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Part 1

October 15, 1975

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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)

October 15, 1975

SUMMARY AND OUTLOOK

By the Staff
Board of Governors
of the Federal Reserve System

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. Recent data indicate a surprisingly strong growth of real GNP in the third quarter, reflecting mainly a sharp slowdown in inventory liquidation, but also a large gain in consumer outlays. Real GNP is now estimated to have increased by close to 11 per cent, annual rate. Because of a shift in the composition of output, the implicit GNP deflator apparently increased by only about 5 per cent, annual rate, while the rate of rise for the fixed weighted price index for gross private product apparently accelerated to about 8 per cent.

With inventory levels reduced significantly in a number of key sectors, the past few months have witnessed a vigorous rebound of production and demand for workers. Industrial production is estimated to have increased by nearly 2 per cent in September-- following an upward-revised August rise of about 1½ per cent. Advances were widespread; most notably, output of business equipment apparently increased for the second month following a 10-month decline. Auto assemblies were increased by 2½ per cent in September and, at a 7.6 million annual rate, slightly exceeded sales. No further rise is currently scheduled for October output. Production of durable goods generally continued up in September, bolstered by an increase in output of steel, apparently in anticipation of the October 1 price hike. But raw steel output dipped in the past few weeks since producing-mill inventories are now somewhat replenished and users' stocks remain relatively high.

Nonfarm payroll employment (establishment survey) was bolstered by 180,000 jobs in September, and has rebounded by 900,000 since its June trough. Most of the September gain was in manufacturing, and the factory workweek rose slightly further to a level nearly an hour above its March low. Unemployment edged off one-tenth to 8.3 per cent in September, although there was a rise in reported joblessness among adult males.

Consumer spending on goods has shown little additional growth since July. This recent plateau in consumer spending, however, follows a strong rise in the spring and early summer stimulated in part by tax rebates, and retail sales for the third quarter were sharply higher than in the second quarter. Some further advance in consumer spending seems a likely response to recent higher levels of employment and personal income.

With stock-sales ratios reduced to a postwar low, the inventory adjustment in nondurable goods manufacturing generally appears to have been completed; indeed these inventories edged up in August. But stocks of durable goods producers--although down sharply from May--remain high relative to shipments, and were reduced sharply further in August. Total manufacturing inventories were reduced at a \$10.2 billion annual rate. Wholesale trade inventories--a highly volatile series--rose sharply in August after having declined slightly in July.

While outlays for business fixed investment appear to have stabilized, there have been few signs as yet of recovery in real terms. New orders for nondefense capital goods fell 3 per cent in August, and the backlog of orders continued the decline that began over a year ago. But orders for durable goods as a whole rose by 2 per cent in August, for its fifth monthly gain. Commercial and industrial construction contracts, measured in square feet, declined by almost a fifth in August following 2 months of rise. The first direct indication of investment prospects for 1976--a confidential September Lionel D. Edie survey--came in rather weak, showing an increase of about 5 per cent, although this survey (like all others) has understated the strength of capital spending during cyclical recoveries--the Edie Survey by about 6 percentage points, on average.

Though moving erratically month by month, the annual rate of increase of the hourly earnings index has averaged about 7 to 7½ per cent in recent months, as against the 10 per cent pace of the latter half of last year. Wholesale industrial prices, however, have tended to accelerate recently, rising at an 8½ per cent annual rate in September. The faster price increases were mainly accounted for by fuels and power, and metals and machinery. Wholesale farm and food prices rose sharply in September, but upward price pressure may tend to lessen over coming months, as suggested by the behavior of livestock prices in the futures market.

Outlook. The staff projects a continued rapid advance in real GNP during the current quarter, followed by a slowing to a 5½ per cent annual rate in the first half of 1976 and about a 4 per cent rate in the second half. A number of changes in the projection have been made in this Greenbook, some of which result from incoming data and some from changes in policy assumptions.

With respect to oil prices, we have shifted in this Greenbook to an assumption of gradual decontrol beginning on November 15. The form of our decontrol assumption is broadly patterned after the 39-month plan that the Administration proposed in July, which provided for little increase in domestic oil prices until late 1976, and more rapid price increases thereafter.

The result of this new assumption is to reduce cost pressures on the overall domestic price level by almost one per cent during the next several quarters. Accordingly, we are able to return to the assumption of M_1 growth over the projection period at a 6½ per cent annual rate, the mid-point of the Committee's 5 - 7½ per cent range. Interest rates are still expected to show considerable increase over the next year, and as a result our growth projections for M_2 and M_3 both fall somewhat short of the lower ends of their announced target ranges.

In the area of fiscal policy, we have not yet incorporated the President's recent proposals in light of apparent Congressional

opposition. We do continue to assume extension of 1975 tax reductions and in addition, hold 1976 individual withholding rates unchanged at their current levels, which has the effect of reducing tax collections by \$4 billion during calendar 1976. We have also raised FY 1976 budget outlays by \$3 billion to \$370 billion (mainly due to higher transfers). As a result of our new oil decontrol assumptions, receipts from oil windfall taxes are sharply diminished, and we dropped the \$2 import fee as of November 15.

The contour of our GNP projection remains similar to that of a month ago, although expected rates of growth have been trimmed somewhat throughout the projection period. The moderation in the pace of the expected recovery reflects the following factors:

First, in the State and local sector, the projection places more weight on the financing difficulties that have developed in the municipal securities market. Because these difficulties appear to be increasingly affecting the thinking of municipal officials in many municipalities, we have cut back State and local capital outlays and allowed for a general slowdown in other purchases in this sector over the next several quarters. Consequently, the projected rate of increase in State and local spending is the lowest figure since 1969. We have allowed for a resumption of a faster rate of spending in the latter part of 1976, as revenues of State and local governments improve cyclically.

Second, increases in business fixed investment have also been trimmed slightly in view of the failure of advance indicators to turn convincingly upward. Our year-over-year projection is for an increase of about 10 per cent in plant and equipment spending (survey basis), which is broadly consistent with the Edie Survey results, after adjustment for its typical understatement during cyclical recoveries.

Finally, we have made some marginal cuts in our projection of personal consumption expenditures. These reflect the slightly weaker projection of personal income that flows from the general projection, as well as recent indications that the growth in consumer spending may not be as strong as we had expected.

As already indicated, our price projections have been adjusted to remove the inflationary bulge in late 1975 and early 1976 that was previously expected as a result of the abrupt decontrol of oil. Price pressures now are expected to moderate gradually over the projection period. While the rebound in food and fuel prices is estimated to have resulted in an annual increase in the fixed weighted price deflator of about 8 per cent during the third quarter, the corresponding price increase in the fourth quarter may be in the 6½ per cent area, and by late 1976, before the next phase of assumed oil decontrol, it could be in the area of 5 per cent.

Detailed figures for specific components of the projection are incorporated in the following tables.

STAFF GNP PROJECTIONS

	Changes in nominal GNP (\$ billions)		Per cent changes, annual rate					
			Real GNP		Gross private product fixed weighted price index		Unemployment Rate (per cent)	
			9/10/75	10/15/75	9/10/75	10/15/75	9/10/75	10/15/75
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	78.2	78.6	-3.4	-3.0	9.3	9.4	8.4	8.4
1976	193.6	175.4	5.9	5.9	6.6	6.1	7.7	7.8
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>	23.1	24.3	1.6	1.9	5.5	5.5	8.9	8.9
III	54.3	55.0	7.9	10.8	7.4	8.1	8.4	8.4
IV	58.0	54.6	7.8	7.6	7.4	6.6	8.1	8.1
1976-I	53.0	41.7	6.1	5.3	7.7	6.1	7.9	8.0
II	44.5	40.1	5.4	5.1	5.8	5.3	7.7	7.9
III	41.5	39.0	4.8	4.5	5.4	5.2	7.6	7.7
IV	40.0	38.4	4.0	3.8	4.9	4.9	7.5	7.7
Change :								
74-II to 75-II	55.9	57.1	-5.3	-5.3	9.8	9.8	3.8	3.8
74-IV to 75-IV	121.1	119.6	1.2	1.8	7.0	7.0	1.5	1.5
75-II to 76-II	209.8	191.4	6.8	7.2	7.1	6.5	-1.2	-1.0
75-IV to 76-IV	179.0	159.2	5.1	4.6	5.9	5.4	-.6	-.4

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			
	I	II	III	IV	Projected			
					I	II	III	IV
Gross National Product	1416.6	1440.9	1495.9	1550.5	1592.2	1632.3	1671.3	1709.7
Final purchases	1435.8	1471.9	1508.9	1549.0	1581.5	1617.3	1653.8	1691.2
Private	1104.2	1133.8	1165.0	1197.1	1223.5	1252.5	1281.1	1306.7
Excluding net exports	1095.4	1117.6	1152.5	1186.4	1222.0	1253.6	1283.3	1309.5
Personal consumption expenditures	913.2	938.6	968.5	996.0	1023.5	1046.0	1067.0	1086.2
Durable goods	124.9	130.6	139.5	143.6	149.3	153.0	155.9	158.3
Nondurable goods	398.8	410.1	421.0	432.9	443.3	451.1	458.7	465.5
Services	389.5	397.9	408.0	419.5	430.9	441.9	452.4	462.4
Gross private domestic investment	163.1	148.1	171.0	192.9	209.2	222.6	233.8	241.8
Residential construction	35.3	36.4	39.8	42.7	46.3	49.4	51.1	50.6
Business fixed investment	146.9	142.7	144.2	147.7	152.2	158.2	165.2	172.7
Change in business inventories	-19.2	-31.0	-13.0	2.5	10.7	15.0	17.5	18.5
Nonfarm	-17.8	-30.6	-14.0	1.0	10.2	15.0	17.5	18.5
Net exports of goods and services ^{1/}	8.8	16.2	12.5	9.7	1.5	-1.1	-2.2	-2.8
Exports	142.2	136.0	142.1	147.7	152.3	157.0	161.5	166.4
Imports	133.4	119.8	129.6	137.0	150.8	158.1	163.7	169.2
Gov't. purchases of goods and services	331.6	338.1	343.9	351.9	358.0	364.8	372.7	384.5
Federal	126.5	128.4	130.2	134.7	136.8	138.6	140.5	146.3
Defense	84.7	84.8	85.6	88.7	90.0	91.4	92.5	96.5
Other	41.8	43.6	44.6	46.0	46.8	47.2	48.0	49.8
State and local	205.1	209.7	213.7	217.2	221.2	226.2	232.2	238.2
Gross national product in constant (1958) dollars	780.0	783.6	803.9	818.8	829.4	839.8	849.0	856.9
GNP implicit deflator (1958=100)	181.6	183.9	186.1	189.4	192.0	194.4	196.9	199.5
Personal income	1193.4	1220.5	1254.6	1294.8	1329.7	1360.4	1390.7	1420.4
Wage and salary disbursements	765.1	773.0	792.5	813.9	831.2	850.6	870.1	890.7
Disposable income	1015.5	1078.5	1077.3	1108.5	1139.1	1164.7	1188.4	1212.5
Personal saving	75.9	113.8	82.4	85.9	88.4	91.0	93.3	97.7
Saving rate (per cent)	7.5	10.6	7.6	7.7	7.8	7.8	7.9	8.0
Corporate profits & inventory val. adj.	94.3	104.9	117.3	127.2	129.5	136.3	147.3	154.5
Corporate profits before tax	101.2	113.3	128.8	140.3	146.2	150.5	157.6	161.7
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts ^{2/}	284.1	251.8	294.2	308.9	322.4	331.0	341.3	350.6
Expenditures	338.5	355.0	361.7	374.0	385.0	393.0	403.8	414.7
Surplus or deficit (-) ^{2/}	-54.4	-103.3	-67.5	-65.1	-62.6	-62.0	-62.5	-64.1
High employment surplus or deficit (-)	11.0	-36.2	-10.7	-12.1	-14.8	-16.5	-17.2	-19.7
State and local government surplus or deficit (-) (N.I.A. basis)	-1.6	-.9	2.7	7.9	10.0	10.5	8.5	6.4
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	8.0	7.9	7.7	7.7
Nonfarm payroll employment (millions)	76.9	76.4	77.0	77.4	77.8	78.4	78.9	79.5
Manufacturing	18.5	18.1	18.3	18.6	18.8	19.0	19.2	19.3
Industrial production (1967=100)	111.6	110.3	114.1	117.5	120.0	122.1	124.0	125.5
Capacity utilization, mfg. (per cent)	68.2	67.0	69.0	70.9	71.4	72.1	72.6	72.4
Major materials (per cent)	70.0	70.9	77.5	80.2	81.7	82.7	83.3	83.6
Housing starts, private (millions, A.R.)	1.00	1.07	1.26	1.40	1.50	1.45	1.45	1.40
Sales new autos (millions, A.R.)	8.31	7.90	9.20	9.70	10.20	10.20	10.20	9.95
Domestic models	6.60	6.33	7.51	8.00	8.50	8.50	8.50	8.25
Foreign models	1.71	1.57	1.69	1.70	1.70	1.70	1.70	1.70

^{1/} Net exports of g. & s. (Bal. of paymts) 1.273/ 21.0 17.4 14.6 6.4 3.8 2.7 2.1
Exports 148.13/ 141.7 147.8 153.4 158.0 162.7 167.2 172.1
Imports 135.7 120.6 130.4 138.8 151.6 158.9 164.5 170.0

^{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 \$.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

	1975				1976			
					Projected			
	I	II	III	IV	I	II	III	IV
Gross National Product	-14.3	24.3	55.0	54.6	41.7	40.1	39.0	38.4
Inventory change	-37.0	-11.8	18.0	15.5	8.2	4.3	2.5	1.0
Final purchases	22.7	36.1	37.0	39.1	33.5	35.8	36.5	37.4
Private	14.9	29.6	31.2	31.1	27.4	29.0	28.6	25.6
Net exports	6.9	7.4	-3.7	-2.8	-8.2	-2.6	-1.1	-6
Excluding net exports	8.0	22.2	34.9	33.9	35.6	31.6	29.7	26.2
Personal consumption expenditures	17.4	25.4	29.9	27.5	27.5	22.5	21.0	19.2
Durable goods	4.2	5.7	8.9	4.1	5.7	3.7	2.9	2.4
Nondurable goods	7.1	11.3	10.9	11.9	10.4	7.8	7.6	6.8
Services	6.0	8.4	10.1	11.5	11.4	11.0	10.5	10.0
Residential fixed investment	-5.1	1.1	3.4	2.9	3.6	3.1	1.7	-5
Business fixed investment	-4.3	-4.2	1.5	3.5	4.5	6.0	7.0	7.5
Government	7.8	6.5	5.8	8.0	6.1	6.8	7.9	11.8
Federal	2.0	1.9	1.8	4.5	2.1	1.8	1.9	5.8
State and local	5.8	4.6	4.0	3.5	4.0	5.0	6.0	6.0
GNP in constant (1958) dollars	-24.0	3.6	20.3	14.9	10.6	10.4	9.2	7.9
Final purchases	-1.3	8.9	9.4	7.6	6.6	8.3	8.0	7.5
Private	-2.7	7.4	8.7	6.7	6.4	7.1	6.8	5.4
-----In Per Cent Per Year ^{1/} -----								
Gross national product	-3.9	7.0	16.2	15.4	11.2	10.5	9.9	9.5
Final purchases	6.6	10.4	10.4	10.8	8.9	9.4	9.3	9.4
Private	5.6	11.2	11.5	11.1	9.5	9.8	9.5	8.2
Personal consumption expenditures	8.0	11.6	13.4	11.9	11.5	9.1	8.3	7.4
Durable goods	14.7	19.5	30.2	12.3	16.8	10.3	7.8	6.3
Nondurable goods	7.4	11.8	11.1	11.8	10.0	7.2	6.9	6.1
Services	6.4	8.9	10.5	11.8	11.3	10.6	9.8	9.1
Gross private domestic investment	-63.2	-32.0	77.7	61.9	38.3	28.2	21.7	14.4
Residential structures	-41.7	13.1	42.9	32.5	38.2	29.6	14.5	-3.9
Business fixed investment	-10.9	-11.0	4.3	10.1	12.8	16.7	18.9	19.4
Gov't purchases of goods & services	10.0	8.1	7.0	9.6	7.1	7.8	8.9	13.3
Federal	6.6	6.1	5.7	14.6	6.4	5.4	5.6	17.6
Defense	3.4	.5	3.8	15.3	6.0	6.4	4.9	18.5
Other	12.4	18.4	9.5	13.2	7.1	3.5	7.0	15.9
State and local	12.2	9.3	7.9	6.7	7.6	9.4	11.0	10.7
GNP in constant (1958) dollars	-11.4	1.9	10.8	7.6	5.3	5.1	4.5	3.8
Final purchases	-7	4.6	4.8	3.8	3.3	4.1	3.9	3.6
Private	-1.7 ^{2/}	4.7	5.4	4.1	3.9	4.3	4.0	3.2
GNP implicit deflator	8.4 ^{2/}	5.1	4.9	7.3 ^{2/}	5.6 ^{2/}	5.1	5.2	5.5 ^{2/}
Private GNP fixed weighted index ^{3/}	7.7	5.5	8.1	6.6	6.1	5.3	5.2	4.9
Personal income	2.2	9.4	11.7	13.4	11.2	9.6	9.2	8.8
Wage and salary disbursements	-2.1	4.2	10.5	11.2	8.8	9.7	9.5	9.8
Disposable income	2.7	27.2	-.4	12.1	11.5	9.3	8.4	8.4
Corporate profits before tax	-64.9	57.1	67.0	40.8	17.9	12.3	20.0	10.8
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	-13.6	-38.3	86.4	21.5	18.7	11.1	13.0	11.4
Expenditures	26.3	21.0	7.8	14.3	12.3	8.6	11.5	11.2
Nonfarm payroll employment	-7.1	-2.2	2.8	2.2	2.1	3.1	2.6	3.1
Manufacturing	-21.2	-6.9	2.5	7.8	4.4	4.3	4.3	2.1
Industrial production	-28.4	-4.7	16.1	12.3	8.9	7.3	6.2	5.0
Housing starts, private	-2.4	32.7	93.7	52.4	31.8	-12.7	.0	-13.1
Sales new autos	60.9	-18.2	84.1	23.4	22.3	.0	.0	-9.4
Domestic models	41.8	-15.3	98.1	28.8	27.4	.0	.0	-11.3
Foreign models	172.4	-26.8	34.9	1.7	.0	.0	.0	.0

1/ Percentage rates are annual rates compounded quarterly.

2/ Excluding Federal pay increases rates of change are: 1975-I, 8.3 per cent; 1975-IV, 6.6 per cent; 1976-I, 5.5 per cent; and 1976-IV, 4.8 per cent.

3/ 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 ^{1/}	- .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
^{1/} Net exports of g. & s. (Bal. of Paymts.)	- .7	.5	6.6	10.9 ^{2/}	11.2 ^{2/}	- .7 ^{2/}	-1.3 ^{2/}	3.3 ^{2/}
Exports	88.8	95.4	103.7	116.0 ^{2/}	132.3 ^{2/}	140.2 ^{2/}	146.8 ^{2/}	151.1 ^{2/}
Imports	89.5	94.9	97.1	105.1	121.1	140.9	148.1	147.8

^{2/} 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 ^{1/} -----							
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 ^{2/}	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

^{1/} Percentage rates are annual rates compounded quarterly.^{2/} 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	1476.0	1651.4
Final purchases								
Private	922.5	972.6	1048.6	1149.5	1279.6	1383.2	1491.2	1636.0
Excluding net exports	712.5	753.1	814.4	893.8	1003.2	1074.0	1149.8	1266.0
Net exports	210.0	219.5	234.2	255.7	276.4	309.2	341.4	370.0
Government	710.6	749.5	814.6	899.8	999.3	1071.9	1138.0	1267.1
Personal consumption expenditures	579.5	617.6	667.1	729.0	805.2	876.7	954.1	1055.7
Durable goods	90.8	91.3	103.9	118.4	130.3	127.5	134.7	154.1
Nondurable goods	245.9	263.8	278.4	299.7	338.0	380.2	415.7	454.7
Services	242.7	262.6	284.8	310.9	336.9	369.0	403.7	446.9
Gross private domestic investment	139.0	136.3	153.7	179.3	209.4	209.4	168.8	226.9
Residential Construction	32.6	31.2	42.8	54.0	57.2	46.0	38.6	49.4
Business fixed investment	98.5	100.6	104.6	116.8	136.8	149.2	145.4	162.1
Change in business inventories	7.8	4.5	6.3	8.5	15.4	14.2	-15.2	15.4
Nonfarm	7.7	4.3	4.9	7.8	11.4	11.9	-15.4	15.3
Net exports of goods and services ^{1/}	1.9	3.6	- .2	- 6.0	3.9	2.1	11.8	-1.2
Exports	55.5	62.9	65.4	72.4	100.4	140.2	142.0	159.3
Imports	53.6	59.3	65.6	78.4	96.4	138.1	130.2	160.5
Gov't. purchases of goods and services	210.0	219.5	234.2	255.7	276.4	309.2	341.4	370.0
Federal	98.8	96.2	97.6	104.9	106.6	116.9	130.0	140.6
Defense	78.4	74.6	71.2	74.8	74.4	78.7	86.0	92.6
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	211.4	229.5
Gross national product in constant (1958) dollars	725.6	722.5	746.3	792.5	839.2	821.2	796.6	843.8
GNP implicit deflator (1958=100)	128.2	135.2	141.4	146.1	154.3	170.2	185.3	195.7
Personal income	750.9	808.3	864.0	944.9	1055.0	1150.5	1240.8	1375.3
Wage and salary disbursements	509.7	542.0	573.0	626.8	691.7	751.2	786.1	860.7
Disposable income	634.4	691.7	746.4	802.5	903.7	979.7	1070.0	1176.2
Personal saving	38.2	56.2	60.5	52.6	74.4	77.0	89.5	92.6
Saving rate (per cent)	6.0	8.1	8.1	6.6	8.2	7.9	8.4	7.9
Corporate profits & inventory val. adj.	79.8	69.2	78.7	92.2	105.1	105.6	110.9	141.9
Corporate profits before tax	84.9	74.0	83.6	99.2	122.7	140.7	120.9	154.0
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	197.3	192.0	198.5	227.2	258.5	291.1	284.8	336.3
Expenditures	189.2	203.9	220.3	244.7	264.2	299.1	357.3	399.1
Surplus or deficit (-)	8.1	-11.9	-21.9	-17.5	-5.6	-8.1	-72.6	-62.8
High employment surplus or deficit (-)	8.8	3.7	-4.7	-6.7	- .7	19.1	-12.0	-17.1
State and local government surplus or deficit (-), (N.I.A. basis)	.7	1.8	3.4	12.3	9.2	1.8	2.0	8.9
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	7.8
Nonfarm payroll employment (millions)	70.4	70.9	71.2	73.7	76.8	78.3	76.9	78.7
Manufacturing	20.2	19.3	18.6	19.1	20.1	20.0	18.4	19.1
Industrial production (1967 = 100)	110.7	106.7	106.8	115.2	125.6	124.7	113.4	122.9
Capacity utilization, mfg. (per cent)	86.5	78.3	75.0	78.6	83.0	78.9	68.8	72.3
Major materials (per cent)	90.0	86.2	85.3	89.6	93.0	87.0	74.6	82.8
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	8.78	10.14
Domestic models	8.46	7.12	8.68	9.32	9.67	7.45	7.11	8.44
Foreign models	1.11	1.28	1.56	1.61	1.77	1.42	1.67	1.70
^{1/} Net exports of g. & s. (Bal. of Paymts.)	1.3	2.9	- .2	-6.0	4.4	2/ 3.3 ^{2/}	16.42/	3.6
Exports	55.0	62.3	65.4	72.4	101.0	2/142.62/	147.82/	165.0
Imports	53.6	59.4	65.6	78.4	96.6	139.4	131.4	161.3

^{2/} 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.

October 15, 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	78.6	175.4
Inventory change	.7	-3.3	1.8	2.2	6.9	-1.2	-29.4	30.6
Final purchases	65.4	50.1	76.0	100.9	130.1	103.6	108.0	144.8
Private	55.0	40.6	61.3	79.4	109.4	70.8	75.8	116.2
Net exports	-.6	1.7	-3.8	-5.8	9.9	-1.8	9.7	-13.0
Excluding net exports	55.6	38.9	65.1	85.2	99.5	72.6	66.1	129.1
Personal consumption expenditures	43.3	38.1	49.6	61.9	76.2	71.5	77.4	101.6
Durable goods	6.8	.5	12.6	14.5	11.9	-2.8	7.2	19.4
Nondurable goods	15.1	17.9	14.6	21.3	38.3	42.2	35.5	39.0
Services	21.4	19.9	22.2	26.1	26.0	32.1	34.7	43.2
Residential fixed investment	2.5	-1.4	11.6	11.2	3.2	-11.2	-7.4	10.8
Business fixed investment	9.7	2.1	4.0	12.2	20.0	12.4	-3.8	16.7
Government	10.4	9.5	14.7	21.5	20.7	32.8	32.2	28.6
Federal	.0	-2.6	1.4	7.3	1.7	10.3	13.1	10.6
State and local	10.4	12.1	13.3	14.2	19.0	22.5	7.3	6.6
GNP in constant (1958) dollars	19.0	-3.1	23.8	46.2	46.7	-18.0	-24.6	47.2
Final purchases	18.7	-.4	-22.5	-44.4	43.0	-15.9	-7.4	31.3
Private	20.6	6.2	18.5	46.1	45.2	-17.5	-10.8	27.7
-----Per Cent per Year-----								
Gross National Product	7.6	5.0	8.0	9.8	11.8	7.9	5.6	11.9
Final purchases	7.6	5.4	7.8	9.6	11.3	8.1	7.8	9.7
Private	8.4	5.7	8.1	9.7	12.2	7.1	7.1	10.1
Personal consumption expenditures	8.1	6.6	8.0	9.3	10.5	8.9	8.8	10.6
Durable goods	8.1	.6	13.8	14.0	10.1	-2.1	5.6	14.4
Nondurable goods	6.5	7.3	5.5	7.7	12.8	12.5	9.3	9.4
Services	9.7	8.2	8.5	9.2	8.4	9.5	9.4	10.7
Gross private domestic investment	10.3	-1.9	12.8	16.7	16.8	.0	-19.4	34.4
Residential structures	8.3	-4.3	37.2	26.2	5.9	-19.6	-16.1	28.0
Business fixed investment	10.9	2.1	4.0	11.7	17.1	9.1	-2.5	11.5
Gov't purchases of goods & services	5.2	4.5	6.7	9.2	8.1	11.9	10.4	8.4
Federal	.0	-2.6	1.5	7.5	1.6	9.7	11.2	8.2
Defense	.1	-4.8	-4.6	5.1	-.5	5.8	9.3	7.7
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	9.9	8.6
GNP in constant (1958) dollars	2.7	-.4	3.3	6.2	5.9	-2.1	-3.0	5.9
Final purchases	2.7	-.1	3.1	6.0	5.5	-1.9	-.9	3.9
Private	3.7	1.1	3.9	6.7	6.5	-2.6	-1.6	4.2
GNP implicit deflator	4.8	5.5	4.6	3.4	5.6	10.3	8.9	5.6
Private GNP fixed weighted index ^{1/}	4.7	4.8	4.3	3.3	6.3	11.4	9.4	6.1
Personal income	9.0	7.6	6.9	9.4	11.7	9.1	7.8	10.8
Wage and salary disbursements	9.6	6.3	5.8	9.3	10.4	8.6	4.6	9.5
Disposable income	7.3	9.0	7.9	7.5	12.6	8.4	9.2	9.9
Corporate profits before tax	-3.1	-12.8	13.0	18.7	23.7	14.7	-14.1	27.4
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	12.7	-2.7	3.4	14.5	13.8	12.6	-2.2	18.1
Expenditures	4.2	7.8	8.0	11.1	8.0	13.2	19.5	11.7
Nonfarm payroll employment	3.7	.7	.4	3.5	4.2	2.0	-1.8	2.3
Manufacturing	2.0	-4.1	-4.0	2.8	5.0	-.2	-8.0	3.8
Industrial production	4.7	-3.6	.1	7.9	9.0	-.7	-9.1	8.4
Housing starts, private	-2.7	-2.3	43.2	14.9	-13.2	-34.6	-11.9	22.9
Sales new autos	-.6	-12.3	21.9	6.7	4.7	-22.5	-1.0	15.5
Domestic models	-1.8	-15.9	21.9	7.4	3.7	-23.0	-4.6	18.7
Foreign models	9.0	15.5	21.8	3.3	9.8	-20.1	17.6	1.8

1/ Using expenditures in 1967 as weights.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Private credit demands have eased in recent weeks and, in conjunction with a more accommodative monetary policy, most interest rates declined in the inter-meeting period, particularly since early October. Declines were sharpest in the Treasury market where bill rates fell 50 to 75 basis points and yields on coupon issues dropped 25 to 45 basis points.

Private short-term rates declined less than bills. After rising somewhat in late September and early October, such rates subsequently fell 25 to 35 basis points as the money market eased. Although the volume of outstanding commercial paper declined, CD issuance, as discussed below, has risen sharply in recent weeks offsetting otherwise reduced private short-term demands on the money market. With corporate bond volume remaining at the reduced pace which began at mid-year, yields in the market have edged off most recently after rising somewhat further in late September. The municipal market deteriorated markedly in the inter-meeting period, but most recently, there appears to be some improvement in the tax-exempt market for issuers outside of New York.

In September, and over the third quarter generally, total business credit demands declined from the second quarter pace. Bond offerings in the third quarter were only about 50 per cent of the first half pace, with the drop-off accounted for mainly by industrial corporations. Not only have many such borrowers rebuilt liquidity, but they have also been benefiting from improved cash flows from inventory

liquidation and rising profits at a time of little growth in capital outlays. Thus, corporations reduced further their outstanding bank loans in the third quarter.

Mirroring the composition of the recovery in GNP to date, consumer and mortgage credit continued to be the only private sectors showing strength in September. Most of this credit has been supplied by nonbank financial institutions, although consumer credit also began expanding at banks in the third quarter.

Most of the increase in private mortgage formation continues to occur at savings and loan associations, where the high level of new commitments in August was apparently maintained in September. However, reflecting concern about future deposit inflows, reports continue that S&L and other mortgage lenders are becoming more cautious. Despite such concerns, S&L inflows edged off only moderately in September. At MSB's, inflows in September declined more noticeably, and outflows were sizeable in early October at the large institutions in New York.

Mortgage rates in the primary market edged up further, reaching a level of 9.21 per cent in mid-October, 31 basis points over the recent low reached in early-August. Rate increases have been much sharper in the secondary market. Yields in FNMA auctions of four-month commitments to purchase FHA/VA home mortgages reached almost 10 per cent in early October, an increase of more than 75 basis points since late July, when offerings to FNMA began to rise sharply as market participants became concerned about the outlook for interest rates.

Rate increases in the secondary market slowed in early October, however, when offerings to FIMA declined as conditions in the money and bond markets improved.

Inflows of time and savings deposits other than CD's have slowed more at commercial banks in recent weeks than at nonbank thrift institutions. Although loan demands remained weak, a few of the largest banks sharply stepped up their CD offerings. The banks involved indicated that these funds were not to finance loan expansion but rather were to improve balance sheets over the September 30 statement date or generally to improve liquidity. In the case of New York City banks--where the average maturity of CD's issued tended to lengthen in September--there were also indications of liquidity build-ups for contingencies associated with problems that could arise from the New York City financial crises.

Outlook. Over the balance of the year, the Treasury will continue to be the principal borrower in financial markets, raising about \$20 billion more before year-end, with housing agencies expected to borrow an additional \$2 billion or so. A significant share of these offerings is expected to be accounted for by shorter-term notes, which could attract a substantial volume of savings funds from banks and thrift institutions, although the most recent decline in interest rates will tend to slow such disintermediation. If net savings inflows to thrift institutions are further reduced, home mortgage rates are likely to continue under upward pressure. Even without an additional increase

in mortgage rates, the FHA/VA ceiling of 9 per cent--which currently involves a discount of about 6 points--may be raised by administrative action.

Business credit demands are expected to show only modest growth in the fourth quarter as a further improvement in the generation of internal funds relative to requirements continues to restrain business external financing needs. Not only are bond offerings expected to maintain their reduced pace, but a large part of any step-up in short-term credit demands is likely to focus on the commercial paper market where rates continue to be especially low relative to the cost of bank credit. Thus, banks--with loan expansion modest--can be expected to continue to place the largest share of their funds in Treasury offerings.

The uncertainty regarding New York's financing difficulties remains a significant unknown in the outlook for financial market developments. Investors and underwriters remain hesitant to take positions in municipal securities and State and local governments are finding borrowings expensive and in some cases less available.

Aggregate financing demands are not expected to generate inordinate upward pressures on interest rates in the current quarter. Business firms and thrift institutions, however, may begin to sell off some of their liquid assets to finance purchases or meet commitments and these actions may produce some tendency for rates, particularly short-term rates, to begin moving up again. Such a tendency will be reinforced if money begins to grow strongly as the quarter progresses since market participants would then probably conclude that monetary policy will soon begin to tighten again.

INTERNATIONAL DEVELOPMENTS

Summary. Following a strong rise in July and a slower rise in August and early September, the weighted-average value of the dollar rose sharply through the end of September to its highest level since January 1974. The principal factors behind the dollar's rise were favorable news about the performance of the U.S. economy and a continuing rise in U.S. interest rates relative to foreign interest rates. However, in the first two weeks of October, the value of the dollar dropped back to about the level of five weeks ago, as a decline in U.S. interest rates was widely interpreted as signalling a loosening of monetary conditions in the United States and some market participants were reported to be disturbed by the uncertainties surrounding the financial condition of New York City.

The \$8.7 billion U.S. trade surplus in July-August (seasonally adjusted annual rate) was \$5 billion below the extraordinary rate in the second quarter, as strong increases in fuel and nonfuel imports exceeded a substantial rise in agricultural exports and a small rise in nonagricultural exports. The volume of nonfuel imports in July-August was up 11 per cent from the second quarter, reflecting in large part the decline in the rate of U.S. inventory liquidation, but remained 14 per cent below the rate in the fourth quarter of 1974. The volume of nonagricultural exports in July-August, at about the same rate as in the first two quarters of 1975, was 5 per cent below the rate in the fourth quarter of last year, as a result inter alia of the continuing sluggishness of economic activity abroad.

Private capital transactions reported by banks and securities dealers for August showed a net inflow of \$1.8 billion, a bit lower than the inflow of \$1.5 billion in July but in sharp contrast to large net outflows in the first two quarters of 1975. The rate of U.S. net purchases of foreign securities in August was reduced and about equalled foreign net purchases of U.S. stocks.

Foreign official agencies other than these of the OPEC countries reduced their holdings of dollars by over \$1 billion in August for the second consecutive month. These reductions appear to have accommodated a larger net inflow of bank-reported capital to the United States than would otherwise have occurred and reduced the upward pressure on the dollar. Partial data for the month of September show a further decline in U.S. liabilities to non-OPEC foreign official agencies; in early October many foreign governments intervened in their exchange markets to resist the appreciation of their currencies.

The deceleration in consumer price rises in most major foreign industrial countries from very high rates in 1974 has continued into the third quarter. The moderation has been especially pronounced for the United Kingdom. Although rates of inflation in the major foreign countries have diminished in 1975, they remain widely dispersed and are still uncomfortably high as these countries start their economic upturns. Most countries expect to achieve further slight reductions in their inflation rates in 1976 although the recently announced OPEC

price increase and the increases in grain prices may exert renewed upward pressures on prices. Continued concern over high inflation rates has led several foreign countries, including Canada, the United Kingdom, France, Belgium and Norway, to institute or extend wage and price control programs in recent months.

In the first half of 1975, the investible OPEC surplus declined to an estimated \$21 billion from \$37 billion in the second half of 1974. The decline in the OPEC surplus reflects primarily a reduction in earnings on oil exports; OECD exports to the OPEC countries are estimated to have risen only \$5 billion between the second half of 1974 and the first half of 1975, compared with an increase of almost \$6 billion between the two halves of 1974. A substantial portion of the OPEC surplus continues to be invested in the Euro-currency markets; the direct U.S. share of OPEC investments has risen in recent months back to the 20 per cent share of 1974; the share going directly to the United Kingdom, excluding Euro-currency deposits, diminished from 12 per cent in 1974 to 3 per cent in the first half of this year.

Outlook. The U.S. trade balance is expected to decline gradually from a surplus of almost \$10 billion (annual rate) now estimated for the third quarter of 1975 to a deficit of about \$7 billion in the fourth quarter of next year. The recent 10 per cent increase in the price of OPEC oil is expected to add about \$350 million to the direct cost of U.S. oil imports in 1975 and about \$2.5 billion in 1976.

(These estimates have been incorporated in green book forecasts since June.) Part of the decline in the trade balance over the forecast period, which continues to be based on the earlier and somewhat more rapid U.S. upturn, will be offset by an expected rise in net income on investments.

The major new factors influencing the forecast for goods and services this month leave the basic contour of the outlook unchanged on balance from last month. On the one hand, the effects of the appreciation of the dollar over the past three months, which we assume will be maintained, and a small reduction in the expected strength of the foreign upturn will reduce the trade balance. On the other hand, stronger income flows from U.S. direct investments abroad and somewhat lower interest rates applicable to net financial liabilities will increase net income receipts.