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# Part 1

## 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)

November 12, 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. Economic expansion appears to be continuing in the fourth quarter, but at a slower pace than in recent months. Gains in production and employment in October were smaller and less widespread than in earlier months. Retail sales have picked up somewhat after two months without growth, but the stimulative impact of the swing toward inventory accumulation appears to be diminishing. As yet, there is little indication of a significant upturn developing for real business fixed capital outlays. Moreover, the outlook for State and local spending has dimmed with the increased probability of a New York City default and the associated tensions in the municipal securities market.

Industrial production is estimated to have increased about half a per cent in October--substantially less than the pace of the previous four months. Auto assemblies rose 3 per cent further to a 7.7 million annual rate, and production of other consumer goods--both durable and nondurable--continued to advance. But output of business equipment, which had risen in the two previous months, probably edged off in October, and the increase in materials production slowed as raw steel output dipped following the surge that preceded the October 1 price increase.

Retail sales rose in October, following two months of no gain--as September sales estimates were revised down. Excluding autos and nonconsumer items, October sales rose by 1-1/4 per cent, with much of the improvement at food stores, where prices may have

increased. Unit auto sales were up about 3 per cent to a total of 9.2 million, annual rate, with all of the gain among domestic models. Sales of foreign models dipped, apparently reflecting reduced stocks and the introduction of the new domestic sub-compacts.

Nonfarm payroll employment continued to rise rather strongly in October, although the 220,000 increase was somewhat smaller than the gains of the past three months. Relatively fewer industries showed employment increases in October, and the average workweek in manufacturing remained unchanged. The rise in the unemployment rate from 8.3 to 8.6 per cent appears to reflect, in large part, difficulties of seasonal adjustment. The insured unemployment rate edged off over the month.

Inventory liquidation appears to be nearing an end, if it is not already over. The book value of retail trade stocks turned upward in June and rose through August (the latest data available). Wholesale trade inventories increased in September for the second month in a row. In manufacturing, inventories of nondurable goods were also up in September for the second month and just about offset the reduced rate of decline in durable stocks.

As yet, there has been no solid indication of an impending upturn in real business fixed capital outlays. New orders for non-defense capital goods declined in September for the second month in a row, and have been relatively flat since last April. Contracts for

commercial and industrial construction (in square feet) rose 16 per cent in September, but this just reversed the previous month's decline; at best, this series appears to have bottomed out. For the longer term, the situation may be somewhat more hopeful. The latest McGraw-Hill survey reports plans for a 9 per cent increase in capital spending for 1976. While the rise just equals price increases expected by businesses, these surveys characteristically understate the amount of recovery at this stage of the cycle by about 5 or 6 percentage points.

While the level of residential construction activity remains quite depressed, signs of improvement have continued. Private housing starts in September held at about the August level. For the third quarter, at a 1-1/4 million annual rate, starts were 17 per cent above the second quarter. Permits edged up in September; for the third quarter, they were 15 per cent above the second quarter. Additionally, the recent easing of conditions in the mortgage market, together with the announced expansion of Federal housing programs, suggest a continuation of recovery in housing over the near-term.

The volatile hourly earnings index increased sharply in October, but on average has risen at about an 8 per cent annual rate since the beginning of the year. Recently, the impact on costs has been absorbed by a sharp rise in productivity which accompanied the third quarter rebound in output. Private nonfarm output per hour

rose by 9-1/2 per cent, annual rate, and unit labor costs dipped by almost 1 per cent (annual rate) following a modest 2 per cent increase in the previous quarter.

Wholesale prices jumped by 1.8 per cent in October. The extent of the increase was apparently exaggerated by seasonal adjustment problems, and the rise for September and October combined averaged 1.2 per cent. The October rise in prices of industrials accelerated to 1.2 per cent, reflecting higher new model car prices, effectuation of steel price increases announced earlier, and price hikes for a wide range of other commodities. Farm and food prices again rose rather sharply, by 1.7 per cent, but since the mid-October pricing date there have been substantial price declines for many agricultural products.

Outlook. The current staff GNP projection is similar to that shown in the preceding Greenbook. We still expect a continuation of economic expansion throughout 1976, but with a diminishing rate of growth over the course of next year. The projected advance in real GNP moderates from a 7-1/2 per cent rate in the current quarter to around 5 per cent in the first half of 1976, and to 4-1/2 per cent in the last half.

There have been no major changes in fiscal policy assumptions in this projection. We continue to incorporate an extension of current tax rates through 1976, an assumption generally in line with the bill recently approved by the House Ways and Means Committee. We

also assume that Federal spending will not be significantly constrained during calendar 1976 by the new ceilings requested by the President. As regards oil prices, it is too early to foresee the course of policy likely to eventuate after expiration of controls on November 15. Hence, we continue to assume a pattern of gradual decontrol that maintains price levels nearly unchanged over the next calendar year.

With respect to monetary policy, we assume  $M_1$  growth averaging 6-1/4 per cent from the third quarter of this year--the midpoint of the 5 - 7-1/2 per cent range. Even though the  $M_1$  assumption is essentially unchanged, interest rates are now projected to rise less in 1976 than in the preceding Greenbook--and to stay well below their previous peaks--reflecting the recent easing of rates accompanying the weakness in money demand. With market interest rates expected to rise less, the assumed increase in Regulation Q ceilings (50 basis points from long-term certificates) now is projected to take place at mid-year.

The improved outlook for financial markets suggests less constraint on spending, with the major impact on residential construction during the second half of 1976. The projected rate of real GNP growth in the last two quarters of next year has been raised by close to half a per cent.

In assessing the outlook, special attention was again focused this month on prospects for State and local spending. In view of the

apparently greater likelihood of a default by New York City, the projected increase in State and local purchases was cut back and now shows no real growth during this fall and winter. Resumption of real growth, at about a 4 per cent rate is projected for later in 1976. Larger tax receipts will be accompanying the projected general economic recovery, making it possible for many communities to restore cancelled services. Still, by the fourth quarter of 1976, State and local spending (in current dollars) is now expected to be about \$8 billion less than two months ago--in the September Greenbook.

Our projection of unemployment for the current quarter has been increased slightly in light of the recent larger-than-expected seasonally adjusted growth in the labor force and the associated rise in the unemployment rate in October. Nevertheless, we still expect a trend toward lower unemployment, with the rate falling to around 7-3/4 per cent in the fourth quarter of 1976.

In the area of prices, we are now allowing for a faster rate of increase in several categories--notably producers' durable goods--on the basis of recent experience. The projected rise in food prices, however, has been scaled down, due to evidence of relatively ample supplies in a number of farm commodities. These adjustments are about offsetting, so that the overall price forecast has remained about unchanged. The annual rate of increase in the fixed-weighted private product index is projected at about 6-1/2 per cent in the current quarter, moderating to a 5 per cent rate of increase by the fourth quarter of 1976.

## STAFF GNP PROJECTIONS

	Per cent changes, annual rate							
	Changes in Nominal GNP (\$ billions)		Real GNP		Gross private product fixed weighted price index		Unemployment Rate (per cent)	
	10/15/75	11/12/75	10/15/75	11/12/75	10/15/75	11/12/75	10/15/75	11/12/75
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	78.6	78.8	-3.0	-3.0	9.4	9.3	8.4	8.5
1976	175.4	172.7	5.9	5.9	6.1	6.0	7.8	7.9
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>	55.0	56.8	10.8	11.2	8.1	7.7	8.4	8.4
IV	54.6	51.6	7.6	7.4	6.6	6.4	8.1	8.3
1976-I	41.7	39.2	5.3	4.9	6.1	5.9	8.0	8.1
II	40.1	40.2	5.1	5.0	5.3	5.6	7.9	8.0
III	39.0	39.6	4.5	4.6	5.2	5.3	7.7	7.8
IV	38.4	41.4	3.8	4.5	4.9	4.9	7.7	7.8
Change:								
74-II to 75-II	57.1	57.1	-5.3	-5.3	9.8	9.8	3.8	3.8
74-IV to 75-IV	119.6	118.5	1.8	1.9	7.0	6.8	1.5	1.7
75-II to 76-II	191.4	187.8	7.2	7.1	6.5	6.4	-1.0	-0.9
75-IV to 76-IV	159.2	160.8	4.7	4.8	5.4	5.4	-.4	-.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	1497.8	1549.4	1588.6	1628.8	1668.4	1709.8
Final purchases	1435.8	1471.9	1507.3	1545.4	1577.9	1614.8	1652.4	1692.8
Private	1104.2	1133.8	1164.2	1195.1	1222.0	1252.3	1282.6	1311.0
Excluding net exports	1095.4	1117.6	1154.4	1188.2	1221.7	1254.8	1286.1	1314.7
Personal consumption expenditures	913.2	938.6	970.0	997.0	1022.7	1045.2	1065.8	1085.4
Durable goods	124.9	130.6	139.0	142.3	147.0	150.7	153.9	157.0
Nondurable goods	398.8	410.1	423.8	436.5	446.5	454.3	461.1	468.2
Services	389.5	397.9	407.2	418.2	429.2	440.2	450.8	460.2
Gross private domestic investment	163.1	148.1	174.9	195.2	209.7	223.6	236.3	246.3
Residential construction	35.3	36.4	40.8	44.1	46.9	51.0	54.3	55.2
Business fixed investment	146.9	142.7	143.6	147.1	152.1	158.6	166.0	174.1
Change in business inventories	-19.2	-31.0	-9.5	4.0	10.7	14.0	16.0	17.0
Nonfarm	-17.8	-30.6	-10.6	2.5	10.2	14.0	16.0	17.0
Net exports of goods and services <sup>1/</sup>	8.8	16.2	9.8	6.9	.3	-2.5	-3.5	-3.7
Exports	142.2	136.0	140.2	145.5	149.7	155.1	160.0	164.9
Imports	133.4	119.8	130.4	138.6	149.4	157.6	163.5	168.6
Gov't. purchases of goods and services	331.6	338.1	343.1	350.3	355.9	362.5	369.8	381.8
Federal	126.5	128.4	129.9	134.4	136.7	138.8	140.7	146.7
Defense	84.7	84.8	85.6	88.6	89.9	91.3	92.4	96.4
Other	41.8	43.6	44.3	45.8	46.8	47.5	48.3	50.3
State and local	205.1	209.7	213.2	215.9	219.2	223.7	229.1	235.1
Gross national product in constant (1958) dollars	780.0	783.6	804.6	819.0	829.0	839.2	848.7	858.1
GNP implicit deflator (1958=100)	181.6	183.9	186.2	189.2	191.6	194.1	196.6	199.3
Personal income	1193.4	1220.5	1255.0	1294.9	1328.5	1358.4	1388.7	1419.4
Wage and salary disbursements	765.1	773.0	791.3	813.0	832.1	851.2	870.2	892.3
Disposable income	1015.5	1078.5	1079.1	1108.7	1138.3	1163.3	1186.2	1210.9
Personal saving	75.9	113.8	82.9	84.9	88.2	90.2	92.0	96.6
Saving rate (per cent)	7.5	10.6	7.7	7.7	7.7	7.8	7.8	8.0
Corporate profits & inventory val. adj.	94.3	104.9	118.2	127.6	129.4	137.9	148.4	155.9
Corporate profits before tax	101.2	113.3	129.7	145.5	148.0	153.0	158.5	163.2
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts <sup>2/</sup>	284.1	251.8	295.1	311.1	321.2	329.9	341.3	351.1
Expenditures	338.5	355.0	361.9	373.9	384.1	391.6	401.7	413.9
Surplus or deficit (-) <sup>2/</sup>	-54.4	-103.3	-66.8	-62.8	-62.9	-61.7	-60.4	-62.8
High employment surplus or deficit (-)	10.2	-35.9	-10.0	-12.4	-11.2	-9.4	-9.8	-11.2
State and local government surplus or deficit (-) (N.I.A. basis)	-1.6	-.9	3.3	9.3	11.5	12.4	11.4	10.6
Total labor force (millions)	94.0	94.7	95.3	95.7	96.0	96.4	96.9	97.3
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	93.5	93.8	94.2	94.7	95.1
Unemployment rate (per cent)	8.3	8.9	8.4	8.3	8.1	8.0	7.8	7.8
Nonfarm payroll employment (millions)	76.9	76.4	77.0	77.6	78.0	78.6	79.0	79.6
Manufacturing	18.5	18.1	18.3	18.6	18.8	19.0	19.1	19.2
Industrial production (1967=100)	111.6	110.4	114.1	117.4	119.5	121.4	123.0	124.6
Capacity utilization, mfg. (per cent)	68.2	67.0	69.0	70.4	71.1	71.7	72.0	72.4
Major materials (per cent)	70.0	70.9	77.5	80.4	81.7	82.5	83.0	83.3
Housing starts, private (millions, A.R.)	1.00	1.07	1.25	1.40	1.50	1.55	1.66	1.60
Sales new autos (millions, A.R.)	8.31	7.90	9.14	9.50	10.20	10.20	10.20	10.20
Domestic models	6.60	6.33	7.46	8.00	8.50	8.50	8.50	8.50
Foreign models	1.71	1.57	1.69	1.50	1.70	1.70	1.70	1.70
<sup>1/</sup> Net exports of g. & s. (Bal. of paymts)	12.7 <sup>3/</sup>	21.0	16.6	13.7	7.1	4.3	3.3	3.1
Exports	148.4 <sup>3/</sup>	141.7	147.1	152.4	156.6	162.0	166.9	171.8
Imports	135.7	120.6	130.5	138.7	149.5	157.7	163.6	168.7

<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.

November 12, 1975

CONFIDENTIAL - FR  
CLASS II FOMCCHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1975				1976			
	I	II	III	IV	I	II	III	IV
Gross National Product	-14.3	24.3	56.9	51.6	39.2	40.2	39.6	41.4
Inventory change	-37.0	-11.8	21.5	13.5	6.7	3.3	2.0	1.0
Final purchases	22.7	36.1	35.4	38.1	32.5	36.9	37.6	40.4
Private	14.9	29.6	30.4	30.9	26.9	30.3	30.3	28.4
Net exports	6.9	7.4	-6.4	-2.9	-6.6	-2.8	-1.0	-.2
Excluding net exports	8.0	22.2	36.8	33.8	33.5	33.1	31.3	28.6
Personal consumption expenditures	17.4	25.4	31.4	27.0	25.7	22.5	20.6	19.6
Durable goods	4.2	5.7	8.4	3.3	4.7	3.7	3.2	3.1
Nondurable goods	7.1	11.3	13.7	12.7	10.0	7.8	6.8	7.1
Services	6.0	8.4	9.3	11.0	11.0	11.0	10.6	9.4
Residential fixed investment	-5.1	1.1	4.4	3.3	2.8	4.1	3.3	.9
Business fixed investment	-4.3	-4.2	.9	3.5	5.0	6.5	7.4	8.1
Government	7.8	6.5	5.0	7.2	5.6	6.6	7.3	12.0
Federal	2.0	1.9	1.5	4.5	2.3	2.1	1.9	6.0
State and local	5.8	4.6	3.5	2.7	3.3	4.5	5.4	6.0
GNP in constant (1958) dollars	-24.0	3.6	21.0	14.4	10.0	10.2	9.5	9.4
Final purchases	-1.3	8.9	8.7	7.8	7.1	9.0	8.7	8.9
Private	-2.7	7.4	8.3	7.5	6.5	7.8	7.7	6.9
	-----In Per Cent Per Year <sup>1/</sup> -----							
Gross national product	-3.9	7.0	16.7	14.5	10.5	10.5	10.1	10.3
Final purchases	6.6	10.4	10.0	10.5	8.7	9.7	9.6	10.1
Private	5.6	11.2	11.2	11.0	9.3	10.3	10.0	9.2
Personal consumption expenditures	8.0	11.6	14.1	11.6	10.7	9.1	8.1	7.6
Durable goods	14.7	19.5	28.3	9.8	13.9	10.5	8.8	8.3
Nondurable goods	7.4	11.8	14.0	12.5	9.5	7.2	6.1	6.3
Services	6.4	8.9	9.7	11.3	10.9	10.7	10.0	8.6
Gross private domestic investment	-63.2	-32.0	94.5	55.2	33.2	29.3	24.7	18.0
Residential structures	-41.7	13.1	57.8	36.5	27.9	39.8	28.5	6.8
Business fixed investment	-10.9	-11.0	2.5	10.1	14.3	18.2	20.0	21.0
Gov't purchases of goods & services	10.0	8.1	6.0	8.7	6.5	7.6	8.3	13.6
Federal	6.6	6.1	4.8	14.6	7.0	6.3	5.6	18.2
Defense	3.4	.5	3.8	14.8	6.0	6.4	4.9	18.5
Other	12.4	18.4	6.6	14.2	9.0	6.1	6.9	17.6
State and local	12.2	9.3	6.8	5.2	6.3	8.5	10.0	10.9
GNP in constant (1958) dollars	-11.4	1.9	11.2	7.4	5.0	5.0	4.6	4.5
Final purchases	-.7	4.6	4.4	3.9	3.5	4.4	4.2	4.3
Private	-1.7 <sup>2/</sup>	4.7	5.2	4.6 <sup>2/</sup>	4.0 <sup>2/</sup>	4.7	4.6	4.1 <sup>2/</sup>
GNP implicit deflator	8.4 <sup>2/</sup>	5.1	5.0	6.6 <sup>2/</sup>	5.3 <sup>2/</sup>	5.2	5.2	5.6 <sup>2/</sup>
Private GNP fixed weighted index <sup>3/</sup>	7.7	5.5	7.7	6.4	5.9	5.6	5.3	4.9
Personal income	2.2	9.4	11.8	13.3	10.8	9.3	9.2	9.1
Wage and salary disbursements	-2.1	4.2	9.8	11.4	9.7	9.5	9.2	10.6
Disposable income	2.7	27.2	.2	11.4	11.1	9.1	8.1	8.6
Corporate profits before tax	-64.9	57.1	71.7	58.4	7.1	14.2	15.2	12.4
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	-13.6	-38.3	88.6	23.5	13.6	11.3	14.6	12.0
Expenditures	26.3	21.0	8.0	13.9	11.4	8.0	10.7	12.7
Nonfarm payroll employment	-7.1	-2.2	2.8	3.2	2.1	3.1	2.1	3.1
Manufacturing	-21.2	-6.9	2.5	6.7	4.4	4.3	2.1	2.1
Industrial production	-28.4	-4.7	14.5	11.8	7.5	6.3	5.5	5.4
Housing starts, private	-2.4	32.7	86.3	57.4	31.8	14.0	31.6	-13.7
Sales new autos	60.9	-18.2	79.3	16.7	32.9	.0	.0	.0
Domestic models	41.8	-15.3	92.4	32.3	27.4	.0	.0	.0
Foreign models	172.4	-28.8	33.3	-37.9	65.0	.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, 6.0 per cent; 1976-I, 5.2 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  
(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	1476.2	1648.9
Final purchases								
Private	922.5	972.6	1048.6	1149.5	1279.6	1383.2	1490.1	1634.5
Excluding net exports	712.5	753.1	814.4	893.8	1003.2	1074.0	1149.3	1267.0
Net exports	710.6	749.5	814.6	899.8	999.3	1071.9	1138.9	1269.3
Personal consumption expenditures	579.5	617.6	667.1	729.0	805.2	876.7	954.7	1054.8
Durable goods	90.8	91.3	103.9	118.4	130.3	127.5	134.2	152.2
Nondurable goods	245.9	263.8	278.4	299.7	338.0	380.2	417.3	457.5
Services	242.7	262.6	284.8	310.9	336.9	369.0	403.2	445.1
Gross private domestic investment	139.0	136.3	153.7	179.3	209.4	209.4	170.3	229.0
Residential Construction	32.6	31.2	42.8	54.0	57.2	46.0	39.2	51.8
Business fixed investment	98.5	100.6	104.6	116.8	136.8	149.2	145.1	162.7
Change in business inventories	7.8	4.5	6.3	8.5	15.4	14.2	-13.9	14.4
Nonfarm	7.7	4.3	4.9	7.8	11.4	11.9	-14.1	14.3
Net exports of goods and services <sup>1/</sup>	1.9	3.6	- .2	- 6.0	3.9	2.1	10.4	-2.4
Exports	55.5	62.9	65.4	72.4	100.4	140.2	141.0	157.4
Imports	53.6	59.3	65.6	78.4	96.4	138.1	130.6	159.8
Gov't. purchases of goods and services	210.0	219.5	234.2	255.7	276.4	309.2	340.8	367.5
Federal	98.8	96.2	97.6	104.9	106.6	116.9	129.8	140.7
Defense	78.4	74.6	71.2	74.8	74.4	78.7	85.9	92.5
Other	20.4	21.6	26.5	30.1	32.2	38.2	43.9	48.2
State & local	111.2	123.3	136.6	150.8	169.8	192.3	211.0	226.8
Gross national product in constant (1958) dollars	725.6	722.5	746.3	792.5	839.2	821.2	796.8	843.8
GNP implicit deflator (1958=100)	128.2	135.2	141.4	146.1	154.3	170.2	185.2	195.4
Personal income	750.9	808.3	864.0	944.9	1055.0	1150.5	1241.0	1373.8
Wage and salary disbursements	509.7	542.0	573.0	626.8	691.7	751.2	785.6	861.5
Disposable income	634.4	691.7	746.4	802.5	903.7	979.7	1070.5	1174.7
Personal saving	38.2	56.2	60.5	52.6	74.4	77.0	89.4	91.8
Saving rate (per cent)	6.0	8.1	8.1	6.6	8.2	7.9	8.4	7.8
Corporate profits & inventory val. adj.	79.8	69.2	78.7	92.2	105.1	105.6	111.3	142.9
Corporate profits before tax	84.9	74.0	83.6	99.2	122.7	140.7	122.4	155.7
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	197.3	192.0	198.5	227.2	258.5	291.1	285.5	335.9
Expenditures	189.2	203.9	220.3	244.7	264.2	299.1	357.3	397.8
Surplus or deficit (-)	8.1	-11.9	-21.9	-17.5	-5.6	-8.1	-71.8	-62.0
High employment surplus or deficit (-)	8.8	3.7	-4.7	-6.7	- .7	19.1	-12.0	-10.4
State and local government surplus or deficit (-), (N.I.A. basis)	.7	1.8	3.4	12.3	9.2	1.8	2.5	11.5
Total labor force (millions)	84.2	85.9	86.9	89.0	91.0	93.2	94.9	96.7
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	94.5
Unemployment rate (per cent)	3.5	4.9	5.9	5.6	4.9	5.6	8.5	7.9
Nonfarm payroll employment (millions)	70.4	70.9	71.2	73.7	76.8	78.3	77.0	78.8
Manufacturing	20.2	19.3	18.6	19.1	20.1	20.0	18.4	19.0
Industrial production (1967 = 100)	110.7	106.7	106.8	115.2	125.6	124.7	113.4	121.1
Capacity utilization, mfg. (per cent)	86.5	78.3	75.0	78.6	83.0	78.9	68.7	71.8
Major materials (per cent)	90.0	86.2	85.3	89.6	93.0	87.0	74.7	82.6
Housing starts, private (millions, A.R.)	1.47	1.43	2.05	2.36	2.05	1.34	1.18	1.58
Sales new autos (millions, A.R.)	9.57	8.40	10.24	10.93	11.44	8.87	8.71	10.20
Domestic models	8.46	7.12	8.68	9.32	9.67	7.45	7.10	8.50
Foreign models	1.11	1.28	1.56	1.61	1.77	1.42	1.62	1.70
<sup>1/</sup> Net exports of g. & s. (Bal. of Paymts.)	1.3	2.9	- .2	-6.0	4.4	2/ 3.32/	16.02/	4.52/
Exports	55.0	62.3	65.4	72.4	101.0	142.62/	147.42/	164.32/
Imports	53.6	59.4	65.6	78.4	96.6	131.4	131.4	159.0

<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.

November 12, 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	78.8	172.7
Inventory change	.7	-3.3	1.8	2.2	6.9	-1.2	-28.1	28.3
Final purchases	65.4	50.1	76.0	100.9	130.1	103.6	106.9	144.4
Private	55.0	40.6	61.3	79.4	109.4	70.8	75.3	117.7
Net exports	-.6	1.7	-3.8	-5.8	9.9	-1.8	8.3	-12.8
Excluding net exports	55.6	38.9	65.1	85.2	99.5	72.6	67.0	130.4
Personal consumption expenditures	43.3	38.1	49.6	61.9	76.2	71.5	78.0	100.1
Durable goods	6.8	.5	12.6	14.5	11.9	-2.8	6.7	18.0
Nondurable goods	15.1	17.9	14.6	21.3	38.3	42.2	37.1	40.2
Services	21.4	19.9	22.2	26.1	26.0	32.1	34.2	41.9
Residential fixed investment	2.5	-1.4	11.6	11.2	3.2	-11.2	-6.8	12.6
Business fixed investment	9.7	2.1	4.0	12.2	20.0	12.4	-4.1	17.6
Government	10.4	9.5	14.7	21.5	20.7	32.8	31.6	26.7
Federal	.0	-2.6	1.4	7.3	1.7	10.3	12.9	10.9
State and local	10.4	12.1	13.3	14.2	19.0	22.5	18.7	15.8
GNP in constant (1958) dollars	19.0	-3.1	23.8	46.2	46.7	-18.0	-24.4	47.0
Final purchases	18.7	-.4	-22.5	-44.4	43.0	-15.9	-7.7	32.8
Private	20.6	6.2	18.5	46.1	45.2	-17.5	-10.8	29.5
-----Per Cent per Year-----								
Gross National Product	7.6	5.0	8.0	9.8	11.8	7.9	5.6	11.7
Final purchases	7.6	5.4	7.8	9.6	11.3	8.1	7.7	9.7
Private	8.4	5.7	8.1	9.7	12.2	7.1	7.0	10.2
Personal consumption expenditures	8.1	6.6	8.0	9.3	10.5	8.9	8.9	10.5
Durable goods	8.1	.6	13.8	14.0	10.1	-2.1	5.3	13.4
Nondurable goods	6.5	7.3	5.5	7.7	12.8	12.5	9.8	9.6
Services	9.7	8.2	8.5	9.2	8.4	9.5	9.3	10.4
Gross private domestic investment	10.3	-1.9	12.8	16.7	16.8	.0	-18.7	34.5
Residential structures	8.3	-4.3	37.2	26.2	5.9	-19.6	-14.8	32.1
Business fixed investment	10.9	2.1	4.0	11.7	17.1	9.1	-2.7	12.1
Gov't purchases of goods & services	5.2	4.5	6.7	9.2	8.1	11.9	10.2	7.8
Federal	.0	-2.6	1.5	7.5	1.6	9.7	11.0	8.4
Defense	.1	-4.8	-4.6	5.1	-.5	5.8	9.1	7.7
Other	-.5	5.9	22.7	13.6	7.0	18.6	14.9	9.8
State and local	10.3	10.9	10.8	10.4	12.6	13.3	9.7	7.5
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	4.1
Private	3.7	1.1	3.9	6.7	6.5	-2.6	-1.6	4.5
GNP implicit deflator	4.8	5.5	4.6	3.4	5.6	10.3	8.8	5.5
Private GNP fixed weighted index <sup>1/</sup>	4.7	4.8	4.3	3.3	6.3	11.4	9.3	6.0
Personal income	9.0	7.6	6.9	9.4	11.7	9.1	7.9	10.7
Wage and salary disbursements	9.6	6.3	5.8	9.3	10.4	8.6	4.6	9.7
Disposable income	7.3	9.0	7.9	7.5	12.6	8.4	9.3	9.7
Corporate profits before tax	-3.1	-12.8	13.0	18.7	23.7	14.7	-13.0	27.2
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	12.7	-2.7	3.4	14.5	13.8	12.6	-1.9	17.7
Expenditures	4.2	7.8	8.0	11.1	8.0	13.2	19.5	11.3
Nonfarm payroll employment	3.7	.7	.4	3.5	4.2	2.0	-1.7	2.3
Manufacturing	2.0	-4.1	-4.0	2.8	5.0	-.2	-8.0	3.3
Industrial production	4.7	-3.6	.1	7.9	9.0	-.7	-9.2	7.7
Housing starts, private	-2.7	-2.3	43.2	14.9	-13.2	-34.6	-11.9	33.9
Sales new autos	-.6	-12.3	21.9	6.7	4.7	-22.5	-1.8	17.1
Domestic models	-1.8	-15.9	21.9	7.4	3.7	-23.0	-4.7	19.7
Foreign models	9.0	15.5	21.8	3.3	9.8	-20.1	14.1	4.9

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

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**DOMESTIC FINANCIAL DEVELOPMENTS**

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Summary. Short-term interest rates have continued to decline during the past few weeks, dropping around 20 to 65 basis points as open market policy became somewhat more accommodative and demands for high-grade liquid assets increased. With short-term interest rates declining, yields on long-term U.S. Government and corporate issues also dropped about 10 to 40 basis points. Interest rates on municipal bonds moved down early in the intermeeting period, but following President Ford's statement that he would veto legislation to "bail out" New York City, they have risen again--returning close to the historic highs of early October. The market for new municipal issues has continued to function fairly well over this period, however, as a relatively large volume of new bonds has been successfully distributed to investors.

New York's unfolding financial problems have had secondary effects on the status of New York banks in financial markets. Prices of major New York banks stocks have dropped significantly in recent weeks at a time when the general market indexes have remained about unchanged and indexes of stock prices of outside banks have moved down only slightly. In addition, interest rates on New York bank CD's have increased relative to rates on the CD's of major banks outside the New York area.

Business credit demands picked up somewhat in October. Gross public offerings of bonds by domestic corporation rose from normally slack summer levels, as the downturn in yields attracted industrial corporations--particularly those with lower credit ratings--back into the market. Corporate stock offerings also expanded in October to the highest monthly volume in more than two and a half years. Business demands for short-term credit have been more moderate, however; the pickup in borrowing at commercial banks--particularly at banks outside the New York area--was largely offset by a rundown of outstanding commercial paper by major nonfinancial corporations.

With the further fall in market interest rates, intra-monthly flows to thrift accounts at nonbank depository institutions recently have improved. Primary market rates on home mortgages have edged down while yields in the FNMA auction of commitments and on mortgage backed securities have dropped sharply. Moreover, outstanding loan commitments at S&L's may have risen further, and these institutions report that funds are generally available in nearly all regions of the home mortgage market.

Consumer installment credit rose at its most rapid pace of the year in September, as gross extensions reached a new high. Credit unions again supplied the major source of funds for consumers, but consumer loans at banks also rose at a relatively rapid pace.

Outlook. It appears likely that the composition and strength of credit demands in the months immediately ahead will conform roughly to recent experience. The Treasury still has about \$8 billion of new money to raise in the current quarter, and it is expected that all but \$1.5 billion will be obtained through the issuance of additional bills. After the turn of the year, the Treasury is again expected to begin tapping funds from all maturity sectors of the market as it raises about \$25 billion of new money, a record amount for the January-March period.

Households also appear likely to continue placing relatively heavy demands on the credit markets. Assuming the continuation of strong retail sales, consumer borrowing should expand at a pace near that established in the third quarter, and, given the high level of outstanding mortgage commitments, mortgage take-downs should also continue to be relatively rapid.

Demands of domestic business firms for credit are expected to be on the moderate side over the next few months. Short-term borrowing should increase at only a modest pace as businesses continue to follow a conservative inventory policy. As for long-term funds, with capital outlays likely to remain relatively modest at a time of rising corporate profits and generally improved corporate liquidity, the volume of bonds issued by domestic corporations may drop back from October's relatively strong pace and more nearly match that of the third quarter. While domestic business demands on bond markets probably

will not strengthen in the months just ahead, it appears that foreign borrowers are likely to sell an increased volume of bonds in the current quarter, given the recent decline in corporate bond yields here.

The municipal sector, of course, is the major uncertainty in the outlook for credit markets. The recent performance of the market for new municipal issues suggests that it could continue to function relatively well, even if New York City were to default. However, if other New York governmental entities go into default and further doubt is cast on the financial status of the State, the odds for a serious deterioration in the functioning of the municipal market would increase. Under those circumstances, there could be a significant further cutback in the volume of new issues coming to market and a greatly increased demand for liquid assets or very high quality bonds on the part of investors.

On balance, though, absent major dislocations arising from the New York problem, it appears that interest rates may continue near their present levels over the near term. Thereafter, the cumulative impact on demands for money and credit from the projected expansion in GNP is likely to lead to renewed upward pressure on interest rates in the course of next year.

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INTERNATIONAL DEVELOPMENTS

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Summary. Since mid-October the weighted average value of the dollar has moved within a narrow range, drifting down by somewhat less than 1/2 per cent. Among the factors tending to weaken the dollar were reports of a continued high inflation rate in the United States, uncertainties surrounding the financial difficulties of New York City, and lower U.S. interest rates and expectations that they might remain low. Tending to support the dollar rate were net purchases of \$1.3 billion by foreign authorities, of which nearly half was accounted for by French purchases aimed primarily at avoiding an appreciation of the French franc against the German mark. In the third quarter there was a reduction of over \$4 billion in foreign official dollar assets in the United States (apart from assets of OPEC countries), as the U.S. current account registered a record surplus and net inflows of private capital were sizable.

Another large trade surplus -- \$10 billion at an annual rate -- was registered in September, about the same as in August. Exports continued to rise (though exports of agricultural products were down a little); imports rose by about as much, including a sizable increase in oil imports. Unit values of both exports and imports were down while volumes increased.

At a recent meeting of national economic experts in Paris at the OECD, the economic outlook over the next year was reviewed. The OECD Secretariat had projected a rise of only 3-1/2 per cent in real GNP for the OECD countries (including the United States) for 1976

over 1975. National experts from the major countries (especially Germany, the United States, and the United Kingdom) expected a somewhat stronger outcome, mainly because of a shift toward higher consumer spending as lower inflation rates encouraged a return to more normal savings behavior. Using the individual national projections would raise the combined projected GNP growth of OECD countries to about 5 per cent, which would not be enough to produce a sustained reduction in unemployment or in idle plant capacity during 1976. Private investment was not expected to show a marked revival nor were exports or construction expected to be sources of strength. In general, however, no urgency for taking new expansionary steps was expressed by the experts.

Although the U.S. economy is moving into a cyclical upturn well ahead of most other countries, relative conditions in long-term capital markets continue to favor large net private capital outflows. This tendency shows up strikingly in the record volume of new foreign bonds issued in the U.S. market. Such issues slowed somewhat in August and September, but about \$400 million were sold in October, and about \$1.6 billion are scheduled for November and December. This would bring the total for the year to about \$6-1/2 billion (the previous high was \$2.4 billion in 1974). Foreign purchases of U.S. corporate stocks have also been high this year, largely because of direct and indirect OPEC purchases.

Weekly data (not too reliable) indicate that U.S. banks that had been borrowing substantial amounts from foreign banks slowed or reduced their borrowings after mid-October as short-term rates here declined. There was some increase in U.S. bank lending to foreigners in September, following a lull in August.

Outlook. On the whole, the outlook for the U.S. current account, and for the general economic environment affecting current transactions, has not changed much in recent months. The current balance is projected to decline from a peak surplus in the second quarter of 1975 (at an annual rate of \$21 billion) to a surplus rate of about \$3 billion in the second half of next year. Such a decline is consistent with the slow recovery of foreign demand noted above, together with the relatively greater recovery of domestic demand. As cyclical factors tend to reduce the current account surplus the net demand for dollars in the market is reduced. But whether and to what extent some depreciation of the dollar actually occurs in the months ahead will depend also on other factors, especially the trend of conditions in money and capital markets in the U.S. and abroad, together with such temporary factors as uncertainties about the effect of a default by New York City.