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# Part 1

December 10, 1975

## CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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### **Summary and Outlook**

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

CONFIDENTIAL (FR)

December 10, 1975

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. The pace of economic expansion has shown further signs of slowing over the past month. The rise of industrial production and employment, which had moderated in October, appears to have come to a near halt last month. The stimulus of the swing from inventory liquidation toward accumulation seems to have diminished appreciably, and as yet, growth in aggregate final demands has not developed much momentum. Unfortunately, the upward course of wages and industrial prices has shown little sign of abatement.

Industrial production is estimated to have changed little in November, following a rise of only 0.4 per cent in October. Gains in output had averaged close to 1-1/2 per cent in the preceding four months, reflecting a resurgence of output in consumer goods lines, and in materials. In November, auto assemblies were about unchanged at a 7.7 million annual rate, and production of most other consumer durable goods apparently also leveled off, as did output of materials and business equipment, which remained only slightly above its spring-time low.

Nonfarm payroll employment increased by only 40,000 in November, substantially less than the average monthly gain of almost 300,000 posted during the previous four months. Manufacturing employment--revised down for October--was about unchanged in November, and the factory workweek edged off by 0.1 hour. Trade employment,

Mirroring the relative weakness of retail sales, declined for the second successive month. However, the unemployment rate declined by 0.3 per cent, returning to the September level of 8.3 per cent, as the labor force contracted by over 400,000.

Based on weekly data, we estimate that retail sales rose by 0.8 per cent in November, but this still left the dollar volume of sales only moderately above its mid-summer level. The pace of retail outlays appears to have strengthened toward the end of November, and it is widely reported that retailers expect a good Christmas season. Results of recent surveys of consumer attitudes are ambiguous; these surveys report a somewhat improved view of present conditions, but greater concern about the future.

Total sales of new cars in November were at an 8.8 million seasonally adjusted annual rate, down from a 9.2 million average in the previous four months. Sales of domestic models were at a 7.6 million annual rate, off slightly from October, but basically little different from the average rate of the previous four months. The annual rate of imported car sales declined in the past two months by half a million, to 1.2 million in November, apparently reflecting lack of inventories and increased competition from new small domestic units.

Recent data confirm that business inventory liquidation is about completed. Trade inventories had already turned upward in the third quarter and the book value of manufacturing stocks edged down

by only \$1.2 billion, at annual rates, in October--compared to a \$6-1/2 billion rate of decline in the July-to-September period. Stocks of nondurable goods at manufacturers have been building since August, but liquidation at durable goods producers continues. A strong rate of aggregate inventory accumulation is not expected in the coming months--given the excess stocks still on hand in durable goods lines, businessmen's uncertainties about prospective demand, their recent experience with a heavy stock overhang, and the high cost of holding inventories.

Recent information appears to confirm the likelihood of a moderate upturn in real capital spending. New orders for nondefense capital goods rose enough in October to offset the declines of the two preceding months and are now 12 per cent above their low last spring. The Commerce Department's latest survey of anticipated plant and equipment spending indicates moderate but steady gains over the next several quarters, amounting to a rise of 11 per cent (at annual rates) from the second half of this year to the first half of 1976. Such an outcome would not be inconsistent with the results of the McGraw-Hill survey. Conference Board appropriations figures for manufacturers leveled off in the third quarter after three quarters of sharp decline, and construction contract awards for commercial and industrial buildings have shown some improvement over the past few months.

Residential construction activity clearly is improving. Starts rose strongly in the third quarter. In October

they increased 15 per cent to a 1.46 million unit annual rate, with almost all of the gain in single family dwellings. The relatively large volume of mortgage commitments outstanding, and the fact that building permits in October held to their recent levels, support the likelihood of continued gains in residential construction over the near term.

Despite continued high unemployment rates and under-utilization of resources generally, both wages and industrial prices continue moving up at a rapid rate. The hourly earnings index has increased at an annual average rate of over 3 per cent since the beginning of this year, only slightly less than in 1974, and the rate of rise appears to have accelerated somewhat recently. The strong gain in productivity that accompanied the third quarter surge of real GNP growth held down costs, but large gains in output per hour are most unlikely to persist with the advance of industrial activity slowing as it has.

Although wholesale prices over-all were unchanged in November, industrial prices rose by 0.6 per cent, following a 1.2 per cent increase in October. Since June, industrials have risen at a 9 per cent annual rate. Prices of farm products declined appreciably in November following large increases in the two preceding months.

Outlook. The implications of the recent slowing in the pace of expansion are difficult to assess. Recovery was accelerated in the third quarter by the speed and magnitude of the inventory adjustment



and by the quick response of consumer spending to the tax rebates. It is possible that the current slowdown will be temporary, allowing final demands to catch up with past gains in production and employment, and that growth will soon be resumed, though at a more moderate pace than during the summer. It is also possible that with the major stimulus provided by the tax rebates and the major inventory correction now having run its course, and with only modest gains in final demands in clear prospect, the current slowdown will extend into a longer period of sluggish activity.

In the current projection, we have continued to place more weight on the more optimistic view. During the four quarters of 1976, real GNP is now projected to rise at an annual rate of between 4-1/2 and 4-3/4 per cent, only a shade weaker than last month. However, compared to last month's Greenbook, we have trimmed our projection of real GNP growth from 7-1/2 per cent to 5 per cent for the current quarter. The downward revision reflects mainly the continued weakness of retail sales through November, but the projected rise in inventory investment has also been trimmed.

In general, our fiscal policy assumptions remain about unchanged, with Federal spending in FY 1976 projected to be somewhat above recent Administration estimates and somewhat below the current Congressional figures. We continue to assume the extension of the 1975 tax cuts into 1976. As for oil prices, we still assume relative

stability in domestic markets after the adjustment to the recent OPEC price increases is completed. The Congress has almost finished work on a bill that is designed to result in some reduction of oil prices in the near term; this legislation has not been incorporated because its disposition is uncertain.

With respect to monetary policy, we continue to assume  $M_1$  growth during the year beginning in the third quarter of 1975 averaging 6-1/4 per cent--the mid-point of the 5 to 7-1/2 per cent range. We still believe that such a path of monetary expansion--given our GNP projection--would imply an upward movement in short-term rates during 1976, but less steeply than had been previously estimated.

The downward revision of our real GNP growth estimate for the current quarter reflects mainly a substantially weaker consumer demand than we had expected. Consumption, in real terms, is now projected to increase at a 2.2 per cent annual rate in the current quarter, even allowing for good Christmas sales. The savings rate is projected to increase somewhat this quarter and to rise moderately further in 1976. Nevertheless, we anticipate that increases in personal income will support a resumption of real consumption at around a 3-1/2 per cent annual rate during the early quarters of 1976.

We are still projecting a near term pickup in plant and equipment outlays. Business fixed investment is projected to show an increase in real terms this quarter, and to rise progressively more rapidly throughout 1976. Residential construction and a rising rate of

inventory accumulation are projected to support over-all growth early in the year, but their contribution diminishes as the year goes on. In the State and local area, we continue to expect adverse conditions in credit markets and stringent budget policies to limit spending, despite the likelihood of Federal help to New York City.

It now appears that unemployment this quarter will remain about unchanged from the third quarter rate. However, we still expect the unemployment rate to begin declining again, falling to just under 3 per cent by the second half of next year.

The outlook for prices, as we see it, has not changed materially since the last Greenbook. Some additional uncertainty has been introduced in the food area by the further reduction in estimated Soviet grain harvests recently reported in the press. However, it is not clear whether and by how much these estimates will actually change Russian import intentions, and domestic grain prices. We are still projecting a 6-1/2 per cent annual rate of increase in the fixed-weight price index for gross private product this quarter, and a moderation of the rise in this index to a 5 per cent annual rate by late 1976.

Detailed data on these projections are provided in the tables that follow.

## STAFF GNP PROJECTIONS

	Changes in nominal GNP (\$ billions)		Per cent change, annual rate					
			Real GNP		Gross private product fixed-weighted price index		Unemployment rate (per cent)	
	11/12/75	12/10/75	11/12/75	12/10/75	11/12/75	12/10/75	11/12/75	12/10/75
1972 <u>1</u> /	103.1	103.1	6.2	6.2	3.3	3.3	5.6	5.6
1973 <u>1</u> /	136.9	136.9	5.9	5.9	6.3	6.3	4.9	4.9
1974 <u>1</u> /	102.5	102.5	-2.1	-2.1	11.4	11.4	5.6	5.6
1975	78.8	80.2	-3.0	-2.9	9.3	9.2	8.5	8.5
1976	172.7	168.9	5.9	5.6	6.0	6.0	7.9	8.0
1974-I <u>1</u> /	14.8	14.8	-7.0	-7.0	14.1	14.1	5.2	5.2
II <u>1</u> /	25.0	25.0	-1.6	-1.6	12.3	12.3	5.1	5.1
III <u>1</u> /	32.5	32.5	-1.9	-1.9	13.8	13.8	5.5	5.5
IV <u>1</u> /	14.6	14.6	-9.0	-9.0	12.6	12.6	6.6	6.6
1975-I <u>1</u> /	-14.3	-14.3	-11.4	-11.4	7.7	7.7	8.3	8.3
II <u>1</u> /	24.3	24.3	1.9	1.9	5.5	5.5	8.9	8.9
III <u>1</u> /	56.8	62.6	11.2	13.2	7.7	7.3	8.4	8.4
IV	51.6	45.6	7.4	5.0	6.4	6.5	8.3	8.4
1976-I	39.2	37.7	4.9	4.8	5.9	5.9	8.1	8.2
II	40.2	39.4	5.0	4.8	5.6	5.6	8.0	8.1
III	39.6	39.5	4.6	4.6	5.3	5.3	7.8	7.9
IV	41.4	41.2	4.5	4.3	4.9	5.0	7.8	7.9
Change:								
74-II to 75-II <u>1</u> /	57.1	57.1	-5.3	-5.3	9.8	9.8	3.8	3.8
74-IV to 75-IV	118.5	118.3	1.9	1.8	6.8	6.7	1.7	1.8
75-II to 76-II	127.8	125.4	7.1	6.9	6.4	6.3	- .9	- .8
75-IV to 76-IV	160.8	157.8	4.8	4.7	5.4	5.4	- .5	- .5

1/ Actual.

CLASS II FOMC

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			
	I	II	III	IV	Projected I	II	III	IV
Gross National Product	1416.6	1440.9	1503.6	1549.2	1586.9	1626.3	1665.8	1707.0
Final purchases	1435.8	1471.9	1509.1	1545.2	1576.4	1613.3	1651.8	1693.0
Private	1104.2	1133.8	1165.6	1194.3	1220.2	1250.3	1281.0	1310.3
Excluding net exports	1095.4	1117.6	1153.4	1182.2	1214.7	1246.9	1277.7	1307.0
Personal consumption expenditures	913.2	938.6	968.8	990.2	1014.3	1036.9	1058.2	1078.5
Durable goods	124.9	130.6	138.6	140.3	143.1	146.6	150.3	154.0
Nondurable goods	398.8	410.1	422.7	431.4	441.0	449.5	456.5	463.1
Services	389.5	397.9	407.5	418.5	430.2	440.8	451.4	461.4
Gross private domestic investment	163.1	148.1	179.1	196.0	210.9	223.0	233.5	242.5
Residential construction	35.3	36.4	41.0	44.5	48.2	52.2	55.7	57.0
Business fixed investment	146.9	142.7	143.6	147.5	152.2	157.8	163.8	171.5
Change in business inventories	-19.2	-31.0	-5.5	4.0	10.5	13.0	14.0	14.0
Nonfarm	-17.8	-30.6	-7.2	2.5	10.0	13.0	14.0	14.0
Net exports of goods and services <sup>1/</sup>	8.8	16.2	12.2	12.1	5.5	3.4	3.3	3.3
Exports	142.2	136.0	142.0	147.5	150.5	155.0	159.7	164.4
Imports	133.4	119.8	129.8	135.4	145.0	151.6	156.4	161.1
Gov't. purchases of goods and services	331.6	338.1	343.5	350.9	356.2	363.0	370.8	382.7
Federal	126.5	128.4	130.5	135.2	137.0	139.0	141.0	146.7
Defense	84.7	84.8	86.1	89.2	90.0	91.5	92.6	96.6
Other	41.8	43.6	44.4	46.0	47.0	47.5	48.4	50.1
State and local	205.1	209.7	213.0	215.7	219.2	224.0	229.8	236.0
Gross national product in constant (1958) dollars	780.0	783.6	808.3	818.2	827.9	837.8	847.3	856.3
GNP implicit deflator (1958=100)	181.6	183.9	186.0	189.3	191.7	194.1	196.6	199.4
Personal income	1193.4	1220.5	1255.2	1291.9	1325.2	1354.3	1385.8	1416.5
Wage and salary disbursements	765.1	773.0	791.4	811.9	831.5	851.0	870.1	891.9
Disposable income	1015.5	1078.5	1079.6	1106.0	1135.5	1159.6	1183.7	1208.2
Personal saving	75.9	113.8	84.6	89.0	93.8	94.8	97.1	100.8
Saving rate (per cent)	7.5	10.6	7.8	8.0	8.3	8.2	8.2	8.3
Corporate profits & inventory val. adj.	94.3	104.9	122.5	129.0	130.1	138.0	146.6	154.0
Corporate profits before tax	101.2	113.3	134.1	142.0	142.1	149.0	156.6	163.0
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts <sup>2/</sup>	284.1	251.8	295.7	309.7	318.5	327.9	340.3	350.9
Expenditures	338.5	355.0	362.7	374.3	383.7	390.7	401.1	413.2
Surplus or deficit (-) <sup>2/</sup>	-54.4	-103.3	-67.1	-64.6	-65.2	-62.8	-60.8	-62.3
High employment surplus or deficit (-)	10.2	-35.9	-11.2	-10.9	-10.3	-9.0	-9.7	-10.5
State and local government surplus or deficit (-) (N.I.A. basis)	-1.6	-.9	4.1	8.8	10.2	11.0	10.3	10.2
Total labor force (millions)	94.0	94.7	95.3	95.4	95.8	96.3	96.7	97.2
Armed forces "	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Civilian labor force "	91.8	92.5	93.1	93.2	93.6	94.1	94.5	95.0
Unemployment rate (per cent)	8.3	8.9	8.4	8.4	8.2	8.1	7.9	7.9
Nonfarm payroll employment (millions)	76.9	76.4	77.0	77.5	77.9	78.4	78.9	79.4
Manufacturing	18.5	18.1	18.3	18.5	18.7	18.9	19.0	19.1
Industrial production (1967=100)	111.6	110.4	114.1	116.7	118.7	120.6	122.2	123.8
Capacity utilization, mfg. (per cent)	68.2	67.0	68.9	69.8	70.5	71.0	71.4	71.7
Major materials (per cent)	70.0	70.9	77.9	79.9	80.5	81.1	81.4	81.7
Housing starts, private (millions, A.R.)	1.00	1.07	1.26	1.43	1.55	1.60	1.65	1.65
Sales new autos (millions, A.R.)	8.31	7.90	9.21	9.10	9.50	9.75	10.00	10.20
Domestic models	6.60	6.33	7.52	7.80	8.00	8.25	8.50	8.70
Foreign models	1.71	1.57	1.69	1.30	1.50	1.50	1.50	1.50
<sup>1/</sup> Net exports of g. & s. (Bal. of paymts)	12.7 <sup>2/</sup>	21.2	15.8	15.7	9.1	7.0	6.9	6.9
Exports	148.4 <sup>2/</sup>	141.7	146.6	152.1	155.1	159.6	164.3	169.0
Imports	135.7	120.5	130.8	136.4	146.0	152.6	157.4	162.1

<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 \$3 billion, annual rate of shipments of military equipment and supplies to Israel which are not included in GNP exports.

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

December 10, 1975

	1975				1976 Projected			
	I	II	III	IV	I	II	III	IV
Gross National Product	-14.3	24.3	62.7	45.6	37.7	39.4	39.5	41.2
Inventory change	-37.0	-11.8	25.5	9.5	6.5	2.5	1.0	.0
Final purchases	22.7	36.1	37.2	36.1	31.2	36.9	38.5	41.2
Private	14.9	29.6	31.8	28.7	25.9	30.1	30.7	29.3
Net exports	6.9	7.4	-4.0	-1.1	-6.6	-2.1	-0.1	.0
Excluding net exports	8.0	22.2	35.8	28.8	32.5	32.2	30.8	29.3
Personal consumption expenditures	17.4	25.4	30.2	21.4	24.1	22.6	21.3	20.3
Durable goods	4.2	5.7	8.0	1.7	2.8	3.5	3.7	3.7
Nondurable goods	7.1	11.3	12.6	8.7	9.6	8.5	7.0	6.6
Services	6.0	8.4	9.6	11.0	11.7	10.6	10.6	10.0
Residential fixed investment	-5.1	1.1	4.6	3.5	3.7	4.0	3.5	1.3
Business fixed investment	-4.3	-4.2	.9	3.9	4.7	5.6	6.0	7.7
Government	7.8	6.5	5.4	7.4	5.3	6.8	7.8	11.9
Federal	2.0	1.9	2.1	4.7	1.8	2.0	2.0	5.7
State and local	5.8	4.6	3.3	2.7	3.5	4.8	5.8	6.2
GNP in constant (1958) dollars	-24.0	3.6	24.7	9.9	9.7	9.9	9.5	9.0
Final purchases	-1.3	8.9	9.9	5.6	6.0	8.5	9.1	9.2
Private	-2.7	7.4	9.0	5.4	5.6	7.3	7.9	7.2
	-----In Per Cent Per Year <sup>1/</sup> -----							
Gross national product	-3.9	7.0	18.6	12.7	10.1	10.3	10.1	10.3
Final purchases	6.6	10.4	10.5	9.9	8.3	9.7	9.9	10.4
Private	5.6	11.2	11.7	10.2	9.0	10.2	10.2	9.5
Personal consumption expenditures	8.0	11.6	13.5	9.1	10.1	9.2	8.5	7.9
Durable goods	14.7	19.5	26.8	5.0	8.2	10.1	10.5	10.2
Nondurable goods	7.4	11.8	12.9	8.5	9.2	7.9	6.4	5.9
Services	6.4	8.9	10.0	11.2	11.7	10.2	10.0	9.2
Gross private domestic investment	-63.2	-32.0	113.9	43.4	34.1	25.0	20.2	16.3
Residential structures	-41.7	13.1	61.0	38.8	37.6	37.6	29.6	9.7
Business fixed investment	-10.9	-11.0	2.5	11.3	13.4	15.5	16.1	20.2
Gov't purchases of goods & services	10.0	8.1	6.5	8.9	6.2	7.9	8.9	13.5
Federal	6.6	6.1	6.7	15.2	5.4	6.0	5.9	17.2
Defense	3.4	.5	6.3	15.2	3.6	6.8	4.9	18.4
Other	12.4	18.4	7.5	15.2	9.0	4.3	7.8	14.8
State and local	12.2	9.3	6.4	5.2	6.6	9.1	10.8	11.2
GNP in constant (1958) dollars	-11.4	1.9	13.2	5.0	4.8	4.8	4.6	4.3
Final purchases	-.7	4.6	5.0	2.8	3.0	4.2	4.5	4.5
Private	-1.7 <sup>2/</sup>	4.7	5.6	3.4	3.4	4.4	4.7	4.3
GNP implicit deflator	8.4 <sup>2/</sup>	5.1	4.7	7.3	5.0	5.2	5.2	5.7
Private GNP fixed weighted index <sup>3/</sup>	7.7	5.5	7.3	6.5	5.9	5.6	5.3	5.0
Personal income	2.2	9.4	11.9	12.2	10.7	9.1	9.6	9.2
Wage and salary disbursements	-2.1	4.2	9.9	10.8	10.0	9.7	9.3	10.4
Disposable income	2.7	27.2	.4	10.1	11.1	8.8	8.6	8.5
Corporate profits before tax	-64.9	57.1	96.2	25.7	.3	20.9	22.0	17.4
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	-13.6	-38.3	90.2	20.3	11.9	12.3	16.0	13.1
Expenditures	26.3	21.0	9.0	13.4	10.4	7.5	11.1	12.6
Nonfarm payroll employment	-7.1	-2.2	3.0	2.6	2.1	2.6	2.6	2.6
Manufacturing	-21.2	-6.9	2.5	4.4	4.4	4.3	2.1	2.1
Industrial production	-28.4	-4.7	14.1	9.4	7.0	6.6	5.4	5.3
Housing starts, private	-2.4	32.7	91.9	65.9	38.0	13.5	13.1	.0
Sales new autos	60.9	-18.2	84.6	-4.7	18.8	10.9	10.7	8.2
Domestic models	41.8	-15.3	99.3	15.7	10.7	13.1	12.7	9.7
Foreign models	172.4	-28.8	33.3	-65.0	77.3	.0	.0	.0

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

<sup>2/</sup> Excluding Federal pay increases rates of change are: 1975-I, 8.3 per cent; 1975-IV, 6.6 per cent, 1976-I, 4.9 per cent, and 1976-IV, 5.0 per cent.

<sup>3/</sup> Using expenditures in 1967 as weights.

## CLASS II FOMC

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

	1969	1970	1971	1972	1973	1974	1975	1976
							Projected	Projected
Gross National Product	930.3	977.1	1054.9	1158.0	1294.9	1397.4	1477.6	1646.5
Final purchases								
Private	922.5	972.6	1048.6	1149.5	1279.6	1383.2	1490.5	1633.6
Excluding net exports	712.5	753.1	814.4	893.8	1003.2	1074.0	1149.5	1265.5
Net exports	710.6	749.5	814.6	899.8	999.3	1071.9	1137.2	1261.6
Personal consumption expenditures	579.5	617.6	667.1	729.0	805.2	876.7	952.7	1047.0
Durable goods	90.8	91.3	103.9	118.4	130.3	127.5	133.6	148.5
Nondurable goods	245.9	263.8	278.4	299.7	338.0	380.2	415.8	452.5
Services	242.7	262.6	284.8	310.9	336.9	369.0	403.4	446.0
Gross private domestic investment	139.0	136.3	153.7	179.3	209.4	209.4	171.6	227.5
Residential Construction	32.6	31.2	42.8	54.0	57.2	46.0	39.3	53.3
Business fixed investment	98.5	100.6	104.6	116.8	136.8	149.2	145.2	161.3
Change in business inventories	7.8	4.5	6.3	8.5	15.4	14.2	-12.9	12.9
Nonfarm	7.7	4.3	4.9	7.8	11.4	11.9	-13.3	12.8
Net exports of goods and services <sup>1/</sup>	1.9	3.6	-.2	-6.0	3.9	2.1	12.3	3.9
Exports	55.5	62.9	65.4	72.4	100.4	140.2	141.9	157.4
Imports	53.6	59.3	65.6	78.4	96.4	138.1	129.6	153.5
Gov't. purchases of goods and services	210.0	219.5	234.2	255.7	276.4	309.2	34.10	368.2
Federal	98.8	96.2	97.6	104.9	106.6	116.9	130.2	140.9
Defense	78.4	74.6	71.2	74.8	74.4	78.7	86.2	92.7
Other	20.4	21.6	26.5	30.1	32.2	38.2	44.0	48.3
State & local	111.2	123.3	136.6	150.8	169.8	192.3	210.9	227.3
Gross national product in constant (1958) dollars	725.6	722.5	746.3	792.5	839.2	821.2	797.5	842.3
GNP implicit deflator (1958=100)	128.2	135.4	141.4	146.1	154.3	170.2	185.2	195.5
Personal income	750.9	808.3	864.0	944.9	1055.0	1150.5	1240.3	1370.5
Wage and salary disbursements	509.7	542.0	573.0	626.8	691.7	751.2	785.4	861.1
Disposable income	634.4	691.7	746.4	802.5	903.7	979.7	1069.9	1171.6
Personal saving	38.2	56.2	60.5	52.6	74.4	77.0	90.8	96.6
Saving rate (per cent)	6.0	8.1	8.1	6.6	8.2	7.9	8.5	8.2
Corporate profits & inventory val. adj.	79.8	69.2	78.7	92.2	105.1	105.6	112.7	142.2
Corporate profits before tax	84.9	74.0	83.6	99.2	122.7	140.7	122.7	152.7
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	197.3	192.0	198.5	227.2	258.5	291.1	285.3	334.4
Expenditures	189.2	203.9	220.3	244.7	264.2	299.1	357.6	397.2
Surplus or deficit (-)	8.1	-11.9	-21.9	-17.5	-5.6	-8.1	-217.7	-62.8
High employment surplus or deficit (-)	8.8	3.7	-4.7	-6.7	-.7	19.1	-12.0	-9.8
State and local government surplus or deficit (-), (N.I.A. basis)	.7	1.8	3.4	12.3	9.2	1.8	2.6	10.4
Total labor force (millions)	84.2	85.9	86.9	89.0	91.0	93.2	94.9	96.5
Armed forces "	3.5	3.2	2.8	2.4	2.3	2.2	2.2	2.2
Civilian labor force "	80.7	82.7	84.1	86.5	88.7	91.0	92.7	94.3
Unemployment rate (per cent)	3.5	4.9	5.9	5.6	4.9	5.6	8.5	8.0
Nonfarm payroll employment (millions)	70.4	70.9	71.2	73.7	76.8	78.3	77.0	98.7
Manufacturing	20.2	19.3	18.6	19.1	20.1	20.0	18.4	18.9
Industrial production (1967 = 100)	110.7	106.7	106.8	115.2	125.6	124.7	113.2	121.3
Capacity utilization, mfg. (per cent)	86.5	78.3	75.0	78.6	83.0	78.9	68.5	71.2
Major materials (per cent)	90.0	86.2	85.3	89.6	93.0	87.0	74.7	81.2
Housing starts, private (millions, A.R.)	1.47	1.43	2.05	2.36	2.05	1.34	1.19	1.61
Sales new autos (millions, A.R.)	9.57	8.40	10.24	10.93	11.44	8.87	8.63	9.86
Domestic models	8.46	7.12	8.68	9.32	9.67	7.45	7.06	8.36
Foreign models	1.11	1.28	1.56	1.61	1.77	1.42	1.57	1.50
<sup>1/</sup> Net exports of g. & s. (Bal. of Paymts.)	1.3	2.9	-.2	-6.0	4.4	3.32	16.4	7.5
Exports	55.0	62.3	65.4	72.4	101.0	142.62	147.2	162.0
Imports	53.6	59.4	65.6	78.4	96.6	131.4	130.9	154.5

<sup>2/</sup> Includes shipments of military equipment and supplies to Israel which are not included in GNP exports; amounts in billions of dollars are 1973, \$.6, 1974, \$.325; and 1975, \$.150.

December 10, 1975

## CLASS II FOMC

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1969	1970	1971	1972	1973	1974	Projected	
							1975	1976
-----Billions of Dollars-----								
Gross National Product	66.	46.8	77.8	103.1	136.9	102.5	80.2	168.9
Inventory change	.	-3.3	1.8	2.2	6.9	-1.2	-27.1	25.8
Final purchases	65.4	50.1	76.0	100.9	130.1	103.6	107.3	143.1
Private	55.0	40.6	61.3	79.4	109.4	70.8	75.5	116.0
Net exports	-.6	1.7	-3.8	-5.8	9.9	-1.8	10.2	-8.4
Excluding net exports	55.6	38.9	65.1	85.2	99.5	72.6	65.3	124.4
Personal consumption expenditures	43.3	38.1	49.6	61.9	76.2	71.5	76.0	94.3
Durable goods	6.8	.5	12.6	14.5	11.9	-2.8	6.1	14.9
Nondurable goods	15.1	17.9	14.6	21.3	38.3	42.2	35.6	36.7
Services	21.4	19.9	22.2	26.1	26.0	32.1	34.4	42.6
Residential fixed investment	2.5	-1.4	11.6	11.2	3.2	-11.2	-6.7	14.0
Business fixed investment	9.7	2.1	4.0	12.2	20.0	12.4	-4.0	16.1
Government	10.4	9.5	14.7	21.5	20.7	32.8	31.8	27.2
Federal	.0	-2.6	1.4	7.3	1.7	10.3	13.3	10.7
State and local	10.4	12.1	13.3	14.2	19.0	22.5	18.6	16.4
GNP in constant (1958) dollars	19.0	-3.1	23.8	46.2	46.7	-18.0	-23.7	44.8
Final purchases	18.7	-.4	-22.5	-44.4	43.0	-15.9	-7.7	30.6
Private	20.6	6.2	18.5	46.1	45.2	-17.5	-10.9	27.2
-----Per Cent per Year-----								
Gross National Product	7.6	5.0	8.0	9.8	11.8	7.9	5.7	11.4
Final purchases	7.6	5.4	7.8	9.6	11.3	8.1	7.8	9.6
Private	8.4	5.7	8.1	9.7	12.2	7.1	7.0	10.1
Personal consumption expenditures	8.1	6.6	8.0	9.3	10.5	8.9	8.7	9.9
Durable goods	8.1	.6	13.8	14.0	10.1	-2.1	4.8	11.2
Nondurable goods	6.5	7.3	5.5	7.7	12.8	12.5	9.4	8.8
Services	9.7	8.2	8.5	9.2	8.4	9.5	9.3	10.6
Gross private domestic investment	10.3	-1.9	12.8	16.7	16.8	.0	-18.1	32.6
Residential structures	8.3	-4.3	37.2	26.2	5.9	-19.6	-14.6	35.6
Business fixed investment	10.9	2.1	4.0	11.7	17.1	9.1	-2.7	11.1
Gov't purchases of goods & services	5.2	4.5	6.7	9.2	8.1	11.9	10.3	8.0
Federal	.0	-2.6	1.5	7.5	1.6	9.7	11.4	8.2
Defense	.1	-4.8	-4.6	5.1	-.5	5.8	9.5	7.5
Other	-.5	5.9	22.7	13.6	7.0	18.6	15.2	9.8
State and local	10.3	10.9	10.8	10.4	12.6	13.3	9.7	7.8
GNP in constant (1958) dollars	2.7	-.4	3.3	6.2	5.9	-2.1	-2.9	5.6
Final purchases	2.7	-.1	3.1	6.0	5.5	-1.9	-.9	3.8
Private	3.7	1.1	3.9	6.7	6.5	-2.6	-1.6	4.1
GNP implicit deflator	4.8	5.5	4.6	3.4	5.6	10.3	8.8	5.6
Private GNP fixed weighted index <sup>1/</sup>	4.7	4.8	4.3	3.3	6.3	11.4	9.0	6.6
Personal income	9.0	7.6	6.9	9.4	11.7	9.1	7.8	10.5
Wage and salary disbursements	9.6	6.3	5.8	9.3	10.4	8.6	4.6	9.6
Disposable income	7.3	9.0	7.9	7.5	12.6	8.4	9.2	9.5
Corporate profits before tax	-3.1	-12.8	13.0	18.7	23.7	14.7	12.8	24.4
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	12.7	-2.7	3.4	14.5	13.8	12.6	-2.0	17.2
Expenditures	4.2	7.8	8.0	11.1	8.0	13.2	19.6	11.1
Nonfarm payroll employment	3.7	.7	.4	3.5	4.2	2.0	-1.7	28.2
Manufacturing	2.0	-4.1	-4.0	2.8	5.0	-.2	-8.0	2.7
Industrial production	4.7	-3.6	.1	7.9	9.0	-.7	-9.2	7.2
Housing starts, private	-2.7	-2.3	43.2	14.9	-13.2	-34.6	-11.2	35.3
Sales new autos	-.6	-12.3	21.9	6.7	4.7	-22.5	-2.7	14.3
Domestic models	-1.8	-15.9	21.9	7.4	3.7	-23.0	-5.2	18.4
Foreign models	9.0	15.5	21.8	3.3	9.8	-20.1	10.6	-4.5

<sup>1/</sup> Using expenditures in 1967 as weights.



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DOMESTIC FINANCIAL DEVELOPMENTS

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Summary. The Federal funds rate has changed little since the November FOMC meeting, but short-term market rates edged up from 1/8 to 3/8 of a percentage point, as market participants became concerned about possible Federal Reserve response to the strong growth in the monetary aggregates during the first half of November. The change in market attitude limited the decline in tax-exempt bond yields, despite the improved outlook for Federal assistance to New York City. In the corporate market, yields on new high grade bonds rose about 10 to 35 basis points in response to swollen dealer inventory positions and an enlarged volume of new offerings prior to the year-end holiday lull.

Business short-term credit demands at banks have increased somewhat recently, but remain generally weak, in part reflecting continued availability of internal funds and the modest pace of inventory accumulation. In addition, banks have maintained restrictive lending standards and relatively high lending rates, even after taking into account recent declines in the prime rate. Indeed, a significant part of the increase in business loans reported in October-November reflects acquisition of bankers' acceptances by a few large banks for reasons unrelated to business borrowing needs.<sup>1/</sup>

Inflows of interest-bearing thrift deposits to banks and nonbank depository institutions were relatively strong in November.

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<sup>1/</sup> See, Part II of the Greenbook, p III- 11.

Mortgage rates, which had gone up in early fall and then declined through mid-November, have stabilized since the last Committee meeting, and mortgage commitment activity apparently is remaining large at S&L's.

Outlook. Over the next few months, private credit demands are likely to increase further while governmental borrowing remains large (see lines 1 and 5 of Table 1). Most of the increase in private borrowing is expected to occur in the business sector. The already relatively large volume of long-term financing is projected to edge higher (line 8) as corporations continue to restructure balance sheets. Short-term business borrowing is expected to rise more (line 7) as inventories begin to accumulate and a pick-up in capital outlays further increases the need for external funds (line 6). However, the amount of short-term business borrowing is expected to be quite modest by historical standards, given the projected continuation of reliance on longer-term financing.

The step-up in total credit demands (line 14) is expected to put pressure under interest rates--particularly shorter-term rates--during the first half of next year. As a result, inflows of consumer-type time and savings deposits to banks and thrift institutions are expected to moderate, limiting their total extensions of credit (lines 2 and 3 of Table 2). Moreover, with business and mortgage loans taking a larger share of credit extended by banks and thrift institutions, the public is expected to absorb a considerably larger volume of marketable securities (line 10 of Table 2), particularly Treasury issues.

Table 1  
 FUNDS RAISED IN CREDIT MARKETS  
 Seasonally adjusted annual rates  
 Flow-of-funds basis  
 1975-76  
 (\$ billions)

Line No.	Sector	Period			
		1975		1976	
		H1	HII Est.	QI Proj.	QII Proj.
1.	ALL GOVERNMENTS -- TOTAL	108	97	87	94
2.	U.S. Government <u>1/</u>	84	79	70	70
3.	Sponsored agencies <u>2/</u>	9	6	7	13
4.	States and local gov'ts.	<u>15</u>	<u>12</u>	<u>10</u>	<u>11</u>
5.	PRIVATE DOMESTIC (Non-Fin. & Non-Gov't.)	77	96	122	133
6.	Business	<u>29</u>	<u>39</u>	<u>56</u>	<u>62</u>
7.	Short-term <u>3/</u>	-27	-1	11	16
8.	Long-term <u>4/</u>	<u>56</u>	<u>40</u>	<u>45</u>	<u>46</u>
9.	Consumer credit	-1	10	11	12
10.	Residential Mortgages	40	44	49	53
11.	Other	9	3	6	6
12.	FOREIGN	10	13	10	8
13.	PVT. FINANCIAL INSTITUTIONS (Credit and Equity Market Borrowing) <u>5/</u>	-4	13	17	19
14.	TOTAL FUNDS RAISED IN CREDIT MARKETS	<u>191</u>	<u>219</u>	<u>236</u>	<u>253</u>

1/ Direct marketable and nonmarketable debt, savings bonds, and other issues by on-budget and off-budget agencies.

2/ FHLB, FNMA, FICB, Bank for Coops, Land Banks, and GNMA Guaranteed Mortgage Backed Securities.

3/ Business bank loans and open market paper.

4/ Bonds, equities, and nonresidential mortgages.

5/ Includes FHLB advances to savings and loan associations as follows

1975 H1: \$-8B

HII: \$-1B

1976 QI: \$3B

QII: \$4B

Note: All dollar amounts are rounded to the nearest billion, and components may not add to totals.

Table 2  
 FUNDS ADVANCED IN CREDIT MARKETS  
 Seasonally adjusted annual rates  
 Flow-of-funds basis  
 1974-75  
 (\$ billions)

Line No.	Sector	Period			
		1975		1976	
		H1	HII Est.	QI Proj.	QII Proj.
1.	PRIVATE FINANCIAL INSTITUTIONS	127	159	150	158
2.	Domestic commercial bank and affiliates	18	57	53	62
3.	Thrift institutions <u>1/</u>	59	55	42	40
4.	Insurance and pension funds <u>2/</u>	49	48	49	49
5.	All other <u>3/</u>	<u>1</u>	<u>-1</u>	<u>6</u>	<u>6</u>
6.	U.S. GOVERNMENT	30	28	27	30
7.	Direct <u>4/</u>	12	11	8	8
8.	Sponsored credit agencies <u>5/</u>	11	6	9	15
9.	Federal Reserve	<u>7</u>	<u>12</u>	<u>10</u>	<u>7</u>
10.	HOUSEHOLDS	-2	6	30	34
11.	ALL OTHER <u>6/</u>	37	25	30	32
12.	TOTAL FUNDS ADVANCED IN CREDIT MARKETS	<u>191</u>	<u>219</u>	<u>236</u>	<u>253</u>

1/ Savings and loan associations, mutual savings banks, and credit unions.

2/ Life and other insurance companies, private and public pension funds.

3/ Finance companies, REIT's, open-end investment companies, and securities brokers and dealers.

4/ Lending by on-budget and off-budget agencies.

5/ FNMA, FHLB, FICB, Land Banks, Banks for Coop. Includes mortgage pools GNMA guaranteed securities.

6/ Businesses, State and local governments, and rest of world.

NOTE: All dollar amounts are rounded to the nearest billion, and components may not add to totals.

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INTERNATIONAL DEVELOPMENTS

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Summary. After a period of weakness in October the trade-weighted average value of the dollar rose by about 1-1/2 per cent from mid-November to the first week of December. The main factor in the October decline had been a fall in U.S. interest rates relative to rates abroad, leading to a \$3.8 billion net outflow of bank-reported capital. In the more recent period, support for the dollar has come from resolution of some of the immediate problems of financing for New York City, and from the market's inference that resumed growth in the monetary aggregates would call for some rise in U.S. interest rates in the short run. As the dollar strengthened, the Japanese yen came under considerable market pressure, reflecting internal economic problems and a weaker trade balance, and the support price of the yen was reduced in several steps. Though there have been some dollar purchases by other countries, notably by Switzerland principally for seasonal reasons, on balance there have been net sales by foreign central banks of \$460 million since the end of October, reducing the dollar's appreciation in the period. This excludes dollar accumulations by the OPEC countries; their liquid dollar holdings in the United States increased by \$0.8 billion in October, but the rise appears to have slowed again in November.

Net outflows through banks were probably reduced considerably in November. Weekly data on liabilities of U.S. banks to foreign banks indicate only a small increase, if any, during the month, and it is unlikely that banks again increased their claims on foreigners at the high October rate. In a longer perspective, U.S. banks have reduced the rate of growth of their foreign assets considerably below the rapid pace of last year. Head-office foreign claims increased about \$10 billion in the first 10 months of 1975, against about \$19 billion for all of last year; similarly, claims of the foreign branches of U.S. banks on residents of other countries rose about \$9 billion in the first nine months of 1975 compared with \$20 billion for the year 1974. About half of the increase in head-office claims this year represents advances to their foreign branches. The pace of foreign lending from both head offices and branches has slowed since mid-year.

The U.S. trade balance registered another strong surplus in October -- \$8 billion at an annual rate -- though there has been a considerable reduction from the peak surplus in the second quarter. Other major industrial countries have also experienced declines in their surpluses (or increases in their deficits) since the second quarter. For the six largest foreign industrial countries the combined trade surplus declined from a peak annual rate of about \$25 billion in the second quarter to about \$10 billion in the third,

with the balance moving to about \$4 billion by October. . Most of the drop in the surplus of the six resulted from falling exports, but it also appears that imports were beginning to pick up as the period of inventory run-off ran its course and the decline in economic activity tapered off. International trade volumes also seemed to be recovering from their sharpest postwar declines. In the case of the United States, export volumes of non-agricultural commodities were well sustained, given the slowdown in over-all foreign economic activity, while import volumes, apart from fuel, now appear to be rising as demand here strengthens.

Outlook. Our latest projections of U.S. international transactions show a slower reduction of the trade surplus in the months ahead than earlier projections, with most of the decline still coming early next year. The trade balance, as calculated for the balance of payments, is expected to be a surplus of about \$9 billion this year and about zero in 1976, reaching a small deficit by the fourth quarter of that year. The surplus on income and service transactions is projected to rise from about \$7 billion this year to perhaps \$8 billion next year, so that the combined goods and services balance will continue in substantial surplus. Although the trade balance will be declining, exports will be rising and should provide some support to the economy, while rising imports will mainly reflect increased demand stemming from expanding industrial production.

The recovery in demand in the United States and other industrial countries should provide some relief to the less-developed countries that do not export oil. However, the deficit of these countries, in the aggregate, will still be much higher than in the years before the rise in the price of oil, and for some of them financing problems will become acute during 1976.

The dollar is not likely to move much in exchange markets into early 1976 if in fact the trade balance declines only slowly, as now projected, and relative interest rates do not change so as to induce large flows of banking funds. While there could be some weakness later if the trade balance declines more abruptly than expected, this has to be balanced against the possibility that the U.S. economic recovery will be moving ahead more strongly than recovery abroad, creating incentives for sizable capital inflows.