

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff
Board of Governors
of the Federal Reserve System

January 10, 1973

As may be seen from the table, current projections have been raised somewhat from those of four weeks ago. The upward modifications for 1973 as a whole reflect in part the carrying through of the greater strength now evident in the fourth quarter of 1972. Growth in real GNP is still projected to be as rapid in the first quarter as earlier projected, and to slow thereafter--but less markedly.

STAFF GNP PROJECTIONS

	Change in Nominal GNP \$ billion		Per cent increase, annual rate					
			Real GNP		Private GNP fixed weight price index		Unemployment rate	
	12/13/72	Current	12/13/72	Current	12/13/72	Current	12/13/72	Current
1971 ^{1/}	74.0	74.0	2.7	2.7	4.5	4.5	5.9	5.9
1972 ^{e/}	101.4	101.7	6.4	6.5	3.2	3.2	5.6	5.6
1973	117.0	120.3	6.5	6.9	3.4	3.4	4.9	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/}	24.6	24.6	6.3	6.3	2.9	2.9	5.6	5.6
-IV ^{e/}	30.5	32.1	7.6	8.7	2.9	2.7	5.3	5.3
1973-I	33.0	33.3	6.8	6.8	3.6	3.6	5.1	5.1
-II	29.0	30.0	5.9	6.2	3.7	3.8	5.0	4.9
-III	26.0	28.5	4.4	5.4	3.9	3.9	4.9	4.8
-IV	26.0	26.5	4.3	4.4	3.9	4.0	4.8	4.7

^{1/} Actual.

So far as demands are concerned, the staff has raised somewhat its earlier projections of consumer purchases and inventory investment. Business fixed investment is now projected to rise 15 per cent for 1973 compared to an increase of 13 per cent shown four weeks ago. On the other hand, residential construction activity is now projected to decline

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 Projected			
			III	IV	I	II	III	IV
Gross National Product	1152.2	1273.3	1164.0	1196.1	1229.4	1259.6	1288.6	1315.6
Final purchases	1146.6	1259.9	1156.0	1187.1	1218.9	1247.1	1274.1	1298.6
Private	891.9	985.7	900.4	927.4	950.9	976.0	997.5	1018.4
Excluding net exports	896.0	987.9	903.8	930.6	953.7	978.7	999.8	1019.4
Personal consumption expenditures	721.7	795.8	728.6	748.5	767.5	788.7	805.3	821.7
Durable goods	116.1	130.9	118.6	121.0	125.5	130.5	133.0	134.5
Nondurable goods	300.3	333.1	302.0	313.5	321.0	330.0	336.8	344.4
Services	305.3	331.9	308.0	314.0	321.0	328.2	335.5	342.8
Gross private domestic investment	179.9	205.5	183.2	191.1	196.7	202.5	209.0	213.7
Residential construction	53.9	53.7	54.4	56.6	55.9	54.4	53.4	51.1
Business fixed investment	120.4	138.4	120.7	125.5	130.3	135.6	141.1	146.6
Change in business inventories	5.6	13.4	8.0	9.0	10.5	12.5	14.5	16.0
Nonfarm	5.3	13.4	7.9	9.0	10.5	12.5	14.5	16.0
Net exports of goods and services	-4.1	-2.2	-3.4	-3.2	-2.8	-2.7	-2.3	-1.0
Exports	73.5	84.4	74.4	79.0	80.8	83.3	85.4	88.0
Imports	77.6	80.6	77.8	82.2	83.6	86.0	87.7	89.0
Gov't. purchases of goods and services	254.7	274.2	255.6	259.7	268.0	271.1	276.6	281.2
Federal	106.0	106.4	105.4	104.7	107.5	105.7	106.4	106.1
Defense	76.2	76.4	75.1	74.5	77.0	77.0	75.9	75.6
Other	29.7	30.0	30.2	30.2	30.5	28.7	30.5	30.5
State & local	148.7	167.8	150.2	155.0	160.5	165.4	170.2	175.1
Gross national product in constant (1958) dollars	790.0	844.8	796.1	813.4	827.3	840.1	851.3	860.8
GNP implicit deflator (1958 = 100)	145.8	150.7	146.2	147.1	148.6	149.9	151.4	152.8
Personal income	935.3	1023.7	939.9	972.0	992.6	1012.3	1035.1	1054.9
Wage and salary disbursements	626.7	688.0	630.8	647.5	665.1	680.4	695.7	710.8
Disposable income	794.6	879.1	798.8	826.3	853.3	880.7	883.1	899.2
Personal saving	53.7	63.2	50.8	58.2	66.1	72.0	57.6	57.1
Saving rate (per cent)	6.8	7.2	6.4	7.0	7.7	8.2	6.5	6.4
Corporate profits before tax	93.9	109.3	95.7	100.0	101.8	107.3	112.1	115.9
Corp. cash flow, net of div. (domestic)	91.6	104.1	93.1	96.5	98.4	102.5	106.1	109.2
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	228.3	250.9	229.8	237.0	241.7	236.8	259.7	265.3
Expenditures	246.9	270.1	241.6	263.0	271.1	264.9	271.3	273.2
Surplus or deficit (-)	-18.6	-19.2	-11.8	-26.0	-29.4	-28.1	-11.6	-7.9
High employment surplus or deficit (-)	-1.0	-7.6	3.7	-13.6	-16.3	-14.8	-1.4	2.0
State and local government surplus or deficit (-), N.I.A. basis	12.5	11.6	9.4	18.7	17.2	10.0	10.1	9.1
Total labor force (millions)	89.0	90.7	89.2	89.6	90.1	90.6	90.9	91.3
Armed forces "	2.4	2.3	2.4	2.4	2.4	2.4	2.3	2.3
Civilian labor force "	86.6	88.4	86.8	87.2	87.7	88.2	88.6	89.0
Unemployment rate (per cent)	5.6	4.9	5.6	5.3	5.1	4.9	4.8	4.7
Nonfarm payroll employment (millions)	72.8	75.3	73.0	73.8	74.5	75.1	75.6	76.0
Manufacturing	18.9	19.6	18.9	19.3	19.4	19.6	19.7	19.7
Industrial production (1967 = 100)	114.1	124.1	115.0	118.3	120.9	123.3	125.4	127.0
Capacity utilization, manufacturing (per cent)	77.6	81.6	78.1	79.7	80.6	81.5	82.0	82.3
Housing starts, private (millions, A.R.)	2.38	2.07	2.36	2.36	2.25	2.15	2.01	1.87
Sales new autos (millions, A.R.)	10.76	11.50	11.26	11.50	11.60	11.60	11.40	11.40
Domestic models	9.32	10.00	9.90	9.90	10.10	10.10	9.90	9.90
Foreign models ^{1/}	1.44	1.50	1.36	1.60	1.50	1.50	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.

^{1/} Registrations.

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	101.8	121.1	24.6	32.1	33.3	30.2	29.0	27.0
Inventory change	2.0	7.8	3.0	1.0	1.5	2.0	2.0	1.5
Final purchases	99.8	113.3	21.6	31.1	31.8	28.2	27.0	25.5
Private	78.0	93.8	20.1	27.0	23.5	25.1	21.5	20.9
Excluding net exports	82.8	91.9	18.3	26.8	23.1	25.0	21.1	19.6
Net exports	-4.8	1.9	1.8	0.2	0.4	0.1	0.4	1.3
Government	21.9	19.5	1.5	4.1	8.3	3.1	5.5	4.6
GNP in constant (1958) dollars	48.2	54.8	12.2	17.3	13.9	12.8	11.2	9.5
Final purchases	46.5	48.8	9.8	16.4	12.5	11.9	9.6	7.9
Private	41.0	46.2	11.1	15.4	11.0	11.9	8.5	7.3
-----Per Cent Per Year-----								
Gross National Product	9.7	10.5	8.9	11.0	11.1	9.8	9.2	8.4
Final purchases	9.5	9.9	7.6	10.8	10.7	9.3	8.7	8.0
Private	9.6	10.5	9.1	12.0	10.1	10.6	8.8	8.4
Personal consumption expenditures	8.5	10.3	8.5	10.9	10.2	11.0	8.4	8.1
Durable goods	12.2	12.7	16.5	8.1	14.9	15.9	7.7	4.5
Nondurable goods	8.0	10.9	6.5	15.2	9.6	11.2	8.2	9.0
Services	7.8	8.7	7.4	7.8	8.9	9.0	8.9	8.7
Gross private domestic investment	18.4	14.2	14.0	17.2	11.7	11.8	12.8	9.0
Residential construction	26.5	-0.4	12.1	16.2	-4.9	-10.7	-7.4	-17.2
Business fixed investment	13.8	15.0	5.0	15.9	15.3	16.3	16.2	15.6
Gov't. purchases of goods & services	9.4	7.7	2.4	6.4	12.8	4.6	8.1	6.7
Federal	8.4	0.4	-10.0	-2.7	10.7	-6.7	2.6	-1.1
Defense	6.7	0.3	-17.8	-3.2	13.4	0.0	-5.7	-1.6
Other	12.9	1.3	8.1	0.0	4.0	-23.6	25.1	0.0
State & local	10.1	12.8	11.5	12.8	14.2	12.2	11.6	11.5
GNP in constant (1958) dollars	6.5	6.9	6.3	8.7	6.8	6.2	5.4	4.4
Final purchases	6.3	6.2	5.0	8.3	6.2	5.8	4.6	3.7
Private	6.8	7.2	7.0	9.5	6.7 ^{1/}	7.1	4.9	4.2
GNP implicit deflator	3.0	3.3	2.4	2.3	4.2 ^{1/}	3.6	3.8	3.9
Private GNP fixed weight index ^{2/}	3.2	3.4	2.9	2.7	3.6	3.8	3.9	4.0
Personal income	8.6	9.5	7.5	13.7	8.5	7.9	9.0	7.7
Wage and salary disbursements	9.4	9.8	6.4	10.6	10.9	9.2	9.0	8.7
Disposable income	6.7	10.6	8.2	13.8	13.1	12.8	1.1	7.3
Corporate profits before tax	12.7	16.4	24.9	18.0	7.2	21.6	17.9	13.6
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.7	9.9	9.4	12.5	7.9	-8.1	38.7	8.6
Expenditures	11.8	9.4	-5.5	35.4	12.3	-9.1	9.7	2.8
Nonfarm payroll employment	3.0	3.4	2.5	4.4	3.8	3.2	2.7	2.1
Manufacturing	2.2	3.6	1.4	8.5	2.1	4.1	2.0	0.0
Industrial production	6.8	8.8	6.0	11.5	8.7	8.2	6.9	5.0
Housing starts, private	16.1	-13.0	16.4	0.0	-18.6	-17.8	-26.0	-27.9
Sales new autos	6.2	6.9	37.1	8.5	3.5	0.0	-6.9	0.0
Domestic models	7.4	7.3	44.4	0.0	8.1	0.0	-7.9	0.0
Foreign models ^{3/}	-0.7	4.2	-9.5	70.6	-25.0	0.0	0.0	0.0

^{1/} Excluding Federal pay increase, 3.5 per cent annual rate.^{2/} Using expenditures in 1967 as weights.^{3/} Registrations.

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

	1971	First 10 months 1972	1972 Nov, e/	1972 Dec, e/	1973 Jan, f/	1973 Feb, f/
Corporate securities						
Total	3,743	3,386	3,050	2,650	2,800	2,700
Public bonds	2,066	1,583	1,350	950	1,300	1,100
Privately placed bonds	605	692	650	1,000	700	700
Stock	1,072	1,111	1,050	700	800	900
State and local government securities	2,080	1,986	1,800	1,750	1,800	1,600

e/ Estimated
f/ Forecast

Mortgage market. Growth in mortgage debt outstanding accelerated in the fourth quarter to a seasonally adjusted annual rate of more than \$67 billion, according to preliminary estimates, bringing the year-end total close to \$565 billion. For the full year 1972, mortgage debt outstanding rose by nearly 13 per cent--the largest percentage increase since 1955. Most of the fourth quarter expansion apparently continued to be in residential mortgage debt, with mutual savings banks and Federally related agencies slightly increasing, and S&L's and commercial banks slightly decreasing, their respective shares.

Costs of construction financing and mortgage warehousing credit generally have moved up recently along with other short-term interest rates. In the primary market for long-term mortgage credit, average contract interest rates on home loans may have edged slightly higher in December, based on fragmentary field reports and other

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Dec.	Jan.	Feb.	March
<u>Total net borrowing</u>	4.1	1.7	-0.6	2.6
Weekly and monthly bills	.7	1.0	0.1	0.1
Tax bills	2.5	--	--	--
Coupon issues	2.0	0.6	--	--
As yet unspecified new borrowing	--	--	--	2.5
Special issues to foreigners	-0.4	--	--	--
Agency transactions, debt repayment, etc.	-0.7	0.1	-0.7	--
Plus: <u>Other net financial sources</u> ^{a/}	0.4	1.3	-0.1	1.6
Plus: <u>Budget surplus or deficit (-)</u>	-1.7	-4.3	-2.2	-5.8
Equals: <u>Change in cash balance</u>	2.8 ^{b/}	-1.3	-2.9	-1.6
Memoranda: Level of cash balance, end of period	11.1 ^{b/}	9.8	6.9	5.3
Derivation of budget surplus or deficit:				
Budget receipts	18.6	19.5	17.5	15.6
Budget outlays	20.3	23.8	19.7	21.4
Maturing coupon issues held by public	1.2	--	4.8	--
Net borrowing by gov't-sponsored agencies	0.4	0.3	0.1	0.5

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

^{b/} Actual

^{c/} In the August prefunding, \$1.1 billion was exchanged for the December maturity, leaving \$1.2 billion to be redeemed in cash.

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

	Fiscal Year	Fiscal Year 1973 Adm. 1/ Estimate	F.R. Board	Calendar Years F.R. 1972	Estimates 1973	F.R.B. Staff Estimates Calendar Quarters					
	1972*			1972	1973	1972 III*	IV	1973 I II III IV			
<u>Federal Budget</u>											
Surplus/deficit	-23.2	-23.5	-23.5	-18.3	-20.2	-2.0	-11.4	-12.3	2.4	-1.5	-8.8
Receipts	208.6	226.5	226.5	221.0	245.1	55.6	50.0	52.6	68.3	65.5	58.7
Outlays	231.9	250.0	250.0	239.5	265.3	57.6	61.5	64.9	65.9	67.0	67.5
Means of financing:											
Net borrowing from the public	19.4	n.a.	19.0	15.2	15.2	5.0	12.3	3.7	-2.0	4.0	5.5
Decrease in cash operating balance	-1.3	n.a.	4.1	0.2	4.1	0.3	-1.3	5.8	-0.7	-1.0	---
Other 2/	5.1	n.a.	0.3	2.9	0.9	-3.3	0.4	2.8	0.3	-1.5	-0.7
Cash operating balance, end of period	10.1	n.a.	6.0	11.1	7.0	9.8	11.1	5.3	6.0	7.0	7.0
Memo: Net agency borrowing 3/	4.7	n.a.	n.e.	3.1	n.e.	0.7	0.8	0.9	1.7	n.e.	n.e.
<u>National Income Sector</u>											
Surplus/deficit	-22.1	n.a.	-23.9	-18.6	-19.3	-11.8	-26.0	-29.4	-28.1	-11.6	-7.9
Receipts	211.0	n.a.	236.3	228.3	250.9	229.8	237.0	241.7	236.8	259.7	265.3
Expenditures	233.1	n.a.	260.2	246.9	270.1	241.6	263.0	271.1	264.9	271.3	273.2
High employment surplus/deficit (NIA basis) 4/											
	4.1	n.a.	-10.2	-1.0	-7.6	3.7	-13.6	-16.3	-14.8	-1.4	2.0

- *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.