

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

January 31, 1968

## 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)

	1966	1967	1966 IV	1967				1968 Proj. I
				I	II	III	IVp	
Gross National Product	743.3	785.1	762.1	766.3	775.1	791.2	807.6	827.1
Final sales	729.9	780.0	743.6	759.2	774.6	787.4	798.7	817.1
Private purchases	575.6	603.7	581.9	588.8	599.6	609.2	617.2	632.1
Personal consumption expenditures	465.9	491.6	473.8	480.2	489.7	495.3	501.4	512.1
Durable goods	70.3	72.1	70.6	69.4	72.5	72.7	73.7	76.7
Nondurable goods	207.5	217.5	210.3	214.2	217.2	218.5	220.2	224.2
Services	188.1	202.1	192.9	196.6	200.0	204.1	207.5	211.2
Gross private domestic investment	118.0	112.1	122.2	110.4	105.1	112.2	120.7	125.2
Residential construction	24.4	24.5	20.9	21.4	23.1	25.6	27.9	28.4
Business fixed investment	80.2	82.5	82.8	81.9	81.5	82.8	83.8	86.8
Change in business inventories	13.4	5.1	18.5	7.1	.5	3.8	9.0	10.0
Nonfarm	13.7	4.7	19.0	7.3	.6	3.4	7.5	9.5
Net Exports	5.1	5.0	4.3	5.3	5.3	5.4	4.0*	4.8*
Gov't purchases of goods & services	154.3	176.3	161.7	170.4	175.0	178.2	181.5	185.0
Federal	77.0	89.9	81.5	87.1	89.5	90.9	92.0	93.5
Defense	60.5	72.6	65.6	70.2	72.5	73.3	74.3	75.0
Other	16.5	17.3	15.9	16.8	17.0	17.6	17.7	18.5
State and local	77.2	86.4	80.2	83.3	85.4	87.4	89.5	91.5
Gross National Product in constant (1958) dollars	652.6	669.2	661.1	660.7	664.7	672.0	679.4	689.8
GNP Implicit deflator (1958=100)	113.9	117.3	115.3	116.0	116.6	117.7	118.9	119.9
Personal income	584.0	626.3	601.6	612.9	619.1	631.0	642.1	655.2
Wage and salaries	394.6	423.7	407.4	414.7	418.3	426.2	435.6	445.0
Disposable income	508.8	544.6	522.0	532.7	540.0	548.2	557.5	568.5
Personal saving	29.8	38.7	34.6	38.8	36.0	38.5	41.6	41.6
Saving rate (per cent)	5.9	7.1	6.6	7.3	6.7	7.0	7.5	7.3
Corporate profits before tax	83.8	80.1	83.9	79.0	78.9	80.0	82.5	85.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	143.2	151.5	148.6	149.1	148.1	152.7	156.2	161.1
Expenditures	142.9	164.1	151.9	160.9	162.8	165.9	167.5	171.7
Surplus or deficit (-)	.3	-12.6	-3.3	-11.9	-14.7	-13.2	-11.3	-10.6
Total labor force (millions)	78.9	80.8	79.8	80.3	80.2	81.1	81.7	82.2
Armed forces "	3.1	3.4	3.3	3.4	3.5	3.5	3.5	3.5
Civilian labor force "	75.8	77.3	76.5	76.9	76.7	77.7	78.2	78.7
Unemployment rate (per cent)	3.8	3.8	3.7	3.7	3.8	3.9	4.0	3.7
Nonfarm payroll employment (millions)	64.0	66.1	65.0	65.7	65.7	66.1	66.8	67.4
Manufacturing	19.2	19.3	19.5	19.5	19.3	19.2	19.4	19.6
Industrial production (1957-59=100)	156.3	157.3	159.3	157.1	155.9	157.2	159.2	163.0
Capacity utilization, manufacturing (per cent)	90.5	85.1	90.0	87.1	84.9	84.0	84.3	85.4
Housing starts, private (millions A. R.)	1.17	1.27	.92	1.12	1.21	1.40	1.45	1.45
Sales new U.S.-made autos (millions, A. R.)	8.38	7.57	8.13	7.33	7.83	8.00	7.25	8.00

\*The Commerce preliminary estimate of net exports of goods and services for 67-IV, \$4.0 billion as shown here, will be revised down when December trade balance data are incorporated in the estimate. The December data suggest the figure may be only \$3.1 billion (with GNP reduced correspondingly). On this basis we estimate net exports in 68-I at \$3.9 billion, up \$.8 billion from 67-IV -- the rise shown above from the preliminary estimate.

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1966	1967	1966 IV	1967			1968 Proj. I	
				I	II	III	IVp	
----- In Billions of Dollars -----								
Gross National Product	59.4	41.8	13.3	4.2	8.8	16.1	16.4	19.5
Final sales	55.4	50.1	6.2	15.6	15.4	12.8	11.3	18.4
Private purchases	37.5	28.1	2.2	6.9	10.8	9.6	8.0	14.9
GNP in constant (1958) dollars	35.9	16.6	6.3	-.4	4.0	7.3	7.4	10.4
Final sales	32.1	24.6	-0.3	10.1	10.3	4.2	2.5	9.7
Private purchases	21.9	10.5	-2.8	3.7	7.1	3.0	2.0	7.9
-- In Per Cent; Quarterly Changes are at Annual Rates --								
Gross National Product	8.7	5.6	7.1	2.2	4.6	8.3	8.3	9.7
Final sales	8.2	6.9	3.4	8.4	8.1	6.6	5.7	9.2
Private purchases	7.0	4.9	1.5	4.7	7.3	6.4	5.3	9.7
Personal consumption expenditures	7.6	5.5	3.1	5.4	7.9	4.6	4.9	8.5
Durable goods	6.5	2.6	-1.7	-6.8	17.9	1.1	5.5	16.3
Nondurable goods	8.5	4.8	1.5	7.4	5.6	2.4	3.1	7.3
Services	6.9	7.4	6.5	7.7	6.9	8.2	6.7	7.1
Gross private domestic investment	9.9	-5.0	19.9	-38.6	-19.2	27.0	30.3	14.9
Residential construction	-9.6	0.4	-47.3	9.6	31.8	43.3	35.9	7.2
Business fixed investment	12.8	2.9	7.9	-4.3	-2.0	6.4	4.8	14.3
Gov't purchases of goods & services	13.1	14.3	10.1	21.5	10.8	7.3	7.4	7.7
Federal	15.3	16.8	10.1	27.5	11.0	6.3	4.8	6.5
Defense	20.8	20.0	16.5	28.0	13.1	4.4	5.5	3.8
Other	-1.2	4.8	-16.9	22.6	4.8	14.1	2.3	18.1
State & local	10.9	11.9	10.8	15.5	10.1	9.4	9.6	8.9
GNP in constant (1958) dollars	5.8	2.5	3.8	-.2	2.4	4.4	4.4	6.1
Final sales	5.3	3.8	-0.2	6.3	6.3	2.5	1.5	5.8
Private purchases	4.4	2.0	-2.2	2.9	5.5	2.3	1.5	6.0
GNP Implicit deflator	2.7	3.0	3.1	2.4	2.1	3.8	4.1	3.4
Personal income	8.6	7.2	8.3	7.5	4.0	7.7	7.0	8.2
Wage and salaries	9.9	7.4	7.8	7.2	3.5	7.6	8.8	8.6
Disposable income	7.8	7.0	7.5	8.2	5.5	6.1	6.8	7.9
Corporate profits before tax	9.5	-4.4	-.5	-23.4	-0.5	5.6	12.5	14.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.7	5.8	8.2	1.3	-2.7	12.4	9.2	12.5
Expenditures	15.8	14.8	15.3	23.7	4.7	7.6	3.9	10.0
Nonfarm payroll employment	5.3	3.3	4.4	4.3	0.0	2.4	4.2	3.6
Manufacturing	6.1	0.5	4.1	0.0	-4.1	-2.1	4.2	4.1
Industrial production	9.0	0.6	4.1	-5.5	-3.1	3.3	5.1	9.5
Housing starts, private	-20.4	8.5	-59.3	87.0	32.1	62.8	14.3	0.0
Sales new U.S.-made autos	-4.4	-9.7	-15.8	-39.6	27.3	8.7	-37.5	41.4

DOMESTIC FINANCIAL SITUATION

Federal Budget. The President's new budget<sup>1/</sup> projects the following figures in terms of the new unified budget concepts:

NEW UNIFIED BUDGET  
(In billions of dollars)

	Fiscal years		
	1967 actual	1968	1969 estimated
Receipts	149.6	155.8	178.1
Outlays (including net lending)	158.4	175.6	186.1
Budget surplus (+) or deficit (-)	-8.8	-19.8	-8.0

As indicated in the second table, receipts rise by \$6.2 billion in fiscal year 1968 and by \$22.3 billion in fiscal year 1969. These include the effect of 10 per cent tax surcharge recommended for individuals, beginning April 1, 1968, and for corporations retroactive to January 1, 1968. Also a further acceleration of corporate income tax payments is requested. These legislative changes account for \$2.7 billion of the increase in receipts in fiscal year 1968 and \$10.2 billion in fiscal year 1969. In addition to these higher rates of taxation, the President is requesting a continuation of the present excise tax rates on automobiles and telephone service.

<sup>1/</sup> The new concepts are compared with the old budgets in Appendix A. More detailed data on the new budget are also given in that Appendix.

The economic assumptions underlying the new budget are a rise in GNP of \$61 billion to a level of \$846 billion in calendar year

INCREASES IN BUDGET RECEIPTS  
(In billions of dollars)

	<u>Fiscal Year</u>	
	<u>1968</u>	<u>1969</u>
Receipts	<u>6.2</u>	<u>22.3</u>
Surcharge and acceleration of corporate taxes	2.7	7.5
Present income tax rates, but with same economic assumptions 1/	3.5	14.8

1/ Assumes the extension of present excise tax rates, now scheduled to drop April 1, 1968. Without this extension receipts would decline by \$0.3 billion in FY 1968, and \$2.7 billion in FY 1969. Figures allow for existing legislation and the increases in the employment tax yield in FY 1969. The ceiling on taxable earnings was raised in January 1968 and the tax rate is scheduled to increase in January 1969. These legislative changes increase fiscal 1968 revenues by \$0.1 billion and fiscal 1969 revenues by about \$3.2 billion.

1968 and an increase in corporate profits from \$80.1 billion in calendar 1967 to \$87 billion in calendar 1968.

On the spending side, total Federal outlays are expected to rise by \$17.2 billion in fiscal 1968 and \$10.4 billion in fiscal 1969. Net lending--which is a component of total outlays--declines by \$2.5 billion in fiscal 1969, mainly reflecting a \$1.9 billion decline in mortgage acquisitions.

FNMA is expected to reduce its mortgage market support purchases quite sharply in line with proposed legislation to lift the ceiling on interest rates on Government-insured and guaranteed mortgages, and thus to attract a larger private supply of mortgage money. In addition, however, legislation is proposed which will accelerate the transfer of FNMA secondary market operations to private ownership. Such a transfer would, eventually allow complete exclusion of FNMA from the Federal budget in the same way in which the Federal home loan banks and Federal land banks are presently excluded from the new unified budget. Once excluded, FNMA would "not be subject to the constraints of the Federal budget and can raise money in the private capital market to meet mortgage purchase needs."<sup>1/</sup>

**INCREASES IN TOTAL BUDGET OUTLAYS  
(In billions of dollars)**

	<u>Fiscal Years</u>	
	1968	1969
Total outlays	17.2	10.4
Net lending	.6	-2.5
Expenditures excluding net lending	<u>16.6</u>	<u>12.9</u>
Defense	6.4	3.3
Payments from social insurance trust funds	4.0	4.2
Civilian and military pay increase	<u>a/</u>	1.6
All other	6.2	3.8

a/ Pay increases in fiscal 1968 are allocated among various Government programs, but the pay increase in fiscal 1969 is shown as a separate lump sum entry and is not allocated among programs.

1/ The Budget of the United States Government, Fiscal Year 1969,  
p. 129.

FEDERAL BORROWING FROM PUBLIC  
(In billions of dollars)

	Borrowing (new concept) <u>1/</u>	Privately-owned Government sponsored corporations	Grand total	<u>Memo:</u> Deficit in cash accounts <u>2/</u>
Fiscal 1968	20.8	1.6	22.4	21.4
Fiscal 1969	8.0	2.9	10.9	10.9
<u>Half year periods</u>		<u>Grand total</u>		
	<u>Not seasonally adjusted</u>	<u>Seasonally adjusted</u>		<u>Not seasonally adjusted</u>
1965 - I	-2.5	2.6		-7.6
II	6.1	.9		12.8
1966 - I	-.6	4.4		-6.6
II	7.0	2.3		12.9
1967 - I	-8.3	-3.8		-9.9
II	20.4	16.0		21.4
1968 - I p	2.0	7.4		0.0
II p <u>3/</u>	13.2	7.8		14.3
1969 - I p <u>3/</u>	-2.3	2.1		-3.4

p - Projected.

1/ Differs from old cash borrowing by including participation certificate borrowing, but excluding borrowing by privately-owned government corporations.

2/ Equals old cash deficit plus allowance for participation certificates. Also equals new cash deficit plus allowance for privately-owned government sponsored corporations.

3/ Allocation by half-years based on FRB projections.

A quarterly pattern for the current fiscal year budget is shown in terms of the NIA accounts by using available data through the fourth quarter of calendar year 1967, the Greenbook's estimates for the first quarter of 1968 and the fiscal year totals in the President's budget. Defense purchases are expected to rise only moderately

over the remainder of the current fiscal year, but total Government spending increases by \$10 billion from the fourth quarter of 1967 to the second quarter of 1968, partly due to the \$3.6 billion rise in social security benefits beginning in March. Without the new

FEDERAL EXPENDITURES, REVENUES AND DEFICITS, NIA ACCOUNTS  
(In billions of dollars, seasonally adjusted annual rates)

	Quarters				Fiscal years	
	1967		1968			
	III	IV	I	II	1968	1969
<b>Purchases</b>						
Defense	73.3	74.3	75.0	75.3	74.4	78.8
Nondefense	17.6	17.7	18.5	19.6	18.4	20.6
Other expenditures	75.0	75.5	78.2	83.4	78.3	85.6
Total expenditures	165.9	167.5	171.7	178.3	171.1	185.0
Total revenues <u>1/</u>	152.8	156.2	161.1	174.7	161.1	182.5
Deficit <u>1/</u>	13.2	11.3	10.6	3.6	10.0	2.5
<b>Requested surcharge included in revenues: <u>1/</u></b>						
Personal	--	--	--	6.2	1.6	7.0
Corporate	--	--	--	3.4	1.7	2.5

- 1/ Seasonally adjusted quarters do not add to fiscal year totals. If retroactive corporate surtax is enacted, corporate profit tax accruals for first quarter 1968 would be revised upward by \$3.4 billion and deficit reduced correspondingly.

surcharge taxes, the NIA deficit would rise from an annual rate of \$11.3 billion in the fourth quarter of 1967 to \$13 billion in the second quarter of 1968. If the surcharges were enacted, however, the seasonally-adjusted deficit would amount to about \$3-1/2 billion at an annual rate in the second quarter of 1968.

Nonbank depositary institutions. Preliminary data suggest that inflows to mutual savings banks and savings and loan associations moderated further in December and January from the already reduced pace earlier last fall. Although both institutions experienced this slowdown in net inflows, in December the deceleration at mutual savings banks was relatively larger than at savings and loans. The December experience at mutuals was apparently a reflection of large withdrawals during the 3-day grace period at the end of December at New York City savings banks, which are thought to have particularly interest-sensitive depositors. The difficulty that such institutions have in holding deposits during a period of relatively high market rates is compounded by the fact that mutuals, unlike savings and loans, are prevented from offering special accounts above the current passbook ceiling of 5 per cent.

NONBANK DEPOSITORY INSTITUTIONS: NET NEW MONEY 1/  
(Millions of dollars, not seasonally adjusted)

	Mutual Savings Banks			Savings and Loan Associations 2/		
	1966	1967	1968	1966	1967	1968
October	10	94	--	-81	454	--
November	216	273	--	584	552	--
December	103	-10 to 10 <sup>3/</sup>	--	272	157 <sup>1/</sup>	--
January	144	331	150-250 <sup>3/</sup>	-65	290	0-100 <sup>3/</sup>

1/ Net new money is gross deposits net of both withdrawals and interest credited.

2/ Insured S&L's only; represents 96 per cent of all S&Ls.

3/ Estimate based upon incomplete data.