

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 | | <u>Per cent increase, annual rate</u> | | | | Unemployment rate | |
|-----------------------|----------------------------------------|---------|---------------------------------------|---------|--------------------------------------------|---------|----------------------|---------|
| | | | Real GNP | | Private GNP fixed weight price index | | | |
| | 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 Proj | 1973 Proj. | 1971 IV | 1972 | | | |
|----------------------------------------------------------------|--------|--------------|---------------|------------|--------|--------|-----------|--------|
| | | | | | I | IIp | Projected | |
| | | | | | | | 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 |
| Nondurable 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 Proj. | 1973 Proj. | 1971 | 1972 | | | |
|-------------------------------------------------------------|------|---------------|---------------|-------------------|--------------------|--------------------|-----------|-------|
| | | | | IV | I | IIp | Projected | |
| | | | | | | | III | IV |
| -----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 | Fiscal 1973e/ | Calendar | Calendar Quarters | | | | | | |
|--------------------------------------------------------------|---------------------|---------------|----------|--------------------|------------------------|---------------------|-------|-------|-------|-------|
| | Year | Mid-year | F.R. | Year | F.R.B. Staff Estimates | | | | | |
| | 1972* | Review | Board | 1972 ^{1/} | 1972 | | | | 1973 | |
| | | | | | I* | II* | III | IV | I | II |
| <u>Federal Budget</u> | | | | | | | | | | |
| (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. |
| <u>National Income Sector</u> | | | | | | | | | | |
| (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.

II - 21
PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

| | July | Aug. | Sept. | Oct. |
|--------------------------------------------------------|--------------------|-------------------|-------------------|------|
| <u>Total net borrowing</u> | 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> | -1.1 ^{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

August 11, 1972

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 |