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# Part 1

September 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)

September 10, 1975

SUMMARY AND OUTLOOK

By the Staff  
Board of Governors  
of the Federal Reserve System

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DOMESTIC NONFINANCIAL DEVELOPMENTS

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Summary. Industrial production and employment moved up considerably more rapidly in August than in early months of this recovery--probably reflecting a reduced pace of inventory liquidation. The pace of economic expansion thus appears to have gained momentum. Consumer purchases, the driving force of the earlier months of recovery, apparently did not increase further in August. Consumer and wholesale prices both rose sharply in July, and industrial commodity prices at wholesale continued to advance rather rapidly in August--due partly to earlier increases in gasoline prices. A good deal of uncertainty prevails regarding future energy policy and the resulting course of prices, and this is reinforcing doubts about the longer-term strength of expansionary forces.

Industrial production in August is estimated to have increased by 1 per cent or more, as compared to increases of about 1/2 of a per cent or so during each of the preceding two months. Output gains appear to have been widespread among consumer goods and materials. Production of nondurable materials rose further--with significant increases in textiles, paper, and chemicals--and output of durable materials may have stopped declining. Auto assemblies are estimated to have held steady at a 7.6 million unit annual rate--after allowance for the seasonal model changeover period. Production of business equipment is estimated to have remained about steady in August, following 10 consecutive months of decline.

Confirming indications of a strengthening economy were provided by recent labor market developments. Total nonfarm payroll employment increased more than half a million in August, and employment in manufacturing was up 200,000--with gains widespread throughout durable and nondurable industries. The factory work week rose further to 39.8 hours--a full hour above its trough in February and March.

While the unemployment rate remained constant at 8.4 per cent, many categories of adult unemployment showed declines, with the jobless rate for adult men down 0.4 to 6.6 per cent. There was an offsetting increase in teenage unemployment to 21.1 per cent, somewhat less than its record high in May, but this rate is probably still influenced by seasonal adjustment problems.

Consumer purchases--particularly autos and perhaps retail sales more generally--apparently did not advance further in August. The annual rate of automobile sales remained unchanged at 7.5 million units for domestic makes and 1.7 million for imports. Data on other retail sales are still incomplete, but the weekly figures suggest weakness in food purchases only partly offset by further increases in the GAF category.

Advance indicators point to further strengthening of business activity in the months ahead. New orders received by manufacturers of durable goods rose by 4.3 per cent in July, the sharpest monthly advance since the strong surge in April. Orders for nondefense capital goods rose about as much as the total, and a similar rise also occurred in footage contracted for commercial and

industrial buildings. Additional evidence of stabilization in business fixed investment plans was provided by the August Commerce quarterly survey, which showed little further downward revision in spending plans for this year. Moreover, housing starts picked up 14 per cent in July, dominated by a jump in multi-family units, and residential building permits advanced 6 per cent further.

Available inventory data for July indicate continuation of a substantial rate of liquidation among manufacturers and wholesalers. While inventory data are not yet available for August, the strength of industrial production, together with an apparent narrowing of the gap between production of materials and final goods, suggests a moderating pace of inventory decumulation.

Wage increases, as measured by the hourly earnings index, rose sharply in August--at an annual rate of 9.9 per cent. The monthly index is volatile, however, and over the last two months the rate of increase averaged about 7-1/4 per cent, the same as the second quarter rate.

Wholesale prices of industrial commodities rose somewhat more rapidly in August than they had in July--partly because increases in gasoline prices in early July were picked up with a lag in the August index. Wholesale prices of farm products and processed foods receded in August, and since then available farm price data have shown a mixed pattern.

Outlook. There have been no major changes in the assumptions underlying our GNP projection since the August Greenbook. In the energy area, Congress and the Administration are still searching for a compromise on decontrol. Since the outcome is highly uncertain, we have retained our previous assumptions. These include abrupt decontrol of old oil prices; elimination of the \$2 import fee; a windfall profits tax on oil that is redistributed to households in the form of lower withholding tax rates; and an OPEC price increase of \$1 a barrel, effective October 1. In the agricultural area, we assume sizable additional Soviet grain purchases.

Our fiscal policy assumptions remain unchanged in other respects as well. On the revenue side, we assume that the \$8.5 billion reduction in 1975 personal tax liabilities provided by the Tax Reduction Act will be extended through calendar year 1976. On the expenditure side, we assume an outcome close to the First Congressional Budget Resolution, which had a target of \$367 billion for FY 1976. As yet, there are no convincing signs that expenditures will exceed this amount by a significant margin.

As regards monetary policy, we continue to assume that some of the price effects of decontrolling old oil and of higher expected food prices would be accommodated. As before, this is taken to mean a growth rate of  $M_1$  of around 7-1/4 per cent, or near the upper end of the 5 to 7-1/2 per cent range. With short-term interest rates expected to climb sharply later this year and on into 1976, however,

the implied growth rates of  $M_2$  and  $M_3$  would fall at or below the lower end of their target ranges. As before, we continue to assume some relaxation of Regulation Q ceilings at the end of 1975, including a 50 basis point increase in ceiling rates for CD's of 4 years or more.

Since our basic assumptions are unchanged from a month ago, and since recent economic developments have been broadly in line with expectations, the over-all contour of our current GNP projection is similar to that of a month ago. We have trimmed somewhat our estimate of State and local purchases over the projection period, because of recent sharp increases in municipal bond rates. However, the outlook for net exports seems marginally stronger, and these two adjustments are about offsetting.

We still expect rather vigorous growth in real GNP during the current half year, followed by a slowdown thereafter. This slowdown reflects a diminished thrust from the inventory sector, together with a lack of vigor in the housing recovery. However, it also reflects the effects on housing and consumer spending of strains projected to develop in financial markets. Business fixed investment is expected to pick up strongly next year, but not enough to offset these dampening forces on the rate of expansion.

With the strong labor market data for August in hand, our estimate of the unemployment rate during the third quarter has been reduced from 8.6 to 8.4 per cent. This adjustment has been carried forward, and the unemployment rate toward year end 1976 is now estimated at 7.5 per cent.

The outlook for prices has changed little since the last Greenbook. Our projection envisages some moderation in food price pressures during the fourth quarter--following a rise at an annual rate exceeding 10 per cent during the current quarter. However, food prices are expected to bulge again in early 1976 when the effects of the higher feed grain prices are likely to begin showing up in meat prices. Oil prices would rise most strongly in the fourth quarter of 1975 with immediate decontrol, but the effects would also carry over into early 1976. The fixed weighted index for gross private product is still projected to rise at around a 7-1/2 per cent annual rate in this and the next two quarters, but the rate of rise is projected to taper off to about 5 per cent by the end of 1976.

## 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)	
	8/13/75	9/10/75	8/13/75	9/10/75	8/13/75	9/10/75	8/13/75	9/10/75
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	72.3	72.2	- 3.8	- 3.4	9.4	9.3	8.5	8.4
1976	194.1	193.6	6.0	5.9	6.7	6.6	7.3	7.7
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>	16.8	23.1	- .3	1.6	6.0	5.5	8.9	8.9
III	50.8	54.3	7.0	8.0	7.4	7.4	8.6	8.4
IV	60.4	58.0	2.5	7.8	7.4	7.4	8.3	8.1
1976-I	53.3	53.0	6.2	6.1	7.7	7.7	8.1	7.9
II	45.7	44.5	5.7	5.4	5.8	5.8	7.9	7.7
III	42.2	41.5	5.0	4.8	5.4	5.4	7.8	7.6
IV	42.1	40.0	4.5	4.0	4.9	4.9	7.6	7.5
Change:								
74-II to								
75-II	49.6	55.9	- 5.8	- 5.3	9.9	9.8	3.8	3.8
74-IV to								
75-IV	113.7	121.1	.6	1.2	7.1	7.0	1.7	1.5
75-II to								
76-II	210.2	209.8	6.9	6.8	7.1	7.1	- 1.0	-1.2
75-IV to								
76-IV	183.3	179.0	5.4	5.1	5.9	5.9	- .7	- .6

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	1439.7	1494.0	1552.0	1605.0	1649.5	1691.0	1731.0
Final purchases	1435.8	1470.7	1512.0	1557.0	1598.0	1634.5	1673.5	1711.5
Private	1104.2	1132.6	1166.8	1200.3	1233.5	1267.7	1294.3	1321.0
Excluding net exports	1095.4	1117.6	1154.2	1192.6	1231.4	1263.3	1296.0	1323.1
Personal consumption expenditures	913.7	938.6	968.5	999.7	1029.9	1052.2	1075.2	1095.3
Durable goods	124.9	130.6	138.0	143.0	143.0	152.5	156.0	159.0
Nondurable goods	398.8	410.1	422.5	436.2	448.4	455.7	464.7	472.3
Services	389.5	397.9	408.0	420.0	432.5	444.0	454.5	464.0
Gross private domestic investment	163.1	148.1	167.7	188.4	208.5	226.1	238.3	247.3
Residential construction	35.3	36.4	41.0	43.9	47.5	50.6	52.3	51.8
Business fixed investment	146.9	142.7	144.7	149.5	154.0	160.5	168.5	176.0
Change in business inventories	-19.2	-31.0	-18.0	-5.0	7.0	15.0	17.5	19.5
Nonfarm	-17.8	-30.6	-19.0	-6.5	6.5	15.0	17.5	19.5
Net exports of goods and services <sup>1/</sup>	8.8	15.0	12.6	7.7	2.1	-6	-1.7	-2.1
Exports	147.2	135.1	142.0	148.2	153.4	158.3	163.9	169.8
Imports	133.4	120.1	129.4	140.5	151.3	158.9	165.6	171.9
Gov't. purchases of goods and services	331.6	338.1	345.2	356.7	364.5	371.8	379.2	390.5
Federal	126.5	128.4	130.2	135.7	137.8	139.6	141.5	147.3
Defense	84.7	84.8	85.6	89.7	91.0	92.4	93.5	97.5
Other	41.8	43.6	44.6	46.0	46.8	47.2	48.0	49.8
State and local	205.1	209.7	215.0	221.0	226.7	232.2	237.7	243.2
Gross national product in constant (1958) dollars	780.0	783.1	798.2	813.3	825.4	836.4	846.2	854.6
GNP implicit deflator (1958=100)	181.6	183.9	187.2	190.8	194.5	197.2	199.8	202.6
Personal income	1193.4	1220.5	1255.1	1295.3	1330.9	1362.2	1395.0	1424.3
Wage and salary disbursements	765.1	773.0	794.7	818.7	841.1	862.4	883.0	905.0
Disposable income	1015.5	1078.5	1077.8	1123.9	1145.3	1171.3	1197.3	1221.0
Personal saving	75.9	113.8	82.8	97.7	87.8	91.0	93.6	96.8
Saving rate (per cent)	7.5	10.6	7.7	8.7	7.7	7.8	7.8	7.9
Corporate profits & inventory val. adj.	94.3	100.5	109.8	115.4	129.1	137.5	146.8	154.7
Corporate profits before tax	101.2	108.9	123.0	132.5	148.5	152.5	159.0	164.5
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts <sup>2/</sup>	284.1	250.5	297.1	301.3	324.5	333.0	343.3	352.1
Expenditures	338.5	355.0	360.8	371.9	381.6	387.3	397.2	408.4
Surplus or deficit (-) <sup>2/</sup>	-54.4	-104.6	-63.7	-70.6	-57.1	-54.3	-53.9	-56.3
High employment surplus or deficit (-)	9.6	-37.9	-5.3	-10.5	-5.9	-3.3	-6.5	-5.2
State and local government surplus or deficit (-) (N I.A. basis)	-1.6	-1.1	.5	3.5	4.7	4.2	3.2	3.4
Total labor force (millions)	94.0	94.7	95.3	95.5	95.9	96.3	96.8	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	93.3	93.7	94.1	94.6	95.0
Unemployment rate (per cent)	8.3	8.9	8.4	8.1	7.9	7.7	7.6	7.5
Nonfarm payroll employment (millions)	76.8	76.4	77.0	77.4	77.9	78.6	79.1	79.7
Manufacturing	18.4	18.1	18.3	18.6	18.9	19.1	19.3	19.5
Industrial production (1967=100)	111.6	110.0	112.5	115.6	118.5	121.2	123.6	125.7
Capacity utilization, mfg. (per cent)	68.2	67.2	68.1	69.5	70.9	71.8	72.5	73.4
Major materials (per cent)	70.0	70.4	72.8	75.5	77.6	79.0	79.9	80.5
Housing starts, private (millions, A.R.)	1.00	1.07	1.23	1.40	1.50	1.45	1.45	1.40
Sales new autos (millions, A R )	8.31	7.90	9.32	9.95	10.50	10.25	10.22	9.95
Domestic models	6.60	6.33	7.65	8.25	8.75	8.50	8.50	8.25
Foreign models	1.71	1.57	1.67	1.70	1.75	1.75	1.72	1.70

<sup>1/</sup> Net exports of g. & s. (Bal. of paymts) 13.73/ 19.73/ 17.33/ 12.43/ 6.8 4.1 3.0 2.6  
 Exports 148.73/ 141.53/ 148.43/ 154.63/ 159.8 164.7 170.3 176.2  
 Imports 135.0 121.8 131.1 142.2 153.0 160.6 167.3 173.6

<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; this latter reduction, enacted only for 1975, is 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.

## CLASS II FOMC

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1975				1976			
	I	II	III	IV	Projected			
					I	II	III <sup>1</sup>	IV
Gross National Product	-14.3	23.1	54.3	58.0	53.0	44.5	41.5	40.0
Inventory change	-37.0	-11.8	13.0	13.0	12.0	8.0	2.5	2.0
Final purchases	22.7	34.9	41.3	45.0	41.0	36.5	39.0	38.0
Private	14.9	28.4	34.2	33.5	33.2	29.2	31.6	26.7
Net exports	6.9	6.2	-2.4	-4.9	-5.6	-2.7	-1.1	-4
Excluding net exports	8.0	22.2	36.6	38.4	38.8	31.9	32.7	27.1
Personal consumption expenditures	17.4	25.4	29.9	30.7	30.7	22.3	23.0	20.1
Durable goods	4.2	5.7	7.4	5.0	6.0	3.5	3.5	3.0
Nondurable goods	7.1	11.3	12.4	13.7	12.2	7.3	9.0	7.6
Services	6.0	8.4	10.1	12.0	12.5	11.5	10.5	9.5
Residential fixed investment	-5.1	1.1	4.6	2.9	3.6	3.1	1.7	-5
Business fixed investment	-4.3	-4.2	2.0	4.8	4.5	6.5	8.0	7.5
Government	7.8	6.5	7.1	11.5	7.8	7.3	7.4	11.3
Federal	2.0	1.9	1.8	5.5	2.1	1.8	1.9	5.8
State and local	5.8	4.6	5.3	6.0	5.7	5.5	5.5	5.5
GNP in constant (1958) dollars	-24.0	3.1	15.1	15.1	12.1	11.0	9.8	8.4
Final purchases	-1.3	8.4	11.0	6.5	5.3	6.0	8.6	6.3
Private	-2.7	6.9	8.4	8.0	8.4	6.8	8.7	6.4
-----In Per Cent Per Year <sup>1/</sup> -----								
Gross national Product	-3.9	6.7	16.0	16.5	14.4	11.6	10.4	9.8
Final purchases	6.6	10.1	11.7	12.4	11.0	9.5	9.9	9.4
Private	5.6	10.7	12.6	12.0	11.5	9.8	10.4	8.5
Personal consumption expenditures	8.0	11.6	13.4	13.3	12.9	8.9	9.0	7.7
Durable goods	14.7	19.5	24.7	15.3	17.9	9.7	9.5	7.9
Nondurable goods	7.4	11.8	12.7	13.6	11.7	6.7	8.1	6.7
Services	6.4	8.9	10.5	12.3	12.4	11.1	9.8	8.6
Gross private domestic investment	-63.2	-32.0	64.4	59.3	50.0	38.3	23.4	16.0
Residential structures	-41.7	13.1	61.0	31.4	37.1	28.8	14.1	-3.8
Business fixed investment	-10.9	-11.0	5.7	13.9	12.6	18.0	21.5	19.0
Gov't purchases of goods & services	10.0	8.1	8.7	14.0	9.0	8.3	8.2	12.5
Federal	6.6	6.1	5.7	18.0	6.3	5.3	5.6	17.4
Defense	3.4	.5	3.8	20.6	5.9	6.3	4.8	18.2
Other	12.4	18.4	9.5	13.2	7.1	3.5	7.0	15.9
State and local	12.2	9.3	10.5	11.6	10.7	10.1	9.8	9.6
GNP in constant (1958) dollars	-11.4	1.6	7.9	7.8	6.1	5.4	4.8	4.0
Final purchases	-7	4.3	5.6	3.2	2.6	3.0	4.2	3.0
Private	-1.7 <sup>2/</sup>	4.4	5.3	4.9 <sup>2/</sup>	5.2 <sup>2/</sup>	4.1	5.2	3.8 <sup>2/</sup>
GNP implicit deflator	8.4 <sup>2/</sup>	5.0	7.4	8.1 <sup>2/</sup>	7.8 <sup>2/</sup>	5.8	5.4	5.6 <sup>2/</sup>
Private GNP fixed weighted index <sup>3/</sup>	7.7	5.5	7.4	7.4	7.7	5.8	5.4	4.9
Personal income	2.2	9.4	11.8	13.4	11.5	9.7	10.0	8.7
Wage and salary disbursements	-2.1	4.2	11.7	12.6	11.4	10.5	9.9	10.3
Disposable income	2.7	27.2	-.3	18.2	7.8	9.4	9.2	8.2
Corporate profits before tax	-64.9	34.1	62.7	34.7	57.8	11.2	18.2	14.6
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	-13.6	-39.6	97.9	5.8	34.5	10.9	13.0	10.7
Expenditures	26.3	21.0	6.7	12.9	10.8	6.1	10.6	11.8
Nonfarm payroll employment	-7.7	-2.1	3.4	2.1	2.6	3.6	2.6	3.1
Manufacturing	-22.3	-6.2	4.5	6.7	6.6	4.3	4.3	4.2
Industrial production	-28.4	-5.6	9.4	11.5	10.5	9.5	7.9	7.0
Housing starts, private	-2.4	31.7	77.3	67.8	31.8	-12.7	.0	-13.1
Sales new autos	60.9	-18.2	93.6	29.9	24.0	-9.2	-1.2	-10.2
Domestic models	41.8	-15.3	113.3	35.3	26.5	-10.9	.0	-11.3
Foreign models	172.4	-28.8	27.7	7.4	12.3	.0	-6.7	-4.6

<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, 7.0 per cent, 1976-I, 7.7 per cent; and 1976-IV, 4.9 per cent.

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

## 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.)

	1973				1974			
	I	II	III	IV	I	II	III	IV
Gross National Product	1248.9	1277.9	1308.9	1344.0	1358.8	1383.8	1416.3	1430.9
Final purchases	1238.9	1267.2	1297.0	1315.1	1341.9	1370.3	1407.6	1413.1
Private	969.9	993.9	1020.1	1028.7	1045.6	1065.9	1095.3	1089.3
Excluding net exports	970.7	993.4	1013.4	1019.4	1034.3	1067.4	1098.4	1087.4
Personal consumption expenditures	781.7	799.0	816.3	823.9	840.6	869.1	901.3	895.8
Durable goods	132.4	132.1	132.4	124.3	123.9	129.5	136.1	120.7
Nondurable goods	323.3	332.7	343.8	352.1	364.4	375.8	389.0	391.7
Services	325.9	334.2	340.1	347.4	352.4	363.8	376.2	383.5
Gross private domestic investment	199.0	205.1	209.0	224.5	210.5	211.8	205.8	209.4
Residential construction	58.5	58.7	58.1	53.6	48.4	48.8	46.2	40.4
Business fixed investment	130.5	135.6	139.0	141.9	145.2	149.4	150.9	151.2
Change in business inventories	10.0	10.7	11.8	28.9	16.9	13.5	8.7	17.8
Nonfarm	6.5	7.7	7.4	24.0	13.1	10.4	6.6	17.5
Net exports of goods and services <sup>1/</sup>	-.8	.5	6.7	9.3	11.3	-1.5	-3.1	1.9
Exports	88.8	95.4	103.7	113.6	131.2	138.5	143.6	147.5
Imports	89.5	94.9	96.9	104.3	119.9	140.0	146.7	145.7
Gov't. purchases of goods and services	269.0	273.3	276.9	286.4	296.3	304.4	312.3	323.8
Federal	106.4	106.2	105.3	108.4	111.5	114.3	117.2	124.5
Defense	75.0	74.0	73.3	75.3	75.8	76.6	78.4	84.0
Other	31.4	32.2	32.0	33.1	35.7	37.7	38.8	40.6
State & local	162.6	167.1	171.6	177.9	184.8	190.1	195.1	199.3
Gross national product in constant (1958) dollars	832.8	837.4	840.8	845.7	830.5	827.1	823.1	804.0
GNP implicit deflator (1958 = 100)	150.0	152.6	155.7	158.9	163.6	167.3	172.1	178.0
Personal income	1013.6	1039.2	1068.0	1099.3	1112.5	1134.6	1168.2	1186.9
Wage and salary disbursements	667.6	683.8	698.2	717.0	727.6	745.2	763.0	769.2
Disposable income	869.5	892.1	913.9	939.4	950.6	966.5	993.1	1008.8
Personal saving	65.3	69.6	73.2	89.3	84.4	71.5	65.5	86.5
Saving rate (per cent)	7.5	7.8	8.0	9.5	8.9	7.4	6.6	8.6
Corporate profits & inventory val. adj.	103.9	105.0	105.2	106.4	107.7	105.6	105.8	103.4
Corporate profits before tax	120.4	124.9	122.7	122.7	135.4	139.0	157.0	131.5
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	249.1	255.0	261.8	268.3	278.1	288.6	302.8	294.7
Expenditures	260.2	262.4	263.4	270.6	281.0	291.6	304.7	319.3
Surplus or deficit (-)	-11.2	-7.4	-1.7	-2.3	-2.8	-3.0	-1.9	-24.5
High employment surplus or deficit (-)	-8.5	-3.4	4.6	4.8	14.0	19.6	24.7	17.8
State and local government surplus or deficit (-), (N.I.A. basis)	13.2	10.4	8.4	4.6	3.2	2.0	2.1	-.1
Total labor force (millions)	90.0	90.8	91.3	92.1	92.7	92.9	93.6	94.0
Armed forces "	2.4	2.3	2.3	2.3	2.3	2.2	2.2	2.2
Civilian labor force "	87.6	88.5	89.0	89.8	90.5	90.6	91.4	91.8
Unemployment rate (per cent)	5.0	4.9	4.8	4.8	5.2	5.1	5.5	6.6
Nonfarm payroll employment (millions)	75.8	76.5	77.1	77.8	78.0	78.3	78.7	78.3
Manufacturing	19.8	20.0	20.1	20.3	20.2	20.2	20.1	19.6
Industrial production (1967 = 100)	123.1	124.8	126.7	127.0	124.9	125.5	125.4	121.3
Capacity utilization, mfg. (per cent)	82.8	83.3	83.3	82.6	80.5	80.1	79.4	75.7
Major materials (per cent)	93.0	93.4	93.5	92.3	90.2	90.2	88.5	79.1
Housing starts, private (millions, A.R.)	2.39	2.17	2.01	1.62	1.61	1.53	1.21	1.00
Sales new autos (millions, A.R.)	12.18	12.03	11.33	10.15	9.04	9.17	10.07	7.38
Domestic models	10.26	10.17	9.66	8.51	7.49	7.92	8.52	6.05
Foreign models	1.92	1.85	1.67	1.64	1.55	1.25	1.55	1.33
<sup>1/</sup> Net exports of g. & s. (Bal. of Paymts.)	-.7	.5	6.6	10.9 <sup>2/</sup>	11.2 <sup>2/</sup>	-.7 <sup>2/</sup>	-1.3 <sup>2/</sup>	3.3 <sup>2/</sup>
Exports	88.8	95.4	103.7	116.0 <sup>2/</sup>	132.3 <sup>2/</sup>	140.2 <sup>2/</sup>	146.8 <sup>2/</sup>	151.1 <sup>2/</sup>
Imports	89.5	94.9	97.1	105.1	121.1	140.9	148.1	147.8

<sup>2/</sup> Includes shipments of military equipment and supplies to Israel which are not included in GNP exports; amounts in billions of dollars at annual rates are 1973-IV, \$2.4; 1974-I, \$.3; 1974-II, \$.4, 1974-III, \$.3; and 1974-IV, \$.3.

## CLASS II FOMC

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1973				1974			
	I	II	III	IV	I	II	III	IV
-----Billions of Dollars-----								
Gross National Product	44.2	29.0	31.0	35.1	14.8	25.0	32.5	14.6
Inventory change	-1.0	.7	1.1	17.1	-12.0	-3.4	-4.8	9.1
Final purchases	45.2	28.3	29.8	18.1	26.8	28.4	37.3	5.5
Private	38.8	24.0	26.2	8.6	16.9	20.3	29.4	-6.0
Net exports	4.5	1.3	6.2	2.6	2.0	-12.8	-1.6	5.0
Excluding net exports	34.3	22.7	20.0	6.0	14.9	33.1	31.0	-11.0
Personal consumption expenditures	24.5	17.3	17.3	7.6	16.7	28.5	32.2	-5.5
Durable goods	8.1	-.3	.3	-8.1	-.4	5.6	6.6	-15.4
Nondurable goods	12.4	9.4	11.1	8.3	12.3	11.4	13.2	2.7
Services	3.9	8.3	5.9	7.3	5.0	11.4	12.4	7.3
Residential fixed investment	1.8	.2	-.6	-4.5	-5.2	.4	-2.6	-5.8
Business fixed investment	8.0	5.1	3.4	2.9	3.3	4.2	1.5	.3
Government	6.4	4.3	3.6	9.5	9.9	8.1	7.9	11.5
Federal	1.2	-.2	-.9	3.1	3.1	2.8	2.9	7.3
State and local	5.2	4.5	4.5	6.3	6.9	5.3	5.0	4.2
GNP in constant (1958) dollars	18.6	4.6	3.4	4.9	-15.2	-3.4	-4.0	-19.1
Final purchases	20.2	4.1	3.1	-7.0	-5.8	-1.0	-.8	-25.0
Private	19.1	4.3	3.3	-9.0	-6.1	-.8	-.9	-25.4
-----In Per Cent Per Year <sup>1/</sup> -----								
Gross National Product	15.5	9.6	10.1	11.2	4.5	7.6	9.7	4.2
Final purchases	16.0	9.5	9.7	5.7	8.4	8.7	11.3	1.6
Private	17.7	10.3	11.0	3.4	6.7	8.0	11.5	-2.2
Personal consumption expenditures	13.6	9.2	8.9	3.8	8.4	14.3	15.7	-2.4
Durable goods	28.7	-.9	.9	-22.3	-1.3	19.3	22.0	-38.1
Nondurable goods	16.9	12.1	14.0	10.0	14.7	13.1	14.8	2.8
Services	4.9	10.6	7.3	8.9	5.9	13.6	14.3	8.0
Gross private domestic investment	19.8	12.8	7.8	33.1	-22.7	2.5	-10.9	7.2
Residential structures	13.3	1.4	-4.0	-27.6	-33.5	3.3	-19.7	-41.5
Business fixed investment	28.8	16.6	10.4	8.6	9.6	12.1	4.1	.8
Gov't. purchases of goods and services	10.1	6.5	5.4	14.4	14.6	11.4	10.8	15.6
Federal	4.6	-.7	-3.3	12.3	11.9	10.4	10.5	27.3
Defense	1.6	-5.2	-3.7	11.4	2.7	4.3	9.7	31.8
Other	12.3	10.6	-2.5	14.5	35.3	24.4	12.2	19.9
State and local	13.9	11.5	11.2	15.5	16.4	12.0	10.9	8.9
GNP in constant (1958) dollars	9.5	2.2	1.6	2.4	-7.0	-1.6	-1.9	-9.0
Final purchases	10.4	2.0	1.5	-3.3	-2.8	-.5	-.4	-11.7
Private	12.0	2.5	1.9	-5.1	-3.5	-.5	-.5	-14.3
GNP implicit deflator	5.5	7.3	8.3	8.6	12.3	9.4	11.9	14.4
Private GNP fixed weighted index <sup>2/</sup>	7.4	8.1	8.4	9.1	14.1	12.3	13.8	12.6
Personal income	12.1	10.5	11.6	12.2	4.9	8.2	12.4	6.6
Wage and salary disbursements	13.0	10.1	8.7	11.2	6.0	10.0	9.9	3.3
Disposable income	15.8	10.8	10.1	11.6	4.9	6.9	11.5	6.5
Corporate profits before tax	53.3	15.8	-6.9	.0	48.3	11.1	62.8	-50.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	25.0	9.8	11.1	10.3	15.4	16.0	21.2	-10.3
Expenditures	-1.5	3.4	1.5	11.4	16.3	16.0	19.2	20.6
Nonfarm payroll employment	5.0	3.9	3.0	3.8	1.0	1.6	1.7	-1.7
Manufacturing	6.3	4.4	2.1	3.7	-2.4	-.3	-.6	-10.4
Industrial production	10.0	5.6	6.2	1.0	-6.5	1.9	-.3	-12.5
Housing starts, private	-5.5	-32.7	-25.3	-58.3	-2.0	-19.1	-60.7	-53.0
Sales new autos	18.3	-5.0	-21.3	-35.5	-37.1	5.9	45.5	-71.2
Domestic models	15.4	-3.5	-18.6	-39.8	-40.0	25.1	33.8	-74.6
Foreign models	35.4	-12.9	-35.0	-5.9	-20.0	-57.8	138.3	-46.2

<sup>1/</sup> Percentage rates are annual rates compounded quarterly.<sup>2/</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	
Gross National Product	930.3	977.1	1054.9	1158.0	1294.9	1397.4	1475.6	1669.1
Final purchases	922.5	972.6	1048.6	1149.5	1279.6	1383.2	1493.9	1654.4
Private	712.5	753.1	814.4	893.8	1003.2	1074.0	1151.0	1277.9
Excluding net exports	710.6	749.5	814.6	899.8	999.3	1071.9	1140.0	1278.5
Personal consumption expenditures	579.5	617.6	667.1	729.0	805.2	876.7	954.9	1063.2
Durable goods	90.8	91.3	103.9	118.4	130.3	127.5	134.1	154.1
Nondurable goods	245.9	263.8	278.4	299.7	338.0	380.2	416.9	460.2
Services	242.7	262.6	284.8	310.9	336.9	369.0	403.9	448.8
Gross private domestic investment	139.0	136.3	153.7	179.3	209.4	209.4	166.8	230.1
Residential Construction	32.6	31.2	42.8	54.0	57.2	46.0	39.2	50.6
Business fixed investment	98.5	100.6	104.6	116.8	136.8	149.2	146.0	164.8
Change in business inventories	7.8	4.5	6.3	8.5	15.4	14.2	-18.3	14.8
Nonfarm	7.7	4.3	4.9	7.8	11.4	11.9	-18.5	14.6
Net exports of goods and services <sup>1/</sup>	1.9	3.6	- .2	- 6.0	3.9	2.1	11.0	- .6
Exports	55.5	62.9	65.4	72.4	100.4	140.2	141.9	161.4
Imports	53.6	59.3	65.6	78.4	96.4	138.1	130.9	161.9
Gov't. purchases of goods and services	210.0	219.5	234.2	255.7	276.4	309.2	342.9	376.5
Federal	98.8	96.2	97.6	104.9	106.6	116.9	130.2	141.6
Defense	78.4	74.6	71.2	74.8	74.4	78.7	86.2	93.6
Other	20.4	21.6	26.5	30.1	32.2	38.2	44.0	48.0
State & local	111.2	123.3	136.6	150.8	169.8	192.3	212.7	235.0
Gross national product in constant (1958) dollars	725.6	722.5	746.3	792.5	839.2	821.2	793.7	840.7
GNP implicit deflator (1958=100)	128.2	135.2	141.4	146.1	154.3	170.2	185.9	198.5
Personal income	750.9	808.3	864.0	944.9	1055.0	1150.5	1241.1	1378.1
Wage and salary disbursements	509.7	542.0	573.0	626.8	691.7	751.2	787.9	872.9
Disposable income	634.4	691.7	746.4	802.5	903.7	979.7	1073.9	1183.7
Personal saving	38.2	56.2	60.5	52.6	74.4	77.0	92.6	92.3
Saving rate (per cent)	6.0	8.1	8.1	6.6	8.2	7.9	8.6	7.8
Corporate profits & inventory val. adj.	79.8	69.2	78.7	92.2	105.1	105.6	105.0	142.0
Corporate profits before tax	84.9	74.0	83.6	99.2	122.7	140.7	116.4	156.1
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	197.3	192.0	198.5	227.2	258.5	291.1	283.3	338.2
Expenditures	189.2	203.9	220.3	244.7	264.2	299.1	356.6	393.6
Surplus or deficit (-)	8.1	-11.9	-21.9	-17.5	-5.6	-8.1	-73.3	-55.4
High employment surplus or deficit (-)	8.8	3.7	-4.7	-6.7	- .7	19.1	-11.0	-5.2
State and local government surplus or deficit (-), (N.I.A. basis)	.7	1.8	3.4	12.3	9.2	1.8	.3	3.9
Total labor force (millions)	84.2	85.9	86.9	89.0	91.0	93.2	94.9	96.6
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	94.4
Unemployment rate (per cent)	3.5	4.9	5.9	5.6	4.9	5.6	8.4	7.7
Nonfarm payroll employment (millions)	70.4	70.9	71.2	73.7	76.8	78.3	76.9	78.8
Manufacturing	20.2	19.3	18.6	19.1	20.1	20.0	18.3	19.2
Industrial production (1967 = 100)	110.7	106.7	106.8	115.2	125.6	124.7	112.4	122.3
Capacity utilization, mfg. (per cent)	86.5	78.3	75.0	78.6	83.0	78.9	68.2	72.1
Major materials (per cent)	90.0	86.2	85.3	89.6	93.0	87.0	72.2	79.3
Housing starts, private (millions, A.R.)	1.47	1.43	2.05	2.36	2.05	1.34	1.18	1.45
Sales new autos (millions, A.R.)	9.57	8.40	10.24	10.93	11.44	8.87	8.87	10.23
Domestic models	8.46	7.12	8.68	9.32	9.67	7.45	7.21	8.50
Foreign models	1.11	1.28	1.56	1.61	1.77	1.42	1.66	1.73
<sup>1/</sup> Net exports of g. & s. (Bal. of Paymts.)	1.3	2.9	- .2	-6.0	-4.4	2/ 3.32/	15.82/	4.1
Exports	55.0	62.3	65.4	72.4	101.0	142.62/	146.32/	167.6
Imports	53.6	59.4	65.6	78.4	96.6	139.4	132.5	163.6

<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.

September 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	66.1	46.8	77.8	103.1	136.9	102.5	78.2	195.0
Inventory change	.7	-3.3	1.8	2.2	6.9	-1.2	-32.5	33.1
Final purchases	65.4	50.1	76.0	100.9	130.1	103.6	110.7	160.5
Private	55.0	40.6	61.3	79.4	109.4	70.8	77.0	126.9
Net exports	-.6	1.7	-3.8	-5.8	9.9	-1.8	8.9	-11.6
Excluding net exports	55.6	38.9	65.1	85.2	99.5	72.6	68.1	138.5
Personal consumption expenditures	43.3	38.1	49.6	61.9	76.2	71.5	78.2	108.3
Durable goods	6.8	.5	12.6	14.5	11.9	-2.8	6.6	20.0
Nondurable goods	15.1	17.9	14.6	21.3	38.3	42.2	36.7	43.3
Services	21.4	19.9	22.2	26.1	26.0	32.1	34.9	44.9
Residential fixed investment	2.5	-1.4	11.6	11.2	3.2	-11.2	-6.8	11.4
Business fixed investment	9.7	2.1	4.0	12.2	20.0	12.4	-3.2	18.8
Government	10.4	9.5	14.7	21.5	20.7	32.8	33.7	33.6
Federal	.0	-2.6	1.4	7.3	1.7	10.3	13.3	11.4
State and local	10.4	12.1	13.3	14.2	19.0	22.5	20.4	22.3
GNP in constant (1958) dollars	19.0	-3.1	23.8	46.2	46.7	-18.0	-27.5	47.0
Final purchases	18.7	-.4	-22.5	-44.4	43.0	-15.9	-7.3	28.1
Private	20.6	6.2	18.5	46.1	45.2	-17.5	-11.1	31.4
-----Per Cent per Year-----								
Gross National Product	7.6	5.0	8.0	9.8	11.8	7.9	5.6	13.1
Final purchases	7.6	5.4	7.8	9.6	11.3	8.1	8.0	10.7
Private	8.4	5.7	8.1	9.7	12.2	7.1	7.2	11.0
Personal consumption expenditures	8.1	6.6	8.0	9.3	10.5	8.9	8.9	11.3
Durable goods	8.1	.6	13.8	14.0	10.1	-2.1	5.2	14.9
Nondurable goods	6.5	7.3	5.5	7.7	12.8	12.5	9.7	10.4
Services	9.7	8.2	8.5	9.2	8.4	9.5	9.5	11.1
Gross private domestic investment	10.3	-1.9	12.8	16.7	16.8	.0	-20.3	37.9
Residential structures	8.3	-4.3	37.2	26.2	5.9	-19.6	-14.8	29.1
Business fixed investment	10.9	2.1	4.0	11.7	17.1	9.1	-2.1	12.9
Gov't purchases of goods & services	5.2	4.5	6.7	9.2	8.1	11.9	10.9	9.8
Federal	.0	-2.6	1.5	7.5	1.6	9.7	11.4	8.8
Defense	.1	-4.8	-4.6	5.1	-.5	5.8	9.5	8.6
Other	-.5	5.9	22.7	13.6	7.0	18.6	15.2	9.1
State and local	10.3	10.9	10.8	10.4	12.6	13.3	10.6	10.5
GNP in constant (1958) dollars	2.7	-.4	3.3	6.2	5.9	-2.1	-3.4	5.9
Final purchases	2.7	-.1	3.1	6.0	5.5	-1.9	-.9	3.5
Private	3.7	1.1	3.9	6.7	6.5	-2.6	-1.7	4.8
GNP implicit deflator	4.8	5.5	4.6	3.4	5.6	10.3	9.2	6.8
Private GNP fixed weighted index <sup>1/</sup>	4.7	4.8	4.3	3.3	6.3	11.4	9.3	6.6
Personal income	9.0	7.6	6.9	9.4	11.7	9.1	7.9	11.0
Wage and salary disbursements	9.6	6.3	5.8	9.3	10.4	8.6	4.9	10.8
Disposable income	7.3	9.0	7.9	7.5	12.6	8.4	9.6	10.2
Corporate profits before tax	-3.1	-12.8	13.0	18.7	23.7	14.7	-17.3	34.1
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	12.7	-2.7	3.4	14.5	13.8	12.6	-2.7	19.4
Expenditures	4.2	7.8	8.0	11.1	8.0	13.2	19.2	10.4
Nonfarm payroll employment	3.7	.7	.4	3.5	4.2	2.0	-1.8	2.5
Manufacturing	2.0	-4.1	-4.0	2.8	5.0	-.2	-8.3	4.6
Industrial production	4.7	-3.6	.1	7.9	9.0	-.7	-9.9	8.7
Housing starts, private	-2.7	-2.3	43.2	14.9	-13.2	-34.6	-11.8	22.9
Sales new autos	-.6	-12.3	21.9	6.7	4.7	-22.5	.1	15.3
Domestic models	-1.8	-15.9	21.9	7.4	3.7	-23.0	-3.2	17.9
Foreign models	9.0	15.5	21.8	3.3	9.8	-20.1	17.2	4.2

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

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**DOMESTIC FINANCIAL DEVELOPMENTS**

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Short-term market interest rates have fluctuated in a narrow range since the last Committee meeting--as the Federal funds rate remained virtually unchanged, and the moderate pace of monetary growth engendered expectations of continued money market stability. In this environment, and with the pace of corporate bond offerings slowing, yields in corporate bond and Treasury coupon markets have edged downward. Mortgage yields, however, have moved higher; and, reflecting the financial difficulties of New York City, tax-exempt bond yields rose to new record levels in early September.

At this writing, however, the New York City financial crisis seems to have been temporarily resolved with the passage of new State legislation, and market yields on State and local bonds have most recently declined somewhat. The new legislation sets up a financing package to tide the City over until mid-December and establishes an Emergency Financial Control Board which takes control over most fiscal matters concerning the City, including the receipt of all revenues, and the control of most expenditures.

In August, for the second consecutive month, total business short-term credit increased slightly on a seasonally adjusted basis, reflecting mainly borrowing in the commercial paper market where rates have remained well below the bank prime rate. After declining

throughout the first half of the year, the level of business loans in July and again in August remained about unchanged, perhaps because of reduced repayments from the proceeds of capital market financings and some pick-up in working capital needs by business firms.

The growth of time and savings deposits, other than negotiable CD's, while still relatively large, slowed in August at both commercial banks and thrift institutions. Such deposits are no longer being buoyed by tax rebates and supplementary social security payments. In addition, the higher level of money market rates since mid-year has also tended to divert some funds from depositary claims.

Since the last Committee meeting, home mortgage rates rose about 15 basis points in the primary market and about 40 basis points in the secondary market. Part of these increases are a lagged reaction to the higher level of bond yields. But, in addition, mortgage lenders have become more cautious about the interest rate outlook and its implications for deposit inflows to the thrifts and for prices of mortgages. This has resulted in a step-up in the demand for forward mortgage commitments from the FNMA.

Outlook. Over the balance of the year, the staff expects the Treasury to raise about \$25 billion on new money. In addition, agency offerings are now projected to rise to about \$3.5 billion in the fourth quarter, due chiefly to stepped up agency support of the

housing market. While the scale of Treasury and agency offerings is about in line with market expectations, some of the major institutional buyers of these issues earlier this year are likely to acquire less in the months ahead. To induce other buyers--especially households--to take their place normally requires upward yield adjustments.

Both bank and nonbank depository institutions are expected to reduce their rate of acquisition of Treasury debt. With long-term business borrowing moderating, less repayment by businesses of their bank loans is likely, and at the same time inventory and other working capital needs are likely to be generate rising short-term credit demands. Improved corporate cash flows and near-term weakness in capital outlays suggest no large burst, however, of bank credit demands by business in the fourth quarter. Nonetheless, the turnaround from net pay-downs of business loans earlier this year, a likely increase in consumer credit demands at banks in line with rising consumer expenditures, and a projected continued slowing of time and savings deposit flows from consumers, all suggest that banks will not be in a position to acquire as many Treasury securities as in recent months.

At thrift institutions, slower deposit inflows and take-downs of large outstanding mortgage commitments also suggest reduced purchases of Treasury securities, and perhaps some liquidation. As

depositors shift to increasingly attractive Treasury and other market securities, these institutions can be expected to become more cautious mortgage lenders.

With the temporary resolution of New York City's financing problems, municipal security yields should decline somewhat from their recent record levels over the period immediately ahead. Nonetheless, yield spreads between higher and lower rated issues should remain wide as investors continue to maintain a cautious posture. In the corporate bond market, yields over the balance of the year will be under upward pressures from the rising level of short-term interest rates. However, the increase of yields in the corporate bond market may be limited if the volume of new issues continues to moderate.

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INTERNATIONAL DEVELOPMENTS

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Summary. After registering a strong gain on exchange markets in July, the dollar appreciated slightly further in August and has held steady in early September. The rise of the dollar in July reflected largely an upturn in U.S. interest rates relative to those abroad, inducing a shift in private liquid capital flows. Bank-reported capital movements showed a net inflow of \$1.3 billion, with foreign lending slowing down while banks' liabilities to foreign banks rose considerably. Foreign purchases of U.S. corporate stocks rose sharply. The trade surplus also remained high in July, at an \$8.3 billion annual rate, though this was lower than the extraordinary \$13.9 billion rate registered in the second quarter.

The upward pressure on the dollar in July was offset in some degree by the liquidation of over \$1.5 billion of foreign official assets held in the United States (apart from assets of OPEC countries). In the past month there were further reductions in officially held assets in the United States, but reported net central bank intervention has been small, with purchases of dollars by France offset by sales by the Bank of Japan. Partial data for August bank-reported private capital movements indicate a reduced net inflow.

Exchange markets were unaffected by the outcome of the annual Bank-Fund meeting (see Appendix A), but the price of gold dipped by more than \$10 to about \$150 per ounce following the

agreement on August 31 by the Interim Committee that in principle paved the way for sales of 25 million ounces by the IMF. The gold price subsequently moved up to about \$152, only to fall to \$148.50 on September 9 on the basis of press reports of Russian gold sales (3-1/2 million ounces) so far this year.

The issue of ensuring recovery from the world recession was a major center of interest at the annual IMF meeting, and the large industrial countries were urged to lead the way toward a sustained upturn in demand. In recent weeks incoming data indicating a persistence of recessionary forces have caused policy makers in many foreign industrial countries to introduce measures intended to spark a revival of economic activity. In the major foreign industrial countries about 6.2 million persons were unemployed in July-August, compared to 3.7 million a year earlier, and reduced hours are common. Recent data suggest that, except for Japan and the United States, a turning point has not yet been reached, and even where "bottoming out" may be occurring, there is likely to be a long period of excess productive capacity.

Outlook. There has been a much larger current surplus in the balance of payments so far this year than had been expected, though the balance on goods and services is still projected to decline in the period ahead. With policy in major foreign countries directed increasingly toward reviving consumer demand and investment activity, the dollar is likely to be sustained by the effect of

relatively high U.S. interest rates. A major question is the effectiveness of the measures taken abroad to combat the sluggishness of economic activity. Recent policy actions abroad have concentrated on fiscal measures to accelerate public works expenditures, reduce tax burdens (temporarily in some instances) and expand credit availabilities. These measures are likely to take some time before they create the conditions for a reactivation of private investment in major countries, given the existing degree of slack. However, the fact that so many countries are acting in concert may serve to reinforce the impact of the separate national actions.