

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

December 13, 1972

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

Outlook. For 1973, the staff has retained the basic monetary, fiscal, and price control assumptions incorporated in the recent Chart Show projection. As may be seen in the table, the current projections are changed only slightly from those of four weeks ago.

STAFF GNP PROJECTIONS

Date	Change in Nominal GNP \$ billion		Per cent increase, annual rate					
			Real GNP		Private GNP fixed weight price index		Unemployment rate	
	11/17/72	Current	11/17/72	Current	11/17/72	Current	11/17/72	Current
1971 ^{1/}	74.0	74.0	2.7	2.7	4.5	4.5	5.9	5.9
1972	100.5	101.4	6.4	6.4	3.2	3.2	5.6	5.6
1973	114.4	117.0	6.4	6.5	3.4	3.4	5.1	4.9
1972-I ^{1/}	31.0	31.0	6.5	6.5	4.5	4.5	5.8	5.8
-II ^{1/}	30.3	30.3	9.4	9.4	2.5	2.5	5.7	5.7
-III ^{1/}	22.8	24.6	5.9	6.3	2.7	2.9	5.6	5.6
-IV	30.6	30.5	7.5	7.6	3.1	2.9	5.4	5.3
1973-I	32.0	33.0	6.6	6.8	3.5	3.6	5.2	5.1
-II	28.4	29.0	5.7	5.9	3.7	3.7	5.1	5.0
-III	25.4	26.0	4.5	4.4	3.9	3.9	5.0	4.9
-IV	26.0	26.0	4.3	4.3	3.9	3.9	4.9	4.8
^{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.)

	1972 Proj.	1973 Proj.	1972		1973			
			III	IV	Projected		III	IV
Gross National Product	1151.7	1268.8	1164.0	1194.5	1227.5	1256.5	1282.5	1308.5
Final purchases	1145.7	1255.5	1156.0	1184.0	1216.0	1243.7	1268.3	1294.0
Private	891.1	981.1	900.4	924.5	947.8	971.6	992.0	1012.8
Excluding net exports	894.9	982.3	903.8	926.6	949.6	973.3	993.3	1012.8
Personal consumption expenditures	721.2	792.9	728.6	746.8	765.8	786.0	802.2	817.6
Durable goods	116.0	130.6	118.6	120.5	125.0	130.4	132.9	134.2
Nondurable goods	299.6	329.3	302.0	311.1	318.4	325.7	333.1	339.9
Services	305.6	333.0	308.0	315.2	322.4	329.9	336.2	343.5
Gross private domestic investment	179.7	202.6	183.2	190.3	195.3	200.1	205.3	209.7
Residential construction	53.6	53.6	54.4	55.4	55.4	54.0	53.0	52.2
Business fixed investment	120.1	135.7	120.7	124.4	128.4	133.3	138.1	143.0
Change in business inventories	6.0	13.3	8.0	10.5	11.5	12.8	14.2	14.5
Nonfarm	5.7	13.3	7.9	10.5	11.5	12.8	14.2	14.5
Net exports of goods and services ^{1/}	-3.8	-1.2	-3.4	-2.1	-1.8	-1.7	-1.3	0.0
Exports	73.3	84.1	74.4	78.2	80.5	83.0	85.1	87.7
Imports	77.2	85.3	77.8	80.3	82.3	84.7	86.4	87.7
Gov't. purchases of goods and services	254.6	274.5	255.6	259.5	268.2	272.1	276.3	281.2
Federal	106.0	107.0	105.4	104.8	108.0	107.0	106.4	106.4
Defense	76.3	76.5	75.1	74.6	77.2	77.2	75.9	75.6
Other	29.7	30.5	30.2	30.2	30.8	29.8	30.5	30.8
State & local	148.6	167.5	150.2	154.7	160.2	165.1	169.9	174.8
Gross national product in constant (1958) dollars	789.5	841.1	796.1	811.3	825.1	837.2	846.5	855.5
GNP implicit deflator (1958 = 100)	145.9	150.8	146.2	147.2	148.8	150.1	151.5	152.9
Personal income	935.0	1021.5	939.9	971.1	991.9	1010.7	1032.3	1050.9
Wage and salary disbursements	626.4	685.3	630.8	646.4	664.2	678.4	692.4	706.3
Disposable income	794.5	877.9	798.8	825.9	853.3	879.9	881.6	896.8
Personal saving	54.1	65.0	50.8	59.6	67.8	74.0	59.2	58.9
Saving rate (per cent)	6.8	7.4	6.4	7.2	7.9	8.4	6.7	6.6
Corporate profits before tax	93.8	107.4	95.8	99.5	101.0	106.0	109.5	113.0
Corp. cash flow, net of div. (domestic)	91.5	103.5	93.0	96.3	98.4	102.2	105.3	108.2
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	227.9	248.5	230.0	235.4	239.9	234.9	256.8	262.3
Expenditures	246.9	270.7	241.6	263.1	271.6	266.2	271.3	273.5
Surplus or deficit (-)	-19.0	-22.2	-11.6	-27.7	-31.7	-31.3	-14.5	-11.2
High employment surplus or deficit (-)	-1.0	-8.0	3.7	-13.7	-16.8	-16.2	-1.5	2.4
State and local government surplus or deficit (-), N.I.A. basis	12.8	12.0	9.4	20.1	18.3	10.9	10.3	8.7
Total labor force (millions)	89.0	90.7	89.2	89.6	90.1	90.5	90.9	91.3
Armed forces "	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Civilian labor force "	86.6	88.3	86.8	87.2	87.7	88.1	88.5	88.9
Unemployment rate (per cent)	5.6	4.9	5.6	5.3	5.1	5.0	4.9	4.8
Nonfarm payroll employment (millions)	72.7	75.0	72.9	73.7	74.3	74.8	75.2	75.6
Manufacturing	18.9	19.6	18.9	19.3	19.4	19.5	19.6	19.7
Industrial production (1967 = 100)	114.1	124.0	115.0	118.3	120.9	123.3	125.1	126.7
Capacity utilization, manufacturing (per cent)	77.6	81.5	78.1	79.7	80.6	81.4	81.8	82.0
Housing starts, private (millions, A.R.)	2.36	2.08	2.36	2.31	2.20	2.13	2.05	1.95
Sales new autos (millions, A.R.)	10.79	11.50	11.26	11.54	11.60	11.60	11.40	11.40
Domestic models	9.35	10.07	9.90	9.94	10.10	10.20	10.00	10.00
Foreign models	1.44	1.43	1.36	1.60	1.50	1.40	1.40	1.40

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

	1972	1973	1972		1973			
	Proj.	Proj.	III	IV	Projection			
					I	II	III	IV
-----Billions of Dollars-----								
Gross National Product	101.4	117.1	24.6	30.5	33.0	29.0	26.0	26.0
Inventory change	2.4	7.3	3.0	2.5	1.0	1.3	1.4	0.3
Final purchases	99.0	109.8	21.6	28.0	32.0	27.7	24.6	25.7
Private	77.1	90.0	20.1	24.1	23.3	23.8	20.4	20.8
Excluding net exports	81.6	87.4	18.3	22.8	23.0	23.7	20.0	19.5
Net exports	-4.5	2.6	1.8	1.3	0.3	0.1	0.4	1.3
Government	21.9	19.8	1.5	3.9	8.7	3.9	4.2	4.9
GNP in constant (1958) dollars	47.8	51.6	12.2	15.2	13.8	12.1	9.3	9.0
Final purchases	45.7	46.0	9.8	13.1	12.7	11.9	8.1	8.4
Private	40.2	43.2	11.1	12.3	11.0	11.5	7.7	7.7
-----Per Cent Per Year-----								
Gross National Product	9.7	10.2	8.9 ^{1/}	10.5	11.1	9.5	8.3	8.1
Final purchases	9.5	9.6	7.6	9.7	10.8	9.1	7.9	8.1
Private	9.5	10.1	9.1	10.7	10.1	10.0	8.4	8.4
Personal consumption expenditures	8.5	9.9	8.5	10.0	10.2	10.6	8.2	7.7
Durable goods	12.1	12.6	16.5	6.4	14.9	17.3	7.7	3.9
Nondurable goods	7.7	9.9	6.5	12.1	9.4	9.2	9.1	8.2
Services	7.9	9.0	7.4	9.4	9.1	9.3	7.6	8.7
Gross private domestic investment	18.2	12.8	14.0	15.5	10.5	9.8	10.4	8.6
Residential construction	25.8	0.0	12.1	7.4	0.0	-10.1	-7.4	-6.0
Business fixed investment	13.5	13.0	5.0	12.3	12.9	15.3	14.4	14.2
Gov't. purchases of goods & services	9.4	7.8	2.4	6.1	13.4	5.8	6.2	7.1
Federal	8.4	0.9	-10.0	-2.3	12.2	-3.7	-2.2	0.0
Defense	6.8	0.3	-17.8	-2.7	13.9	0.0	-6.7	-1.6
Other	13.0	2.5	8.1	0.0	7.9	-13.0	9.4	3.9
State & local	10.1	12.7	11.5	12.0	14.2	12.2	11.6	11.5
GNP in constant (1958) dollars	6.4	6.5	6.3 ^{1/}	7.6	6.8	5.9	4.4	4.3
Final purchases	6.2	5.9	5.0	6.7	6.3	5.8	3.9	4.0
Private	6.7	6.7	7.0	7.6	6.7 ^{2/}	6.9	4.5	4.5
GNP implicit deflator	3.0	3.4	2.4 ^{1/}	2.8	4.2 ^{2/}	3.5	3.8	3.8
Private GNP fixed weight index ^{3/}	3.2	3.4	2.9 ^{1/}	2.9	3.6	3.7	3.9	3.9
Personal income	8.5	9.2	7.5	13.3	8.6	7.6	8.5	7.0
Wage and salary disbursements	9.3	9.4	6.4	9.9	11.0	8.6	8.3	8.0
Disposable income	6.7	10.5	8.2	13.6	13.3	12.5	0.8	6.9
Corporate profits before tax	12.6	14.5	24.9	15.4	6.0	19.8	13.2	12.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	3.2	9.0	9.4	9.4	7.6	-8.3	37.3	8.6
Expenditures	11.8	9.6	-5.5	35.6	12.9	-8.0	7.7	3.2
Nonfarm payroll employment	2.8	3.2	2.5	4.4	3.3	2.7	2.1	2.1
Manufacturing	2.2	3.2	1.4	8.5	2.1	2.1	2.1	2.0
Industrial production	6.8	8.7	6.0	11.5	8.9	7.9	5.9	4.8
Housing starts, private	15.1	-11.9	16.4	-7.5	-19.4	-13.6	-15.1	-17.6
Sales new autos	6.5	6.6	37.1	9.8	2.3	0.0	-1.7	0.0
Domestic models	7.8	7.8	44.4	1.6	6.5	4.0	-7.8	0.0
Foreign models	-1.0	-0.8	-9.5	69.5	-23.8	-26.7	0.0	0.0

^{1/} At compound rates.^{2/} Excluding Federal pay increase, 3.4 per cent annual rate.^{3/} Using expenditures in 1967 as weights.

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

		First 9 months	1972			1973
	1971	1972	Oct.	Nov.	Dec.	Jan.
Corporate securities						
Total	3,743	3,374	3,500	3,050	2,600	3,100
Public bonds	2,066	1,576	1,650	1,350	950	1,500
Privately placed bonds	605	696	650	650	1,000	700
Stock	1,072	1,100	1,200	1,050	650	900
State and local government securities						
	2,080	1,968	1,970	1,800	1,400	1,800

Mortgage market. Average rates on home mortgages were unchanged in November. Despite field reports of some further shift away from HUD(FHA)-insured home loans toward high-ratio conventional mortgages with above-average yields,^{1/} contract interest rates on conventional loans as a group remained at an average of 7.70 per cent on new homes and at 7.75 per cent on existing homes, according to the HUD(FHA) series. The spread between gross returns on both new- and existing-home loans in November and the reduced level of yields on new issues of high-grade utility bonds became more attractive than it had been in several years, although it was still below earlier standards.

^{1/} Fragmentary field information suggests that 90 or 95 per cent conventional home mortgages available at S&Ls may carry somewhat higher contract interest rates than mortgages with 70 per cent loan-to-value ratios, even though private mortgage insurance is required on the higher-ratio loans.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Nov.	Dec.	Jan.	Feb.
<u>Total net borrowing</u>	5.3	2.4	3.0	0.6
Weekly and monthly bills	1.1	0.8	1.0	0.1
Tax bills	2.0	2.5	--	--
Coupon issues	3.0	--	--	--
As yet unspecified new borrowing	--	--	2.0	1.2
Special issues to foreigners	-.2	--	--	--
Agency transactions, debt repayment, etc.	-.6	-.9	--	-.7
Plus: <u>Other net financial sources</u> ^{a/}	-1.1	-1.0	1.6	-.5
Plus: <u>Budget surplus or deficit</u> (-)	-3.9	-2.9	-5.4	-2.2
Equals: <u>Change in cash balance</u>	0.3 ^{b/}	-1.5	-.8	-2.1
Memoranda: Level of cash balance, end of period	8.3 ^{b/}	6.8	6.0	3.9
Derivation of budget surplus or deficit:				
Budget receipts	17.3	18.8	19.1	17.5
Budget outlays	21.2	21.7	24.5	19.7
Maturing coupon issues held by public <u>c/</u>	1.3	1.2	--	4.8
Net borrowing by gov't-sponsored agencies	0.4	0.4	0.3	0.1

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

^{b/} Actual

^{c/} In the August prefunding, \$.9 billion and \$1.1 billion, respectively, were exchanged for the November and December maturities, leaving \$1.3 billion and \$1.2 billion to be redeemed in cash.

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

	Fiscal Year 1972*	Fiscal Year 1973		Calendar Years		F.R.B. Staff Estimates					
		Adm. 1/ Estimate	F.R. Board	F.R. Estimates		Calendar Quarters					
				1972	1973	1972		1973			
						III*	IV	I	II	III	IV
Federal Budget											
Surplus/deficit	-23.2	-23.5	-25.5	-19.0	-21.5	-2.0	-12.1	-13.0	1.8	-1.5	-8.8
Receipts	208.6	226.5	226.5	221.8	244.3	55.6	50.8	52.5	67.6	65.5	58.7
Outlays	231.9	250.0	252.0	241.0	265.8	57.6	63.0	65.5	65.8	67.0	67.5
Means of financin:											
Net borrowing from the public	19.4	n.a.	22.3	13.4	18.7	5.0	10.6	7.7	-1.0	2.5	9.5
Decrease in cash operating balance	-1.3	n.a.	2.6	4.5	-.2	0.3	3.0	2.3	-3.0	.5	--
Other 2/	5.1	n.a.	0.5	1.2	3.0	-3.3	-1.5	3.0	2.2	-1.5	-.7
Cash operating balance, end of period	10.1	n.a.	7.5	6.8	7.0	9.8	6.8	4.5	7.5	7.0	7.0
Memo: Net agency borrowing 3/	4.7	n.a.	n.e.	3.5	n.e.	0.7	1.2	0.9	n.e.	n.e.	n.e.
National Income Sector											
Surplus/deficit	-22.1	n.a.	-25.6	-18.9	-22.2	-11.6	-27.7	-31.7	-31.3	-14.5	-11.2
Receipts	211.0	n.a.	235.1	227.9	248.5	230.0	235.4	239.9	234.9	256.8	262.3
Expenditures	233.1	n.a.	260.6	246.9	270.7	241.6	263.1	271.6	266.2	271.3	273.5
High employment surplus/deficit (NIA,basis) 4/	4.1	n.a.	-10.7	-1.0	-8.0	3.7	-13.7	-16.8	-16.2	-1.5	2.4

- *Actual e--projected n.e.--not estimated n.a.--not available
- 1/ Revised Administration estimates of \$225.0 billion in receipts and \$250.0 billion in outlays were disclosed by Secretary Shultz in testimony before the House Ways and Means Committee on September 18, 1972. Receipts were revised upward to \$226.5 as a result of higher social security taxes incorporated in HR-1.
- 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.
- 4/ Estimated by F.R. Board Staff.