quarter of next year. Although projections of residential construction have been raised, such activity is still expected to slacken as 1973 progresses.

On balance, real GNP is projected to rebound to an 8 per cent annual rate of increase in the fourth quarter of 1972. Thereafter, expansion is expected to moderate over the course of 1973 to an average annual rate of growth of about 4-1/2 per cent in the second half of the year. Over the same period, unemployment is projected to decline gradually, falling to a little below 5 per cent.

STAFF GNP PROJECTIONS

Date	Change in Nominal GNP \$ billion		Per cent increase, annual rate					
			Real GNP		Private GNP fixed weight price index		Unemployment rate	
	8/9/72	Current	8/9/72	Current	8/9/72	Current	8/9/72	Current
1971 ^{1/}	74.0	74.0	2.7	2.7	4.5	4.5	5.9	5.9
1972	102.3	102.6	6.3	6.4	3.4	3.2	5.6	5.6
1973	114.3	119.4	6.3	6.7	3.5	3.5	5.1	5.0
1972-I ^{1/}	31.0	31.0	6.5	6.5	4.5	4.5	5.8	5.8
1972-II ^{1/}	29.9	30.3	8.9	9.4	3.1	2.5	5.8	5.7
1972-III	27.2	26.5	6.2	6.0	3.3	3.3	5.5	5.5
1972-IV	30.3	31.6	7.5	7.9	3.0	3.0	5.3	5.3
1973-I	31.0	32.5	6.5	7.0	3.4	3.4	5.2	5.1
1973-II	26.5	28.5	5.4	5.9	3.6	3.7	5.1	5.0
1973-III	26.0	28.0	4.4	4.8	4.0	4.2	5.0	4.9
1973-IV	26.5	28.0	4.2	4.3	4.2	4.5	5.0	4.8

^{1/} Actual

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 Projected			
					I	II	III	IV
Gross National Product	1050.4	1153.0	1272.4	1078.1	1109.1	1139.4	1165.9	1197.5
Final purchases	1046.7	1147.9	1258.4	1076.4	1108.6	1134.4	1160.4	1188.0
Private	813.9	890.8	979.5	835.5	859.2	880.3	901.4	922.2
Excluding net exports	813.2	894.9	981.8	837.6	863.8	885.5	905.2	924.9
Personal consumption expenditures	664.9	721.8	795.3	680.5	696.1	713.4	730.1	747.4
Durable goods	103.5	116.2	132.1	106.1	111.0	113.9	118.5	121.5
Nondurable goods	278.1	299.9	330.8	283.4	288.3	297.2	303.2	310.7
Services	283.3	305.7	332.4	290.9	296.7	302.4	308.4	315.2
Gross private domestic investment	152.0	178.2	200.5	158.8	168.1	177.0	180.6	187.0
Residential construction	42.6	52.5	50.9	47.3	51.6	52.8	53.1	52.5
Business fixed investment	105.8	120.6	135.6	109.8	116.1	119.2	122.0	125.0
Change in business inventories	3.6	5.1	14.0	1.7	0.4	5.0	5.5	9.5
Nonfarm	2.4	4.8	14.0	0.8	0.1	4.3	5.3	9.5
Net exports of goods and services	0.7	-4.1	-2.3	-2.1	-4.6	-5.2	-3.8	-2.7
Exports	66.1	72.4	81.8	63.0	70.7	70.0	73.2	75.7
Imports	65.4	76.5	84.1	65.1	75.3	75.2	77.0	78.4
Gov't. purchases of goods and services	232.8	257.1	278.9	240.9	249.4	254.1	259.0	265.8
Federal	97.8	108.7	111.4	100.7	105.7	108.1	109.5	111.3
Defense	71.4	78.9	80.2	71.9	76.7	78.6	79.2	81.0
Other	26.3	29.8	31.2	28.7	28.9	29.6	30.3	30.3
State & local	135.0	148.4	167.5	140.2	143.7	146.0	149.5	154.5
Gross national product in constant (1958) dollars	741.7	789.4	842.0	754.5	766.5	783.9	795.6	811.4
GNP implicit deflator (1958 = 100)	141.6	146.0	151.1	142.9	144.7	145.3	146.5	147.6
Personal income	861.4	934.5	1025.1	881.5	907.0	922.1	938.0	970.8
Wage and salary disbursements	572.9	627.7	692.6	585.9	608.0	620.5	632.7	649.4
Disposable income	744.4	795.8	881.7	758.5	770.5	782.6	800.6	829.6
Personal saving	60.9	55.1	66.7	59.3	55.7	50.1	51.3	62.8
Saving rate (per cent)	8.2	6.9	7.6	7.8	7.2	6.4	6.4	7.6
Corporate profits before tax	83.3	96.1	112.1	83.2	88.2	93.1	98.5	104.5
Corp. cash flow, net of div. (domestic)	78.2	92.0	104.4	82.7	85.9	91.6	93.1	97.3
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	199.1	226.2	243.4	202.8	221.4	225.4	225.7	232.1
Expenditures	220.8	251.2	272.7	227.5	236.3	246.5	243.8	278.2
Surplus or deficit (-)	-21.7	-25.0	-29.3	-24.7	-14.8	-21.1	-18.1	-46.1
High employment surplus or deficit (-)	3.7	-5.3	-13.8	6.8	8.6	-2.4	1.5	-28.8
Total labor force (millions)	86.9	89.0	90.7	87.7	88.4	88.8	89.2	89.6
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	88.3	85.0	85.9	86.4	86.8	87.2
Unemployment rate (per cent)	5.9	5.6	4.9	5.9	5.8	5.7	5.5	5.3
Nonfarm payroll employment (millions)	70.7	73.5	75.0	71.0	71.8	72.5	73.0	73.6
Manufacturing	18.6	19.0	19.7	18.6	18.7	18.9	19.0	19.3
Industrial production (1967 = 100)	106.8	113.5	122.8	107.4	110.0	113.1	114.1	116.9
Capacity utilization, manufacturing (per cent)	75.0	77.0	80.2	74.6	75.3	77.3	77.3	78.2
Housing starts, private (millions, A.R.)	2.05	2.27	1.98	2.24	2.51	2.25	2.20	2.10
Sales new autos (millions, A.R.)	10.13	10.79	11.10	10.48	10.09	10.60	11.22	11.25
Domestic models	8.68	9.32	9.63	9.20	8.69	9.20	9.64	9.75
Foreign models	1.45	1.47	1.47	1.28	1.40	1.40	1.58	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.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1971	1972 Proj.	1973 Proj.	1971 IV	1972 I	1972 II	Projected III	Projected IV
-----Billions of Dollars-----								
Gross National Product	74.0	102.6	119.4	21.2	31.0	30.3	26.5	31.6
Inventory change	-1.3	1.5	8.9	0.4	-1.3	4.6	0.5	4.0
Final purchases	75.2	101.2	110.5	20.8	32.2	25.8	26.0	27.6
Private	61.4	76.9	88.7	13.5	23.7	21.1	21.1	20.8
Excluding net exports	64.3	81.7	86.9	16.0	26.2	21.7	19.7	19.7
Net exports	-2.9	-4.8	1.8	-2.5	-2.5	-0.6	1.4	1.1
Government	13.8	24.3	21.8	7.3	8.5	4.7	4.9	6.8
GNP in constant (1958) dollars	19.6	47.7	52.6	12.0	12.0	17.4	11.8	15.8
Final purchases	21.1	46.5	46.3	12.1	12.5	13.7	11.7	12.8
Private	22.5	39.5	42.7	8.6	11.4	12.0	10.6	10.6
-----Per Cent Per Year-----								
Gross National Product	7.6	9.8	10.4	8.3 ^{1/}	12.0 ^{1/}	11.4 ^{1/}	9.3	10.8
Final purchases	7.7	9.7	9.6	7.9	12.0	9.3	9.2	9.5
Private	8.2	9.4	10.0	6.6	11.3	9.8	9.6	9.2
Personal consumption expenditures	7.8	8.6	10.2	5.8	9.2	9.9	9.4	9.5
Durable goods	14.4	12.3	13.7	0.0	18.5	10.5	16.2	10.1
Nondurable goods	5.2	7.8	10.3	7.0	6.9	12.3	8.1	9.9
Services	8.2	7.9	8.7	6.7	8.0	7.7	7.9	8.8
Gross private domestic investment	10.9	17.2	12.5	17.3	23.4	21.2	8.1	14.2
Residential construction	36.5	23.2	-3.0	25.2	36.4	9.3	2.3	-4.5
Business fixed investment	4.9	14.0	12.4	13.2	23.0	10.7	9.4	9.8
Gov't. purchases of goods & services	6.3	10.4	8.5	12.5	14.1	7.5	7.7	10.5
Federal	1.3	11.1	2.5	11.4	19.9	9.1	5.2	6.6
Defense	-4.9	10.5	1.6	10.3	26.7	9.9	3.1	9.1
Other	22.3	13.3	4.7	12.9	2.8	9.7	9.5	0.0
State & local	10.2	9.9	12.9	13.3	10.0	6.4	9.6	13.4
GNP in constant (1958) dollars	2.7	6.4	6.7	6.7 ^{1/}	6.5 ^{1/}	9.4 ^{1/}	6.0	7.9
Final purchases	2.9	6.3	5.9	6.5	6.6	7.2	6.0	6.5
Private	3.9	6.6	6.7	5.7	7.4	7.7	6.6	6.6
GNP implicit deflator	4.7	3.1	3.5	1.5 ^{1/}	5.1 ^{1/}	1.8 ^{1/}	3.3	2.9
Private GNP fixed weight index ^{2/}	4.5	3.2	3.5	1.7 ^{1/}	4.5 ^{1/}	2.5 ^{1/}	3.3	3.0
Personal income	6.8	8.5	9.7	6.3	11.6	6.7	6.9	14.0
Wage and salary disbursements	5.7	9.6	10.3	6.9	15.1	8.2	7.9	10.6
Disposable income	8.0	6.9	10.8	4.3	6.3	6.3	9.2	14.5
Corporate profits before tax	12.1	15.3	16.7	-4.3	24.0	22.2	23.2	24.4
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	3.9	13.6	7.6	7.4	36.7	7.3	0.5	11.3
Expenditures	8.0	13.8	8.6	9.5	15.5	17.3	-4.4	56.4
Nonfarm payroll employment	0.1	4.0	2.0	2.2	4.3	3.7	2.8	3.3
Manufacturing	-3.9	2.1	3.7	0.9	2.5	4.7	2.1	6.3
Industrial production	0.2	6.3	8.2	3.4	9.4	11.4	7.4	9.7
Housing starts, private	43.1	10.5	-12.8	24.2	48.5	-41.7	-9.1	-18.2
Sales new autos	21.3	6.6	2.9	7.4	-14.9	20.3	23.6	0.8
Domestic models	21.9	7.2	3.2	20.1	-22.2	23.6	19.0	4.6
Foreign models	17.9	1.2	0.4	-65.4	37.5	0.3	53.7	-21.2

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

CORPORATE AND MUNICIPAL LONG-TERM SECURITY OFFERINGS
(Monthly or monthly averages, in millions of dollars)

	Year 1971	1st Half 1972	July	August ^{e/}	Sept. ^{f/}	October ^{f/}
Corporate securities Total	3,758	3,483	3,100 ^{e/}	2,900	3,400	3,050
Public bonds	2,065	1,669	1,700 ^{e/}	1,500	1,100	1,400
Privately placed bonds ^{1/}	613	707	600 ^{e/}	600	800	650
Stock	1,080	1,107	800 ^{e/}	800	1,500	1,000
State & local Government Securities	2,080	2,056	1,771	1,900	1,800	2,000

^{e/} Estimated.

^{f/} Forecast.

^{1/} Takedowns of funds under prior commitments.

Sales of long-term bonds by State and local governments in the summer months have remained close to the \$2.0 billion monthly average issue volume during the first 6 months of this year. Issues of general obligation bonds have been tapering off, but the supply of new issues is being sustained by a growing volume of revenue bonds, including industrial pollution equipment, hospital, and community development bonds.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Aug.	Sept.	Oct.	Nov.	Dec.
<u>Total net borrowing</u>	1.1	0.7	5.2	2.8	3.2
Weekly and monthly bills	1.0	--	1.2	0.1	--
Tax bills	--	--	--	--	--
Coupon issues	--	--	--	--	--
As yet unspecified new borrowing	--	--	4.0	4.0	4.5
Special issues to foreigners	-.3	.2	--	--	--
Agency transactions, debt repayment, etc.	.4	.5	--	-1.3	-1.3
Plus: <u>Other net financial sources</u> ^{a/}	-1.0	0.7	1.3	-.9	-1.0
Plus: <u>Budget surplus or deficit</u> (-)	-4.1	3.1	-10.0	-3.9	-0.1
Equals: <u>Change in cash balance</u>	-4.0 ^{b/}	4.5	-3.5	-2.0	2.1
Memoranda: Level of cash balance end of period	5.0 ^{b/}	9.5	6.0	4.0	6.1
Derivation of budget surplus or deficit:					
Budget receipts	17.9	23.2	14.6	17.6	19.3
Budget outlays	22.0	20.1	24.6	21.5	19.4
Maturing coupon issues held by public <u>c/</u>	2.3	1.8	--	2.1	2.3
Net borrowing by gov't-sponsored agencies	-0.1	0.1	-0.3	*	0.6

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. Of the November and December maturities, \$.9 billion and \$1.1 billion were exchanged, leaving \$1.3 billion and \$1.2 billion to be redeemed in cash.

* Less than \$50 million.

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

	Fiscal Year 1972*	Fiscal Mid-year Review	Fiscal 1973e/ F.R. Board	Calendar Year 1972 ^{1/}	Calendar Quarters					
					F.R.B. Staff Estimates					
					1972				1973	
					I*	II*	III	IV	I	II
<u>Federal Budget</u>					Unadjusted data					
Surplus/deficit	-23.0	-27.0	-32.0	-23.1	-10.5	5.8	-4.4	-14.0	-14.5	0.9
Receipts	208.6	223.0	225.0	223.2	48.1	67.3	56.3	51.5	51.2	66.0
Outlays	231.6	250.0	257.0	246.3	58.6	61.5	60.7	65.5	65.7	65.1
Means of financing:										
Net borrowing from the public	19.4	n.a.	27.9	14.6	3.9	-6.0	5.5	11.2	10.7	0.5
Decrease in cash operating balance	-1.3	n.a.	3.1	5.2	3.6	-2.4	0.6	3.4	1.1	-2.0
Other ^{2/}	4.9	n.a.	1.0	3.3	3.0	2.6	-1.7	-.6	2.7	0.6
Cash operating balance, end of period	10.1	n.a.	7.0	6.1	7.7	10.1	9.5	6.1	5.0	7.0
Memo: Net agency borrowing ^{3/}	4.7	n.a.	n.e.	2.3	.4	1.2	0.3	0.3	n.e.	n.e.
<u>National Income Sector</u>					Seasonally adjusted, annual rates					
Surplus/deficit	-22.1	n.a.	-35.9	-25.0	-14.8	-21.1	-18.1	-46.1	-38.9	-40.5
Receipts	211.0	n.a.	230.4	226.2	221.4	225.4	225.7	232.1	233.6	230.1
Expenditures	233.1	n.a.	266.3	251.2	236.3	246.5	243.8	278.2	272.5	270.6
High employment surplus/deficit (NIA basis) ^{1/}	4.0	n.a.	-18.2	-5.3	8.6	-2.4	1.5	-28.8	-21.3	-24.3

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

CONFIDENTIAL (FR)

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

September 15, 1972

By the Staff
Board of Governors
of the Federal Reserve System

CORRECTIONS

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	1972 Proj.	1973 Proj.	1972 Proj.	
			III	IV
Corporate profits before tax	96.8	113.6	100.0	106.0
Corp. cash flow, net of div. (domestic)	93.2	106.7	95.5	99.7
Federal government receipts and expenditures (N.I.A. basis)				
Receipts	226.4	243.8	226.3	232.7
Surplus or deficit	-24.8	-28.9	-17.5	-45.5

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Corporate profits before tax	16.2	17.4	29.6	24.0
Federal government receipts and expenditures (N.I.A. basis)				
Receipts	13.7	7.7	1.6	11.3

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FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS Table.

The National Income Sector figures should be as follows in billions of dollars:

	Calendar Year 1972 <u>1</u> /	Fiscal 1973 <u>e</u> / F.R. Board	F.R.B. Staff Estimates			
			1972		1973	
			III	IV	I	II
Surplus/deficit	-24.7	-35.3	-17.5	-45.5	-38.3	-39.9
Receipts	226.5	231.0	226.3	232.7	234.2	230.7

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Industrial production increase in the third quarter 1972 should be
3.5 percent annual rate, not 7.4.