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SECOND SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

April 6, 1970.

REVISED GROSS NATIONAL PRODUCT AND RELATED ITEMS

The attached tables reflect revisions in the Board staffs' projections of GNP and related measures, taking account of the proposed retroactive Federal employee pay raise and second-stage increases for postal workers. The Federal pay raise now is shown to occur in the second quarter and adds \$5.2 billion, annual rate, to total personal income, one-half of which represents retroactive pay. The additional postal employee increase is assumed to become effective in the third quarter, and amounts to \$700 million, annual rate. Similar increases had been included in the previous staff projection, but to take place on average later in the year.

The projections also assume some added revenues resulting from an increase in postal rates and a speed-up in Federal estate and gift tax collections. The latter, however, will have very little effect in the current calendar year. Defense expenditures are also assumed to be reduced marginally, but the reduction does not offset higher pay in this area in this calendar year.

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.)

	1968	1969	1970 Proj.	1969			1970			
				II	III	IV	Projected			
							I	II*	III*	IV
Gross National Product	865.7	932.1	982.2	924.8	942.8	952.2	958.7	974.7	989.2	1006.2
Final sales	858.4	924.1	979.2	917.9	932.0	944.5	955.5	973.2	985.7	1002.2
Private	658.1	709.5	756.7	705.0	715.0	726.2	737.2	749.6	762.8	777.1
Excluding net exports	655.6	707.4	753.0	703.4	712.3	723.5	733.2	745.3	759.9	773.6
Personal consumption expenditures	536.6	576.0	617.4	572.8	579.8	589.5	598.9	611.5	624.6	634.5
Durable goods	83.3	89.8	92.4	90.6	89.8	90.4	90.0	91.5	93.5	94.5
Nondurable goods	230.6	243.6	261.2	242.1	245.1	248.7	253.3	258.9	264.5	267.9
Services	222.8	242.6	263.9	240.1	244.9	250.3	255.6	261.1	266.6	272.1
Gross private domestic investment	126.3	139.4	138.7	137.4	143.3	141.8	137.5	135.3	138.8	143.1
Residential construction	30.2	32.2	28.7	32.7	31.4	31.6	30.2	27.3	27.3	30.1
Business fixed investment	88.8	99.2	106.9	97.8	101.1	102.5	104.1	106.5	108.0	109.0
Change in business inventories	7.3	8.0	3.1	6.9	10.7	7.7	3.2	1.5	3.5	4.0
Nonfarm	7.4	7.8	3.0	6.7	10.3	7.4	3.0	1.5	3.5	4.0
Net exports of goods and services	2.5	2.1	3.7	1.6	2.7	2.7	4.0	4.3	2.9	3.5
Gov't. purchases of goods & services	200.3	214.6	222.5	212.9	217.0	218.3	218.3	223.6	222.9	225.1
Federal	99.5	101.9	99.6	100.6	103.2	102.3	100.1	102.6	98.4	97.1
Defense	78.0	79.2	75.9	78.5	80.3	79.2	77.2	78.6	74.7	73.0
Other	21.5	22.7	23.7	22.1	22.9	23.1	22.9	24.0	23.7	24.1
State & local	100.7	112.7	122.9	112.3	113.8	116.0	118.2	121.0	124.5	128.0
Gross national product in constant (1958) dollars	707.6	727.5	732.5	726.7	730.6	729.8	727.1	728.6	734.2	740.1
NP implicit deflator (1958 = 100)	122.3	128.1	134.1	127.3	129.0	130.5	131.9	133.8	134.7	136.0
Personal income	687.9	747.2	800.8	740.5	756.5	767.4	777.5	799.0	807.5	819.0
Wages and salaries	465.0	509.9	546.5	504.3	516.9	525.0	531.5	542.7	551.3	560.6
Disposable income	590.0	629.7	681.3	622.0	639.0	647.5	659.5	677.8	689.5	698.4
Personal saving	38.4	37.6	47.2	33.3	43.1	41.7	44.1	49.6	48.1	46.8
Saving rate (per cent)	6.5	6.0	6.9	5.3	6.7	6.4	6.7	7.3	7.0	6.7
Corporate profits before tax	91.1	93.8	86.1	95.4	92.5	91.6	86.0	85.3	86.0	87.0
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	176.3	201.5	198.0	202.8	201.3	203.3	196.7	199.4	196.5	199.5
Expenditures	181.5	192.0	204.6	189.3	193.6	196.7	198.4	210.6	204.7	204.5
Surplus or deficit (-)	-5.2	9.5	-6.6	13.5	7.7	6.7	-1.7	-11.2	-8.2	-5.0
Total labor force (millions)	82.3	84.2	86.0	83.9	84.6	85.0	85.7	85.8	86.1	86.4
Armed forces	3.5	3.4	3.2	3.5	3.5	3.5	3.3	3.2	3.1	3.1
Civilian labor force	78.7	80.7	82.8	80.4	81.0	81.5	82.4	82.6	83.0	83.3
Unemployment rate (per cent)	3.6	3.5	4.5	3.5	3.6	3.6	4.2	4.4	4.6	4.8
Nonfarm payroll employment (millions)	67.9	70.1	71.1	70.0	70.4	70.6	70.9	70.8	71.1	71.5
Manufacturing	19.8	20.1	19.8	20.1	20.2	20.1	19.9	19.7	19.8	19.9
Industrial production (1957-59=100)	165.5	172.8	170.6	172.6	174.3	171.9	169.5	169.0	170.8	173.2
Capacity utilization, manufacturing (per cent)	84.6	83.7	78.5	84.5	84.2	81.7	79.2	78.2	78.2	78.2
Housing starts, private (millions A.R.)	1.51	1.46	1.18	1.51	1.43	1.33	1.22	1.03	1.15	1.30
Sales new domestic autos (millions, A.R.)	8.62	8.46	7.85	8.54	8.45	8.13	7.35	7.80	8.00	8.20

Assumes a 6 per cent pay raise for all Federal civil service, military, and postal employees in 70-II retroactive to December 27, 1969 and in 70-III for postal workers additional 8 per cent increase in pay rates and a 2 per cent increase in postal payrolls because of compaction of grade schedules.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1968	1969	1970 Proj.	1969			1970			
				II	III	IV	Projected			
				I	II	III	IV			
-----In Billions of Dollars-----										
Gross National Product	72.2	66.4	50.1	16.1	18.0	9.4	6.5	16.0	14.5	17.0
Inventory change	-0.1	0.7	-4.9	0.3	3.8	-3.0	-4.5	-1.7	2.0	0.5
Final sales	72.2	65.7	55.1	15.8	14.1	12.5	11.0	17.7	12.5	16.5
Private	52.0	51.4	47.2	12.9	10.0	11.2	11.0	12.4	13.2	14.3
Excluding net exports	54.7	51.8	45.6	12.8	8.9	11.2	9.7	12.1	14.6	13.7
Net exports	-2.7	-0.4	1.6	0.1	1.1	0.0	1.3	0.3	-1.4	0.6
Government	20.2	14.3	7.9	2.9	4.1	1.3	0.0	5.3	-0.7	2.2
GNP in constant (1958) dollars	33.0	19.9	5.0	3.6	3.9	-0.8	-2.7	1.5	5.6	6.0
Final sales	33.0	19.6	9.5	3.5	0.6	1.8	1.2	3.1	4.1	5.7
Private	24.9	18.3	13.0	3.9	1.4	2.8	2.8	4.1	4.4	5.6
-----In Per Cent Per Year-----										
Gross National Product	9.1	7.7	5.4	7.1	7.8	4.0	2.7	6.7	5.9	6.9
Final sales	9.2	7.7	6.0	7.0	6.1	5.4	4.7	7.4	5.1	6.7
Private	8.5	7.8	6.7	7.5	5.7	6.3	6.1	6.7	7.0	7.5
Personal consumption expenditures	9.0	7.3	7.2	7.7	4.9	6.7	6.4	8.4	8.6	6.3
Durable goods	14.1	7.8	2.9	10.0	-3.5	2.7	-1.8	6.7	8.7	4.3
Nondurable goods	7.2	5.6	7.2	5.9	5.0	5.9	7.4	8.8	8.6	5.1
Services	9.1	8.9	8.8	8.7	8.0	8.8	8.5	8.6	8.4	8.3
Gross private domestic investment	8.9	10.4	-0.5	6.5	17.2	-4.2	-12.1	-6.4	10.3	12.4
Residential construction	20.8	6.6	-10.9	-7.2	-15.9	2.5	-17.7	-38.4	0.0	41.0
Business fixed investment	6.1	11.7	7.8	10.5	13.5	5.5	6.2	9.2	5.6	3.7
Gov't. purchases of goods & services	11.2	7.1	3.7	5.5	7.7	2.4	0.0	9.7	-1.3	3.9
Federal	9.7	2.4	-2.3	-3.9	10.3	-3.5	-8.6	10.0	-16.4	-5.3
Defense	7.7	1.5	-4.2	-2.5	9.2	-5.5	-10.1	7.3	-19.8	-9.1
Other	16.8	5.6	4.4	-8.9	14.5	3.5	-3.5	19.2	-5.0	6.7
State & local	12.8	11.9	9.1	14.0	5.3	7.7	7.6	9.5	11.6	11.2
GNP in constant (1958) dollars	4.9	2.8	0.7	2.0	2.1	-0.4	-1.5	0.8	3.1	3.3
Final sales	5.0	2.8	1.3	2.0	0.3	1.0	0.7	1.7	2.3	3.1
Private	4.7	3.3	2.3	2.8	1.0	2.0	2.0	2.8	3.0	3.8
GNP implicit deflator*	4.0	4.7	4.7	5.1	5.6 ^{1/}	4.5	4.2	5.9 ^{2/}	2.9 ^{2/}	3.6
Personal income	9.3	8.6	7.2	8.9	8.6	5.8	5.3	11.1	4.3	5.7
Wages and salaries	9.8	9.7	7.2	8.9	10.0	6.3	5.0	8.4	6.3	6.7
Disposable income	8.0	6.7	8.2	7.7	10.9	5.3	7.4	11.1	6.9	5.2
Corporate profits before tax	13.4	3.0	-8.2	0.4	-12.2	-3.9	-24.5	-3.3	3.3	4.6
Federal government receipts and expenditures (N.I.A. basis)										
Receipts	16.7	14.3	-1.7	8.5	-3.0	4.0	-13.0	5.5	-5.8	6.1
Expenditures	10.8	5.8	6.6	1.7	9.1	6.4	3.5	24.6	-11.2	-0.4
Nonfarm payroll employment	3.0	3.4	1.4	3.3	2.0	1.5	1.7	-0.6	1.7	2.2
Manufacturing	2.1	1.8	-1.5	1.6	1.8	-3.4	-4.0	-4.0	2.0	2.0
Industrial production	4.7	4.4	-1.3	5.6	3.9	-5.5	-5.6	-1.2	4.3	5.6
Housing starts, private	16.7	-2.7	-19.3	-48.3	-21.5	-28.8	-31.9	-64.8	48.8	52.2
Sales new domestic autos	14.0	-1.9	-7.3	8.4	-4.2	-15.1	-38.2	24.5	10.3	10.0

* Based on deflators calculated to three decimals.

^{1/} Excluding effects of Federal pay increase, 4.3 per cent per year.^{2/} Excluding effects of Federal pay increase, 4.0 per cent per year in 70-II and 3.8 per cent per year in 70-III.