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CONFIDENTIAL (FR)

May 12, 1976

SUMMARY AND OUTLOOK

By the Staff
Board of Governors
of the Federal Reserve System

SUMMARY AND OUTLOOK

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. Growth of aggregate demand and activity appear to be continuing at a relatively rapid pace. Moreover, a growing optimism among businessmen is suggested by recent strong demands for labor and the upturn in indicators of business capital spending.

Industrial production is tentatively estimated to have risen by three quarters of a per cent in April--about the same as the upward-revised March increase. Gains were relatively widespread, particularly among such durable goods industries as autos, steel, and business equipment. Production increases in nondurable goods, which earlier had paced the recovery, were relatively small.

Labor demand was very strong in April. Both total employment and the civilian labor force increased by 700,000. Unemployment remained unchanged at 7.5 per cent; however, there were declines in joblessness among adult males and heads of households. Nonfarm payroll employment increased by 350,000, with strong gains in durable goods manufacturing and in service-related industries. The factory workweek declined by almost an hour, but this was a result of holidays in the survey week.

Retail sales remained unchanged in April from a downward revised March figure. Since November, however, retail sales in constant dollars are estimated to have risen at about a 13 per cent annual rate--an impressive performance. The strength of auto demand has been the major factor, but there have also been large gains in sales of general merchandise.

Auto sales held up well in April. Sales of domestic units totaled \$9 billion, annual rate, up slightly from March, and 4 per cent above the first quarter average. The April increase continued an uptrend which began last fall; these sales have now recovered to their late 1973 level. Most of the gain in recent months has been in mid-size models.

Sales of foreign models, though up somewhat recently, are still below year-earlier levels; their share of the market has fallen to 14 per cent, from 18 per cent in 1975.

Inventory figures reflect a continuation of the recent shift from liquidation to accumulation of durable goods and a further restocking of nondurables. The book value of manufacturers' inventories rose at a \$9.1 billion annual rate in March, bringing the accumulation in the first quarter to a \$6 billion rate. Stocks of durables increased in March, the second month of rise following 11 straight months of decline. The ratio of manufacturers' inventories to sales fell further; for durables the ratio has fallen substantially from last year's highs, while for nondurables it remains close to historic lows.

There have been significant indications recently of an upturn in business capital spending. Real business fixed investment rose quite strongly in the first quarter--at an 8 per cent annual rate. Although to a large extent this represented business

purchases of autos, trucks and various short lead-time articles, other categories should also pickup relatively soon. Production of business equipment has been moving up more vigorously recently, and new orders for nondefense capital equipment rose by 2.7 per cent in March, the third increase in a row. In addition, two recent private surveys of business capital spending plans for 1976--McGraw-Hill and Edie--report a significant improvement in the outlook since last fall. The McGraw-Hill survey is now reporting a 13 per cent increase in planned outlays, compared to 9 per cent in the fall survey.

New private housing starts slipped 8 per cent in March, after a strong February gain. For the first quarter as a whole, starts were 4 per cent above the fourth quarter average, and two-fifths above their level a year earlier. Nearly all of the recovery has been in single family starts, which averaged 1.1 million units in the first quarter--the highest level in 2-1/2 years. Multi-family starts have shown only moderate improvement and are still far below earlier highs. However, conditions seem conducive to some further recovery in this sector, as ample funds are available and the rental vacancy rate has declined to the lowest level since 1973.

The pace of wage increases has continued to be quite moderate in recent months. The average hourly earnings index rose at an annual rate of 3.7 per cent in April, about the same as in the

previous month, and was 7.4 per cent above a year ago. These recent relatively small increases still appear to reflect, in large measure, the light collective bargaining schedule and relatively few (and small) cost-of-living adjustments. There were only 84 major wage agreements negotiated in the first quarter, covering slightly over a quarter of a million workers. By contrast, more than 1-1/2 million workers are covered by contracts expiring in the second quarter.

Consumer prices in March continued to be affected by declines in prices of food and fuels, and the total index rose only 0.2 per cent. Excluding food and fuels, the index rose by 0.5 per cent, about the pace of the latter half of 1975. By April, however, prices at wholesale began to reflect the recent upturn in livestock prices, and the wholesale price index for all commodities increased by 0.8 per cent, following 5 months of little change. Declines in fuels and power continued to hold down the rise of industrial commodity prices somewhat. Excluding fuels and power, these prices rose 0.4 per cent for the third consecutive month.

Outlook. The staff GNP projection has been strengthened since a month ago. Activity thus far in 1976 has risen faster than we had expected, and upward revisions in anticipated business capital spending suggest stronger support for expansion later this year. The growth rate in real GNP during the remainder of 1976 is now projected to average close to 6 per cent, about one-

half percentage point larger than in the last Greenbook. This estimate assumes that the rubber strike is settled before significant effects occur in the production and sales of other industries. We still expect the rate of growth of taper off early next year.

Our projections of interest rates have also been raised. Money demand would be strengthened by the larger increase projected for nominal GNP. Also, the recent jump in M_1 suggests a shift back toward more normal relationships between money demand patterns and GNP transactions. On the supply side, the projection assumes an M_1 growth rate, starting from the first quarter of 1976, of around 5-3/4 per cent--the mid-point of the FOMC's longer-term range. This is a lower rate of growth than was assumed for this period in the last Greenbook.

The higher interest rates now projected are expected to dampen time and saving deposit inflows sufficiently to suggest the need for a change in Regulation Q ceilings. We have therefore assumed an October 1 increase of 50 basis points for certificates maturing in four years or longer and 25 basis points for shorter certificates.

Given our policy assumptions, we project Treasury bill rates rising to an 8 to 8-1/2 per cent range by year end; other short-term market rates would advance correspondingly. Corporate bond rates and mortgage rates both would be expected to rise by much less, to a level somewhat above 9 per cent.

No major changes have been made in our fiscal policy assumptions.

The level of real GNP is currently projected to be \$12 billion (almost 1 per cent) higher by the second quarter of 1977 than in the previous Greenbook. About one-half of this gain is due to the larger-than-expected increase in GNP during the first quarter.

Several sectors share in the increased growth pattern over the remainder of the projection period. Real business fixed investment outlays are now expected to pickup strongly, with the annual growth rate reaching about 15 per cent by mid-1977. Inventory investment is also projected to be somewhat larger, especially during the current quarter. Later on, the expected step up in production of capital goods is likely to rise the level of inventory investment.

The higher income generated by additional business spending should bolster consumption outlays. We have also raised our estimates of retail buying to reflect the continued improvement of consumer confidence. Thus, the saving rate is now projected to drop below 7 per cent by the middle of next year.

We expect that the projected tightening of financial markets, together with some pickup in the over-all rate of price advance, will act to moderate the strength of expansive forces later this year and into 1977. Housing, in particular, is likely

to be adversely affected. We are now projecting housing starts to peak at a 1-3/4 million annual rate late this year, and to decline somewhat early in 1977.

With the stronger growth of real GNP now projected, the unemployment rate is expected to decline below 7 per cent by early 1977. Some reflection of the stronger economy is also expected in price performance. Thus, the rate of increase in the fixed-weighted price deflator for gross business product is expected to be a couple of tenths higher during the projection period than anticipated in the last Greenbook.

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)	
			4/14/76	5/12/76	4/14/76	5/12/76	4/14/76	5/12/76
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>	105.6	105.6	-1.8	-1.8	9.8	9.8	5.6	5.6
1975 <u>1/</u>	92.0	92.0	-2.0	-2.0	9.1	9.1	3.5	3.5
1976	174.9	188.3	5.9	6.7	5.4	5.3	7.3	7.3
1975-I <u>1/</u>	-7.7	-7.7	-9.2	-9.2	8.1	8.1	8.1	8.1
II <u>1/</u>	27.0	27.0	3.3	3.3	4.5	4.5	8.7	8.7
III <u>1/</u>	67.9	67.9	12.0	12.0	7.6	7.6	3.6	3.6
IV <u>1/</u>	44.4	44.4	5.0	5.0	6.7	6.7	8.5	8.5
1976-I	36.0	43.4	5.5	7.5	4.1	3.6	7.6	7.6
II	42.1	47.8	5.2	6.7	5.5	5.5	7.3	7.4
III	43.8	46.6	5.3	5.5	5.6	5.8	7.3	7.2
IV	45.5	46.8	5.0	5.2	5.1	5.4	7.2	7.1
1975-I	43.8	44.7	5.0	5.1	5.2	5.4	7.1	6.9
II	46.5	47.1	5.0	5.1	5.5	5.6	7.0	6.8
Change:								
74-IV to								
75-IV <u>1/</u>	131.6	131.6	2.5	2.5	6.6	6.6	1.8	1.8
75-II to								
76-II	190.4	203.5	6.9	7.7	5.9	5.8	-1.4	-1.3
75-IV to								
76-IV	167.4	184.6	5.2	6.2	5.1	5.0	-1.3	-1.4
76-II to								
77-II	179.6	185.2	5.1	5.2	5.3	5.6	- .3	- .6

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	IV	I	II
Gross National Product	1528.5	1572.9	1616.3	1664.1	1710.7	1757.5	1802.2	1849.3
Final purchases	1530.6	1574.9	1602.2	1647.1	1692.7	1737.5	1779.7	1825.3
Private	1196.5	1230.1	1253.8	1293.1	1332.2	1368.4	1403.9	1443.3
Excluding net exports	1174.4	1208.4	1244.1	1281.9	1320.6	1357.4	1394.4	1433.0
Personal consumption expenditures	977.4	1001.0	1028.7	1056.2	1083.7	1111.2	1140.2	1169.7
Durable goods	131.8	137.6	146.5	152.5	158.5	164.5	170.5	176.5
Nondurable goods	416.4	423.7	431.0	441.0	451.0	460.6	471.0	482.0
Services	429.2	439.7	451.2	462.7	474.2	486.2	498.7	511.2
Gross private domestic investment	194.9	205.4	229.6	242.7	254.9	266.2	276.7	287.3
Residential construction	50.4	55.4	58.7	63.0	67.8	70.6	71.1	71.2
Business fixed investment	146.7	151.9	156.8	162.7	169.1	175.6	183.1	192.1
Change in business inventories	-2.1	-2.0	14.1	17.0	18.0	20.0	22.5	24.0
Nonfarm	-5.7	-7.5	10.1	15.0	18.0	21.0	23.5	25.0
Net exports of goods and services ^{1/}	22.1	21.7	9.7	11.2	11.6	11.0	9.5	10.3
Exports	148.5	153.8	151.3	157.2	163.6	170.2	176.0	182.0
Imports	126.4	132.1	141.7	146.0	152.0	159.2	166.5	171.7
Gov't. purchases of goods and services	334.1	344.8	348.4	354.0	360.5	369.1	375.8	382.0
Federal	124.2	129.9	131.2	132.6	134.5	138.5	140.4	141.7
Defense	84.9	87.4	87.0	87.3	88.5	91.7	93.0	93.7
Other	39.3	42.5	44.1	45.3	46.0	46.8	47.4	48.0
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	1238.4	1258.5	1275.4	1291.6	1307.6	1324.1
GNP implicit deflator (1972 = 100)	127.2	129.3	130.5	132.2	134.1	136.1	137.8	139.7
Personal income	1261.7	1294.5	1324.4	1359.4	1392.7	1426.5	1461.0	1495.3
Wage and salary disbursements	807.3	830.7	851.1	874.0	896.0	920.2	943.4	965.7
Disposable income	1087.1	1114.0	1140.0	1169.0	1196.1	1224.2	1255.5	1284.6
Personal saving	85.9	88.6	86.3	87.6	86.9	87.2	89.2	88.5
Saving rate (per cent)	7.9	7.9	7.6	7.5	7.3	7.1	7.1	6.9
Corporate profits with I.V.A. and C.C. Adj.	113.1	112.7	119.9	131.0	139.9	147.9	154.4	165.5
Corporate profits with I.V.A., without C.C. Adj.	119.6	119.3	127.5	138.4	147.1	154.9	161.4	172.3
Corporate profits before taxes	129.5	132.4	138.5	149.9	157.6	164.4	171.9	183.3
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	293.3	302.1	311.1	323.6	334.9	345.3	355.2	366.9
Expenditures	363.8	374.2	380.2	388.9	397.9	405.8	415.0	423.0
Surplus or deficit (-) ^{2/}	-70.5	-72.1	-69.1	-65.3	-63.0	-60.5	-59.8	-56.1
High employment surplus or deficit (-)	-7.6	-7.8	-10.4	-8.8	-5.7	-3.0	-3.2	.1
State and local government surplus or deficit (-) (N.I.A. basis)	12.9	11.7	14.4	15.2	17.3	17.8	18.4	18.6
Excluding social insurance funds	1.7	.5	3.1	3.6	5.4	5.5	5.7	5.5
Civilian labor force (millions)	93.1	93.2	93.6	94.4	94.7	95.2	95.5	96.1
Unemployment rate (per cent)	8.6	8.5	7.6	7.4	7.2	7.1	6.9	6.8
Nonfarm payroll employment (millions)	77.0	77.6	78.3	79.2	79.7	80.2	80.7	81.3
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	122.3	124.6	126.8	128.9	131.2
Capacity utilization mfg. (per cent)	69.0	70.7	71.9	72.6	73.4	74.2	74.9	75.6
Major materials (per cent)	78.1	80.4	80.6	82.0	82.8	83.5	84.2	84.9
Housing starts, private (millions, A.R.)	1.26	1.37	1.41	1.55	1.65	1.70	1.65	1.65
Sales new autos, (millions, A.R.)	9.21	9.21	10.03	10.55	10.70	10.80	10.90	11.00
Domestic models	7.52	7.87	8.68	9.10	9.20	9.30	9.35	9.40
Foreign models	1.69	1.34	1.35	1.45	1.50	1.50	1.55	1.60
1/ Net exports of g.&s. (Bal. of paymts) ^{3/}	17.9	16.9	1.9	3.3	2.5	1.0	-.8	-.1
Exports	148.0	153.1	150.0	155.9	162.3	168.9	174.7	180.7
Imports	130.1	136.2	148.1	152.6	159.8	167.9	175.5	180.8

2/ 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.

3/ 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.

May 12, 1976

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CLASS II FOMCCHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1975		1976				1977	
	III	IV	I	Projected		I	II	
	-----Billions of Dollars-----							
Gross National Product	67.9	44.4	43.4	47.8	46.6	46.8	44.7	47.1
Inventory change	27.5	.1	16.1	2.9	1.0	2.0	2.5	1.5
Final purchases	40.4	44.3	27.3	44.9	45.6	44.8	42.2	45.6
Private	31.0	33.6	23.7	39.3	39.1	36.2	35.5	39.4
Net exports	-2.1	-.4	-12.0	1.5	.4	-.6	-1.5	.8
Excluding net exports	33.1	34.0	35.7	37.8	38.7	36.8	37.0	38.6
Personal consumption expenditures	27.1	23.6	27.7	27.5	27.5	27.5	29.0	29.5
Durable goods	8.0	5.8	8.9	6.0	6.0	6.0	6.0	6.0
Nondurable goods	11.6	7.3	7.3	10.0	10.0	9.5	10.5	11.0
Services	7.6	10.5	11.5	11.5	11.5	12.0	12.5	12.5
Residential fixed investment	5.4	5.0	3.3	4.3	4.8	2.8	.5	.1
Business fixed investment	.6	5.2	4.9	5.9	6.4	6.5	7.5	9.0
Government	9.4	10.7	3.6	5.6	6.5	8.6	6.7	6.2
Federal	5.0	5.7	1.3	1.4	1.9	4.0	1.9	1.3
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	22.2	20.1	16.9	16.2	16.0	16.5
Final purchases	13.7	15.4	11.1	18.2	16.7	14.5	13.9	15.6
Private	9.9	12.5	11.1	16.4	15.2	13.3	12.7	14.5
	-----In Per Cent Per Year ^{1/} -----							
Gross National Product	19.9	12.1	11.5	12.4	11.7	11.4	10.6	10.9
Final purchases	11.3	12.1	7.1	11.7	11.5	11.0	10.1	10.6
Private	11.1	11.7	7.9	13.1	12.7	11.3	10.8	11.7
Personal consumption expenditures	11.9	10.0	11.5	11.1	10.8	10.5	10.9	10.8
Durable goods	28.5	18.7	28.6	17.4	16.7	16.0	15.4	14.8
Nondurable goods	11.9	7.2	7.0	9.6	9.4	8.7	9.4	9.7
Services	7.4	10.2	10.9	10.6	10.3	10.5	10.7	10.4
Gross private domestic investment	112.7	23.3	56.0	24.9	21.7	18.9	16.7	16.2
Residential structures	57.5	46.8	25.4	32.7	34.1	17.6	2.9	.6
Business fixed investment	1.7	15.0	13.5	15.9	16.7	16.3	18.2	21.2
Gov't. purchases of goods & services	12.1	13.5	4.2	6.6	7.5	9.9	7.5	6.8
Federal	17.8	19.9	3.8	4.3	5.9	12.4	5.6	3.8
Defense	14.4	12.3	-1.8	1.4	5.6	15.3	5.8	3.0
Other	25.9	36.8	15.9	11.3	6.3	7.1	5.2	5.2
State and local	8.9	9.8	4.4	8.0	8.6	8.4	8.6	8.6
GNP in constant (1972) dollars	12.0	5.0	7.5	6.7	5.5	5.2	5.1	5.1
Final purchases	4.7	5.2	3.7	6.1	5.5	4.7	4.4	4.9
Private	4.3	5.4	4.7	7.0	6.3	5.4	5.1	5.8
GNP implicit deflator ^{2/}	7.1	6.8	3.7	5.3	5.9	5.9	5.2	5.5
Gross business product fixed weighted price index ^{3/}	7.6	6.7	3.6	5.5	5.8	5.4	5.4	5.6
Personal income	13.0	10.8	9.6	11.0	10.2	10.1	10.0	9.7
Wage and salary disbursements	10.4	12.1	10.2	11.2	10.5	11.2	10.5	9.8
Disposable income	2.0	10.3	9.7	10.6	9.6	9.7	10.6	9.6
Corporate profits before tax	105.2	9.3	19.7	37.2	22.2	18.4	19.5	29.3
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	89.1	12.6	12.5	17.1	14.7	13.0	12.0	13.8
Expenditures	13.7	11.9	6.6	9.5	9.6	8.2	9.4	7.9
Nonfarm payroll employment	3.2	3.2	3.7	4.7	2.5	2.5	2.5	3.0
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	7.2	7.7	7.2	7.0	7.0
Housing starts, private	92.3	39.8	12.2	46.0	28.4	12.7	-11.3	.0
Sales new autos	84.7	.0	40.7	22.4	5.8	3.8	3.8	3.7
Domestic models	99.2	20.0	48.0	20.8	4.5	4.4	2.2	2.2
Foreign models	34.3	-60.5	3.0	33.1	14.5	.0	14.0	13.5

1/ Percentage rates are annual rates compounded quarterly.

2/ Excluding Federal pay increases rates of change are: 1975-IV, 6.1 per cent; 1976-I, 3.6 per cent; 1976-IV, 5.4 per cent; 1977-I, 5.1 per cent.

3/ 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	1687.2
Final purchases	926.2	978.6	1057.1	1161.7	1288.8	1397.2	1513.5	1669.9
Private	718.3	759.7	823.4	908.6	1018.9	1096.1	1182.3	1311.9
Excluding net exports	716.5	755.8	821.8	911.9	1011.5	1088.4	1161.0	1301.0
Personal consumption expenditures	579.7	618.8	668.2	733.0	808.5	885.9	963.8	1070.0
Durable goods	85.5	84.9	97.1	111.2	122.9	121.9	128.1	155.5
Nondurable goods	247.0	264.7	277.7	299.3	334.4	375.7	409.8	445.9
Services	247.2	269.1	293.4	322.4	351.3	388.3	426.0	468.6
Gross private domestic investment	146.2	140.8	160.0	188.3	220.5	212.2	182.6	248.4
Residential construction	37.9	36.6	49.6	62.0	66.5	54.6	48.7	65.0
Business fixed investment	98.9	100.5	104.1	116.8	136.5	147.9	148.5	166.1
Change in business inventories	9.4	3.8	6.4	9.4	17.5	9.7	-14.6	17.3
Nonfarm	9.2	3.7	5.1	8.8	14.1	11.6	-16.5	16.0
Net exports of goods and services ^{1/}	1.8	3.9	1.6	-3.3	7.4	7.7	21.3	10.9
Exports	54.7	62.5	65.6	72.7	101.5	144.2	147.8	160.6
Imports	52.9	58.5	64.0	75.9	94.2	136.5	126.5	149.7
Gov't. purchases of goods and services	207.9	218.9	233.7	253.1	269.9	301.1	331.2	358.0
Federal	97.5	95.6	96.2	102.1	102.0	111.7	123.2	134.2
Defense	76.3	73.5	70.2	73.5	73.4	77.4	84.0	88.6
Other	21.2	22.1	26.0	28.6	28.6	34.3	39.2	45.6
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	1266.0
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	1375.8
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	1182.4
Personal saving	35.1	50.6	57.3	49.4	72.7	74.0	88.9	87.1
Saving rate (per cent)	5.6	7.4	7.7	6.2	8.0	7.5	8.3	7.4
Corporate profits with I.V.A. and C.C. Adj.	81.4	67.9	77.2	92.1	100.2	91.3	100.3	134.7
Corporate profits with I.V.A., without C.C. Adj.	77.9	66.4	76.9	89.6	98.6	93.6	106.0	142.0
Corporate profits before tax	83.4	71.5	82.0	96.2	117.0	132.1	116.8	152.6
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts ^{2/}	197.0	192.1	198.6	227.5	257.9	288.4	282.3	328.7
Expenditures	188.4	204.2	220.6	244.7	264.8	300.1	356.9	393.2
Surplus or deficit (-) ^{2/}	8.5	-12.1	-22.0	-17.3	-6.9	-11.7	-74.6	-64.5
High employment surplus or deficit (-)	13.4	6.5	-1.7	-1.0	4.3	18.0	-10.0	-7.0
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	16.2
Excluding social insurance funds	-3.7	-4.0	-3.8	5.6	4.1	-1.7	-1.3	4.4
Civilian labor force (millions)	80.7	82.7	84.1	86.5	88.7	91.0	92.6	94.5
Unemployment rate (per cent)	3.5	4.9	5.9	5.6	4.9	5.6	8.5	7.3
Nonfarm payroll employment (millions)	70.4	70.9	71.2	73.7	76.9	78.4	77.0	79.4
Manufacturing	20.2	19.3	18.6	19.1	20.1	20.0	18.3	19.2
Industrial production (1967=100)	110.7	106.6	106.8	115.2	125.6	124.8	113.8	123.5
Capacity utilization, mfg. (per cent)	86.5	78.3	75.0	78.6	83.0	78.9	68.7	73.0
Major materials (per cent)	90.0	86.2	85.3	89.6	93.0	87.0	74.9	82.2
Housing starts, private (millions, A.R.)	1.47	1.43	2.05	2.36	2.05	1.34	1.16	1.58
Sales new autos (millions, A.R.)	9.57	8.40	10.24	10.93	11.44	8.87	8.66	10.52
Domestic models	8.46	7.12	8.68	9.32	9.67	7.45	7.08	9.07
Foreign models	1.11	1.28	1.56	1.61	1.77	1.42	1.58	1.45
^{1/} Net exports of g. & s. (Bal. of paymts) ^{3/}	1.0	3.0	-.2	-5.9	4.2	3.8	16.5	2.2
Exports	54.7	62.4	65.5	72.6	102.1	144.4	147.5	159.3
Imports	53.6	59.5	65.8	78.5	97.9	140.6	131.0	157.1

^{2/} 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.

^{3/} 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	188.3
Inventory change	1.7	-5.6	2.6	3.0	8.1	-7.8	-24.3	31.9
Final purchases	65.4	52.4	78.5	104.6	127.1	108.4	116.3	156.4
Private	56.2	41.4	63.7	85.2	110.3	77.2	86.2	129.6
Net exports	-5	2.1	-2.3	-4.9	10.7	.3	13.6	-10.4
Excluding net exports	56.7	39.3	66.0	90.1	99.6	76.9	72.6	140.0
Personal consumption expenditures	43.8	39.1	49.4	64.8	75.5	77.4	77.9	106.2
Durable goods	5.5	-.6	12.2	14.1	11.7	-1.0	6.2	27.4
Nondurable goods	16.6	17.7	13.0	21.6	35.1	41.3	34.1	36.1
Services	21.6	21.9	24.3	29.0	28.9	37.0	37.7	42.6
Residential fixed investment	3.4	-1.3	13.0	12.4	4.5	-11.9	-5.9	16.3
Business fixed investment	9.6	1.6	3.6	12.7	19.7	11.4	.6	17.6
Government	9.2	11.0	14.8	19.4	16.8	31.2	30.1	26.8
Federal	-.5	-1.9	.6	5.9	-.1	9.7	11.5	11.0
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	79.9
Final purchases	25.1	2.8	29.9	60.8	55.6	-14.3	-6.4	57.9
Private	27.6	9.3	30.7	57.1	56.2	-16.1	-9.7	51.5
----- In Per Cent Per Year -----								
Gross national product	7.7	5.0	8.2	10.1	11.5	7.7	6.5	12.6
Final purchases	7.6	5.7	8.0	9.9	10.9	8.4	8.3	10.3
Private	8.5	5.8	8.4	10.3	12.1	7.6	7.9	11.0
Personal consumption expenditures	8.2	6.7	8.0	9.7	10.3	9.6	8.8	11.0
Durable goods	6.9	-.7	14.4	14.5	10.5	-.8	5.0	21.4
Nondurable goods	7.2	7.2	4.9	7.8	11.7	12.4	9.1	8.8
Services	9.6	8.9	9.0	9.9	9.0	10.5	9.7	10.0
Gross private domestic investment	11.2	-3.7	13.6	17.7	17.1	-3.7	-13.9	36.0
Residential structures	9.9	-3.4	35.5	25.0	7.3	-17.9	-10.7	33.5
Business fixed investment	10.8	1.6	3.6	12.2	16.9	8.4	.4	11.9
Gov't. purchases of goods & services	4.6	5.3	6.8	8.3	6.6	11.5	10.0	8.1
Federal	-.5	-1.9	.6	6.1	.1	9.5	10.3	8.9
Defense	-.8	-3.7	-4.5	4.7	-.1	5.4	8.5	5.5
Other	.0	4.2	17.6	10.0	.0	19.9	14.3	16.3
State and local	9.6	11.6	11.6	9.8	11.3	12.8	9.8	7.6
GNP in constant (1972) dollars	2.6	-.3	3.0	5.7	5.3	-1.8	-2.0	6.7
Final purchases	2.4	.3	2.8	5.5	4.8	-1.2	-.5	4.8
Private	3.5	1.1	3.7	6.7	6.2	-1.7	-1.0	5.5
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 ^{1/}	4.7	4.4	4.4	3.3	5.7	9.8	9.1	5.4
Personal income	8.8	7.4	7.2	9.7	11.9	9.5	7.9	10.4
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	-11.6	30.7
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	12.8	-2.5	3.4	14.6	13.4	11.8	-2.1	16.4
Expenditures	4.3	8.4	8.0	10.9	8.2	13.3	18.9	10.2
Nonfarm payroll employment	3.5	.7	.4	3.5	4.3	2.0	-1.8	3.1
Manufacturing	2.0	-4.5	-3.6	2.7	5.2	.5	-8.5	4.9
Industrial production	4.7	-3.7	.2	7.9	9.0	-.6	-8.8	8.5
Housing starts, private	-2.6	-2.7	43.4	15.1	-13.1	-34.6	-13.4	36.2
Sales new autos	-.7	-12.2	21.9	6.7	4.7	-22.5	-2.4	21.5
Domestic models	-1.9	-15.8	21.9	7.4	3.8	-23.0	-5.0	28.1
Foreign models	8.8	15.3	21.9	3.2	9.9	-19.8	11.3	-8.2

1/ Using expenditures in 1972 as weights.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Demands for intermediate- and long-term funds have remained relatively strong in recent weeks. Offerings of corporate and municipal securities in April and early May were sizable by historical standards though below March's near record total. Moreover, last week, the Treasury sold nearly \$7.5 billion of coupon issues--to redeem \$4.1 billion of maturing debt and to raise new money. About \$5.5 billion of the new issues carried maturity dates of 10 years or longer.

In short-term credit markets, aggregate credit demands continued weak. Outstanding large negotiable CD's at banks declined in April for the fourth consecutive month, and the Treasury reduced its outstanding short-term indebtedness after mid-April by repaying a substantial volume of cash management bills and cutting the size of its weekly bill auction. Short-term borrowing by municipalities, on the other hand, increased slightly in April, following March's strong rebound from the exceptionally reduced volume of such financing in January and February. Also, total short-term borrowing by businesses was unchanged in April after having declined by about \$2.5 billion in February and March, as a sizable increase in commercial paper indebtedness exceeded a further paydown of loans at banks.

Interest rates have increased in all sectors of the financial market in recent weeks, with short-term rates generally rising 25 to 40 basis points and long-term yields posting gains of

20 to 40 basis points. A tightening of conditions in the Federal funds market initiated the backup in market interest rates. The increase in the funds rate occurred against a backdrop of the recent strengthening of key monetary aggregates and continued signs of vigorous economic recovery, thus prompting market participants to revise upward their views of future interest rate pressures.

The strengthening of the monetary aggregates was paced by an estimated 15-1/2 per cent annual rate of growth of M_1 in April. While a large part of this increase appears to be related to a substantial reduction in Treasury deposits in late March and early April, it may also reflect increased transactions demand. In both February and March, M_1 had increased at about a 6 per cent annual rate. Growth in time and savings deposits (other than large negotiable CD's) also picked up in April, reflecting increased fund flows into small time deposits as well as continued strong gains in savings deposits.

Growth in deposits at the nonbank thrift institutions in April was also relatively rapid, about matching March's strong increase, and an ample volume of funds has thus been available to meet growing demands for mortgage credit. As a result, rates on mortgages in the primary market have remained about unchanged at levels roughly equivalent to those prevailing since January. Yields in the more sensitive secondary mortgage market, on the other hand, have recently edged higher in reaction to the backup in yields in

other sectors of the credit markets.

Outlook. Household demands for mortgages and consumer loans have accounted for virtually all of the increase in private credit outstanding so far in the recovery, and such borrowing is expected to continue expanding in the months ahead. In addition, business demands for external funds are projected to increase as expenditures on fixed capital and inventories outpace growth of internal sources of funds. A large portion of business external needs will probably continue to be filled in the bond and equity markets, but short-term credit demands seem likely to expand over the summer.

Credit demands from governmental sectors of the economy are also projected to rise in coming months. It seems likely that municipalities will continue to issue bonds at about the pace established on average since the beginning of this year. Also, the Treasury, despite the sizable volume of funds raised in its mid-May refunding, may still need to raise around \$4 to \$5 billion over the rest of the current fiscal year, and will then continue to borrow heavily throughout the third quarter.

Against this background of generally increasing credit demands, and assuming continued strength of the monetary aggregates, it seems likely that market interest rates will advance further in the months ahead. As short-term market rates rise, the flow of funds into commercial banks and thrift institutions will tend to

moderate. Consequently, the runoff in large CD's at commercial banks is likely to slow, and may be reversed.

A diminution in fund flows to thrift institutions over the next few months is not likely to have substantial near-term effects on the mortgage market, given the substantial liquidity built up by S&L's over the past year and availability of credit from the Home Loan Banks. However, mortgage market rates may edge up and institutions may become more cautious in their commitment policy.

INTERNATIONAL DEVELOPMENTS

Summary. Since the April green book, the trade-weighted average value of the dollar against the currencies of the major industrial countries has fluctuated in a narrow range. It is now about one third of a per cent below its level four weeks ago.

During most of this period, the Italian lira was under strong downward pressure as political uncertainties increased. (Parliamentary elections were finally scheduled for June 20 and 21.) The lira declined by over 5 per cent against the dollar from mid-April to May 5. On that day the Italian authorities announced the imposition for three months of a 90-day, non-interest-bearing deposit requirement equal to 50 per cent of the value of nearly all foreign exchange purchases. The major effect of this requirement on the Italian economy and exchange rate will be through a short-term reduction in the Italian monetary base by approximately 13 per cent over the next three months; it will also add about 2 per cent to the cost of imports. After May 5, the lira rose sharply against the dollar and is now about 3 per cent above the rate in mid-April.

The pound sterling continued its recent decline until April 23 and has fluctuated over a fairly wide range since that date. On April 23, the Bank of England raised the Minimum Lending Rate 1-1/2 percentage points to 10-1/2 per cent. On May 5, it was announced that the Trades Union Congress and the Government had agreed to an average limit of 4-1/2 per cent on wage increases for the 12-month period beginning August 1, 1976,

in return for a tax reduction. This agreement is expected to be ratified by the TUC on June 16. Recently the pound has steadied somewhat, although intra-day movements for that currency have been rather wide.

Since mid-April the Swiss franc and the Canadian dollar each have risen by about 1 per cent against the U.S. dollar, and the German mark has declined by a half of a per cent.

In March, the United States had a deficit on merchandise trade for the third month in a row. The deficit in the first quarter of 1976 amounted to \$6.4 billion at an annual rate, compared with a surplus of almost \$9 billion in the fourth quarter of 1975. The \$15 billion swing in the trade balance was accounted for in part by a 2 per cent decline in non-agricultural exports and an 8 per cent decline in agricultural exports, but the major change involved imports. U.S. non-fuel imports rose by 13 per cent. This increase was spread over most categories of imports, but, in line with the pattern of the domestic expansion in the first quarter, imports of industrial supplies and automotive equipment showed the largest increases. Fuel imports in the first quarter of 1976 rose about 7.5 per cent from the fourth-quarter rate.

The net U.S. private-capital outflow reported by banks increased sharply in March, but the outflow for the first quarter was below the rate in the fourth quarter of last year. Bank-reported claims on

foreigners, which largely took the form of claims on foreign branches and affiliates of U.S. banks, rose by about the same quarterly rate as in 1975. U.S. net purchases of foreign securities amounted to a record \$2.6 billion in the first quarter of this year. However, sixty per cent of this amount was offset by continued large foreign purchases of U.S. corporate stocks.

U.S. liabilities to non-OPEC official agencies rose by \$0.9 billion (seasonally adjusted) in the first quarter of 1976.

In the first quarter of 1976, the OPEC investible surplus is now estimated to have been about \$9-10 billion. Net OPEC investment in the United States was about \$1.1 billion. OPEC holdings of short-term assets in the United States declined, but probably rose sharply in April. The reduction in OPEC sterling holdings in the United Kingdom continued in the first quarter, but it was not particularly pronounced during sterling's decline in March. Finally, OPEC placed \$1.2 billion with the IMF Oil Facility in the first quarter of 1976. The Facility was terminated on March 31.

Outlook. Economic activity in most of the major industrial economies shows signs of increasing strength. But the outlook for real fixed capital formation at this stage of the cycle is not particularly

bright; capacity utilization rates remain low. Only in Japan and Germany is the year-over-year increase in real investment expected to reach or exceed 4 per cent in 1976.

The outlook for the U.S. trade balance has been adjusted only marginally in this month's projection. Merchandise trade is now expected to show a slightly larger deficit for 1976 as a whole (\$7 billion) and a deficit of about \$11 billion at an annual rate in the first half of 1977. In line with the new domestic projection, the major revision was an upward adjustment in imports. Exports are expected to resume their upward trend this quarter; new orders for U.S. exports of durable goods other than motor vehicles and aircraft show an upturn for the first quarter after being essentially unchanged for more than a year. Net service transactions are expected to strengthen, and the balance on goods and services is projected to be a surplus of about \$2 billion in 1976, and about zero for the first half of 1977. We do not expect the average value of the dollar to change substantially over the forecast period.

Over the short term, the pace of new foreign bond issues in the U.S. market is expected to slacken. Flotations of Canadian issues should be about \$1-1/4 billion this quarter, compared with more than \$2 billion in the first quarter.

On June 2, the IMF will hold a public auction of 730,000 ounces of its gold. Subsequent auctions of the same size are scheduled at roughly six-week intervals for the next two years.