

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

June 14, 1972

## STAFF GNP PROJECTIONS

		Per cent increase, annual rate							
Change in Nominal GNP \$ billion		Real GNP		Private GNP fixed weight price index		Unemployment Rate			
	5/17/72	Current	5/17/72	Current	5/17/72	Current	5/17/72	Current	
<u>Actual</u>									
1971-IV	19.5	19.5	5.8	5.8	1.8	1.8	5.9	5.9	
1972-I	30.7	30.7	5.6	5.6	4.4	4.4	5.8	5.8	
<u>Projected</u>									
1972-II	30.2	28.9	6.9	6.4	4.0	4.0	5.7	5.8	
1972-III	32.3	31.5	7.9	7.7	3.4	3.4	5.5	5.6	
1972-IV	32.7	31.8	7.8	7.5	3.4	3.4	5.2	5.3	

The staff GNP projection for the second and subsequent quarters is slightly lower than four weeks ago, as can be seen in the table. The downward revision is primarily attributable to the smaller increase now projected for business capital outlays--12.6 per cent from 1971 to 1972, rather than the 14.0 per cent of the preceding projection. In this sector, staff expectations have been reduced as a result of the latest Commerce Survey, which indicated a smaller increase than did the recent McGraw-Hill survey. Projections for other demand sectors have changed very little.

For the current quarter, in addition to the smaller increase projected for business fixed investment, we now expect somewhat less improvement in net exports than earlier. However, consumer spending is

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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		
			III	IV	I	II	Projected III	IV
Gross National Product	1046.8	1149.0	1053.4	1072.9	1103.6	1132.5	1164.0	1195.8
Final purchases	1044.5	1142.7	1054.6	1070.4	1103.0	1129.0	1156.0	1182.8
Private	811.5	883.9	820.8	829.6	853.4	873.7	894.3	914.1
Excluding net exports	811.5	887.8	820.8	834.2	859.6	878.5	897.2	915.8
Personal consumption expenditures	662.1	715.7	668.8	677.2	691.8	707.2	723.3	740.4
Durable goods	100.5	112.2	102.8	103.6	107.6	110.6	113.6	117.0
Non durable goods	278.6	298.2	280.2	283.3	288.0	294.6	301.5	308.7
Services	282.9	305.3	285.8	290.3	296.2	302.0	308.2	314.7
Gross private domestic investment	151.6	178.4	150.8	159.4	168.3	174.8	181.9	188.4
Residential construction	40.6	49.7	42.7	44.4	49.0	50.3	50.4	48.9
Business fixed investment	108.7	122.4	109.3	112.6	118.7	121.0	123.5	126.5
Change in business inventories	2.2	6.3	-1.2	2.4	0.6	3.5	8.0	13.0
Nonfarm	1.7	6.1	-2.0	2.0	0.1	3.3	8.0	13.0
Net exports of goods and services <sup>1/</sup>	0.0	-3.9	0.0	-4.6	-6.2	-4.8	-2.9	-1.7
Exports	65.3	70.5	68.2	60.4	69.2	68.9	70.8	73.2
Imports	65.3	74.4	68.2	65.0	75.4	73.7	73.7	74.9
Gov't. purchases of goods and services	233.0	258.8	233.8	240.8	249.6	255.3	261.7	268.7
Federal	97.6	107.3	97.6	100.3	104.9	106.3	108.2	109.7
Defense	71.4	77.5	70.2	71.4	75.8	76.8	78.0	79.5
Other	26.2	29.7	27.4	28.9	29.0	29.5	30.2	30.2
State & local	135.5	151.6	136.2	140.5	144.8	149.0	153.5	159.0
Gross national product in constant (1958) dollars	739.4	781.9	740.7	751.3	761.6	773.8	788.7	803.4
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	931.7	864.6	876.7	900.1	917.8	943.9	965.0
Wage and salary disbursements	574.2	629.6	577.3	587.0	608.9	621.5	636.1	652.0
Disposable income	741.3	793.9	748.5	755.0	764.3	781.8	806.1	823.5
Personal saving	60.5	59.0	61.0	59.0	53.5	55.4	63.4	63.5
Saving rate (per cent)	8.2	7.4	8.1	7.8	7.0	7.1	7.9	7.7
Corporate profits before tax	85.5	100.9	85.8	86.0	91.6	96.0	104.0	112.0
Corp. cash flow, net of div (domestic)	81.0	97.4	82.4	85.6	90.0	94.0	100.1	105.5
Federal government receipts and expenditures (N.I.A basis)								
Receipts	198.8	227.4	197.8	203.0	222.1	224.0	228.6	235.0
Expenditures	221.9	248.8	224.6	228.7	235.5	244.1	255.7	259.9
Surplus or deficit (-)	-23.1	-21.4	-26.7	-25.7	-13.3	-20.1	-27.1	-24.9
High employment surplus or deficit (-)	2.9	-2.0	1.3	6.6	8.3	0.3	-8.1	-8.7
Total labor force (millions)	86.9	89.1	87.0	87.7	88.4	88.8	89.3	89.7
Armed forces "	2.8	2.4	2.8	2.7	2.5	2.4	2.4	2.4
Civilian labor force "	84.1	86.6	84.2	85.0	85.9	86.4	86.9	87.3
Unemployment rate (per cent)	5.9	5.6	6.0	5.9	5.8	5.8	5.6	5.3
Nonfarm payroll employment (millions)	70.7	72.7	70.6	71.0	71.8	72.4	73.0	73.6
Manufacturing	18.6	19.0	18.5	18.6	18.7	18.9	19.1	19.3
Industrial production (1967 = 100)	106.3	113.1	105.9	107.0	109.3	111.6	114.4	117.2
Capacity utilization, manufacturing (per cent)	74.6	76.7	74.1	74.1	74.9	76.2	77.3	78.3
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	10.65	10.29	10.47	10.09	10.75	10.75	11.00
Domestic models	8.68	9.17	8.76	9.20	8.69	9.25	9.25	9.50
Foreign models	1.46	1.48	1.53	1.27	1.40	1.50	1.50	1.50

<sup>1/</sup> 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	-1.3	0.2	-2.1	-3.6	-2.3	-0.3	0.9
Exports	66.0	72.8	68.3	62.7	71.5	71.2	73.1	75.5
Imports	65.2	74.1	68.1	64.8	75.1	73.4	73.4	74.6

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CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1971	1972	1971		1972			
	Proj.		III	IV	I	II	Projected	
						III	IV	
-Billions Of Dollars-								
Gross National Product	72.7	102.2	13.4	19.5	30.7	28.9	31.5	31.8
Inventory change	-0.6	4.1	-5.8	3.6	-1.8	2.9	4.5	5.0
Final purchases	73.2	98.2	19.2	15.8	32.6	26.0	27.0	26.8
Private	59.6	72.4	15.0	8.8	23.8	20.3	20.6	19.8
Excluding net exports	63.2	76.3	15.1	13.4	25.4	18.9	18.7	18.6
Net exports	-3.6	-3.9	-0.1	-4.6	-1.6	1.4	1.9	1.2
Government	13.6	25.8	4.2	7.0	8.8	5.7	6.4	7.0
GNP in constant (1958) dollars	19.4	42.5	4.9	10.6	10.3	12.2	14.9	14.7
Final purchases	19.6	39.1	9.5	7.7	12.4	9.4	10.9	10.3
Private	19.8	32.0	6.9	4.1	10.9	8.3	8.9	8.6
-Per Cent Per Year-								
Gross National Product	7.5	9.8	5.2 <sup>1/</sup>	7.6 <sup>1/</sup>	12.0 <sup>1/</sup>	10.5	11.1	10.9
Final purchases	7.5	9.4	7.4	6.0	12.2	9.4	9.6	9.3
Private	7.9	8.9	7.4	4.3	11.5	9.5	9.4	8.9
Personal consumption expenditures	7.5	8.1	7.0	5.0	8.6	8.9	9.1	9.5
Durable goods	13.4	11.6	14.9	3.1	15.4	11.2	10.8	12.0
Nondurable goods	5.3	7.0	3.5	4.4	6.6	9.2	9.4	9.6
Services	7.8	7.9	7.6	6.3	8.1	7.8	8.2	8.4
Gross private domestic investment	12.0	17.7	-5.5	22.8	22.3	15.4	16.2	14.3
Residential construction	33.6	22.4	27.0	15.9	41.4	10.6	0.8	-11.9
Business fixed investment	6.5	12.6	3.7	12.1	21.7	7.8	8.3	9.7
Gov't. purchases of goods & services	6.2	11.1	7.3	12.0	14.6	9.1	10.0	10.7
Federal	0.4	9.9	6.7	11.1	18.3	5.3	7.1	5.5
Defense	-5.3	8.5	-6.7	6.8	24.6	5.3	6.3	7.7
Other	19.6	13.4	45.5	21.9	1.4	6.9	9.5	0.0
State & local	10.9	11.9	7.8	12.6	12.2	11.6	12.1	14.3
GNP in constant (1958) dollars	2.7	5.7	2.7 <sup>1/</sup>	5.8 <sup>1/</sup>	5.6 <sup>1/</sup>	6.4	7.7	7.5
Final purchases	2.7	5.3	5.2	4.2	6.6	5.0	5.7	5.3
Private	3.4	5.3	4.6	2.7	7.2	5.4	5.7	5.4
GNP implicit deflator	4.7	3.8	2.5 <sup>1/</sup>	1.7 <sup>1/3</sup>	6.0 <sup>1/4</sup>	4.0	3.4	3.4
Private GNP fixed weight index <sup>2/</sup>	5.3	3.6	3.6 <sup>1/</sup>	1.8 <sup>1/</sup>	4.4 <sup>1/</sup>	4.0	3.4	3.4
Personal income	6.6	8.7	5.2	5.6	10.7	7.9	11.4	8.9
Wage and salary disbursements	6.1	9.6	4.4	6.7	14.9	8.3	9.4	10.0
Disposable income	7.8	7.1	4.8	3.5	4.9	9.2	12.4	8.6
Corporate profits before tax	13.4	18.0	-5.1	0.9	26.0	19.2	33.3	30.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	3.8	14.4	0.2	10.5	37.6	3.4	8.2	11.2
Expenditures	8.2	12.1	5.8	7.3	11.9	14.6	19.0	6.6
Nonfarm payroll employment	0.1	2.8	-0.2	2.2	4.3	3.4	3.3	3.4
Manufacturing	-3.9	2.3	-2.5	0.9	2.5	5.3	3.9	4.2
Industrial production	-0.4	6.4	-3.4	4.2	8.6	8.4	10.0	9.8
Housing starts, private	43.4	11.2	22.2	24.2	47.8	-33.5	-17.4	-18.2
Sales new autos	21.3	5.2	19.1	7.4	-14.5	26.2	0.0	9.3
Domestic models	21.9	5.7	22.7	20.1	-22.2	25.8	0.0	10.8
Foreign models	18.7	1.5	-0.8	-66.4	37.9	30.0	0.0	0.0

<sup>1/</sup> At compound rates.<sup>2/</sup> Using expenditures in 1967 as weights.<sup>3/</sup> Excluding the first \$1.2 billion, annual rate, of the volunteer army pay increase, 1.2 per cent per year.<sup>4/</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.

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

	1971	First quarter	1972		
			May <sup>e/</sup>	June <sup>f/</sup>	July <sup>f/</sup>
Corporate securities - Total	3,758	3,268	3,300	3,500	2,600
Public bonds	2,065	1,787	1,600	1,500	1,200
Privately placed bonds	613	531	700	800	550
Stock	1,080	950	1,000	1,200	850
State and local gov't. securities	2,080	1,985	1,870	1,900	1,800

e/ Estimated.

f/ Forecast.

Yields on long-term municipal bonds, after declining almost 25 basis points during May, rose sharply in the second week of June and now stand at about the level prevailing just before the May 23 Committee meeting. Both commercial banks and casualty insurance companies continued to acquire tax-exempt bonds at a high rate during May. In recent days, however, yields on tax-exempts have risen in response to the same factors influencing other long-term markets.

The May volume of State and local long-term offerings was almost \$1.9 billion, with a number of revenue bonds brought to market, apparently in response to the rate declines in late May. The staff expects June volume to remain close to the May level, as several large pre-refunding offerings have been accelerated by the issuance of Treasury regulations about arbitrage bonds, which became effective in July. The impact of these rulings on future volume of pre-refunding issues is indeterminate at this time.

The staff also assumes that the social security benefit hike and revenue sharing will be retroactive to July 1, 1972. The mid-year budget review assumes that revenue sharing will be retroactive to January 1, 1972. In the Staff projections retroactive payments are made in late September, but unless the social benefit hike is enacted within the next few weeks, further slippage of the retroactive social securities payments is likely.

On the receipts side, the staff assumes that the retroactive (to January 1972) increase in the social security wage base, which adds \$2.3 billion to the Administration estimate of fiscal 1973 receipts, will be postponed until January 1973. Our higher estimate of fiscal 1973 receipts is due mostly to higher income assumptions.

As shown in the table below, the high employment budget as measured by the staff, showed little change from the last half of calendar 1971 to the first half of calendar 1972. The shift toward deficit in the first half of 1972 that was anticipated in the January Budget did not develop because the scheduled tax cuts and stepped-up expenditures were largely offset by the unanticipated overwithholding.

**STAFF ESTIMATE OF ACTUAL AND HIGH  
EMPLOYMENT SURPLUS/DEFICIT (-)  
(Billions of dollars, annual rates, NIA accounts)**

<u>Calendar years</u>	<u>NIA deficit</u>	<u>High employment surplus/deficit</u>
1971 H-2	-26.2	4.0
1972 H-1e	-16.9	4.3
H-2e	-26.0	-8.3
1973 H-1e	-32.0	-17.5
H-2e	-13.3	1.0

e - estimated.

PROJECTION OF TREASURY CASH OUTLOOK  
(In billions of dollars)

	May	June	July	Aug.
<b>Total net borrowing</b>	- .4	-3.8	4.8	3.7
Weekly and monthly bills	- .2	- .4	--	--
Tax bills	--	-3.0	--	--
Coupon issues	- .7	-1.2	--	-.3
As yet unspecified new borrowing	--	--	4.0	4.0
Other (debt repayments, etc.)	.5	0.8	.8	--
Plus: <u>Other net financial sources</u> <sup>a/</sup>	1.8 <sup>b/</sup>	--	-.4	-.7
Plus: <u>Budget surplus or deficit (-)</u>	-3.4	1.9	-6.2	-3.2
Equals: <u>Change in cash balance</u>	-2.0 <sup>c/</sup>	-1.9	-1.8	-.2
Memoranda: Level of cash balance end of period	9.7 <sup>c/</sup>	7.8	6.0	5.8
Derivation of budget surplus or deficit:				
Budget receipts	16.5	24.8	14.8	18.5
Budget outlays	19.9	22.9	21.0	21.7
Maturing coupon issues held by public	2.4 <sup>d/</sup>	1.1	--	2.3
Net agency borrowing	.4	.6	.3	.4

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

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

c/ Actual.

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.

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

	Calendar Quarters											
	Fiscal 1972 e/		Fiscal 1973 e/		Calendar Year 1972 1/	F. R. B. Staff Estimates				I 1973		
	Mid-year Review	F.R. Board	Mid-year Review	F.R. Board		I*	II	III	IV			
<b>Federal Budget</b>												
(Quarterly data, unadjusted)												
Surplus/deficit	-26.0	-24.5	-27.0	-26.5	-23.5	-10.5	4.5	-8.4	-9.1	-12.5 3.5		
Receipts	207.0	207.0	223.0	225.5	222.6	48.1	65.8	57.2	51.5	50.9 66.		
Outlays	233.0	231.5	250.0	252.0	246.2	58.6	61.4	65.6	60.6	63.4 62.5		
Means of financing:												
Net borrowing from the public	n.a.	19.2	n.a.	25.3	15.6	3.9	-6.3	9.2	8.8	8.3 -1.0 H		
Decrease in cash operating balance	n.a.	1.0	n.a.	.5	3.7	3.6	-.1	-.7	.9	2.2 -1.9 *		
Other 2/	n.a.	4.3	n.a.	.7	4.3	3.0	2.0	-.1	-.6	2.0 -.6 23		
Cash operating balance, end of period	n.a.	7.8	n.a.	7.3	7.6	7.7	7.8	8.5	7.6	5.4 7.3		
Memo: Net agency borrowing <sup>3/</sup>	n.a.	5.2	n.a.	n.e.	n.e.	.4	1.5	1.1	n.e.	n.e. n.e.		
<b>National Income Sector</b>												
(Seasonally adjusted annual rate)												
Surplus/deficit	n.a.	-21.5	n.a.	-29.0	-21.4	-13.3	-20.1	-27.1	-24.9	-29.6 -34.4		
Receipts	n.a.	211.7	n.a.	232.5	227.4	222.1	224.0	228.6	235.0	234.9 231.6		
Expenditures	n.a.	233.2	n.a.	261.5	248.8	235.5	244.1	255.7	259.9	264.5 266.		
High employment surplus/deficit (NIA basis) 1/	n.a.	4.1	n.a.	-12.8	-2.0	8.3	.3	-8.1	-8.7	-15.1 -19.4		

\* 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.