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April 14, 1976

SUMMARY AND OUTLOOK

By the Staff  
Board of Governors  
of the Federal Reserve System

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## **SUMMARY AND OUTLOOK**

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DOMESTIC NONFINANCIAL DEVELOPMENTS

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Summary. Economic recovery is being sustained at a relatively vigorous pace, while prices have continued to moderate. Retail sales increased strongly again in March, and further gains were reported for industrial production and employment. There has been some evidence of increasing strength in business capital goods expenditures. However, signs have developed recently of some weakness in State and local spending, and net exports apparently declined materially in the first quarter.

Industrial production is estimated to have risen by 0.6 per cent further in March following an upward-revised increase of 0.7 per cent in February. Auto assemblies were up about 3 per cent last month, and are expected to rise about the same amount in April. Further increases occurred in output of durable materials and of business equipment. For the first quarter as a whole, industrial production is now estimated to have risen by nearly 9 per cent, annual rate--a significant gain, but less than in the two previous quarters.

Employment rose quite strongly in March and the unemployment rate edged off again to 7.5 per cent. Nonfarm payroll employment increased by 190,000--with good gains in durable manufacturing and in trade. While the factory workweek edged down in March for the second month in a row, the decline may reflect the widespread flu epidemic; overtime hours increased.

Retail sales rose impressively in March--by 2.8 per cent--the largest monthly increase since the pre-Christmas surge. Excluding autos and nonconsumer items, sales were up by 3 per cent. Gains were widespread, with particular strength in stores selling furniture and appliances, general merchandise, and food. For the first quarter as a whole, total retail sales were 3.6 per cent above the fourth quarter level; autos were especially strong.

Unit sales of new domestic car models rose to an 8.9 million seasonally adjusted annual rate in March, from 8.7 million in February. Dealer stocks of these cars declined further, and in terms of days supply were equal to the lowest level since mid-'74. Foreign car sales were about unchanged at 1.4 million. For the first quarter as a whole, sales of domestic-type cars were higher than in any period since the third quarter of 1973.

Recent attitude surveys suggest continued strength in consumer demand in coming months. A notable improvement was reported in optimism in regard to income prospects and future business conditions, and there has been a distinct rise in buying plans, particularly for automobiles and homes.

Liquidation of excess stocks of nondurables was completed in both manufacturing and trade by year-end 1975. Inventory-sales ratios for nondurables remain low in both sectors, and these stocks are now being replenished. For durables, liquidation at manufacturers has continued into the first quarter--but seems to be drawing to an end; stock-sales ratios have declined rather significantly. Accumulation of durable inventories may begin soon and should build as the year progresses.

The book value of business inventories rose by \$16.3 billion annual rate in February. The book value of manufacturing stocks rose at a \$2.1 billion rate, under the \$5.5 billion January increase. For the first two months of the year, the book value of business inventories increased \$17.3 billion, annual rate, as compared to a slight liquidation in the fourth quarter.

Real outlays for business fixed capital have yet to show much vigor, but recent signs appear more hopeful. New orders for nondefense capital goods increased by 4-1/2 per cent in February, following a January gain of 2 per cent. In real terms these orders are now about 7-1/2 per cent above their recession low, although still well below the previous peak. Nonresidential construction activity continues to be held down by weakness in commercial and industrial building; a 7-1/2 per cent rise in contracts for such structures (square feet) in February only made up part of the sharp January decline.

Housing starts rebounded strongly in February, after three months of decline, reaching a seasonally adjusted annual rate of 1.56 million units--the highest in 2 years. All of the increase was in single-family units, while multi-family starts declined again to just above their depressed level in early 1975. The February starts figure may have been an aberration; for January and February combined, total starts--at 1.4 million units<sup>2</sup>--were only slightly above the fourth quarter average. Outstanding mortgage loan commitments at S&L's remain strong, however, and further gains in housing activity are expected later this year.

Wage and price performance has continued to improve in the past few months. The average hourly earnings index for private nonfarm workers rose at a 6.1 per cent annual rate in the first quarter, down from an 8-1/4 per cent average rate during the four quarters of 1975. The recent moderation has reflected the light collective bargaining schedule and relatively few cost-of-living wage adjustments so far this year. The bargaining schedule picks up considerably for the remainder of the year, however. The Teamster settlement directly covers 400,000 workers and becomes effective April 1, if approved. The contract calls for a first year increase in wages of over 9 per cent.

Wholesale prices edged up by .2 per cent in March, following two months of decline, as a .4 increase in industrial products offset a slight further decline in farm products and foods--the fifth drop in a row. Prices of fuel and power edged off slightly; excluding this group, prices of industrials rose by .5 per cent.

The rise in the consumer price index slowed further to a .1 per cent increase, seasonally adjusted, in February--reflecting further large declines in food and energy items. Excluding food, consumer prices are estimated to have risen by about .3 per cent; excluding food and energy items, the increase in the index was .5. Declines in food and energy prices at wholesale have become much smaller and the benefits to prices at retail appear likely to be more moderate in the next few months. Meanwhile, upward pressure on the CPI from rising service prices continues to be strong; these prices rose by .7 in February.

Outlook. The staff continues to project a moderately strong and well sustained economic expansion through the middle of next year. Our estimate of economic growth for the first quarter of 1976 was trimmed somewhat--reflecting newly available data which indicate weaker net exports and smaller increases in State and local spending. Projected gains in real GNP for the remainder of the projection period have been reduced marginally, but are broadly in line with our previous expectations.

Data for January and February indicated declines in merchandise exports, and a surge in goods imports. This has led to a first-quarter estimate of net exports about \$8-1/2 billion smaller, at annual rates, than in the previous Greenbook.

Projected State and local spending has been revised downward somewhat over the entire projection period--based on first-quarter weakness shown by a new sample of construction data, a recent slackening in State and local employment growth, and restraint indicated in the FY 1977 budget proposals of a number of States.

Partially offsetting these downward revisions, we now anticipate a higher rate of inventory accumulation in the first quarter. In addition, our estimate of real consumption has been raised, reflecting the recent vigor of retail buying. We now estimate a first-quarter rise in real consumption at an annual rate of about 6-1/2 per cent. Overall, real GNP in the first quarter is now estimated to have increased at an annual rate of around 5-1/2 per cent.



Our monetary policy assumptions remain about unchanged. From the fourth quarter of 1975, growth of  $M_1$  is assumed to average around 6 per cent, annual rate, through mid-1977;  $M_2$  growth over the same period is assumed to average around 9 per cent, annual rate. Short-term interest rates are still projected to increase, with the commercial paper rate moving from its current level of 5-1/8 per cent to the area of 7-1/2 per cent by late 1976--somewhat less rise than projected a month ago. Long-term rates are still expected to show only limited upward movement.

Our projections of Federal spending have remained generally unchanged, but an alteration has been made in tax rate assumptions. Based on present positions of the Congressional Budget Committees and the Ways and Means Committee, we have eliminated Administration-proposed increases in social security tax rates and in the unemployment insurance wage base, scheduled for January 1977. These changes reduce tax receipts by \$5 billion in FY 1977; a deficit of \$58 billion is now expected for that year, as compared to a \$73 billion deficit for the current fiscal year.

We expect the annual growth rate of real GNP to remain close to 5 per cent through mid-1977. Projections for housing and business fixed investment have remained essentially unchanged. Inventory investment is expected to increase more moderately after the bigger jump estimated for the first quarter, while net exports remain close to their first quarter level. Consumption is projected to rise a little less strongly than a month ago--due to the smaller volume of disposable income generated by reduced estimates for net exports and State and local government spending.

As regards prices, we now estimate that the fixed-weighted price index increased at only about a 4 per cent annual rate during the first quarter. This low rate of increase reflected recent declines in prices of food and energy and is unlikely to continue. The Energy Administration recently announced a 75¢ increase by February 1977 in the current \$7.66 average ceiling price per barrel of domestic crude.

Following the first quarter, the staff projection continues to show a fairly steady price rise averaging around 5-1/2 per cent, annual rate--about equal to the projected rise in unit labor costs. The projection for unemployment has remained substantially unchanged, with the rate drifting off to about 7 per cent by mid-1977.

Data on this projection are shown in the following tables.

## STAFF GNP PROJECTIONS

	Changes in nominal GNP (\$ billions)		Per cent change, annual rate					
			Real GNP		Gross business product fixed-weighted price index		Unemployment rate (per cent)	
			3/10/76	4/14/76	3/10/76	4/14/76	3/10/76	4/14/76
1972 <u>1/</u>	107.7	107.7	5.7	5.7	3.3	3.3	5.6	5.6
1973 <u>1/</u>	135.2	135.2	5.3	5.3	5.7	5.7	4.9	4.9
1974 <u>1/</u>	100.6	105.6	-1.3	-1.3	9.8	9.8	5.6	5.6
1975 <u>1/</u>	92.9	92.0	-2.0	-2.0	9.1	9.1	8.5	8.5
1976	133.9	174.9	6.2	5.9	5.8	5.4	7.4	7.3
1975-I <u>1/</u>	-7.7	-7.7	-9.2	-9.2	3.1	3.1	3.1	3.1
II <u>1/</u>	27.0	27.0	3.3	3.3	4.5	4.5	3.7	3.7
III <u>1/</u>	67.9	67.9	12.0	12.0	7.6	7.6	3.6	3.6
IV <u>1/</u>	44.0	44.4	4.9	5.0	6.7	6.7	3.5	3.5
1976-I	43.4	36.0	6.6	5.5	5.3	4.1	7.6	7.6
II	42.5	42.1	5.2	5.2	5.4	5.5	7.4	7.3
III	45.5	43.3	5.3	5.3	5.6	5.6	7.4	7.3
IV	43.7	45.5	5.3	5.0	5.5	5.1	7.2	7.2
1975-I	45.5	43.3	5.3	5.0	5.5	5.2	7.1	7.1
II	49.7	46.5	5.5	5.0	5.5	5.5	7.0	7.0
Change:								
74-IV to								
75-IV <u>1/</u>	131.2	131.6	2.5	2.5	6.6	6.6	1.3	1.3
75-II to								
76-II	197.3	190.4	7.1	6.9	6.2	5.9	-1.3	-1.4
75-IV to								
76-IV	130.1	167.4	5.6	5.2	5.5	5.1	-1.3	-1.3
76-II to								
77-II	139.4	179.6	5.3	5.1	5.5	5.3	- .4	- .3

1/ Actual.

GROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Quarterly figures are seasonally adjusted. Expenditures and income  
figures are billions of dollars, with quarter figures at annual rates.)

	1975		1976				1977	
	III	IV	I	II	Projected III	Projected IV	I	II
Gross National Product	1528.5	1572.9	1608.9	1651.0	1694.0	1740.3	1784.1	1830.6
Final purchases	1530.6	1574.9	1598.9	1640.0	1681.8	1725.3	1766.1	1810.1
Private	1196.5	1230.1	1250.4	1286.0	1321.2	1356.2	1390.5	1428.4
Excluding net exports	1174.4	1208.4	1240.9	1274.8	1310.3	1345.7	1380.6	1417.3
Personal consumption expenditures	977.4	1001.0	1026.8	1053.2	1079.2	1105.2	1131.8	1158.5
Durable goods	131.8	137.6	144.6	151.6	158.6	165.6	173.2	180.9
Nondurable goods	416.4	423.7	432.0	441.4	450.9	460.4	469.9	479.4
Services	429.2	439.7	450.2	460.2	469.7	479.2	488.7	498.2
Gross private domestic investment	194.9	205.4	224.1	232.6	244.1	255.5	266.8	279.3
Residential construction	50.4	55.4	58.2	62.2	67.3	70.9	72.5	74.5
Business fixed investment	146.7	151.9	155.9	159.4	163.8	169.6	176.3	184.3
Change in business inventories	-2.1	-2.0	10.0	11.0	13.0	15.0	18.0	20.5
Nonfarm	-5.7	-7.5	8.0	11.5	14.0	16.0	18.0	21.0
Net exports of goods and services <sup>1/</sup>	22.1	21.7	9.5	11.2	10.9	10.5	9.9	11.1
Exports	148.5	153.8	150.9	154.9	160.1	166.0	172.6	179.3
Imports	126.4	132.1	141.4	143.7	149.2	155.5	162.7	168.2
Gov't. purchases of goods and services	334.1	344.8	348.5	354.0	460.6	369.1	375.6	381.7
Federal	124.2	129.9	131.3	132.6	134.6	138.5	140.2	141.4
Defense	84.9	87.4	87.2	87.8	89.0	91.7	93.0	93.7
Other	39.3	42.5	44.1	44.8	45.6	46.8	47.2	47.7
State and local	209.9	214.8	217.2	221.4	226.0	230.6	235.4	240.3
Gross national product in constant (1972) dollars	1201.5	1216.2	1232.7	1248.3	1264.6	1279.9	1295.7	1311.6
GNP implicit deflator (1972 = 100)	127.2	129.3	130.5	132.3	134.0	136.0	137.7	139.6
Personal income	1261.7	1294.5	1325.7	1358.1	1389.0	1419.8	1450.8	1481.8
Wage and salary disbursements	807.3	830.7	853.1	874.5	895.3	918.4	939.6	961.0
Disposable income	1087.1	1114.0	1143.5	1170.5	1195.5	1221.2	1249.4	1275.6
Personal saving	85.9	88.6	92.2	92.6	91.5	91.1	92.7	92.2
Saving rate (per cent)	7.9	7.9	8.1	7.9	7.7	7.5	7.4	7.2
Corporate profits with I.V.A. and C.C. Adj.	113.1	114.1	119.1	126.7	134.5	142.7	150.9	161.9
Corporate profits with I.V.A., without C.C. Adj.	119.6	120.7	125.6	133.0	140.6	148.5	156.8	167.8
Corporate profits before taxes	129.5	133.8	136.1	144.4	151.1	158.3	167.3	178.6
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	293.3	302.7	308.0	319.0	329.9	340.2	348.9	359.9
Expenditures	363.8	374.2	381.3	389.6	398.0	406.1	414.0	422.0
Surplus or deficit (-) <sup>2/</sup>	-70.5	-71.5	-73.3	-70.6	-68.1	-65.9	-65.9	-62.1
High employment surplus or deficit (-)	-7.6	-7.8	-10.5	-8.2	-6.1	-2.9	-2.7	1.7
State and local government surplus or deficit (-) (N.I.A. basis)	12.9	11.8	12.5	13.6	15.7	16.2	17.2	17.6
Excluding social insurance funds	1.7	.5	1.0	1.9	3.8	4.2	5.1	5.3
Civilian labor force (millions)	93.1	93.2	93.6	94.0	94.5	94.9	95.3	95.9
Unemployment rate (per cent)	8.6	8.5	7.6	7.3	7.3	7.2	7.1	7.0
Nonfarm payroll employment (millions)	77.0	77.6	78.3	79.0	79.5	80.0	80.4	81.1
Manufacturing	18.3	18.5	18.8	19.1	19.3	19.5	19.7	19.9
Industrial production (1967 = 100)	114.2	117.6	120.2	122.6	124.9	127.1	129.4	131.9
Capacity utilization mfg. (per cent)	69.0	70.8	71.8	72.6	73.4	74.0	74.8	75.6
Major materials (per cent)	78.0	80.3	80.6	81.5	82.3	83.0	83.7	84.6
Housing starts, private (millions, A.R.)	1.26	1.37	1.40	1.55	1.65	1.75	1.80	1.80
Sales new autos, (millions, A.R.)	9.21	9.21	10.03	10.25	10.45	10.50	10.80	11.00
Domestic models	7.52	7.87	8.68	8.85	8.95	9.00	9.20	9.40
Foreign models	1.69	1.34	1.35	1.40	1.50	1.50	1.60	1.60

<sup>1/</sup> Net export of g.&s. (Bal. of paymts)<sup>3/</sup>

<sup>2/</sup> Federal government N.I.A. receipts in 1975-II reflects the \$8.1 billion rebate of 1974 individual income taxes and in 1975-III and following quarters the \$9.3 billion reduction in 1975 individual income taxes; the withholding rates associated with the latter reduction are assumed to be continued in 1976.

<sup>3/</sup> Includes U.S. government interest payments to foreigners and shipments of military equipment and supplies to Israel under cash grant programs; the former is not included in imports and the latter is not included in exports in the GNP accounts.

	1975		1976				1977	
	III	IV	I	Projected		I	II	
				II	III			IV
	-----Billions of Dollars-----							
Gross National Product	67.9	44.4	36.0	42.1	43.8	45.5	43.8	46.5
Inventory change	27.5	.1	12.0	1.0	2.0	2.0	3.0	2.5
Final purchases	40.4	44.3	24.0	41.1	41.8	43.5	40.8	44.0
Private	31.0	33.6	20.3	35.6	35.2	35.0	34.3	37.9
Net exports	-2.1	-.4	-12.2	1.7	-.3	-.4	-.6	1.2
Excluding net exports	33.1	34.0	32.5	33.9	35.5	35.4	34.9	36.7
Personal consumption expenditures	27.1	23.6	25.8	26.4	26.0	26.0	26.6	26.7
Durable goods	8.0	5.8	7.0	7.0	7.0	7.0	7.6	7.7
Nondurable goods	11.6	7.3	8.3	9.4	9.5	9.5	9.5	9.5
Services	7.6	10.5	10.5	10.0	9.5	9.5	9.5	9.5
Residential fixed investment	5.4	5.0	2.8	4.0	5.1	3.6	1.6	2.0
Business fixed investment	.6	5.2	4.0	3.5	4.4	5.8	6.7	8.0
Government	9.4	10.7	3.7	5.5	6.6	8.5	6.5	6.1
Federal	5.0	5.7	1.4	1.3	2.0	3.9	1.7	1.2
State and local	4.4	4.9	2.4	4.2	4.6	4.6	4.8	4.9
GNP in constant (1972) dollars	33.4	14.7	16.5	15.7	16.2	15.4	15.8	15.9
Final purchases	13.7	15.4	8.0	15.3	14.9	14.6	13.6	14.7
Private	9.9	12.5	8.3	13.5	13.4	13.2	12.5	13.9
	-----In Per Cent Per Year <sup>1/</sup> -----							
Gross National Product	19.9	12.1	9.5	10.9	11.0	11.2	10.5	10.8
Final purchases	11.3	12.1	6.2	10.7	10.6	10.8	9.8	10.3
Private	11.1	11.7	6.8	11.9	11.4	11.0	10.5	11.4
Personal consumption expenditures	11.9	10.0	10.7	10.7	10.2	10.0	10.0	9.8
Durable goods	28.5	18.7	22.0	20.8	19.8	18.9	19.7	19.0
Nondurable goods	11.9	7.2	8.1	9.0	8.9	8.7	8.5	8.3
Services	7.4	10.2	9.9	9.2	8.5	8.3	8.2	8.0
Gross private domestic investment	112.7	23.3	41.7	16.1	21.3	20.0	18.9	20.1
Residential structures	57.5	46.8	21.8	30.5	37.1	23.2	9.3	11.5
Business fixed investment	1.7	15.0	11.0	9.3	11.5	14.9	16.8	19.4
Gov't. purchases of goods & services	12.1	13.5	4.4	6.5	7.7	9.8	7.2	6.7
Federal	17.8	19.9	4.4	4.0	6.2	12.1	5.0	3.5
Defense	14.4	12.3	-.9	2.8	5.6	12.7	5.8	3.0
Other	25.9	36.8	15.9	6.5	7.3	10.9	3.5	4.3
State and local	8.9	9.8	4.5	8.0	8.6	8.4	8.6	8.6
GNP in constant (1972) dollars	12.0	5.0	5.5	5.2	5.3	5.0	5.0	5.0
Final purchases	4.7	5.2	2.7	5.1	4.9	4.7	4.4	4.7
Private	4.3	5.4	3.5	5.7	5.6	5.4	5.1	5.6
GNP implicit deflator <sup>2/</sup>	7.1	6.8	3.1	5.4	5.4	5.9	5.2	5.6
Gross business product fixed weighted price index <sup>3/</sup>	7.6	6.7	4.1	5.5	5.6	5.1	5.2	5.5
Personal income	13.0	10.8	10.0	10.1	9.4	9.2	9.0	8.8
Wage and salary disbursements	10.4	12.1	11.2	10.4	9.9	10.7	9.6	9.4
Disposable income	2.0	10.3	11.0	9.8	8.8	8.9	9.6	8.7
Corporate profits before tax	105.2	14.0	7.1	26.7	19.9	20.5	24.8	29.9
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	89.1	13.4	7.2	15.1	14.4	13.1	10.6	13.2
Expenditures	13.7	11.9	7.8	9.0	8.9	8.4	8.8	7.1
Nonfarm payroll employment	3.2	3.2	3.7	3.6	2.6	2.5	2.0	3.5
Manufacturing	4.5	4.4	6.6	6.5	4.3	4.2	4.2	4.1
Industrial production	14.5	12.5	9.1	8.2	7.8	7.2	7.5	7.8
Housing starts, private	92.3	39.8	9.1	50.2	28.4	26.5	11.9	.0
Sales new autos	84.7	.0	40.7	9.1	8.0	1.9	11.9	7.6
Domestic models	99.2	20.0	48.0	8.1	4.6	2.3	9.2	9.0
Foreign models	34.3	-60.5	3.0	15.7	31.8	.0	29.5	.0

<sup>1/</sup> Percentage rates are annual rates compounded quarterly.

<sup>2/</sup> Excluding Federal pay increases rates of change are: 1975-IV, 6.1 per cent; 1976-I, 3.7 per cent; 1976-IV, 5.2 per cent; 1977-I, 5.1 per cent.

<sup>3/</sup> Using expenditures in 1972 as weights.

GROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Expenditures and income figures are billions of dollars)

	1969	1970	1971	1972	1973	1974	1975	Projected 1976
Gross National Product	935.5	982.4	1063.4	1171.1	1306.3	1406.9	1498.9	1673.8
Final purchases	926.2	978.6	1057.1	1161.7	1288.8	1397.2	1513.5	1661.5
Private	718.3	759.7	823.4	908.6	1018.9	1096.1	1182.3	1303.5
Excluding net exports	716.5	755.8	821.8	911.9	1011.5	1088.4	1161.0	1292.9
Personal consumption expenditures	579.7	618.8	668.2	733.0	808.5	885.9	963.8	1066.1
Durable goods	85.5	84.9	97.1	111.2	122.9	121.9	128.1	155.1
Nondurable goods	247.0	264.7	277.7	299.3	334.4	375.7	409.8	446.2
Services	247.2	269.1	293.4	322.4	351.3	388.3	426.0	464.8
Gross private domestic investment	146.2	140.8	160.0	188.3	220.5	212.2	182.6	239.1
Residential construction	37.9	36.6	49.6	62.0	66.5	54.6	48.7	64.7
Business fixed investment	98.9	100.5	104.1	116.8	136.5	147.9	148.5	162.2
Change in business inventories	9.4	3.8	6.4	9.4	17.5	9.7	-14.6	12.3
Nonfarm	9.2	3.7	5.1	8.8	14.1	11.6	-16.5	12.4
Net exports of goods and services <sup>1/</sup>	1.8	3.9	1.6	-3.3	7.4	7.7	21.3	10.5
Exports	54.7	62.5	65.6	72.7	101.5	144.2	147.8	158.0
Imports	52.9	58.5	64.0	75.9	94.2	136.5	126.5	147.5
Gov't. purchases of goods and services	207.9	218.9	233.7	253.1	269.9	301.1	331.2	358.1
Federal	97.5	95.6	96.2	102.1	102.0	111.7	123.2	134.3
Defense	76.3	73.5	70.2	73.5	73.4	77.4	84.0	88.9
Other	21.2	22.1	26.0	28.6	28.6	34.3	39.2	45.3
State and local	110.4	123.2	137.5	151.0	168.0	189.4	208.0	223.8
Gross national product in constant (1972) dollars	1078.8	1075.3	1107.5	1171.1	1233.4	1210.7	1186.1	1256.4
GNP implicit deflator (1972=100)	86.7	91.4	96.0	100.0	105.9	116.2	126.4	133.2
Personal income	745.8	801.3	859.1	942.5	1054.3	1154.7	1245.9	1373.2
Wage and salary disbursements	514.6	546.5	579.4	633.8	701.0	763.6	801.6	885.3
Disposable income	630.4	685.9	742.8	801.3	903.1	983.6	1076.7	1182.7
Personal saving	35.1	50.6	57.3	49.4	72.7	74.0	88.9	91.9
Saving rate (per cent)	5.6	7.4	7.7	6.2	8.0	7.5	8.3	7.8
Corporate profits with I.V.A. and C.C. Adj.	81.4	67.9	77.2	92.1	100.2	91.3	100.7	130.8
Corporate profits with I.V.A., without C.C. Adj.	77.9	66.4	76.9	89.6	98.6	93.6	106.3	136.9
Corporate profits before tax	83.4	71.5	82.0	96.2	117.0	132.1	117.1	147.5
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts <sup>2/</sup>	197.0	192.1	198.6	227.5	257.9	288.4	282.4	324.3
Expenditures	188.4	204.2	220.6	244.7	264.8	300.1	356.9	393.8
Surplus or deficit (-) <sup>2/</sup>	8.5	-12.1	-22.0	-17.3	-6.9	-11.7	-74.5	-69.5
High employment surplus or deficit (-)	13.4	6.5	-1.7	-1.0	4.3	18.0	-10.0	-6.9
State and local government surplus or deficit (-) (N.I.A. basis)	2.1	2.8	3.7	13.7	12.9	8.1	9.8	14.5
Excluding social insurance funds	-3.7	-4.0	-3.8	5.6	4.1	-1.7	-1.3	2.7
Civilian labor force (millions)	77.9	78.6	79.1	81.7	84.4	85.9	92.7	94.3
Unemployment rate (per cent)	3.5	4.9	5.9	5.6	4.9	5.6	8.5	7.4
Nonfarm payroll employment (millions)	70.4	70.9	71.2	73.7	76.9	78.4	77.0	79.2
Manufacturing	20.2	19.3	18.6	19.1	20.1	20.0	18.4	19.2
Industrial production (1967=100)	110.7	106.6	106.8	115.2	125.6	124.8	113.4	123.7
Capacity utilization, mfg. (per cent)	86.5	78.3	75.0	78.6	83.0	78.9	68.8	73.0
Major materials (per cent)	90.0	86.2	85.3	89.6	93.0	87.0	74.8	81.9
Housing starts, private (millions, A.R.)	1.47	1.43	2.05	2.36	2.05	1.33	1.17	1.59
Sales new autos (millions, A.R.)	9.57	8.40	10.24	10.93	11.44	8.87	8.66	10.31
Domestic models	8.46	7.12	8.68	9.32	9.67	7.45	7.08	8.87
Foreign models	1.11	1.28	1.56	1.61	1.77	1.42	1.58	1.44

<sup>1/</sup> Net exports of g. & s. (Bal. of paymts)<sup>3/</sup>

	1969	1970	1971	1972	1973	1974	1975	1976
Exports	54.7	62.4	65.5	72.6	102.1	144.4	147.5	156.8
Imports	53.6	59.5	65.8	78.5	97.9	140.6	131.0	152.2

<sup>2/</sup> Federal government N.I.A. receipts in 1975-II reflect the \$8.1 billion rebate of 1974 individual income taxes and in 1975-III and following quarters the \$9.3 billion reduction in 1975 individual income taxes; the withholding rates associated with the latter reduction are assumed to be continued in 1976.

<sup>3/</sup> Includes U.S. government interest payments to foreigners and shipments of military equipment and supplies to Israel under cash grant programs; the former is not included in Imports and the latter is not included in exports in the GNP accounts.

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1969	1970	1971	1972	1973	1974	1975	Projected 1976
----- Billions of Dollars -----								
Gross National Product	67.0	46.9	81.0	107.7	135.2	100.6	92.0	174.9
Inventory change	1.7	-5.6	2.6	3.0	8.1	-7.8	-24.3	26.9
Final purchases	65.4	52.4	78.5	104.6	127.1	108.4	116.3	148.0
Private	56.2	41.4	63.7	85.2	110.3	77.2	86.2	121.2
Net exports	- .5	2.1	-2.3	-4.9	10.7	.3	13.6	-10.8
Excluding net exports	56.7	39.3	66.0	90.1	99.6	76.9	72.6	131.9
Personal consumption expenditures	43.8	39.1	49.4	64.8	75.5	77.4	77.9	102.3
Durable goods	5.5	- .6	12.2	14.1	11.7	-1.0	6.2	27.0
Nondurable goods	16.6	17.7	13.0	21.6	35.1	41.3	34.1	36.4
Services	21.6	21.9	24.3	29.0	28.9	37.0	37.7	38.8
Residential fixed investment	3.4	-1.3	13.0	12.4	4.5	-11.9	-5.9	16.0
Business fixed investment	9.6	1.6	3.6	12.7	19.7	11.4	.6	13.7
Government	9.2	11.0	14.8	19.4	16.8	31.2	30.1	26.9
Federal	- .5	-1.9	.6	5.9	- .1	9.7	11.5	11.1
State and local	9.7	12.8	14.3	13.5	17.0	21.4	18.6	15.8
GNP in constant (1972) dollars	27.0	-3.5	32.2	63.6	62.3	-22.7	-24.6	70.3
Final purchases	25.1	2.8	29.9	60.8	55.6	-14.3	-6.4	51.7
Private	27.6	9.3	30.7	57.1	56.2	-16.1	-9.7	9.7
----- In Per Cent Per Year -----								
Gross national product	7.7	5.0	8.2	10.1	11.5	7.7	6.5	11.7
Final purchases	7.6	5.7	8.0	9.9	10.9	8.4	8.3	9.8
Private	8.5	5.8	8.4	10.3	12.1	7.6	7.9	10.3
Personal consumption expenditures	8.2	6.7	8.0	9.7	10.3	9.6	8.8	10.6
Durable goods	6.9	- .7	14.4	14.5	10.5	- .8	5.1	21.1
Nondurable goods	7.2	7.2	4.9	7.8	11.7	12.4	9.1	8.9
Services	9.6	8.9	9.0	9.9	9.0	10.5	9.7	9.1
Gross private domestic investment	11.2	-3.7	13.6	17.7	17.1	-3.8	-13.9	30.9
Residential structures	9.9	-3.4	35.5	25.0	7.3	-17.9	-10.8	32.9
Business fixed investment	10.8	1.6	3.6	12.2	16.9	8.4	.4	9.2
Gov't. purchases of goods & services	4.6	5.3	6.8	8.3	6.6	11.6	10.0	8.1
Federal	- .5	-1.9	.6	6.1	.1	9.5	10.3	9.0
Defense	- .8	-3.7	-4.5	4.7	- .1	5.4	8.5	5.8
Other	.0	4.2	17.6	10.0	.0	19.9	14.3	15.6
State and local	9.6	11.6	11.6	9.8	11.3	12.7	9.8	7.6
GNP in constant (1972) dollars	2.6	- .3	3.0	5.7	5.3	-1.8	-2.0	5.9
Final purchases	2.4	.3	2.8	-5.5	4.8	-1.2	- .5	4.3
Private	3.5	1.1	3.7	6.7	6.2	-1.7	-1.0	4.9
GNP implicit deflator	5.0	5.4	5.1	4.1	5.9	9.7	8.8	5.4
Gross business product fixed weighted price index <sup>1/</sup>	4.7	4.4	4.4	3.3	5.7	9.8	9.1	5.5
Personal income	8.8	7.4	7.2	9.7	11.9	9.5	7.9	10.2
Wage and salary disbursements	9.6	6.2	6.0	9.4	10.6	8.9	5.0	10.4
Disposable income	7.2	8.8	8.3	7.9	12.7	8.9	9.5	9.8
Corporate profits before tax	-2.6	-14.3	14.7	17.3	21.6	12.9	-11.4	26.0
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	12.8	-2.5	3.4	14.6	13.4	11.8	-2.1	14.8
Expenditures	4.3	8.4	8.0	10.9	8.2	13.3	18.9	10.3
Nonfarm payroll employment	3.5	.7	.4	3.5	4.3	2.0	-1.8	2.9
Manufacturing	2.0	-4.5	-3.6	2.7	5.2	.5	-8.0	4.3
Industrial production	4.7	-3.7	.2	7.9	9.0	- .6	-9.1	9.1
Housing starts, private	-2.6	-2.7	43.4	15.1	-13.1	-35.1	-12.0	35.9
Sales new autos	- .7	-12.2	21.9	6.7	4.7	-22.5	-2.4	19.1
Domestic models	-1.9	-15.8	21.9	7.4	3.8	-23.0	-5.0	25.3
Foreign models	8.8	15.3	21.9	3.2	9.9	-19.8	11.3	-8.9

<sup>1/</sup> Using expenditures in 1972 as weights.

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DOMESTIC FINANCIAL DEVELOPMENTS

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Summary. The volume of funds raised in bond and equity markets was exceptionally large in March, while short-term borrowing remained relatively modest. March offerings of new corporate bonds and stocks reached an estimated gross total of nearly \$6 billion--the second highest monthly volume on record--and issues of longer-term State and local government securities were also unusually large. Although the net supply of new Treasury debt was smaller than in February, it, too, substantially exceeded most other recent months and was heavily focused on issues outside the bill sector.

In markets for short-term debt, State and local governments were able to increase their offerings to more nearly normal proportions in March, as the apparent progress of New York State in arranging coverage of its temporary spring needs helped to generate greater investor confidence in the outlook for the municipal securities market as a whole. Businesses, however, continued to redeem sizable amounts of short-term debt during March, partly out of the proceeds of long-term financing. At banks, business loan attrition reached an annual rate of nearly 13 per cent, and even in the commercial paper market outstanding debt issued by non-financial corporations contracted slightly.

Markets absorbed the recent large volume of security financing at unchanged or falling interest rates, as investors were impressed by



the relatively favorable performance of general price indices and by the tendency for the Federal funds rate to stabilize around 4-3/4 per cent. Since the last meeting, Treasury and municipal security yields have declined as much as 50 basis points. Rates on new issues of highest quality corporate bonds, however, showed only minor declines, in view of their substantial earlier reductions and the particularly sizable volume of recent new corporate security offerings.

In mortgage markets, persistent strong fund flows to lenders, in combination with the generally favorable climate of other financial markets, has encouraged some additional shading of interest rates. This included a 1/4 per cent reduction in the ceiling rate on FHA and VA home mortgages to 8-1/2 per cent--effective March 30. Fragmentary evidence suggests that some mortgage lenders may be shading non-rate lending terms as well.

Outlook. In the weeks immediately ahead, aggregate borrowing demands are likely to be less pressing than during the first quarter. Net Treasury financing requirements, in particular, will be smaller. The Government will need to borrow \$8-10 billion during May and early June, but net cash needs for the quarter as a whole are estimated at only about \$12 billion--well below the \$22-1/2 billion raised in the first quarter. The forward calendars of corporate and municipal security offerings also appear to be of smaller dimensions than in March, but this outlook could, of course, change quickly since

financing in these seasonally critical months is often large. On balance, though, interest rates in corporate and municipal markets are likely to change little between now and mid-year, assuming the spring financing needs of New York State are accommodated without difficulty.

Pressures on short-term markets over the months ahead will be influenced importantly by the timing and size of corporate short-term borrowing requirements. Recent evidence of substantially improved corporate earnings and liquidity positions suggests that business demands on banks may be held to moderate proportions, even in the face of increased inventory accumulation. Thus, short-term interest rates may not come under any significant upward pressure over the next month or two, although they would, of course, be significantly affected by any unanticipated upward shifts in the public's demand for money.

Given little significant change in market rates over the near-term, deposit flows to banks and thrift institutions would undoubtedly be well maintained. In such circumstances, some additional easing might develop in mortgage rate and non-rate terms. While bank loan rates would very likely remain around current levels, bank managements--given their prevailing comfortable portfolio liquidity--would very likely place greater emphasis on higher yielding longer-term investments and be responsive to a revival of business loan demands.

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INTERNATIONAL DEVELOPMENTS

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Summary. During the past five weeks the trade-weighted average value of the dollar has risen by about 2 per cent, reducing the dollar's effective depreciation since May 1970 to less than 10 per cent. This rise occurred in a period of considerable upheaval among European currencies, as market forces overwhelmed attempts to maintain fixed margins for the currencies within the EC snake despite evident disparities in national economic behavior. After severe losses of reserves in January, February, and early March, France withdrew from the EC snake on March 15 when its snake partners would not agree to French proposals to revamp the snake arrangements. Since leaving the snake the French franc has depreciated (on a weighted average basis) by 1.2 per cent.

The Italian lira has been under pressure since late last year, and has depreciated by 10 per cent since the second week of March and nearly 25 per cent since mid-January. Sterling broke through the \$2 level on March 5, and has fallen in stages to about \$1.85,

. The weakness of the currencies of Italy and the United Kingdom reflected deep-seated domestic inflation and other problems plus, especially for Italy, political uncertainties that cast doubt on the effectiveness of policies to solve these problems. Italian authorities have reacted with a severe tightening of credit markets, and other measures intended to satisfy the conditions

for obtaining credit from the EC and the IMF. In the case of the United Kingdom, the new Labour leadership has proposed a more stringent incomes policy -- now being debated with the trades unions -- and budget proposals designed to stimulate the private sector. In both countries the struggle against inflation has been made more difficult in the shorter run by the depreciation of their currencies.

At the other end of the spectrum, the German mark, the Swiss franc, and the Japanese yen have appreciated considerably, as has the Canadian dollar. In Germany the inflation rate is comparatively low and the trade performance continues relatively strong; Japan is showing particularly strong exports and the yen rate may have been helped by a shift in policy toward encouraging the use of the yen as a reserve currency; in the case of Canada, capital inflows from the sale of bonds -- mainly in the U.S. market -- have more than offset a sizable current account deficit.

Major recent developments in U.S. international transactions are the sudden emergence of a large trade deficit -- \$5.9 billion at an annual rate in January-February -- accompanied by a slowdown in private capital outflows through banks and securities transactions from the high fourth-quarter rate of outflow. The change in the trade balance reflected mainly a drop in non-agricultural exports and a considerable rise in nonfuel imports. The former was more unexpected given the improvement in economic activity in several major industrial

countries and the continued strength of new export orders. An increase in imports had been expected, but not to the extent experienced.

Net private capital flows reported by banks were small in both January and February; increases in banks' foreign assets were substantial, but were about matched by increased borrowings from banks abroad. There was a small net increase in foreign official funds in the United States in February,

; OPEC liquid assets in the United States did not rise in February, and scarcely changed for the first quarter as a whole.

Transactions in securities in February resulted in a net outflow of about \$800 million, with large U.S. purchases of new foreign bonds exceeding a somewhat reduced level of foreign purchases of U.S. corporate stocks. There was probably a smaller net outflow for securities transactions in March.

Outlook. Activity in foreign exchange markets has calmed in recent weeks, though downward pressure against sterling and the lira has persisted. There has been continuing concern about the situation of some of the developing countries, and Mexico drew down its \$360 million swap line on April 9 to help counter what it believed to be speculative pressure. One source of support for the weaker countries will be stronger growth in industrial markets; there are clearer signs of such a pickup now in Germany, France, and Japan, as well as the United States, but progress may be slow.

The emergence of a large U.S. trade deficit in January-February has led to a change in the projection of the balance for the year - to a deficit of \$6 billion from the earlier estimate of near balance. The new projection allows for only a minor further deterioration during the year and a levelling off at a high rate in the first half of 1977. The new pattern assumes that the swing into deficit came early in the recovery but that thereafter underlying relationships of foreign trade to economic activity will be restored. A moderate surplus for goods and services combined is still projected for the year -- but far less than the \$16-1/2 billion surplus of 1975. The drop in the goods and services balance would be consistent with a stable effective exchange rate for the dollar if there is also a continuing moderation in the propensity for net capital outflows. Such a moderation is quite possible since the sale of new foreign bonds in the United States has now probably passed its peak, and monetary policy abroad has brought some reduction in short-term interest rates relative to U.S. rates since the beginning of the year. Of course, an unpredictable factor is the attraction of U.S. capital markets when political risks rise abroad.