

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

July 12, 1972

initial payments in early October; we had earlier assumed a 12-1/2 per cent increase plus some liberalizations not in the bill as enacted, effective July 1. As a consequence, the increases in disposable income and consumer spending have been lowered in this quarter and raised in the fourth. We have lowered somewhat our estimates of inventory investment in the second half of this year, because of recent benchmark revisions of manufacturing book value data which raised stock-sales ratios.

The GNP fixed weight price index is expected to increase at an annual rate of about 3-1/2 per cent in the second half of the year, the same as estimated in the last Greenbook. The unemployment rate is projected at 5.3 per cent in the fourth quarter, also unchanged from the projection four weeks ago.

#### STAFF GNP PROJECTIONS

	<u>Per cent increase, annual rate</u>							
	Change in Nominal GNP \$ billion		Real GNP		Private GNP fixed weight price index		Unemployment rate	
	6/14/72	Current	6/14/72	Current	6/14/72	Current	6/14/72	Current
1971-1/	72.7	72.7	2.7	2.7	4.8	4.8	5.9	5.9
1972	102.2	100.5	5.7	5.9	3.6	3.5	5.6	5.6
1973	118.3	117.3	6.2	6.4	3.7	3.6	5.1	5.1
1972-I-1/	30.7	30.7	5.6	5.6	4.4	4.4	5.8	5.8
1972-II	28.9	29.1	6.4	7.8	4.0	3.5	5.8	5.8
1972-III	31.5	27.8	7.7	6.5	3.4	3.4	5.6	5.6
1972-IV	31.8	32.0	7.5	7.7	3.4	3.4	5.3	5.3
1973-I	30.1	30.9	5.8	6.3	3.5	3.5	5.2	5.2
1973-II	27.9	27.6	5.4	5.6	3.7	3.7	5.1	5.1
1973-III	27.5	27.3	4.5	4.7	4.2	4.2	5.0	5.0
1973-IV	26.7	27.4	4.1	4.5	4.2	4.2	5.0	5.0

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	1973	1971	1972			
	Proj.	Proj.	IV	I	II	III	IV	
Gross National Product	1046.8	1147.3	1264.6	1072.9	1103.6	1132.7	1160.5	1192.5
Final purchases	1044.5	1141.7	1250.1	1070.4	1103.0	1128.7	1153.5	1181.5
Private	811.5	883.4	968.8	829.6	853.4	874.2	892.7	913.4
Excluding net exports	811.5	888.5	970.0	834.2	859.6	880.2	897.2	916.8
Personal consumption expenditures	662.1	715.5	786.8	677.2	691.8	707.5	722.3	740.4
Durable goods	100.5	112.2	127.1	103.6	107.6	110.5	113.5	117.0
Nondurable goods	278.6	298.5	328.6	283.3	288.0	295.5	301.3	309.1
Services	282.9	304.9	331.1	290.3	296.2	301.5	307.5	314.3
Gross private domestic investment	151.6	178.6	197.8	159.4	168.3	176.7	181.9	187.4
Residential construction	40.6	49.6	46.0	44.4	49.0	50.0	50.2	49.2
Business fixed investment	108.7	123.3	137.3	112.6	118.7	122.7	124.7	127.2
Change in business inventories	2.2	5.7	14.5	2.4	0.6	4.0	7.0	11.0
Nonfarm	1.7	5.4	14.5	2.0	0.1	3.6	6.8	11.0
Net exports of goods and services <sup>1/</sup>	0.0	-5.0	-1.2	-4.6	-6.2	-6.0	-4.5	-3.4
Exports	65.3	70.5	79.8	60.4	69.2	68.9	70.8	73.0
Imports	65.3	75.5	81.0	65.0	75.4	74.9	75.3	76.4
Gov't. purchases of goods and services	233.0	258.2	281.3	240.8	249.6	254.5	260.8	268.1
Federal	97.6	107.4	109.6	100.3	104.9	106.5	108.3	110.1
Defense	71.4	77.7	78.6	71.4	75.8	77.0	78.1	79.9
Other	26.2	29.7	31.0	28.9	29.0	29.5	30.2	30.2
State & local	135.5	150.8	171.8	140.5	144.8	148.0	152.5	158.0
Gross national product in constant (1958) dollars	739.4	782.9	832.8	751.3	761.6	776.4	789.1	804.4
GNP implicit deflator (1958 = 100)	141.6	146.5	151.8	142.8	144.9	145.9	147.1	148.3
Personal income	857.0	929.2	1016.6	876.7	900.1	916.6	935.6	964.4
Wage and salary disbursements	574.2	629.0	690.3	587.0	608.9	621.9	634.9	650.2
Disposable income	741.3	791.0	873.9	755.0	764.3	778.0	798.3	823.5
Personal saving	60.5	56.2	66.9	59.0	53.5	51.3	56.6	63.5
Saving rate (per cent)	8.2	7.1	7.7	7.8	7.0	6.6	7.1	7.7
Corporate profits before tax	85.5	100.9	118.4	86.0	91.9	98.0	103.0	110.5
Corp. cash flow, net of div. (domestic)	81.0	97.4	111.5	85.6	90.2	95.1	99.6	104.7
Federal government receipts and expenditures (N I A. basis)								
Receipts	198.8	227.8	246.1	203.0	222.2	226.8	227.6	234.6
Expenditures	221.9	247.8	270.3	228.7	235.5	243.8	249.4	262.4
Surplus or deficit (-)	-23.1	-20.0	-24.2	-25.7	-13.2	-17.0	-21.8	-27.8
High employment surplus or deficit (-)	2.9	-0.8	-8.3	6.6	9.2	0.6	-1.8	-11.0
Total labor force (millions)	86.9	89.0	90.9	87.7	88.4	88.8	89.2	89.7
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	87.3
Unemployment rate (per cent)	5.9	5.6	5.1	5.9	5.8	5.8	5.6	5.3
Nonfarm payroll employment (millions)	70.7	72.7	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	19.1	19.3
Industrial production (1967 = 100)	106.3	112.8	122.2	107.0	109.3	111.6	113.8	116.6
Capacity utilization, manufacturing (per cent)	74.6	76.8	80.0	74.1	75.1	76.4	77.2	78.4
Housing starts, private (millions, A.R.)	2.05	2.27	1.93	2.24	2.51	2.27	2.20	2.10
Sales new autos (millions, A.R.)	10.13	10.65	11.06	10.48	10.10	10.74	10.75	11.00
Domestic models	8.68	9.17	9.59	9.20	8.70	9.21	9.25	9.50
Foreign models	1.46	1.48	1.47	1.28	1.40	1.53	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	0.8	-3.4	0.3	-2.1	-4.6	-4.4	-2.9	-1.9
Exports	66.0	72.0	81.3	62.7	70.7	70.4	72.3	74.5
Imports	65.2	75.4	81.0	64.8	75.3	74.8	75.2	76.4

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1971 Proj.	1972 Proj.	1973 Proj.	1971 IV	1972 Projected			
					I	II	III	IV
-----Billions of Dollars-----								
Gross National Product	72.7	100.5	117.3	19.5	30.7	29.1	27.8	32.0
Inventory change	-0.6	3.5	8.8	3.6	-1.8	3.4	3.0	4.0
Final purchases	73.2	97.2	108.4	15.8	32.6	25.7	24.8	28.0
Private	59.6	71.9	85.4	8.8	23.8	20.8	18.5	20.7
Excluding net exports	63.2	77.0 <sup>1/</sup>	81.5 <sup>1/</sup>	13.4	25.4	20.6	17.0	19.6
Net exports	-3.6	-5.0 <sup>1/</sup>	3.8 <sup>1/</sup>	-4.6	-1.6	0.2	1.5	1.1
Government	13.6	25.2	23.0	7.0	8.8	4.9	6.3	7.3
GNP in constant (1958) dollars	19.4	43.4 <sup>1/</sup>	49.9	10.6	10.3	14.3	13.2	15.3
Final purchases	19.6	41.6	43.8	7.7	12.4	12.2	10.6	12.5
Private	19.8	34.0	39.5	4.1	10.9	10.8	8.6	10.0
-----Per Cent Per Year-----								
Gross National Product	7.5	9.6	10.2	7.6 <sup>2/</sup>	12.0 <sup>2/</sup>	10.5	9.8	11.0
Final purchases	7.5	9.3	9.5	6.0	12.2	9.3	8.8	9.7
Private	7.9	8.9	9.7	4.3	11.5	9.7	8.5	9.3
Personal consumption expenditures	7.5	8.1	10.0	5.0	8.6	9.1	8.4	10.0
Durable goods	13.4	11.6	13.3	3.1	15.4	10.8	10.9	12.3
Non durable goods	5.3	7.1	10.1	4.4	6.6	10.4	7.9	10.4
Services	7.8	7.8	8.6	6.3	8.1	7.2	8.0	8.8
Gross private domestic investment	12.0	17.8	10.8	22.8	22.3	20.0	11.8	12.1
Residential construction	33.6	22.2	-7.3	15.9	41.4	8.2	1.6	-8.0
Business fixed investment	6.5	13.4	11.4	12.1	21.7	13.5	6.5	8.0
Gov't. purchases of goods & services	6.2	10.8	8.9	12.0	14.6	7.9	9.9	11.2
Federal	0.4	10.0	2.2	11.1	18.3	6.1	6.8	6.6
Defense	-5.3	8.8	1.2	6.8	24.6	6.3	5.7	9.2
Other	19.6	13.4	4.4	21.9	1.4	6.9	9.5	0.0
State & local	10.9	11.3	13.9	12.6	12.2	8.8	12.2	14.4
GNP in constant (1958) dollars	2.7	5.9	6.4	5.8 <sup>2/</sup>	5.6 <sup>2/</sup>	7.8	6.5	7.7
Final purchases								
Private								
GNP implicit deflator	4.7	3.5	3.6	1.7 <sup>2/4/</sup>	6.0 <sup>2/5/</sup>	2.7	3.2	3.2
Private GNP fixed weight index <sup>3/</sup>	4.8	3.5	3.6	1.8 <sup>2/</sup>	4.4 <sup>2/</sup>	3.5	3.4	3.4
Personal income	6.6	8.4	9.4	5.6	10.7	7.3	8.3	12.3
Wage and salary disbursements	6.1	9.5	9.7	6.7	14.9	8.5	8.4	9.6
Disposable income	7.8	6.7	10.5	3.5	4.9	7.2	10.4	12.6
Corporate profits before tax	13.4	18.1	17.4	0.9	27.4	26.6	20.4	29.1
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	3.8	14.6	8.0	10.5	37.6	8.3	1.4	12.3
Expenditures	8.2	11.7	-9.1	7.3	11.9	14.1	9.2	20.9
Nonfarm payroll employment	0.1	2.8	3.2	2.2	4.3	3.9	2.8	3.3
Manufacturing	-3.9	2.2	3.7	0.9	2.5	4.3	4.2	4.2
Industrial production	-0.4	6.1	8.3	4.2	8.5	8.6	8.0	9.7
Housing starts, private	43.4	10.7	-15.0	24.2	48.5	-38.7	-12.3	-18.2
Sales new autos	21.3	5.1	3.8	7.4	-14.5	25.3	0.4	9.3
Domestic models	21.9	5.6	4.6	20.1	-21.7	23.4	1.7	10.8
Foreign models	18.7	1.4	-0.5	-66.4	37.5	37.1	7.8	0.0

<sup>1/</sup> On a balance of payments basis \$-4.2 billion in 1972 and \$3.7 billion in 1973.<sup>2/</sup> At compound rates.<sup>3/</sup> Using expenditures in 1967 as weights.<sup>4/</sup> Excluding the first \$1.2 billion, annual rate, of the volunteer army pay increase, 1.2 per cent per year.<sup>5/</sup> 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.

of ways for some months. At mutual funds, redemptions in May exceeded sales for the fourth consecutive month, with net sales amounting to more than \$200 million.

Rising bond yields in June discouraged some prospective issuers, and public bond volume was only slightly over \$1.3 billion. In recent weeks, several financial firms and a few industrials filed large bond issues, most of which were tentatively scheduled for late July. Several, however, have already been accelerated into this week. Consequently, the staff estimate of public bond volume for this month has been raised to \$1.7 billion, and August is expected to be about \$1.4 billion. Both private placements and new equity issues remain at high levels.

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

	1971	1972						
		May	e/	June	e/	July	f/	August
<b>Corporate securities -</b>								
<b>total</b>	<b>3,758</b>	<b>3,300</b>		<b>3,325</b>		<b>3,400</b>		<b>2,800</b>
Public bonds	2,065	1,600		1,325		1,700		1,400
Privately placed bonds	613	700		800		600		500
Stock	1,080	1,000		1,200		1,100		900
<b>State and local government securities</b>	<b>2,080</b>	<b>1,947</b>		<b>2,200</b>		<b>2,000</b>		<b>1,800</b>

e/ Estimated.

f/ Forecast.

PROJECTION OF TREASURY CASH OUTLOOK  
(In billions of dollars)

	June	July	Aug.	Sept.
<u>Total net borrowing</u>	-3.0	2.1	3.1	,7
Weekly and monthly bills	-.4	.6	.4	
Tax bills	-3.0	--	--	--
Coupon issues	-1.2	--	--	--
As yet unspecified new borrowing	--	--	3.0	1.0
Other (debt repayments, etc.)	1.6	1.5	-.3	-.3
Plus: <u>Other net financial sources</u> <sup>a/</sup>	.2	-.4	-.4	1.0
Plus: <u>Budget surplus or deficit (-)</u>	3.2	-6.3	-3.3	2.6
Equals: <u>Change in cash balance</u>	.4 <sup>b/</sup>	-4.6	-.6	4.3
Memoranda: Level of cash balance end of period	10.1 <sup>b/</sup>	5.5	4.9	9.2
Derivation of budget surplus or deficit:				
Budget receipts	25.7	14.8	18.4	23.9
Budget outlays	22.5	21.1	21.7	21.3
Maturing coupon issues held by public	1.1 <sup>c/</sup>	--	2.3	1.8
Net agency borrowing	.6	.3	.2	.5

---

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

b/ Actual

c/ This maturity was redeemed in cash.

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

	Fiscal 1972 e/ Mid-year Review	Fiscal 1973 e/ Mid-year Review	Calendar Year 1972 1/	Calendar Quarters										
				F. R. B. Staff Estimates				1972						
				I*	II	III	IV	I	II	III	IV			
<b>Federal Budget</b>														
(Quarterly data, unadjusted)														
Surplus/deficit	-26.0	-22.5	-27.0	-27.0	-21.3	-10.5	6.4	-7.1	-10.1	-13.0	3.3			
Receipts	207.0	208.7	223.0	226.0	224.0	48.1	67.5	57.0	51.4	51.3	66.4			
Outlays	233.0	231.2	250.0	253.0	245.3	58.6	61.1	64.1	61.5	64.3	63.1			
Means of financing:														
Net borrowing from the public	n.a.	19.8	n.a.	22.6	13.5	3.9	-5.7	5.9	9.4	8.3	-1.0			
Decrease in cash operating balance	n.a.	-1.3	n.a.	3.1	3.3	3.6	-2.4	.9	1.2	2.7	-1.7			
Other <sup>2/</sup>	n.a.	4.0	n.a.	1.0	4.3	3.0	1.7	.2	-.6	2.0	-.6			
Cash operating balance, end of period	n.a.	10.1	n.a.	7.0	8.0	7.7	10.1	9.2	8.0	5.3	7.0			
Memo: Net agency borrowing <sup>3/</sup>	n.a.	4.9	n.a.	n.e.	n.e.	.4	1.4	.9	n.e.	n.e.	n.e.			
<b>National Income Sector</b>														
(Seasonally adjusted annual rate)														
Surplus/deficit	n.a.	-20.7	n.a.	-29.3	-20.0	-13.2	-17.0	-21.8	-27.8	-31.6	-36.2			
Receipts	n.a.	212.5	n.a.	232.7	227.8	222.2	226.8	227.6	234.6	235.9	232.5			
Expenditures	n.a.	233.2	n.a.	262.0	247.8	235.5	243.8	249.4	262.4	267.5	268.7			
High employment surplus/deficit (NIA basis) <sup>1/</sup>	n.a.	4.3	n.a.	-12.1	-.8	9.2	.6	-1.8	-11.0	-15.8	-19.8			

\*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.