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June 16, 1976

SUMMARY AND OUTLOOK

By the Staff
Board of Governors
of the Federal Reserve System

SUMMARY AND OUTLOOK

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. Economic expansion appears to have decelerated over the past few months from the rapid first quarter rate. Production gains and labor demands have continued to be relatively strong, but both consumers and businessmen are acting with caution. There seems less likelihood now of an unhealthy speculative environment developing over the near term.

Industrial production in May is estimated to have risen by 0.7 per cent, following a downward revised 0.5 per cent increase in April. The rate of increase in both months was slowed somewhat by the rubber strike. Gains in May were particularly strong in durable goods materials and in business equipment. Stocks of nondurable goods materials have already been replenished in a number of sectors and demand has slackened, so that production gains recently have eased. Output of consumer goods rose strongly in May, except for auto assemblies, which increased modestly; there has been no indication that assemblies have as yet been affected by the rubber strike.

Employment gains were sizable again in May. Nonfarm payroll employment rose by 150,000, after allowing for increased strike activity, and is now a quarter million above its prerecession high. The length of the factory workweek rebounded in May from its holiday-depressed level, and the unemployment rate declined by two-tenths--to 7.3 per cent.

Consumer demand--a major factor in the recovery to date-- has lost momentum in the past two months, and consumer attitudes have also weakened somewhat. Total retail sales declined by 1.2 per cent in May, according to the advance estimate, after a lackluster April performance. In real terms, the May level is below that of the first quarter. The pause in consumer buying has been particularly evident in sales of autos and nondurables, which had risen briskly earlier this year. Unit sales of domestic-type autos slipped to an 6-1/2 million annual rate last month, half a million below the April level and 200,000 below the first quarter average. However, auto sales picked up in early June. Continued gains in employment and earnings suggest that the slowdown in consumer spending may be temporary.

Caution continues to be the watchword in businessmen's attitudes toward capital spending. The May Commerce Department survey of anticipated plant and equipment expenditures indicates a 7.3 per cent rise for 1976 over 1975--only modestly larger than the 6-1/2 per cent increase reported in the February survey, and substantially less than the 13 per cent indicated by the McGraw-Hill survey. Also, there was some decline in capital appropriations of large manufacturing firms in the first quarter. However, backlogs of unspent funds remain high, and new orders for nondefense capital goods have risen strongly for four months. As yet, there has been little recovery in contracts for commercial and industrial buildings.

The pace of inventory accumulation slowed in April, when the book value increase at all manufacturing and trade firms was \$10.7 billion, annual rate, about half the first quarter rate. Inventories of nondurable goods may be nearing adequate levels at both manufacturing firms and retail stores. However, restocking of durables--particularly materials--is just getting underway.

Improvement in residential construction activity has moderated recently; in April, total private housing starts were no higher, seasonally adjusted, than they had been in the fourth quarter. Moreover, sales of both new and existing houses are no longer advancing, judging by data through April. Although single-family starts have shown relatively little further gain recently, they have already experienced a substantial recovery. Multi-family starts, however, remain quite depressed, and there is little likelihood of much expansion in the near future. Vacancies are down, but both builders and lenders are remaining cautious because of the high costs and limited profitability of apartment buildings.

Recent news on the price and wage front has been heartening. The wholesale price index in May rose by 0.3 per cent, only a bit above the average pace of recent months. Industrials were virtually unchanged, but the May WPI did not reflect recently announced price increases for steel and gasoline. Consumer prices rose by 0.4 per cent in April, but the index did not catch the latest increases in gasoline

and meat prices. Excluding food and energy, the CPI in April rose 0.6 per cent--or close to the average rate over the past year.

Wage increases, too, have been comparatively moderate thus far this year. In May, however, the average hourly earnings index rose at an 3.9 per cent rate--up significantly from the recent pace, in part reflecting the Teamsters settlement. Since the beginning of the year, the index has risen at a 7 per cent annual rate--compared with an 8-1/2 per cent rate in the last half of 1975. Although productivity during the recovery period has risen more rapidly than the long-term trend rate of 2-1/2 per cent, unit labor costs have continued to rise and exert upward pressure on prices.

Outlook. Real GNP is now projected to rise less in the second quarter than was expected a month ago; thereafter, projected increases in real activity have been adjusted downward marginally. The growth rate in the second quarter is now projected at around 5-3/4 per cent, following the 8-1/2 per cent annual rate increase in the first quarter. The rise in consumer spending will be much smaller this quarter, and so also will be the increase in the pace of inventory investment.

Our policy assumptions remain practically unchanged. For the Federal sector, we continue to anticipate a Congressional extension of the currently reduced income tax rates, which would otherwise expire at the end of this month. It is still uncertain whether some tax reform measures will be enacted at this time, and none has been incorporated in our assumptions. Federal spending in FY 1977 continues to be projected at \$412 billion.

As for monetary policy, we continue to assume an M_1 growth rate of around 5-3/4 per cent during the projection period. This would likely be accompanied by a growth rate of M_2 in the 8 per cent area-- given the assumed upward adjustments in Regulation Q ceiling rates on time certificates during the fall. Our longer-range interest rate projections have not been changed much since last month. We still expect a considerable rise in short-term rates by the middle of next year, but relatively moderate upward pressure on long-term rates.

Over the four quarters starting at mid-year 1976, growth in real GNP is projected to be in the neighborhood of 5 per cent. We expect a good pace of consumer outlays to be resumed soon--bolstered by gains in real income. While some cutback in credit availability may develop because of the recent FTC ruling on Holder of Due Course, we expect only a small negative effect on aggregate consumption from this source.

Business fixed investment is still projected to gain momentum by early 1977; our projection for these outlays remains higher than the recent Commerce survey of spending plans indicates. Recent strong gains in deliveries of capital equipment, together with substantial increases in capital goods orders, have influenced our thinking.

For residential construction, we now expect only a moderate further expansion. Multi-family starts have not shown the improvement

we earlier expected. Total starts in the fourth quarter this year are projected to be around 15 per cent above recent levels, and are expected to decline modestly thereafter as conditions in the mortgage market tighten.

The staff projection for unemployment has been changed little. We still expect a gradual further decline in the unemployment rate to about 7 per cent late this year and 6-3/4 per cent by mid-1977. As for prices, we continue to expect an average rate of increase in the area of 5-1/2 per cent, annual rate, for the projection period as a whole--about equal to the projected rise in unit labor costs. However, we do expect a smaller increase--probably at about a 5 per cent annual rate--in the gross business product fixed-weighted price index during the current quarter.

STAFF GNP PROJECTIONS

	Per cent change, annual rate							
	Changes in nominal GNP (\$ billions)		Gross business product fixed-weighted price index				Unemployment rate (per cent)	
	5/12/76	6/16/76	Real GNP					
	5/12/76	6/16/76	5/12/76	6/16/76	5/12/76	6/16/76	5/12/76	6/16/76
1972 <u>1/</u>	107.7	107.7	5.7	5.7	3.3	3.3	5.6	5.6
1973 <u>1/</u>	135.2	135.2	5.3	5.3	5.7	5.7	4.9	4.9
1974 <u>1/</u>	100.6	100.6	-1.8	-1.8	9.8	9.8	5.6	5.6
1975 <u>1/</u>	92.0	92.0	-2.0	-2.0	9.1	9.1	8.5	8.5
1976	188.3	186.3	6.7	6.8	5.3	5.4	7.3	7.2
1975-I <u>1/</u>	-7.7	-7.7	-9.2	-9.2	8.1	8.1	8.1	8.1
II <u>1/</u>	27.0	27.0	3.3	3.3	4.5	4.5	8.7	8.7
III <u>1/</u>	67.9	67.9	12.0	12.0	7.6	7.6	8.6	8.6
IV <u>1/</u>	44.4	44.4	5.0	5.0	6.7	6.7	8.5	8.5
1976-I	43.4	46.3	7.5	8.5	3.6	3.6	7.6	7.6
II	47.8	42.0	6.7	5.7	5.5	5.1	7.4	7.3
III	46.6	45.2	5.5	5.3	5.8	5.6	7.2	7.1
IV	46.8	47.5	5.2	5.0	5.4	5.6	7.1	7.0
1977-I	44.7	45.9	5.1	5.0	5.4	5.3	6.9	6.9
II	47.1	45.0	5.1	5.0	5.6	5.4	6.8	6.8
Change:								
74-IV to								
75-IV <u>1/</u>	131.6	131.6	2.5	2.5	6.6	6.6	1.8	1.8
75-II to								
76-II	203.5	200.6	7.7	7.7	5.8	5.9	-1.3	-1.4
75-IV to								
76-IV	184.6	181.0	6.2	6.1	5.0	5.2	-1.4	-1.5
76-II to								
77-II	185.2	183.6	5.2	5.1	5.6	5.5	- .6	- .5

1/ Actual.

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarter figures at annual rates.)

	1975		1976				1977	
	III	IV	I	II	Projected III	IV	I	II
Gross National Product	1528.5	1572.9	1619.2	1661.2	1706.4	1753.9	1799.8	1844.8
Final purchases	1530.6	1574.9	1603.8	1642.7	1686.9	1733.4	1777.3	1820.8
Private	1196.5	1230.1	1234.6	1287.8	1325.3	1362.8	1399.9	1436.9
Excluding net exports	1174.4	1208.4	1246.4	1277.7	1315.3	1352.1	1389.7	1428.0
Personal consumption expenditures	977.4	1001.0	1029.6	1051.6	1079.0	1106.7	1135.7	1164.9
Durable goods	131.8	137.6	145.9	149.4	154.6	159.8	165.8	171.8
Nondurable goods	416.4	423.7	430.8	436.8	446.5	456.5	467.0	478.0
Services	429.2	439.7	452.9	465.4	477.9	490.4	502.9	515.1
Gross private domestic investment	194.9	205.4	232.2	244.6	255.8	265.9	276.5	287.1
Residential construction	50.4	55.4	58.6	62.5	66.5	68.9	70.0	70.1
Business fixed investment	146.7	151.9	158.1	163.6	169.8	176.5	184.0	193.0
Change in business inventories	-2.1	-2.0	15.5	18.5	19.5	20.5	22.5	24.0
Nonfarm	-5.7	-7.5	11.3	15.0	18.5	21.5	23.5	25.0
Net exports of goods and services ^{1/}	22.1	21.7	8.2	10.1	10.0	10.7	10.2	8.9
Exports	148.5	153.8	153.1	160.1	166.1	172.9	178.7	184.3
Imports	126.4	132.1	145.0	150.0	156.1	162.2	168.5	175.4
Gov't. purchases of goods and services	334.1	344.8	349.2	354.9	361.6	370.6	377.4	383.9
Federal	124.2	129.9	131.1	132.2	134.3	138.5	140.4	141.9
Defense	84.9	87.4	87.0	87.1	88.4	91.7	93.0	93.7
Other	39.3	42.5	44.1	45.1	45.9	46.8	47.4	48.2
State and local	209.9	214.8	218.1	222.7	227.3	232.1	237.0	242.0
Gross national product in constant (1972) dollars	1201.5	1216.2	1241.2	1258.4	1274.9	1290.5	1306.3	1322.3
GNP implicit deflator (1972 = 100)	127.2	129.3	130.5	132.0	133.8	135.9	137.8	139.5
Personal income	1261.7	1294.5	1325.2	1356.9	1389.5	1424.0	1458.6	1493.1
Wage and salary disbursements	807.3	830.7	851.5	868.3	889.3	913.2	936.3	957.9
Disposable income	1087.1	1114.0	1140.7	1166.8	1193.6	1222.9	1253.5	1283.0
Personal saving	85.9	88.6	86.2	90.0	89.1	90.4	91.7	91.7
Saving rate (per cent)	7.9	7.9	7.6	7.7	7.5	7.4	7.3	7.1
Corporate profits with I.V.A. and C.C. Adj.	113.1	112.7	121.8	130.7	139.0	147.6	154.9	163.9
Corporate Profits with I.V.A., without C.C. Adj.	119.6	119.3	129.4	138.1	146.2	154.6	161.9	170.7
Corporate profits before taxes	129.5	132.4	140.8	149.2	156.4	164.4	172.8	182.0
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	293.3	302.1	312.2	321.6	332.2	342.4	354.1	363.9
Expenditures	363.8	374.2	381.3	387.6	396.5	406.2	416.5	423.9
Surplus or deficit (-) ^{2/}	-70.5	-72.1	-69.1	-66.0	-64.3	-63.8	-62.4	-60.0
High employment surplus or deficit (-)	-7.6	-7.8	-11.7	-8.6	-7.0	-5.2	-6.5	-3.4
State and local government surplus or deficit (-) (N.I.A. basis)	12.9	11.7	14.5	14.2	16.0	16.4	17.0	16.9
Excluding social insurance funds	1.7	.5	3.2	2.3	3.4	3.1	3.0	2.2
Civilian labor force (millions)	93.1	93.2	93.6	94.5	94.8	95.2	95.6	96.1
Unemployment rate (per cent)	8.6	8.5	7.6	7.3	7.1	7.0	6.9	6.8
Nonfarm payroll employment (millions)	77.0	77.6	78.4	79.1	79.7	80.2	80.7	81.3
Manufacturing	18.3	18.5	18.8	19.0	19.2	19.4	19.6	19.8
Industrial production (1967 = 100)	114.2	117.6	120.7	123.2	125.4	127.6	129.8	132.1
Capacity utilization mfg. (per cent)	69.0	70.7	71.9	73.1	73.8	74.6	75.3	76.1
Major materials (per cent)	78.1	80.4	81.0	83.1	83.8	84.6	85.3	86.0
Housing starts, private (millions, A.R.)	1.26	1.37	1.41	1.50	1.55	1.60	1.55	1.55
Sales new autos, (millions, A.R.)	9.21	9.21	10.03	10.40	10.60	10.80	10.90	11.00
Domestic models	7.52	7.87	8.68	8.90	9.10	9.30	9.35	9.40
Foreign models	1.69	1.34	1.35	1.50	1.50	1.50	1.55	1.60
^{1/} Net exports of g. & s. (Bal. of payments) ^{3/}	17.9	16.9	3.7	3.8	2.5	3.2	1.5	.1
Exports	148.0	153.1	157.0	163.0	163.0	169.8	175.6	181.2
Imports	130.1	136.2	148.0	153.2	160.5	167.5	174.1	181.1

^{2/} Federal government N.I.A. receipts in 1975-II reflects the \$8.1 billion rebate of 1974 individual income taxes and in 1975-III and following quarters the \$9.3 billion reduction in 1975 individual income taxes; the withholding rates associated with the latter reduction are assumed to be continued in 1976.

^{3/} Includes U.S. government interest payments to foreigners and shipments of military equipment and supplies to Israel under cash grant programs; the former is not included in imports and the latter is not included in exports in the GNP accounts.

	1975		1976				1977	
	III	IV	I	II	III	IV	I	II
	-----Billions of Dollars-----							
Gross National Product	67.9	44.4	46.3	42.0	45.2	47.5	45.9	45.0
Inventory change	27.5	.1	17.5	3.0	1.0	1.0	2.0	1.5
Final purchases	40.4	44.3	28.9	38.9	44.2	46.5	43.9	43.5
Private	31.0	33.6	24.5	33.2	37.5	37.5	37.1	37.0
Net exports	-2.1	-.4	-13.5	1.9	-.1	.7	-.5	-1.3
Excluding net exports	33.1	34.0	38.0	31.3	37.6	36.8	37.6	38.3
Personal consumption expenditures	27.1	23.6	28.6	22.0	27.4	27.7	29.0	29.2
Durable goods	8.0	5.8	8.3	3.5	5.2	5.2	6.0	6.0
Nondurable goods	11.6	7.3	7.1	6.0	9.7	10.0	10.5	11.0
Services	7.6	10.5	13.2	12.5	12.5	12.5	12.5	12.2
Residential fixed investment	5.4	5.0	3.2	3.9	4.0	2.4	1.1	.1
Business fixed investment	.6	5.2	6.2	5.5	6.2	6.7	7.5	9.0
Government	9.4	10.7	4.4	5.7	6.7	9.0	6.8	6.5
Federal	5.0	5.7	1.2	1.1	2.1	4.2	1.9	1.5
State and local	4.4	4.9	3.3	4.6	4.6	4.8	4.9	5.0
GNP in constant (1972) dollars	33.4	14.7	25.0	17.2	16.5	15.6	15.9	16.0
Final purchases	13.7	15.4	12.7	15.5	16.1	15.1	14.6	14.8
Private	9.9	12.5	12.6	13.5	14.5	13.9	13.7	13.6
	-----In Per Cent Per Year ^{1/} -----							
Gross National Product	19.9	12.1	12.3	10.8	11.3	11.6	10.9	10.4
Final purchases	11.3	12.1	7.5	10.1	11.2	11.5	10.5	10.2
Private	11.1	11.7	8.2	11.0	12.2	11.8	11.3	11.0
Personal consumption expenditures	11.9	10.0	11.9	8.8	10.8	10.7	10.9	10.7
Durable goods	28.5	18.7	26.5	9.9	14.7	14.1	15.9	15.3
Nondurable goods	11.9	7.2	6.9	5.7	9.2	9.3	9.5	9.8
Services	7.4	10.2	12.5	11.5	11.2	10.9	10.6	10.1
Gross private domestic investment	112.7	23.3	63.3	23.1	19.6	16.8	16.9	16.2
Residential structures	57.5	46.8	25.1	29.4	28.2	15.2	6.5	.6
Business fixed investment	1.7	15.0	17.3	14.7	16.0	16.7	18.1	21.0
Gov't. purchases of goods & services	12.1	13.5	5.3	6.7	7.8	10.3	7.5	7.1
Federal	17.8	19.9	3.6	3.4	6.5	13.1	5.6	4.3
Defense	14.4	12.3	-1.8	.5	6.1	15.8	5.8	3.0
Other	25.9	36.8	15.9	9.4	7.3	8.1	5.2	6.9
State and local	8.9	9.8	6.3	8.7	8.5	8.7	8.7	8.7
GNP in constant (1972) dollars	12.0	5.0	8.5	5.7	5.3	5.0	5.0	5.0
Final purchases	4.7	5.2	4.2	5.1	5.3	4.9	4.6	4.7
Private	4.3	5.4	5.4	5.7	6.1	5.7	5.5	5.4
GNP implicit deflator ^{2/}	7.1	6.8	3.5	4.8	5.7	6.3	5.6	5.1
Gross business product fixed weighted price index ^{3/}	7.6	6.7	3.6	5.1	5.6	5.6	5.3	5.4
Personal income	13.0	10.8	9.8	9.9	10.0	10.3	10.1	9.8
Wage and salary disbursements	10.4	12.1	10.4	8.1	10.0	11.2	10.5	9.6
Disposable income	2.0	10.3	9.9	9.5	9.5	10.2	10.4	9.8
Corporate profits before tax	105.2	9.3	27.9	26.1	20.7	22.1	22.1	23.1
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	89.1	12.6	14.1	12.6	13.9	12.9	14.4	11.5
Expenditures	13.7	11.9	7.8	6.8	9.5	10.2	10.5	7.3
Nonfarm payroll employment	3.2	3.2	4.2	3.6	3.1	2.5	2.5	3.0
Manufacturing	4.5	4.4	6.6	4.3	4.3	4.2	4.2	4.1
Industrial production	14.5	12.5	11.0	8.5	7.4	7.2	7.0	7.3
Housing starts, private	92.3	39.8	12.2	28.1	14.0	13.5	-11.9	.0
Sales new autos	84.7	.0	40.7	15.6	7.9	7.8	3.8	3.7
Domestic models	99.2	20.0	48.0	10.5	9.3	9.1	2.2	2.2
Foreign models	34.3	-60.5	3.0	52.4	.0	.0	14.0	13.5

^{1/} Percentage rates are annual rates compounded quarterly.

^{2/} Excluding Federal pay increases rates of change are: 1975-IV, 6.1 per cent; 1976-I, 3.5 per cent; 1976-IV, 5.8 per cent; 1977-I, 5.5 per cent.

^{3/} Using expenditures in 1972 as weights.

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

	1969	1970	1971	1972	1973	1974	1975	Projected 1976
Gross National Product	935.5	982.4	1063.4	1171.1	1306.3	1406.9	1498.9	1685.2
Final purchases	926.2	978.6	1057.1	1161.7	1288.8	1397.2	1513.5	1666.7
Private	718.3	759.7	823.4	908.6	1018.9	1096.1	1182.3	1307.6
Excluding net exports	716.5	755.8	821.8	911.9	1011.5	1088.4	1161.0	1297.9
Personal consumption expenditures	579.7	618.8	668.2	733.0	808.5	885.9	963.8	1066.7
Durable goods	85.5	84.9	97.1	111.2	122.9	121.9	128.1	152.4
Nondurable goods	247.0	264.7	277.7	299.3	334.4	375.7	409.8	443.7
Services	247.2	269.1	293.4	322.4	351.3	388.3	426.0	471.7
Gross private domestic investment	146.2	140.8	160.0	188.3	220.5	212.2	182.6	249.6
Residential construction	37.9	36.6	49.6	62.0	66.5	54.6	487.7	64.1
Business fixed investment	98.9	100.5	104.1	116.8	136.5	147.9	148.5	167.0
Change in business inventories	9.4	3.8	6.4	9.4	17.5	9.7	-14.6	18.5
Nonfarm	9.2	3.7	5.1	8.8	14.1	11.6	-16.5	16.6
Net exports of goods and services ^{1/}	1.8	3.9	1.6	-3.3	7.4	7.7	21.3	9.8
Exports	54.7	62.5	65.6	72.7	101.5	144.2	147.8	163.1
Imports	52.9	58.5	64.0	75.9	94.2	136.5	126.5	153.3
Gov't. purchases of goods and services	207.9	218.9	233.7	253.1	269.9	301.1	331.2	359.1
Federal	97.5	95.6	96.2	102.1	102.0	111.7	123.2	134.0
Defense	76.3	73.5	70.2	73.5	73.4	77.4	84.0	88.6
Other	21.2	22.1	26.0	28.6	28.6	34.3	39.2	45.5
State and local	110.4	123.2	137.5	151.0	168.0	189.4	208.0	225.1
Gross national product in constant (1972) dollars	1078.8	1075.3	1107.5	1171.1	1233.4	1210.7	1186.1	1266.3
GNP implicit deflator (1972=100)	86.7	91.4	96.0	100.0	105.9	116.2	126.4	133.1
Personal income	745.8	801.3	859.1	942.5	1054.3	1154.7	1245.9	1373.9
Wage and salary disbursements	514.6	546.5	579.4	633.8	701.0	763.6	801.6	880.6
Disposable income	630.4	685.9	742.8	801.3	903.1	983.6	1076.7	1181.0
Personal saving	35.1	50.6	57.3	49.4	72.7	74.0	88.9	88.9
Saving rate (per cent)	5.6	7.4	7.7	6.2	8.0	7.5	8.3	7.6
Corporate profits with I.V.A. and C.C. Adj.	81.4	67.9	77.2	92.1	100.2	91.3	100.3	134.8
Corporate profits with I.V.A., without C.C. Adj.	77.9	66.4	76.9	89.6	98.6	93.6	106.0	142.1
Corporate profits before tax	83.4	71.5	82.0	96.2	117.0	132.1	116.8	152.7
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts ^{2/}	197.0	192.1	198.6	227.5	257.9	288.4	282.3	327.1
Expenditures	188.4	204.2	220.6	244.7	264.8	300.1	356.9	392.9
Surplus or deficit (-) ^{2/}	8.5	-12.1	-22.0	-17.3	-6.9	-11.7	-74.6	-65.8
High employment surplus or deficit (-)	13.4	6.5	-1.7	-1.0	4.3	18.0	-10.0	-8.1
State and local government surplus or deficit (-) (N.I.A. basis)	2.1	2.8	3.7	13.7	12.9	8.1	9.8	15.3
Excluding social insurance funds	-3.7	-4.0	-3.8	5.6	4.1	-1.7	-1.3	3.0
Civilian labor force (millions)	80.7	82.7	84.1	86.5	88.7	91.0	92.6	94.5
Unemployment rate (per cent)	3.5	4.9	5.9	5.6	4.9	5.6	8.5	7.3
Nonfarm payroll employment (millions)	70.4	70.9	71.2	73.7	76.9	78.4	77.0	79.4
Manufacturing	20.2	19.3	18.6	19.1	20.1	20.0	18.3	19.1
Industrial production (1967=100)	110.7	106.6	106.8	115.2	125.6	124.8	113.8	124.2
Capacity utilization, mfg. (per cent)	86.5	78.3	75.0	78.6	83.0	78.9	68.7	73.4
Major materials (per cent)	90.0	86.2	85.3	89.6	93.0	87.0	74.9	83.2
Housing starts, private (millions, A.R.)	1.47	1.43	2.05	2.36	2.05	1.34	1.16	1.52
Sales new autos (millions, A.R.)	9.57	8.40	10.24	10.93	11.44	8.87	8.66	10.46
Domestic models	8.46	7.12	8.68	9.32	9.67	7.45	7.08	9.00
Foreign models	1.11	1.28	1.56	1.61	1.77	1.42	1.58	1.46

^{1/} Net exports of g. & s. (Bal. of paymts)^{3/}

	1969	1970	1971	1972	1973	1974	1975	1976
Exports	54.7	62.4	65.5	72.6	102.1	144.4	147.5	160.4
Imports	53.6	59.5	65.8	78.5	97.9	140.6	131.0	157.3

^{2/} Federal government N.I.A. receipts in 1975-II reflect the \$8.1 billion rebate of 1974 individual income taxes and in 1975-III and following quarters the \$9.3 billion reduction in 1975 individual income taxes; the withholding rates associated with the latter reduction are assumed to be continued in 1976.

^{3/} Includes U.S. government interest payments to foreigners and shipments of military equipment and supplies to Israel under cash grant programs; the former is not included in imports and the latter is not included in exports in the GNP accounts.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1969	1970	1971	1972	1973	1974	1975	Projected 1976
----- Billions of Dollars -----								
Gross National Product	67.0	46.9	81.0	107.7	135.2	100.6	92.0	186.3
Inventory change	1.7	-5.6	2.6	3.0	8.1	-7.8	-24.3	33.1
Final purchases	65.4	52.4	78.3	104.6	127.1	108.4	116.3	153.2
Private	56.2	41.4	63.7	85.2	110.3	77.2	86.2	125.3
Net exports	-5	2.1	-2.3	-4.9	10.7	.3	13.6	-11.5
Excluding net exports	56.7	39.3	66.0	90.1	99.6	76.9	72.6	136.9
Personal consumption expenditures	43.8	39.1	49.4	64.8	75.5	77.4	77.9	102.9
Durable goods	5.5	-4.6	12.2	14.1	11.7	-1.0	6.2	24.3
Nondurable goods	16.6	17.7	13.0	21.6	35.1	41.3	34.1	32.9
Services	21.6	21.9	24.3	29.0	28.9	37.0	37.7	45.7
Residential fixed investment	3.4	-1.3	13.0	12.4	4.5	-11.9	-5.9	15.4
Business fixed investment	9.6	1.6	3.6	12.7	19.7	11.4	.6	18.5
Government	9.2	11.0	14.8	19.4	16.8	31.2	30.1	27.9
Federal	-5	-1.9	.6	5.9	-.1	9.7	11.5	10.8
State and local	9.7	12.8	14.3	13.5	17.0	21.4	18.6	17.1
GNP in constant (1972) dollars	27.0	-3.5	32.2	63.6	62.3	-22.7	-24.6	80.2
Final purchases	25.1	2.8	29.9	60.8	55.4	-14.3	-6.4	57.4
Private	27.6	9.3	30.7	57.1	56.2	-16.1	-9.7	50.7
----- In Per Cent Per Year -----								
Gross national product	7.7	5.0	8.2	10.1	11.5	7.7	6.5	12.4
Final purchases	7.6	5.7	8.0	9.9	10.9	8.4	8.3	10.1
Private	8.5	5.8	8.4	10.3	12.1	7.6	7.9	10.6
Personal consumption expenditures	8.2	6.7	8.0	9.7	10.3	9.6	8.8	10.7
Durable goods	6.9	-7	14.4	14.5	10.5	-.8	5.0	19.0
Nondurable goods	7.2	7.2	4.9	7.8	11.7	12.4	9.1	8.0
Services	9.6	8.9	9.0	9.9	9.0	10.5	9.7	10.7
Gross private domestic investment	11.2	-3.7	13.6	17.7	17.1	-3.7	-13.9	36.7
Residential structures	9.9	-3.4	35.5	25.0	7.3	-17.9	-10.7	31.6
Business fixed investment	10.8	1.6	3.6	12.2	16.9	8.4	.4	12.5
Gov't. purchases of goods & services	4.6	5.3	6.8	8.3	6.6	11.5	10.0	8.4
Federal	-5	-1.9	.6	6.1	.1	9.5	10.3	8.8
Defense	-8	-3.7	-4.5	4.7	-.1	5.4	8.5	5.5
Other	.0	4.2	17.6	10.0	.0	19.9	14.3	16.1
State and local	9.6	11.6	11.6	9.8	11.3	12.8	9.8	8.2
GNP in constant (1972) dollars	2.6	-.3	3.0	5.7	5.3	-1.8	-2.0	6.8
Final purchases	2.4	.3	2.8	5.5	4.8	-1.2	-.5	4.8
Private	3.5	1.1	3.7	6.7	6.2	-1.7	-1.0	5.4
GNP implicit deflator	5.0	5.4	5.1	4.1	5.9	9.7	8.8	5.3
Gross business product fixed weighted price index ^{1/}	4.7	4.4	4.4	3.3	5.7	9.8	9.1	5.5
Personal income	8.8	7.4	7.2	9.7	11.9	9.5	7.9	10.3
Wage and salary disbursements	9.6	6.2	6.0	9.4	10.6	8.9	5.0	9.9
Disposable income	7.2	8.8	8.3	7.9	12.7	8.9	9.5	9.7
Corporate profits before tax	-2.6	-14.3	14.7	17.3	21.6	12.9	-11.6	30.7
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	12.8	-2.5	3.4	14.6	13.4	11.8	-2.1	15.9
Expenditures	4.3	8.4	8.0	10.9	8.2	13.3	18.9	10.1
Nonfarm payroll employment	3.5	.7	.4	3.5	4.3	2.0	-1.8	3.1
Manufacturing	2.0	-4.5	-3.6	2.7	5.2	.5	-8.5	4.4
Industrial production	4.7	-3.7	.2	7.9	9.0	-.6	-8.8	9.1
Housing starts, private	-2.6	-2.7	43.4	15.1	-13.1	-34.6	-13.4	31.0
Sales new autos	-.7	-12.2	21.9	6.7	4.7	-22.5	-2.4	20.8
Domestic models	-1.9	-15.8	21.9	7.4	3.8	-23.0	-5.0	27.1
Foreign models	8.8	15.3	21.9	3.2	9.9	-19.8	11.3	-7.6

^{1/} Using expenditures in 1972 as weights.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Following appreciable increases in both short-and long-term interest rates from late April to early June, short-term rates have since fluctuated in a narrow range, while bond yields have edged down. More recently, market participants seem to have been encouraged by signs of moderation in economic activity, reduced growth in the monetary aggregates, and the stability in the Federal funds rate.

At current levels, yields on most short-term securities are about 10 to 50 basis points above their levels at the time of the mid-May meeting of the Committee--with private rates registering the largest gains--and long-term yields are little changed on balance.

Demands for credit in long-term markets have remained rather strong in recent weeks. State and local governments borrowed a record volume of funds in the bond market in May, and the calendar is large this month as well. An appreciable portion of the offerings apparently represents restructuring of debt, as issuance of short-term municipal notes has been noticeably light. In the corporate bond market, offerings in May were a little less than the large volume earlier this year but the June calendar has bulged. Some of the offerings scheduled this month are issues temporarily postponed in May at the time of rising interest rates. Demands for funds in the private placement market are reportedly very strong, and stock offerings are running at record levels.

In short- and intermediate-term markets, Treasury demands for credit have eased in recent weeks, as expenditures have been running somewhat below expectations. However, business demands for short-term credit increased somewhat in the commercial paper market and at banks during May. The spread between the paper rate and bank prime rates remained unusually wide--although less than in April--as prime rates were increased in two steps to 7-1/4 per cent, an increase of one-half percentage point.

The general rise in interest rates and the moderate strengthening of demand for business credit have induced a number of changes in bank liabilities. Growth in savings accounts slowed considerably in May and net outflows occurred in early June as businesses, governmental units, and consumers apparently directed their funds to higher yielding market instruments. However, with savings flows weak, and possibly in anticipation of higher interest rates and strengthening loan demands, banks began to raise funds through issuance of negotiable CD's.

At thrift institutions, the latest data indicate only slightly reduced rates of deposit inflow. Takedowns of mortgage commitments have been large, however, and S&L's cut back on their repayments of advances to FHL Banks and experienced a little reduction in their liquidity positions during May. Rates in the primary and secondary mortgage markets drifted up a bit further in late May but most recently, primary market rates have edged higher while those in the secondary market have edged off from their recent highs.

Outlook. Further growth in capital outlays and inventory investment is expected to generate increased demands by businesses for external financing. Although business credit demands are likely to remain focused on long-term debt and equity markets, demands for credit at banks and in the commercial paper market are expected to rise moderately over the course of the summer. Demands by consumers for mortgage and consumer credit are also expected to expand further. However, the growth in consumer credit is likely to be less exuberant than early this year, due to moderation of consumer expenditures and perhaps also reflecting some adverse impact of the FTC rule on holder in due course.

Borrowing by the Treasury is expected to increase after mid-year and may aggregate about \$15-20 billion during the third quarter. Municipal governments are expected to continue issuing large volumes of bonds--apart from the usual lull later in the summer--but to continue to limit their demands for shorter-term credit.

With further expansion in credit demands, and assuming moderate growth in monetary aggregates, interest rates are likely to come under some additional upward pressure as the summer progresses. However, staff projections of GNP growth and of associated credit demands have been reduced somewhat, so that rate pressures may be a little less than anticipated at the time of the last FOMC meeting. Nevertheless, market rate levels, at least by late summer, may be high enough to begin significantly affecting net inflows of savings funds to banks and

thrift institutions. Banks are likely to begin bidding somewhat more aggressively for funds in the CD market to satisfy their requirements. At thrift institutions, deposit flows, repayment flows and funds from drawing down liquid assets should be sufficient to meet continued large extensions of mortgage credit, although mortgage lending terms and conditions may begin to tighten.

INTERNATIONAL DEVELOPMENTS

Summary. Over the past five weeks, attention in the exchange markets has focussed primarily on the pound sterling and the Swiss franc. On a trade-weighted basis the dollar appreciated by 1 per cent over the period. The appreciation was against all major currencies except the Canadian dollar and the Swiss franc with the dollar reaching peak in early June. An important contributing factor was the rise in U.S. interest rates relative to interest rates abroad.

The decline of the British pound reached the \$1.71-per-pound level on Friday, June 4--15 per cent below its level of three months earlier. The pound rebounded to \$1.77 on June 7 after the announcement of a \$5.3 billion package of six-month standby credits from the G-10 countries, Switzerland and the BIS.

The market was apparently waiting uncertainly for the British authorities to take decisive action to modify their domestic economic policies. With the favorable vote by the Trades Union Congress on June 16 on the 4-1/2 per cent average limit on wage increases, the scope for changes in British policies is increased.

At the other extreme the Swiss franc appreciated by a further 5 per cent against the U.S. dollar from mid-May to early June.

The U.S. trade deficit in April was \$5.4 billion (seasonally adjusted annual rate, balance-of-payments basis), lower than in March and about the same rate as in the first quarter of this year. Non-fuel imports declined from their high rate in March, while non-agricultural exports rose somewhat from their depressed levels early in the year. Bank-reported private capital transactions recorded a \$3 billion net inflow in April compared with a \$2 billion net outflow in March. However, this swing reflected primarily normal weekend reserve-management transactions by banks that coincided with the reporting date at the end of April, rather than a fundamental shift in banks' foreign lending or borrowing policies. Private transactions in securities generated a net outflow of \$1/4 billion in April, half the average monthly rate in the first quarter, mainly because the volume of new Canadian bond issues declined sharply from the extraordinary first-quarter peak.

Complete data for the first quarter show a rise to \$10 billion in the volume of new issues of Euro-bonds and foreign bonds from \$6 billion in the fourth quarter of last year and \$22 billion for all of 1975. The increase was largely accounted for by issues on the Euro-bond market especially by international institutions--in particular by the European Community and the World Bank--and by heavy Canadian borrowing in the U.S. market. Partial data indicate a reduction in

borrowing on these markets in April and May. Over the first quarter, publicized new Euro-currency credits declined; the reduction was concentrated in credits to non-oil developing countries.

The first IMF gold auction was held on June 2. The entire 730,000 ounces that was offered was sold at a common price of \$126 per ounce. The average price on accepted bids was \$126.93 per ounce compared with the price at the second London fixing on June 2 of \$126.90 per ounce. (On June 16, the price was \$125.00.) The market was apparently unaffected by subsequent press reports that the BIS had successfully bid for 162,000 ounces including the 33,000 ounces that France announced the Bank of France had bought through the BIS. The next IMF gold auction has been tentatively scheduled for July 14.

Outlook. Real GNP in the six major foreign industrial countries in 1976 is now expected to average nearly 5 per cent higher than in 1975 with the most rapid expansion having occurred in the early part of this year as inventory liquidation ended and consumer confidence increased. However, current projections anticipate a slowing of the rate of growth in the second half of 1976, absolutely and in comparison with previous cyclical upturns, followed by some acceleration in 1977, when investment demand is expected to pick up.

The outlook for the U.S. trade balance and net exports of goods and services is essentially unchanged from that presented in last month's green book. The trade deficit is expected to increase by \$5 billion to an annual rate of about \$11 billion in mid-1977. The rise

in the value of U.S. fuel imports in response to the rise in U.S. consumption, the decline in U.S. oil production, and an anticipated OPEC price rise is expected to more than offset a fairly strong increase in U.S. exports over the next five quarters. We now anticipate that a \$1-per-barrel OPEC price rise will take effect in early 1977 rather than in late 1976; therefore, the increase in the U.S. trade deficit is concentrated at the end of the forecast period.