

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

February 7, 1973

By the Staff
Board of Governors
of the Federal Reserve System

(3) Phase III controls are incorporated into the projection for the first time. Given recent wage and price developments, increases in both are now expected to be somewhat larger than earlier projected, partly because of the institution of more flexible controls under Phase III.

The over-all effects of these changes in assumptions, as well as of other recent developments, may be seen in the table. Nominal GNP is about unchanged from the projection of four weeks ago. However, a little more of the increase is now represented by price and a little less by real output. This downscaling in real expansion is most evident in the second half of the year when the more restrictive monetary policy now assumed operates, after a lag, to dampen real expansion. In the fourth quarter, real growth is now projected at an annual rate of 4.0 per cent.

STAFF GNP PROJECTIONS

Date	Change in Nominal GNP \$ billion		Per cent increase, annual rate					
			Real GNP		Private GNP fixed weight price index		Unemployment rate	
	1/10/73	Current	1/10/73	Current	1/10/73	Current	1/10/73	Current
1971 ^{1/}	74.0	74.0	2.7	2.7	4.5	4.5	5.9	5.9
1972 ^{1/}	101.7	101.7	6.5	6.5	3.2	3.2	5.6	5.6
1973	120.3	122.2	6.9	6.6	3.4	3.8	4.9	4.8
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 ^{1/}	32.1	31.8	8.7	8.5	2.7	3.3	5.3	5.3
1973-I	33.3	34.4	6.8	6.5	3.6	4.3	5.1	5.0
-II	30.0	31.3	6.2	6.0	3.8	4.2	4.9	4.9
-III	28.5	27.9	5.4	4.8	3.9	4.1	4.8	4.8
-IV	26.5	26.6	4.4	4.0	4.0	4.3	4.7	4.7

^{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 Fral.	1973 Proj.	1972		1973 Projected			
			III	IVp	I	II	III	IV
Gross National Product	1152.1	1274.3	1164.0	1195.8	1230.2	1261.5	1289.4	1316.0
Final purchases	1146.2	1260.5	1156.0	1185.9	1218.7	1248.5	1274.9	1300.0
Private	891.3	984.3	900.4	925.6	951.4	975.2	995.9	1014.9
Excluding net exports	895.4	986.4	903.8	928.6	953.8	977.0	997.8	1016.8
Personal consumption expenditures	721.1	794.0	728.6	746.2	766.6	786.6	803.4	819.3
Durable goods	116.3	130.6	118.6	121.5	126.0	130.5	132.5	133.5
Nondurable goods	299.5	331.2	302.0	310.4	319.3	327.6	335.2	342.8
Services	305.4	332.1	308.0	314.3	321.3	328.5	335.7	343.0
Gross private domestic investment	180.2	206.1	183.2	192.4	198.7	203.4	208.9	213.5
Residential construction	53.9	53.9	54.4	56.8	56.7	54.4	53.0	51.3
Business fixed investment	120.4	138.5	120.7	125.6	130.5	136.0	141.4	146.2
Change in business inventories	5.8	13.8	8.0	10.0	11.5	13.0	14.5	16.0
Nonfarm	5.5	13.8	7.9	9.7	11.5	13.0	14.5	16.0
Net exports of goods and services	-4.1	-2.0	-3.4	-3.0	-2.4	-1.8	-1.9	-1.9
Exports	73.7	87.9	74.4	79.7	84.2	86.9	88.9	91.4
Imports	77.8	89.9	77.8	82.7	86.6	88.7	90.8	93.3
Gov't. purchases of goods and services	254.9	276.2	255.6	260.3	267.3	273.3	279.0	285.1
Federal	105.9	107.8	105.4	104.5	106.0	107.0	108.2	109.8
Defense	76.2	74.6	75.1	74.4	74.5	74.4	74.6	74.9
Other	29.7	33.2	30.2	30.1	31.5	32.6	33.6	34.9
State & local	148.9	168.4	150.2	155.8	161.3	166.3	170.8	175.3
Gross national product in constant (1958) dollars	789.7	842.0	796.1	812.4	825.6	838.0	848.0	856.5
GNP implicit deflator (1958 = 100)	145.88	151.31	146.21	147.20	148.75	150.54	152.04	153.64
Personal income	935.8	1026.2	939.9	974.3	994.8	1016.2	1036.8	1056.8
Wage and salary disbursements	627.0	689.9	630.8	648.5	666.2	682.3	698.0	713.0
Disposable income	795.1	879.7	798.8	828.4	857.0	875.5	885.2	901.0
Personal saving	54.8	65.1	50.8	62.4	70.4	68.5	61.0	60.6
Saving rate (per cent)	6.9	7.4	6.4	7.5	8.2	7.8	6.9	6.7
Corporate profits before tax	94.5 ^{1/}	110.8	95.7	102.6 ^{1/}	105.5	110.0	112.0	115.5
Corp. cash flow, net of div. (domestic)	91.9 ^{1/}	104.3	93.1	97.6 ^{1/}	100.1	103.4	105.4	108.2
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	228.6 ^{1/}	254.7	229.8	238.3 ^{1/}	242.3	248.0	261.1	267.5
Expenditures	246.8 ^{1/}	268.0	241.6	262.9 ^{1/}	269.0	265.1	267.1	270.8
Surplus or deficit (-)	-18.2 ^{1/}	-13.3	-11.8	-24.6 ^{1/}	-26.7	-17.1	-6.0	-3.3
High employment surplus or deficit (-)	-0.3	-4.9	4.5	-11.7	-14.3	-5.7	-0.4	0.9
State and local government surplus or deficit (-), N.I.A. basis	12.4 ^{1/}	9.7	9.4	18.2 ^{1/}	16.2	8.6	7.5	6.3
Total labor force (millions)	89.0	90.6	89.2	89.6	90.0	90.4	90.7	91.1
Armed forces "	2.4	2.4	2.4	2.4	2.4	2.4	2.3	2.3
Civilian labor force "	86.5	88.2	86.8	87.2	87.6	88.0	88.4	88.8
Unemployment rate (per cent)	5.6	4.8	5.6	5.3	5.0	4.9	4.8	4.7
Nonfarm payroll employment (millions)	72.8	75.2	73.0	73.8	74.4	75.0	75.5	75.9
Manufacturing	18.9	19.5	18.9	19.3	19.4	19.5	19.6	19.6
Industrial production (1967 = 100)	114.3	123.8	115.0	118.3	120.7	123.0	125.0	126.4
Capacity utilization, manufacturing (per cent)	77.6	81.3	78.1	79.7	80.6	81.3	81.7	81.7
Housing starts, private (millions, A.R.)	2.36	2.04	2.36	2.41	2.25	2.15	1.95	1.80
Sales new autos (millions, A.R.)	10.94	11.61	11.54	11.68	11.85	11.85	11.50	11.25
Domestic models	9.32	9.96	9.90	9.90	10.10	10.10	9.90	9.75
Foreign models	1.62	1.65	1.64	1.78	1.75	1.75	1.60	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/} F.R. estimate.

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1972	1973 Proj.	1972		1973 Projection			
			III	IV _p	I	II	III	IV
-----Billions of Dollars-----								
Gross National Product	101.7	122.2	24.6	31.8	34.4	31.3	27.9	26.6
Inventory change	2.2	7.9	3.0	2.0	1.5	1.5	1.5	1.5
Final purchases	99.5	114.3	21.6	29.9	32.8	29.8	26.4	25.1
Private	77.4	93.0	20.1	25.2	25.8	23.8	20.7	19.0
Excluding net exports	82.2	90.9	18.3	24.8	25.2	23.2	20.8	19.0
Net exports	-4.8	2.1	1.8	0.4	0.6	-0.6	-0.1	0.0
Government	22.1	21.3	1.5	4.7	7.0	6.0	5.7	6.1
GNP in constant (1958) dollars	48.0	52.3	12.2	16.3	13.2	12.4	10.0	8.5
Final purchases	46.1	46.2	9.8	14.9	11.6	11.9	8.8	7.0
Private	40.8	42.4	11.1	14.5	10.1	10.3	7.5	5.6
-----Per Cent Per Year-----								
Gross National Product	9.7	10.6	8.9	11.4	11.5	10.2	8.8	8.2
Final purchases	9.5	10.0	7.6	10.3	11.1	9.8	8.5	7.9
Private	9.0	10.4	9.1	11.2	11.1	10.0	8.5	7.6
Personal consumption expenditures	8.5	10.1	8.5	9.7	10.9	10.4	8.5	7.9
Durable goods	12.4	12.3	16.5	9.8	14.8	14.3	6.1	3.0
Nondurable goods	7.7	10.6	6.5	11.1	11.5	10.4	9.3	9.1
Services	7.8	8.7	7.4	8.2	8.9	9.0	8.8	8.7
Gross private domestic investment	18.6	14.4	14.0	20.1	13.1	9.5	10.8	8.8
Residential construction	26.5	0.0	12.1	17.6	-0.7	-16.2	-10.3	-12.8
Business fixed investment	13.8	15.0	5.0	16.2	15.6	16.9	15.9	13.6
Gov't. purchases of goods & services	9.5	8.4	2.4	7.4	10.8	9.0	8.3	8.7
Federal	8.3	1.4	-10.0	-3.4	5.7	3.8	4.5	5.9
Defense	6.7	-2.1	-17.8	-3.7	0.5	-0.5	1.1	1.6
Other	12.9	11.8	8.1	-1.3	18.6	14.0	12.3	15.5
State & local	10.3	13.1	11.5	14.9	14.1	12.4	10.8	10.5
GNP in constant (1958) dollars	6.5	6.6	6.3	8.5	6.5	6.0	4.8	4.0
Final purchases	6.2	5.9	5.0	7.5	5.8	5.8	4.3	3.3
Private	6.8	6.6	7.0	9.0	6.1 ^{1/}	6.1	4.1	3.2
GNP implicit deflator	3.0	3.7	2.4	2.7	4.9 ^{1/}	4.1	4.0	4.2
Private GNP fixed weight index ^{2/}	3.2	3.8	2.9	3.3	4.3	4.2	4.1	4.3
Personal income	8.6	9.7	7.5	14.6	8.4	8.6	8.1	7.7
Wage and salary disbursements	9.4	10.0	6.4	11.2	10.9	9.8	9.1	8.6
Disposable income	6.8	10.6	8.2	14.8	13.8	8.6	4.4	7.1
Corporate profits before tax	13.5	17.1	17.9	28.8	11.3	17.1	7.3	12.5
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	14.8	11.4	8.7	14.8	6.7	9.4	21.1	9.8
Expenditures	11.8	8.6	-8.0	35.3	9.3	-5.8	3.0	5.5
Nonfarm payroll employment	3.0	3.3	2.5	4.4	3.3	3.2	2.7	2.1
Manufacturing	1.6	3.2	1.4	8.5	2.1	2.1	2.1	0.0
Industrial production	6.8	8.2	6.7	11.5	8.1	7.6	6.5	4.4
Housing starts, private	14.8	-13.5	18.4	7.9	-27.2	-17.8	-37.2	-30.8
Sales new autos	6.8	6.2	41.9	4.7	6.0	0.0	-11.8	-8.7
Domestic models	7.4	6.9	44.4	0.0	8.1	0.0	-7.9	-6.1
Foreign models	3.0	2.0	27.7	33.7	-5.9	0.0	-34.3	-25.0

^{1/} Excluding Federal pay increase, 4.2 per cent annual rate.^{2/} Using expenditures in 1967 as weights.

The staff's current estimate of outlays for fiscal 1973 is consistent with the Administration's projected \$250 billion ceiling since spending so far this fiscal year appears to be in line with such a spending total. According to the new budget the \$250 billion goal will require a spending cutback of \$11.2 billion. As shown in Table 2, the spending reduction is to be achieved by timing shifts and additional negative outlays as well as a large number of mostly small program reductions and terminations.

Table 2
BUDGET REDUCTIONS IN FISCAL YEARS 1973
(Billions of dollars)

<u>Timing shifts</u>		<u>2.0</u>
Delay in revenue sharing payment	1.5	
Other deferrals	.5	
<u>Increases in negative outlays</u>		<u>2.7</u>
Stockpile disposals	.4	
Financial asset sales on other shifts		
to private financing	1.1	
Additional offshore oil receipts	1.0	
Increased user chargers	.2	
<u>Limit of social service grants, enacted</u>		
<u> by Congress and supported by Administration</u>		<u>2.3</u>
<u>Program reductions and terminations</u>		<u>4.2</u>
Water pollution	.3	
Farm price support programs	.7	
Substitution of regular loan assistance for		
emergency loans	.4	
Medicare and medicaid cost controls and		
management	.4	
Other (more than a 100 smaller items)	2.4	

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Jan.	Feb.	March	April
<u>Total net borrowing</u>	1.7	-0.7	3.6	0.8
Weekly and monthly bills	1.0	0.1	0.1	0.1
Tax bills	--	--	--	-3.0
Coupon issues	0.6	3.6	--	--
As yet unspecified new borrowing	--	--	3.5	4.0
Special issues to foreigners	-0.2	--	--	--
Agency transactions, debt repayment, etc.	0.3	-4.4	--	-0.3
Plus: <u>Other net financial sources</u> ^{a/}	1.3	-0.1	1.6	0.5
Plus: <u>Budget surplus or deficit</u> (-)	-2.7	-3.6	-6.0	1.1
Equals: <u>Change in cash balance</u>	0.3 ^{b/}	-4.4	-0.8	2.4
Memoranda: Level of cash balance, end of period	11.4 ^{b/}	7.0	6.2	8.6
Derivation of budget surplus or deficit:				
Budget receipts	20.1	17.1	15.3	24.8
Budget outlays	22.8	20.7	21.3	23.7
Maturing coupon issues held by public	--	4.6	--	--
Net borrowing by gov't-sponsored agencies	0.4	0.6	1.4	0.6

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

^{b/} Actual

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

	F.R.B. Staff Estimates									
	Fiscal 1973 e/		FY 1974 e/	Calendar Years		Calendar Quarters				
	Jan.	F.R.	Jan.	1972	1973	1972	1973			
	Budget	Board	Budget	Actual	F.R.B.e/	IV*	I	II	III	IV
Federal Budget							Unadjusted data			
Surplus/deficit	-24.8	-21.8	-12.7	-17.4	-16.4	-10.5	-12.4	3.1	0.4	-7.6
Receipts	225.0	228.0	256.0	221.5	244.1	50.5	52.5	69.5	64.6	57.5
Outlays	249.8	249.8	268.7	239.0	260.5	60.9	64.9	66.4	64.2	65.1
Means of financing:										
Net borrowing from the public	25.0	20.0	16.5	15.2	11.7	12.3	4.6	-2.0	2.0	7.1
Decrease in cash operating balance	3.0	3.0	n.a.	0.2	4.1	-1.3	4.9	-0.9	-0.9	1.0
Other <u>1/</u>	-3.2	-1.2	n.a.	2.0	0.7	-0.5	2.8	-0.1	-1.5	-0.5
Cash operating balance, end of period	7.1	7.1	n.a.	11.1	7.0	11.1	6.2	7.1	8.0	7.0
Memo: Net agency borrowing <u>2/</u>	n.a.	6.0	n.a.	1.4	n.e.	0.8	2.4	2.2	n.e.	n.e.
National Income Sector							Seasonally adjusted, annual rates			
Surplus/deficit	-26.6	-24.3	-12.5	-18.2	-13.3	-24.6	-26.7	-17.1	-6.0	-3.3
Receipts	233.3	235.4 ^{3/}	263.0	228.6	254.7	238.3	242.3	248.0	261.1	267.5
Expenditures	259.9	259.7	275.5	246.8	268.0	262.9	269.0	265.1	267.1	270.8
High Employment surplus/deficit (NIA basis) <u>4/</u>	n.a.	-6.8	n.a.	-0.3	-4.9	-11.7	-14.3	-5.7	-0.4	0.9

*Actual e--projected n.e.--not estimated n.a.--not available

1/ Includes such items as deposit fund accounts and clearing accounts.

2/ 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.

3/ Quarterly average exceeds fiscal year total by \$4.2 billion due to spreading of wage base and refund effect over calendar year.

4/ Estimated by F.R. Board Staff.