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July 14, 1976

SUMMARY AND OUTLOOK

By the Staff
Board of Governors
of the Federal Reserve System

SUMMARY AND OUTLOOK

DOMESTIC NONFINANCIAL DEVELOPMENTS

<u>Summary</u>. The advance of business activity has slowed over the past several months, but may soon be picking up again. A temporary weakness in consumer demand, particularly for nondurables, occurred at a time when some back-up in stocks of nondurable goods was already under way. The rise in industrial production therefore slowed, and so did growth in employment. Retail sales rebounded vigorously in June, however, and with inventories not significantly out of line with sales, renewed expansion of consumer spending--together with the increasing strength of business capital outlays--should be transmitted rather promptly to industrial activity and employment.

Industrial production is estimated to have risen by only 0.3 per cent in June. Output of consumer nondurables and nondurable materials remained essentially unchanged, but production of durable materials rose strongly, and business equipment continued to advance. Auto assemblies increased by 1.9 per cent and are scheduled to expand further in coming months. There is still no indication that assemblies have been affected by the rubber strike. Total industrial production during the second quarter averaged 1.8 per cent above the first quarter level, compared with a 3 per cent increase from the fourth quarter to the first.

The moderating pace of industrial expansion has led to considerable easing in the demand for labor. Nonfarm payroll employment has shown virtually no change over the past two months--with a loss of about 50,000 jobs in nondurable manufacturing (adjusted for the effects of the rubber strike) and moderating growth in durable goods employment.

The official seasonally adjusted unemployment rate rose 0.2 per cent to 7.5 per cent in June. Although reduced employment played a part, the major factor in the rise appeared to be problems of seasonal adjustment which bias the jobless rate downward earlier this year and upward in June and in the third quarter. The underlying trend appears to be a slow but steady decline in unemployment since last February.

Advance data indicate that the June rebound of retail sales (2.7 per cent) more than offset the May decline of 2.1 per cent. Sales at auto outlets were particularly strong in June; even excluding autos, however, the advance in retail sales was more than 2 per cent. Increases were widespread, including all major nondurable components. Revised April figures for total retail sales now indicate an increase of 3/4 per cent rather than a slight decline. Second quarter retail sales were 1.7 per cent above the first quarter level, compared with a 3.3 per cent rise between the fourth and first quarters.

Unit sales of domestic-type cars picked up to a 9.1 million annual rate in June from 8-1/2 million in May. Month-to-month movements in sales tend to be erratic; on average, unit sales have been running at an 8-3/4 million annual rate so far this year.

Prospects for business capital expenditures continue generally favorable. In addition to recent increases in production of business equipment, new orders for nondefense capital goods rose 1.6 per cent further in May to a level 23 per cent above their cyclical trough; unfilled orders increased for the first time in 1-1/2 years. Commercial and industrial construction activity remains quite depressed, however.

Inventory accumulation apparently picked up again in May. The book value of manufacturing stocks rose by $12-1/2 billion annual rate, after declining slightly in April. Increases occurred in both durables and nondurables--the latter rise may have been partially unintended, reflecting the recent temporary weakness in consumer demands for non-durables. The book value of wholesale inventories also rose briskly in May--by almost $10 billion, annual rate--and retail inventories may also have risen substantially, given the sharp decline of retail sales that month.

Residential construction activity continues to advance slowly. Private housing starts rose by only 2-1/2 per cent in May to a 1.42 million annual rate, and it now appears that for the second quarter as a whole starts will average only slightly above the first quarter rate of 1.4 million. The increase in May was in the multifamily category, where the level of activity remains quite low. Residential building permits rose moderately in May. Sales of existing homes were about unchanged in May, while new homes sold--an erratic series--dropped sharply.

Wage and price developments continue to be quite heartening. The hourly earnings index rose at an annual rate of only 3.3 per cent in June, and at a 6.3 per cent rate for the second quarter as a whole. Wholesale prices increased by 0.4 per cent in June (5.3 per cent annual rate). Farm products and foods rose 0.4 per cent, less than in the past two months. Industrial commodity prices rose 0.5 per cent. This is the largest increase so far this year, but the step-up largely reflected recent increases in prices for steel mill products and gasoline. Excluding energy items, industrial prices rose at a 3.6 per cent annual rate in the past three months, compared to 6.1 per cent during the first quarter. The rise of consumer prices accelerated to 0.6 per cent in May; prices increased for food and energy items, which had earlier been declining.

Outlook. The staff estimate of real GNP growth in the second quarter has been trimmed somewhat further, to a 5 per cent annual rate. The deceleration from the high first-quarter rate of expansion mainly reflects smaller gains in consumer spending and an apparent leveling out of inventory investment--which earlier had been increasing strongly.

The staff expects that gains in industrial activity and employment will pick up soon from the relatively slow pace in June. We still anticipate a fairly good rate of real GNP growth--a little above 5 per cent--to be maintained later this year. Our present projection extends through the end of 1977, and we see no reason at this time why a real GNP growth rate of around 5 per cent should not continue throughout next year.

Our monetary policy assumption entails an annual growth rate of 5-3/4 per cent for M_1 during the projection period. The base period from which this growth rate begins, however, has been shifted forward to the second quarter of 1976. Since M_1 growth in that quarter exceeded the longer-range target, the stock of M_1 is projected now to reach a somewhat higher level by the middle of next year than we had previously assumed. This, combined with recent continued sluggishness in money demand, has resulted in a more moderate projected rise in short-term interest rates. Upward pressures on short-term rates may not materialize until late summer, but the rise in these rates thereafter is expected to continue well into 1977. Long-term rates, on the other hand, are projected to increase relatively little from present levels.

Our fiscal policy assumptions are essentially unchanged from a month ago--except for small downward adjustments in projected transfer payments and interest costs.

The main contours of our GNP projection have been changed little since the last Greenbook. We continue to expect settlement of the rubber strike before scarcities begin to affect production of autos and trucks significantly. Mainly as a result of rising real incomes, real consumer spending is projected to rise rather steadily, at an annual rate of around 5 per cent. In addition, the personal savings rate, which is estimated to have edged up to 7.8 per cent last quarter, is projected to decline gradually to around 7 per cent by late 1977. The other major source of strength is expected to come from business fixed capital spending, which we believe will be rising strongly later this year and throughout 1977.

Other major sectors of domestic demand are expected to make only a moderate contribution to economic expansion. Inventory investment is projected to rise somewhat further to a rate that would imply approximate stability in inventory-sales ratios, adjusted for price changes. Housing starts are expected to rise moderately further from recent levels over the second half of this year, but then to weaken in response to financial constraints. Exports of goods and services are expected to rise substantially--but no faster than the volume of imports, so that net exports would remain relatively unchanged over the next six quarters.

A 5 per cent rate of real GNP growth would imply further gradual improvement in labor markets. Thus, the unemployment rate is projected to decline to about 6-3/4 per cent by mid-1977 and to 6-1/2 per cent by the close of next year.

We continue to be relatively optimistic about the prospects for avoiding a new wave of inflation as the recovery proceeds. Our projection of the rate of price advance over the next year has been shaded downward--to an over-all rate of increase of around 5-1/4 per cent. By the second half of 1977, the advance in the fixed-weighted price index for gross business product is projected to slow a bit further to a 5 per cent annual rate.

This projection for prices allows for a somewhat higher rate of wage increase than has occurred so far in 1976. We expect the rise in compensation per manhour to average 8 per cent, at an annual rate, over the next 6 quarters. This would seem consistent with a rise in unit labor costs of around 5 per cent, annual rate. Our projected increase in prices of a little over 5 per cent, annual rate, yields a rise in aggregate corporate profits before taxes (adjusted for IVA and capital consumption allowances) of approximately one-third over the projection period. This compares favorably with the rate of rise during comparable periods of earlier cyclical expansions.

Additional data on the staff projection are shown in the tables that follow.

STAFF GNP PROJECTIONS

	Changes in nominal GNP ($ billions)		Per cent change, annual rate: Real GNP		Per cent change, annual rate: Gross business product fixed-weighted price index		Unemployment rate (per cent)	
	6/16/76	7/14/76	6/16/76	7/14/76	6/16/76	7/14/76	6/16/76	7/14/76
1973 1/	135.2	135.2	5.3	5.3	5.7	5.7	4.9	4.9
1974 1/	100.6	100.6	-1.8	-1.8	9.8	9.8	5.6	5.6
1975 1/	92.0	92.0	-2.0	-2.0	9.1	9.1	8.5	8.5
1976	186.3	185.3	6.8	6.7	5.4	5.4	7.2	7.4
1977		182.8		5.1		5.2		6.7
1975-III 1/	67.9	67.9	12.0	12.0	7.6	7.6	8.6	8.6
IV 1/	44.4	44.4	5.0	5.0	6.7	6.7	8.5	8.5
1976-I	46.3	47.5	8.5	8.7	3.6	3.6	7.6	7.6
II	42.0	40.0	5.7	5.0	5.1	5.0	7.3	7.4
III	45.2	44.0	5.3	5.4	5.6	5.3	7.1	7.3
IV	47.5	47.0	5.0	5.2	5.6	5.3	7.0	7.1
1977-I	45.9	45.5	5.0	5.1	5.3	5.3	6.9	6.9
II	45.0	43.8	5.0	5.0	5.4	5.1	6.8	6.8
III		49.1		5.2		5.0		6.6
IV		50.6		5.0		5.0		6.5
change:								
75-II to 76-II	200.6	199.8	7.7	7.6	5.9	5.8	-1.4	-1.3
75-IV to 76-IV	181.0	178.5	6.1	6.1	5.2	5.0	-1.5	-1.4
76-II to 77-II	183.6	180.3	5.1	5.2	5.5	5.3	-.5	-.6
76-IV to 77-IV		189.0		5.1		5.1		-.6

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.)

	1976				1977			
		Projected						
	I	II	III	IV	I	II	III	IV
Gross National Product	1620.4	1660.4	1704.4	1751.4	1796.9	1840.7	1889.8	1940.4
Final purchases.	1604.9	1642.9	1685.9	1731.9	1775.4	1817.7	1866.3	1915.4
Private	1255.7	1287.6	1323.2	1359.9	1395.8	1431.2	1472.3	1511.1
Excluding net exports	1246.4	1275.6	1311.9	1347.8	1384.3	1420.7	1458.0	1495.3
Personal consumption expenditures	1029.6	1050.6	1077.4	1104.4	1132.4	1160.9	1189.9	1218.9
Durable goods	145.9	149.4	153.7	158.7	163.7	169.2	174.7	180.2
Nondurable goods	430.8	435.3	445.3	454.8	464.8	474.8	484.8	494.8
Services	452.9	465.9	478.4	490.0	503.9	516.9	530.4	543.9
Gross private domestic investment	232.2	242.5	253.0	262.9	273.4	282.8	296.6	301.4
Residential construction	58.6	61.9	65.7	68.4	69.9	70.3	70.6	70.4
Business fixed investment	158.1	163.1	168.8	175.0	182.0	189.5	197.5	206.0
Change in business inventories	15.5	17.5	18.5	19.5	21.5	23.0	23.5	25.0
Nonfarm	11.3	14.5	17.5	20.5	22.5	24.0	24.5	25.0
Net exports of goods and services 1/	9.3	12.0	11.3	12.1	11.5	10.5	14.3	15.8
Exports	154.2	161.3	166.6	173.8	180.4	186.5	192.0	196.9
Imports	144.9	149.3	155.3	161.7	168.9	176.0	177.7	181.1
Gov't. purchases of goods and services	349.2	355.3	362.7	372.0	379.6	386.5	394.0	404.3
Federal	131.1	132.2	134.3	138.2	140.3	141.9	143.9	148.6
Defense	87.0	87.5	88.4	91.5	93.0	93.7	95.1	99.0
Other	44.1	44.7	45.9	46.7	47.3	48.2	48.8	49.6
State and local	218.1	223.1	228.4	233.8	239.3	244.6	250.1	255.7
Gross national product in constant (1972) dollars	1241.8	1257.1	1273.8	1290.0	1306.1	1322.0	1399.0	1355.3
GNP implicit deflator (1972=100)	130.5	132.1	133.8	135.8	137.6	139.2	141.1	143.2
Personal income	1325.2	1358.0	1390.6	1423.8	1458.3	1491.0	1527.2	1562.8
Wage and salary disbursements	851.5	871.3	893.4	917.5	941.3	963.1	986.4	1013.0
Disposable income	1140.7	1167.4	1194.0	1221.9	1252.0	1279.5	1309.9	1339.2
Personal saving	86.2	91.6	91.1	91.7	93.5	92.2	93.3	93.3
Saving rate (per cent)	7.6	7.8	7.6	7.5	7.5	7.2	7.1	7.0
Corporate profits with I.V.A. and C.C. Adj.	123.9	126.4	133.4	141.1	146.2	152.7	161.1	168.1
Corporate profits with I.V.A. without C.C. Adj.	131.4	133.8	140.6	148.1	153.2	159.5	167.9	174.9
Corporate profits before taxes	142.8	144.9	150.8	157.9	164.1	170.8	179.2	186.2
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	312.7	320.4	330.8	340.6	351.8	360.5	371.5	382.4
Expenditures	381.3	384.7	394.9	404.3	414.4	421.4	431.8	440.3
Surplus or deficit (-) 2/	-68.6	-64.3	-64.1	-63.7	-62.5	-60.9	-60.3	-57.9
High employment surplus or deficit (-)	-11.7	-5.0	-4.9	-3.4	-4.7	-.8	-.3	3.5
State and local government surplus or deficit (-) (N.I.A. basis)	14.5	12.8	13.9	13.9	14.0	13.8	14.1	13.8
Excluding social insurance funds	3.3	.9	1.3	.6	.0	-.9	-1.3	-2.3
Civilian labor force (millions)	93.6	94.5	94.8	95.2	95.6	96.1	96.5	97.1
Unemployment rate (per cent)	7.6	7.4	7.3	7.1	6.9	6.8	6.6	6.5
Nonfarm payroll employment (millions)	78.4	79.0	79.5	80.0	80.6	81.2	81.8	82.4
Manufacturing	18.8	18.9	19.0	19.2	19.3	19.5	19.7	19.8
Industrial production (1967 = 100)	127.0	129.3	131.5	133.8	135.8	137.9	140.0	142.0
Capacity utilization mfg. (per cent)	71.9	72.5	73.2	73.9	74.5	75.1	75.6	76.1
Materials (per cent)	78.9	80.4	81.1	81.9	82.4	82.9	83.4	83.9
Housing starts, private (millions, A.R.)	1.41	1.45	1.50	1.55	1.53	1.53	1.50	1.50
Sales new autos, (millions, A.R.)	9.99	10.34	10.40	10.60	10.85	11.00	11.05	11.15
Domestic models	8.68	8.90	8.90	9.10	9.30	9.40	9.45	9.50
Foreign models	1.31	1.44	1.50	1.50	1.55	1.60	1.60	1.65

1/ Net exports of g. & s. (Bal. of paymts) 3/	3.9	6.7	5.4	5.2	4.0	2.8	6.6	8.1
Exports	154.1	161.2	166.5	173.7	180.3	186.4	191.9	196.8
Imports	150.2	154.5	161.1	168.5	176.3	183.6	185.3	188.7

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.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1976				1977			
		Projected						
	I	II	III	IV	I	II	III	IV
	Billions of Dollars							
Gross National Product	47.5	40.0	44.0	47.0	45.5	43.8	49.1	50.6
Inventory change	17.5	2.0	1.0	1.0	2.0	1.5	.5	1.5
Final purchases	30.0	38.0	43.0	46.0	43.5	42.3	48.6	49.1
Private	25.6	31.9	35.6	36.7	35.9	35.4	41.1	38.8
Net exports	-12.4	2.7	-.7	.8	-.6	-1.0	3.8	1.5
Excluding net exports	38.0	29.2	36.3	35.9	36.5	36.4	37.3	37.3
Personal consumption expenditures	28.6	21.0	26.8	27.0	28.0	28.5	29.0	29.0
Durable goods	8.3	3.5	4.3	5.0	5.0	5.5	5.5	5.5
Nondurable goods	7.1	4.5	10.0	9.5	10.0	10.0	10.0	10.0
Services	13.2	13.0	12.5	12.5	13.0	13.0	13.5	13.5
Residential fixed investment	3.2	3.3	3.8	2.7	1.5	.4	.3	-.2
Business fixed investment	6.2	5.0	5.7	6.2	7.0	7.5	8.0	8.5
Government	4.4	6.1	7.4	9.3	7.6	6.9	7.5	10.3
Federal	1.2	1.1	2.1	3.9	2.1	1.6	2.0	4.7
State and local	3.3	5.0	5.3	5.4	5.5	5.3	5.5	5.6
GNP in constant (1972) dollars	25.6	15.3	16.6	16.2	16.2	15.9	17.0	16.3
Final purchases	13.3	14.2	15.8	15.5	15.0	14.2	17.3	15.3
Private	13.2	13.0	14.0	14.1	13.5	13.1	16.0	14.3
	In Per Cent Per Year 1/							
Gross National Product	12.6	10.2	11.0	11.5	10.8	10.1	11.1	11.1
Final purchases	7.8	9.8	10.9	11.4	10.4	9.9	11.1	10.9
Private	8.6	10.6	11.5	11.6	11.0	10.5	12.0	11.0
Personal consumption expenditures	11.9	8.4	10.6	10.4	10.5	10.5	10.4	10.1
Durable goods	26.5	9.9	12.0	13.7	13.2	14.1	13.6	13.2
Nondurable goods	6.9	4.2	9.5	8.8	9.1	8.9	8.7	8.5
Services	12.5	12.0	11.2	10.9	11.0	10.7	10.9	10.6
Gross private domestic investment	63.3	19.0	18.5	16.6	17.0	14.5	13.0	14.1
Residential structures	25.1	24.5	26.9	17.5	9.1	2.3	1.7	-1.1
Business fixed investment	17.3	13.3	14.7	15.5	17.0	17.5	18.0	18.4
Gov't. purchases of goods & services	5.3	7.2	8.6	10.7	8.4	7.5	8.0	10.9
Federal	3.6	3.4	6.5	12.1	6.2	4.6	5.8	13.7
Defense	-1.8	2.3	4.2	14.8	6.7	3.0	6.1	17.4
Other	15.9	5.6	11.2	7.2	5.2	7.8	5.1	6.7
State and local	6.3	9.5	9.8	9.8	9.7	9.2	9.3	9.3
GNP in constant (1972) dollars	8.7	5.0	5.4	5.2	5.1	5.0	5.2	5.0
Final purchases	4.4	4.7	5.2	5.0	4.8	4.5	5.4	4.7
Private	5.6	5.5	5.8	5.8	5.4	5.2	6.3	5.6
GNP implicit deflator 2/	3.6	5.0	5.3	6.0	5.4	4.9	5.6	5.9
Gross business product fixed weighted price index 3/	3.6	5.0	5.3	5.3	5.3	5.1	5.0	5.0
Personal income	9.8	10.3	10.0	9.9	10.1	9.3	10.1	9.7
Wage and salary disbursements	10.4	9.6	10.5	11.2	10.8	9.6	10.0	11.2
Disposable income	9.9	9.7	9.4	9.7	10.2	9.1	9.8	9.3
Corporate profits before tax	35.3	6.0	17.3	20.2	16.7	17.4	21.2	16.6
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	14.8	10.2	13.6	12.4	13.8	10.3	12.8	12.3
Expenditures	7.8	3.6	11.0	9.9	10.4	6.9	10.2	8.1
Nonfarm payroll employment	4.2	3.1	2.6	2.5	3.0	3.0	3.0	3.0
Manufacturing	6.6	2.1	2.1	4.3	2.1	4.2	4.2	2.0
Industrial production	12.6	7.4	7.1	6.9	6.2	6.4	6.2	5.8
Housing starts, private	12.2	11.8	14.5	14.0	-5.1	.0	-7.6	.0
Sales new autos	38.4	14.8	2.3	7.9	9.8	5.6	1.8	3.7
Domestic models	48.0	10.5	.0	9.3	9.1	4.4	2.1	2.1
Foreign models	-8.7	46.0	17.7	.0	14.0	13.5	.0	13.1

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, 5.5 per cent; 1977-I, 5.3 per cent; 1977-IV, 5.3 per cent.

3/ Using expenditures in 1972 as weights.

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

							Projected	
	1970	1971	1972	1973	1974	1975	1976	1977
Gross National Product	982.4	1063.4	1171.1	1306.3	1406.9	1498.9	1684.2	1867.0
Final purchases	978.6	1057.1	1161.7	1288.8	1397.2	1513.5	1666.4	1843.7
Private	759.7	823.4	908.6	1018.9	1096.1	1182.3	1306.6	1452.6
Excluding net exports	755.8	821.8	911.9	1011.5	1088.4	1161.0	1295.4	1439.6
Personal consumption expenditures	618.8	668.2	733.0	808.5	885.9	963.8	1065.5	1175.5
Durable goods	84.9	97.1	111.2	122.9	121.9	128.1	151.9	172.0
Nondurable goods	264.7	277.7	299.3	334.4	375.7	409.8	441.6	479.8
Services	269.1	293.4	322.4	351.3	388.3	426.0	472.0	523.8
Gross private domestic investment	140.8	160.0	188.3	220.5	212.2	182.6	247.7	287.3
Residential construction	36.6	49.6	62.0	66.5	54.6	48.7	63.7	70.3
Business fixed investment	100.5	104.1	116.8	136.5	147.9	148.5	166.3	193.8
Change in business inventories	3.8	6.4	9.4	17.5	9.7	-14.6	17.8	23.3
Nonfarm	3.7	5.1	8.8	14.1	11.6	-16.5	16.0	24.0
Net exports of goods and services1/	3.9	1.6	-3.3	7.4	7.7	21.3	11.2	13.0
Exports	62.5	65.6	72.7	101.5	144.2	147.8	164.0	189.0
Imports	58.5	64.0	75.9	94.2	136.5	126.5	152.8	175.9
Gov't. purchases of goods and services	218.9	233.7	253.1	269.9	301.1	331.2	359.8	391.1
Federal	95.6	96.2	102.1	102.0	111.7	123.2	134.0	143.7
Defense	73.5	70.2	73.5	73.4	77.4	84.0	88.6	95.2
Other	22.1	26.0	28.6	28.6	34.3	39.2	45.4	48.5
State and local	123.2	137.5	151.0	168.0	189.4	208.0	225.9	247.4
Gross national product in constant (1972) dollars	1075.3	1107.5	1171.1	1233.4	1210.7	1186.1	1265.7	1330.6
GNP implicit deflator (1972=100)	91.4	96.0	100.0	105.9	116.2	126.4	133.1	140.3
Personal income	801.3	859.1	942.5	1054.3	1154.7	1245.9	1374.4	1509.8
Wage and salary disbursements	546.5	579.4	633.8	701.0	763.6	801.6	883.4	976.0
Disposable income	685.9	742.8	801.3	903.1	983.6	1076.7	1181.0	1295.2
Personal saving	50.6	57.3	49.4	72.7	74.0	88.9	90.2	93.1
Saving rate (per cent)	7.4	7.7	6.2	8.0	7.5	8.3	7.6	7.2
Corporate profits with I.V.A. and C.C. Adj.	67.9	77.2	92.1	100.2	91.3	100.3	131.2	157.0
Corporate profits with I.V.A., without C.C. Adj.	66.4	76.9	89.6	98.6	93.6	106.0	138.5	163.9
Corporate profits before tax	71.5	82.0	96.2	117.0	132.1	116.8	149.1	175.1
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts2/	192.1	198.6	227.5	257.9	288.4	282.3	326.1	366.6
Expenditures	204.2	220.6	244.7	264.8	300.1	356.9	391.3	427.0
Surplus or deficit (-)2/	-12.1	-22.0	-17.3	-6.9	-11.7	-74.6	-65.2	-60.4
High employment surplus or deficit (-)	6.5	-1.7	-1.0	4.3	20.8	-10.0	-6.3	-.6
State and local government surplus or deficit (-) (N.I.A. basis)	2.8	3.7	13.7	12.9	8.1	9.8	13.8	13.9
Excluding social insurance funds	-4.0	-3.8	5.6	4.1	-1.7	-1.3	1.5	-1.1
Civilian labor force (millions)	82.7	84.1	86.5	88.7	91.0	92.6	94.5	96.3
Unemployment rate (per cent)	4.9	5.9	5.6	4.9	5.6	8.5	7.4	6.7
Nonfarm payroll employment (millions)	70.9	71.2	73.7	76.9	78.4	77.0	79.2	81.5
Manufacturing	19.3	18.6	19.1	20.1	20.0	18.3	19.0	19.6
Industrial production (1967=100)	107.8	109.6	119.7	129.8	129.3	117.8	130.4	138.9
Capacity utilization, mfg. (per cent)	78.3	75.0	78.6	83.0	78.9	68.7	72.9	75.3
Materials (per cent)	84.3	83.1	88.0	92.5	87.7	73.5	80.6	83.2
Housing starts, private (millions, A.R.)	1.43	2.05	2.36	2.05	1.34	1.16	1.48	1.52
Sales new autos (millions, A.R.)	8.40	10.24	10.93	11.44	8.87	8.66	10.33	11.01
Domestic models	7.12	8.68	9.32	9.67	7.45	7.08	8.90	9.41
Foreign models	1.28	1.56	1.61	1.77	1.42	1.58	1.44	1.60

1/ Net exports of g. & s. (Bal. of paymts)3/	3.0	-.2	-5.9	4.2	3.8	16.5	5.3	5.4
Exports	62.4	65.5	72.6	102.1	144.4	147.5	163.9	188.9
Imports	59.5	65.8	78.5	97.9	140.6	131.0	158.6	183.5

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

	1970	1971	1972	1973	1974	1975	Projected 1976	Projected 1977
	-----	-----	-----	Billions of Dollars	-----	-----	-----	-----
Gross National Product	46.9	81.0	107.7	135.2	100.6	92.0	185.3	182.8
Inventory change	-5.6	2.6	3.0	8.1	-7.8	-24.3	32.4	5.5
Final purchases	52.4	78.5	104.6	127.1	108.4	116.3	152.9	177.3
Private	41.4	63.7	85.2	100.3	77.2	86.2	124.3	146.0
Net exports	2.1	-2.3	-4.9	10.7	.3	13.6	-10.1	1.8
Excluding net exports	39.3	66.0	90.1	99.6	76.9	72.6	134.4	144.2
Personal consumption expenditures	39.1	49.4	64.8	75.5	77.4	77.9	101.7	110.0
Durable goods	-.6	12.2	14.1	11.7	-1.0	6.2	23.8	20.1
Nondurable goods	17.7	13.0	21.6	35.1	41.3	34.1	31.8	38.2
Services	21.9	24.3	29.0	28.9	37.0	37.7	46.0	51.8
Residential fixed investment	-1.3	13.0	12.4	4.5	-11.9	-5.9	15.0	6.6
Business fixed investment	1.6	3.6	12.7	19.7	11.4	.6	17.8	27.5
Government	11.0	14.8	19.4	16.8	31.2	30.1	28.6	31.3
Federal	-1.9	.6	5.9	-.1	9.7	11.5	10.8	9.7
State and local	12.8	14.3	13.5	17.0	21.4	18.6	17.9	21.5
GNP in constant (1972) dollars	-3.5	32.2	63.6	62.3	-22.7	-24.6	79.6	64.9
Final purchases	2.8	29.9	60.8	55.6	-14.3	-6.4	57.0	61.1
Private	9.3	30.7	57.1	56.2	-16.1	-9.7	50.7	55.7
	-----	-----	-----	In Per Cent Per Year	-----	-----	-----	-----
Gross national product	5.0	8.2	10.1	11.5	7.7	6.5	12.4	10.9
Final purchases	5.7	8.0	9.9	10.9	8.4	8.3	10.1	10.6
Private	5.8	8.4	10.3	12.1	7.6	7.9	10.5	11.2
Personal consumption expenditures	6.7	8.0	9.7	10.3	9.6	8.8	10.6	10.3
Durable goods	-.7	14.4	14.5	10.5	-.8	5.0	18.6	13.2
Nondurable goods	7.2	4.9	7.8	11.7	12.4	9.1	7.8	8.7
Services	8.9	9.0	9.9	9.0	10.5	9.7	10.8	11.0
Gross private domestic investment	-3.7	13.6	17.7	17.1	-3.7	-13.9	35.7	16.0
Residential structures	-3.4	35.5	25.0	7.3	-17.9	-10.7	30.8	10.4
Business fixed investment	1.6	3.6	12.2	16.9	8.4	.4	12.0	16.5
Gov't. purchases of goods & services	5.3	6.8	8.3	6.6	11.5	10.0	8.6	8.7
Federal	-1.9	.6	6.1	.1	9.5	10.3	8.8	7.2
Defense	-3.7	-4.5	4.7	-.1	5.4	8.5	5.5	7.4
Other	4.2	17.6	10.0	.0	19.9	14.3	15.8	6.8
State and local	11.6	11.6	9.8	11.3	12.8	9.8	8.6	9.5
GNP in constant (1972) dollars	-.3	3.0	5.7	5.3	-1.8	-2.0	6.7	5.1
Final purchases	.3	2.8	5.5	4.8	-1.2	-.5	4.8	4.9
Private	1.1	3.7	6.7	6.2	-1.7	-1.0	5.4	5.6
GNP implicit deflator	5.4	5.1	4.1	5.9	9.7	8.8	5.3	5.4
Gross business product fixed weighted price index 1/	4.4	4.4	3.3	5.7	9.8	9.1	5.4	5.2
Personal income	7.4	7.2	9.7	11.9	9.5	7.9	10.3	9.9
Wage and salary disbursements	6.2	6.0	9.4	10.6	8.9	5.0	10.2	10.5
Disposable income	8.8	8.3	7.9	12.7	8.9	9.5	9.7	9.7
Corporate profits before tax	-14.3	14.7	17.3	21.6	12.9	-11.6	27.7	17.4
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	-2.5	3.4	14.6	13.4	11.8	-2.1	15.5	12.4
Expenditures	8.4	8.0	10.9	8.2	13.3	18.9	9.6	9.1
Nonfarm payroll employment	.7	.4	3.5	4.3	2.0	-1.8	2.9	2.9
Manufacturing	-4.5	-3.6	2.7	5.2	.5	-8.5	3.8	3.2
Industrial production	-3.0	1.7	9.2	8.4	-.4	-8.9	10.7	6.5
Housing starts, private	-2.7	43.4	15.1	-13.1	-34.6	-13.4	27.6	2.7
Sales new autos	-12.2	21.9	6.7	4.7	-22.5	-2.4	19.3	6.6
Domestic models	-15.8	21.9	7.4	3.8	-23.0	-5.0	25.7	5.7
Foreign models	15.3	21.9	3.2	9.9	-19.8	11.3	-8.9	11.1

1/ Using expenditures in 1972 as weights.

DOMESTIC FINANCIAL DEVELOPMENTS

Aggregate private credit demands increased somewhat further in June. Businesses continued to raise a substantial volume of funds in bond and equity markets, with lower rated firms increasingly supplementing private placements with issues in the public markets. In addition, total short-term business borrowing expanded modestly for the second consecutive month, and such borrowing over April-June registered the first quarterly increase since late 1974. It also seems likely that household demands for both consumer and home mortgage credit remained strong in June.

Although Federal government borrowing also was large in June, the public absorption of Treasury securities was reduced by Federal Reserve purchases to offset the reserve effect of the substantial build-up in the Treasury's cash balance at the Fed. Moreover, Fed purchases, together with bill redemptions by the Treasury, reduced outstanding bills held by the public by $1.8 billion in June and early July, bringing the total reduction in the public's holding of bills since mid-April to $8.7 billion. State and local borrowing, while still large, receded from the record rate of May.

Inflows of deposits subject to interest rate ceilings at banks were reduced further in June, in continued response to the rise in market yields which began in mid-April. Savings deposits, the rise in which had more than offset declines in the total of all other deposits in the first five months of 1976, declined in June.

These deposits earlier had been bolstered by business savings deposits and shifts of funds by individuals and domestic governments from lower yielding money market instruments and large denomination time deposits; in June, banks reported significant shifts of non-business savings deposits back to the market and to time deposits. Time deposits included in M_2, however, rose in June at the most rapid rate since early 1974, reflecting the growth of large denomination non-negotiable certificates. Banks also increased their outstanding negotiable CD's after mid-May by about $4 billion--in part for window dressing purposes for the June statement date, in part to offset other weak deposit flows, and perhaps in part to position themselves for expected business credit demands--that have not yet materialized.

While rising market rates also contributed to the pronounced slowdown of inflows at thrift institutions, other factors apparently played a role as well. There is evidence that some S&L's and savings banks--particularly those with high liquidity--have attempted to moderate inflows of higher cost funds in recent months by cutting rates and discontinuance of longer-term certificate offerings.

After remaining essentially flat in the two weeks following the June FOMC meeting, yields have declined most recently by 20 to 35 basis points in short-term markets and most bond yield have declined about 10 basis points. Investor expectations of a possible credit market rally had been generated by published data suggesting a slowing of economic growth and a materially reduced rate of expansion in the monetary aggregates. Thus, as the funds rate moved down from the 5-1/2 per cent reached in late May to 5-1/4 per cent most recently, confirming to the market the expected slight easing in monetary policy, a modest rally developed in money and capital markets. In secondar markets, mortgage rates generally edged down, but in the primary market rose slightly further, after increasing about 10 basis points in June.

Outlook. During the current quarter, the Treasury is expected to continue its recent policy of debt lengthening by raising the major share of its third quarter needs, now estimated by the staff at $12 to $16 billion,[1/] through the issuance of longer-term notes and bonds. On the other hand, forward calendars in the corporate and tax exempt bond markets suggest a more than seasonal decline in such offerings in July and August.

The slowdown in bond issuance may be temporary, but with working and fixed capital needs continuing to rise, businesses can be expected to increase further their short-term indebtedness. Banks are likely to finance at least some of these needs, probably requiring

1/ The staff projection of Treasury borrowing is more uncertain than is usually the case. The high Treasury cash balance at the end of June provides the department with considerable latitude. Moreover, the deficit (U.S. Treasury and off-budget agencies) could be higher than the $23 billion now estimated by the staff if the various government agencies make up for their shortfall in second quarter spending by increasing third quarter outlays by more than the staff has assumed.

either some slowdown in their Treasury security acquisitions or some further increased CD issuance. Increasing consumer expenditures also should maintain the higher pace of consumer credit demands at banks and other lenders. While the total increase in private short-term credit demands at banks and in the commercial paper market probably will be relatively modest, it likely will be sufficient to bring some upward rate pressures to short-term financial markets, despite reduced bill offerings by the Treasury. Bond rates, however, are likely to rise only slightly from current levels this summer, despite increased coupon offerings by the Treasury, as corporate and tax exempt bond offerings moderate.

As short-term rates rise later in the summer, inflows of time and savings deposits to banks and thrifts may slow somewhat further. However, run-offs at banks of the more interest-sensitive savings deposits acquired earlier this year can be expected to be largerly offset by growth of nonnegotiable certificates, and thrift institutions are still projected to maintain relatively large inflows. With inflows to thrifts well maintained, and bond yields rising only modestly, mortgage rates are expected to remain near current levels over most of the summer.

INTERNATIONAL DEVELOPMENTS

Summary. Foreign exchange markets have been relatively calm since mid-June. In Italy there was some reversal of capital flows following the election

; downward pressure on sterling abated though market confidence still remains shaky; and heavy pressure on the Netherlands guilder has recently eased. On the other hand, substantial selling pressure on the French franc has emerged in recent days, precipitated by news reports of the severity of the French drought and its implications for France's trade balance and price level. During the period the trade weighted value of the dollar against 10 leading currencies declined slightly, remaining close to the level it reached three months ago after a rise of 15 per cent in the preceding year.

Data available on U.S. international transactions in May show a shift in the trade accounts to a small surplus; continued foreign lending by U.S. banks on a fairly substantial scale -- but roughly matched by increases in U.S. banks' liabilities to private foreigners; and a net outflow of about $400 million in securities transactions, about the same rate as in earlier months of the year. The change in the trade balance from a $6 billion annual rate of deficit in the first quarter to a $2 billion deficit rate in April-May reflects sizable gains in exports of agricultural and other commodities, in both volume and value, and some reduction in non-fuel imports, offsetting a substantial rise in the volume of fuel imports at slightly higher prices. Bank-reported capital flows have tended to move erratically recently, but for the Jan.-May period as a whole foreign loan demand has been quite strong -- resulting in an increase in claims of about $7 billion compared with $13 billion for all of 1975. However, in contrast to last year when banks' liabilities to private foreigners increased by less than $1 billion, such liabilities rose by $7.7 billion in Jan.-May this year.

Economic activity in other industrial countries, after sharper than expected gains in the first quarter, appears to have slowed to a more moderate rate of growth. In a number of countries authorities have gradually shifted policies to guard against any worsening of still-high inflation rates, though mindful that the recovery is still considerably short of potential output levels. According to current projections, industrial production in leading countries will not reach previous peaks until the latter half of 1976 or early 1977 -- while potential output has meanwhile been increasing. In both Italy and the United Kingdom the time horizon for restoration of full resource utilization is well in the future; in both of these countries authorities are giving priority to reducing inflation and avoiding further depreciations. Monetary policies in most countries have become somewhat more restrictive, as authorities move to mop up abundant liquidity at an early stage in the recovery process, with the result that growth rates of monetary aggregates have been slowed and interest rates have tended to rise.

Outlook. The prospect of a healthy recovery abroad remains bright, though there is some concern because private investment still seems to be sluggish, and because the drought in parts of Western Europe will be a drag on activity and a spur to inflation. The Economist index of prices of internationally traded commodities is now about 28 per cent above its cyclical low in the fourth quarter of 1975. Prices of beverages and foods declined somewhat during the recession, but have since moved back to their previous high. Despite the recent sharp rise in prices of industrial materials they are still well below their peak in early 1974. These increases in price so far seem to reflect basic demand and supply conditions rather than speculative purchases.

Given the better than expected trade performance in April-May, and a slight improvement in the rate of economic advance abroad relative to the United States, projections of the 1976 U.S. trade deficit have been scaled down to about $5 billion from about $6-1/2 billion a month ago. A moderate further rise in the deficit is projected until late in 1977, when oil from Alaska is scheduled to begin arriving. The corresponding current account balance would be a small surplus in both 1976 and 1977. If monetary conditions tend to tighten abroad relative to those in the United States, at least in the near term, banks may shift toward net outflows, but over-all conditions are likely to result in a stable dollar in the months ahead.