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CONFIDENTIAL (FR)

September 15, 1976

SUMMARY AND OUTLOOK

By the Staff
Board of Governors
of the Federal Reserve System

SUMMARY AND OUTLOOK

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. Growth in activity in the past few months appears to have continued at about the reduced second quarter pace. But there were also signs portending the resumption of more rapid growth ahead. Retail sales rose vigorously in August and there were further signs of a faster rate of capital spending later this year and in 1977. Moreover, indicators of inflationary pressures have continued relatively favorable.

Industrial production rose by 0.5 per cent in August, the same as the increase in July (revised) and June. In contrast, the index averaged a 0.8 per cent monthly rise from December through May. There was little change in nondurable output in August, reflecting an earlier buildup in inventories and the sluggishness of sales gains in several recent months. Among durables, production of consumer goods again showed no increase--with auto assemblies little changed--but business equipment output rose by 0.6 per cent and durable materials production was up by 1.5 per cent.

There have been indications of some additional slack in the labor market in the past few months, accompanying the slower rate of production growth. The unemployment rate edged up further to 7.9 per cent in August, with no significant change in total employment and the labor force (household survey). But employment in nonfarm establishments was indicated to have risen fairly strongly (by 200,000, strike adjusted), suggesting a further good gain in income. Over the past two months the increase in payroll employment has

totaled about half a million. Most of the August rise was in the service-producing sectors, but manufacturing jobs picked-up somewhat as well.

Retail sales rose strongly, by 2.3 per cent, last month following a small decline in July (revised). Gains were widespread in August and were largest in stores selling more discretionary types of items; sales at general merchandise and furniture and appliance stores rose appreciably. The growth of nondurable sales, which had slowed in the second quarter, picked-up again in August to a level about 2-1/2 per cent above the average of the previous quarter. Unit auto sales also rose last month, reaching a 10.5 million annual rate, equal to the highest monthly sales rate so far this year. Both foreign and domestic models shared in the gain, the latter despite shortages in a number of popular models. Sales of domestic models rose to a 9-1/2 million annual rate in the first 10 days of September--close to the early-August sales pace and above the 8.9 million rate for the month as a whole.

The slowing of retail sales earlier this year, and some back-up of nondurable stocks generally, still appears to be a major factor influencing business attitudes toward inventory investment. The book value of business inventories rose by \$18-1/2 billion, annual rate, in July, compared with a \$26-1/2 billion rise in the second quarter. In manufacturing, stockbuilding in July slowed particularly in durables and there was a relatively modest \$3 billion annual rate growth in trade stocks, nearly all in durable goods at retail. The sharp August gain in retail sales in conjunction with

the moderate growth of industrial production suggests relatively little accumulation of retail trade inventories last month as well.

There are continued indications of growing strength in fixed investment in upcoming quarters. The latest Commerce plant and equipment survey, conducted in late July and August, reported business planning a 7.4 per cent increase in 1976--about the same as the May survey. But the more recent data indicate a shortfall for the second quarter and an accelerated rate of spending later in the year. This outlook is consistent with continued evidence of strength in new orders for nondefense capital goods. These orders--which generally lead outlays by 6-9 months--rose 13.2 per cent in July, the largest of 7 consecutive monthly increases. In addition, capital appropriations of the 1,000 largest manufacturing firms rose by over 13 per cent in the second quarter, also suggesting increased capital spending by manufacturing firms in early 1977. Contracts and orders for commercial and industrial buildings (in square feet) edged off slightly in July, but the trend has been distinctly upward this year.

Housing starts declined by 9 per cent in July, following two months of rise. Most of the drop was in the depressed multifamily sector. Single-family starts edged off slightly, but their level remained quite high. In contrast to starts, permits rose 6 per cent to their highest rate since the spring of 1974. With outstanding mortgage commitments high and rising and savings deposit flows sizable, residential construction activity should move upward over the near term.

Overall, wages and prices have continued to rise more moderately than last year. In August, the average hourly earnings index increased at a 5.5 per cent annual rate. Since December the index has risen at an annual rate of 6.7 per cent as compared with 7.9 per cent during 1975.

Wholesale prices decreased 0.1 per cent in August as a sharp decline in farm products and foods about offset a 0.7 per cent increase in industrial commodity prices. Excluding fuels and related products, the rise was 0.5 per cent--about equal to the rate of increase since the beginning of the year. Consumer prices rose 0.5 per cent in July, about the same as in the previous three months. But excluding food and energy items the index was up 0.7 per cent, one of the largest monthly increases this year. Among the major factors were increases for used cars, houses and apparel, as well as for service costs which were affected by large increases in gas and electricity.

Outlook. The staff has reduced its projection of real GNP for the current quarter to around 4 per cent, off slightly from the 4.3 per cent rate in the second quarter. This cutback reflects largely our view that businesses have adjusted their production and inventory accumulation to the slower pace of consumer demand in recent months and some apparent overbuilding of nondurable inventories. A more rapid rate of rise, averaging about 5-1/4 per cent per annum is projected for the balance of the projection period.

The assumptions underlying this projection are by and large unchanged. In the monetary area, we continue to assume a 5-3/4 per cent annual rate of growth for M_1 over the entire projection period. We now expect short-term interest rates to rise only moderately during the remainder of 1976. In the next year, however, a sizable rise in short-term rates is projected, accompanied by minor increases in long-term rates.

Our fiscal policy assumptions for Fiscal Year 1977 now incorporate some \$1-1/2 billion of additional revenues due to the likely enactment of the Tax Reform bill. For the general performance of the economy, however, the continuation of \$17 billion in tax cuts, also provided by the bill, will be more important, but this had been previously assumed in our projections. As regards outlays, we continue to project a \$410 billion spending rate in Fiscal Year 1977--\$10 billion more than the Administration budget and \$3 billion less than the recently reviewed Congressional budget. (For additional detail, see comments on Federal Sector Outlook on page I-13).

In this projection, we have assumed that the auto strike, just underway, will be of relatively short duration--perhaps a month or so--and that general production will not be significantly curtailed.

We have interpreted recent news for business investment as generally supporting our previous projections of continued strengthening in this area. In consumption as well, the continued upward movements

in personal income through early summer and the rebound in August retail sales--as well as the upward revisions of sales data for earlier months--suggest continued moderate expansion. With these considerations in mind, the staff still feels that the lull in the expansion will be temporary and does not materially affect the outlook for real GNP over the next several quarters. In fact our projection is now a bit stronger over the next few quarters, largely because we assume that businessmen will resume building stocks more in line with growth in final demands as it becomes apparent that the economy is continuing to expand at a reasonable pace. As a result, despite the slower growth now projected for the current quarter, the level of real GNP by the end of 1977 is about the same as projected in the last Greenbook.

These changes were not large enough to materially affect the projected course of the unemployment rate. We still anticipate a relatively steady decline in this rate to about 6-1/2 per cent by the end of 1977. Our price projections are virtually unchanged from the last Greenbook. We project prices in general to rise at an annual rate between 5 and 5-1/2 per cent during the period under review.

Details 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		Gross business product fixed-weighted price index		Unemployment rate (per cent)	
	8/11/76	9/15/76	8/11/76	9/15/76	8/11/76	9/15/76	8/11/76	9/15/76
1973 <u>1/</u>	135.5	135.5	5.5	5.5	5.7	5.7	4.9	4.9
1974 <u>1/</u>	106.6	106.6	-1.7	-1.7	10.2	10.2	5.6	5.6
1975 <u>1/</u>	103.1	103.1	-1.8	-1.8	9.3	9.3	8.5	8.5
1976	181.9	179.8	6.5	6.3	5.3	4.9	7.5	7.5
1977	184.9	186.4	5.1	5.2	5.2	5.2	6.7	6.8
1976-I	48.0	48.0	9.2	9.2	3.7	3.7	7.6	7.6
II	36.8	37.9	4.4	4.3	4.6	5.2	7.4	7.4
III	44.7	37.7	5.3	4.0	5.5	5.4	7.6	7.8
IV	48.2	50.3	5.4	5.7	5.3	5.4	7.3	7.4
1977-I	46.2	48.0	5.0	5.4	5.3	5.4	7.0	7.1
II	44.7	45.7	5.0	5.2	5.1	5.1	6.8	6.9
III	49.5	50.1	5.2	5.2	5.0	5.1	6.6	6.7
IV	51.3	52.3	5.0	5.2	5.0	5.1	6.5	6.6
Change:								
75-II <u>1/</u> to								
76-II	190.7	191.8	7.0	7.0	5.5	5.6	-1.3	-1.3
75-IV <u>1/</u> to								
76-IV	177.7	173.9	6.0	5.8	4.8	4.9	-1.2	-1.1
76-II to								
77-II	183.8	181.7	5.2	5.1	5.3	5.3	-.6	-.5
76-IV to								
77-IV	191.7	196.1	5.1	5.3	5.1	5.2	-.8	-.8

1/ Actual

September 15, 1976

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CLASS II FOMCGROSS 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			
	I	II	III	Projected IV	I	II	III	IV
Gross National Product	1636.2	1674.1	1711.8	1762.1	1810.1	1855.8	1905.9	1958.2
Final purchases	1621.4	1658.1	1699.0	1746.3	1791.8	1836.0	1885.1	1936.4
Private	1266.7	1296.1	1328.5	1365.1	1401.8	1438.6	1479.6	1520.0
Excluding net exports	1258.3	1288.0	1320.4	1356.1	1392.9	1430.4	1467.6	1506.0
Personal consumption expenditures	1043.6	1064.7	1088.9	1115.9	1142.9	1171.1	1199.3	1228.8
Durable goods	151.4	155.0	158.5	163.0	167.5	172.7	177.9	183.9
Nondurable goods	429.1	434.8	444.8	454.8	464.8	474.8	484.8	494.8
Services	463.2	474.9	485.6	498.1	510.6	523.6	536.6	550.1
Gross private domestic investment	229.6	239.2	244.3	256.0	268.3	279.1	289.1	299.0
Residential construction	61.3	65.3	68.7	71.6	74.4	76.2	77.2	77.6
Business fixed investment	153.4	157.9	162.8	168.6	175.6	183.1	191.1	199.6
Change in business inventories	14.8	16.0	12.8	15.8	18.3	19.8	20.8	21.8
Nonfarm	12.7	17.3	14.0	16.3	18.3	19.8	20.8	21.8
Net exports of goods and services ^{1/}	8.4	8.1	8.1	9.0	8.9	8.2	12.0	14.0
Exports	154.1	159.1	165.5	170.5	176.3	182.5	187.9	193.0
Imports	145.7	151.0	157.4	161.5	167.4	174.3	175.9	179.0
Gov't. purchases of goods and services	354.7	362.0	370.5	381.2	390.0	397.4	405.5	416.4
Federal	129.2	131.2	134.2	138.3	140.4	142.0	144.4	149.1
Defense	86.2	86.9	88.9	91.1	92.6	93.4	95.2	98.2
Other	42.9	44.2	45.3	47.2	47.8	48.6	49.2	50.9
State and local	225.5	230.9	236.3	242.9	249.6	255.4	261.1	267.3
Gross national product in constant (1972) dollars	1246.3	1259.4	1271.7	1289.5	1306.6	1323.4	1340.4	1357.5
GNP implicit deflator (1972=100)	131.3	132.9	134.6	136.7	138.5	140.2	142.2	144.2
Personal income	1331.3	1362.0	1398.7	1433.7	1466.8	1498.0	1533.4	1569.2
Wage and salary disbursements	861.5	881.1	899.5	924.2	947.4	969.5	992.4	1019.5
Disposable income	1147.6	1172.5	1203.1	1232.7	1260.0	1286.0	1315.2	1344.0
Personal saving	79.5	82.9	88.8	91.1	91.1	88.6	89.3	88.3
Saving rate (per cent)	6.9	7.1	7.4	7.4	7.2	6.9	6.8	6.6
Corporate profits with I.V.A. and C.C. Adj.	115.1	115.3	115.1	123.6	131.3	139.3	149.6	157.9
Corporate profits with I.V.A., without C.C. Adj.	129.6	130.7	130.1	138.2	145.9	153.5	163.8	172.1
Corporate profits before taxes	141.1	145.3	140.6	148.2	156.1	164.5	174.5	182.2
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	316.5	325.2	330.1	340.4	354.1	364.3	376.4	388.6
Expenditures	380.3	378.7	392.1	404.1	413.5	420.2	432.0	440.9
Surplus or deficit (-) ^{2/}	-63.8	-53.5	-62.0	-63.7	-59.4	-55.9	-55.6	-52.3
High employment surplus or deficit (-)	-9.9	1.9	-1.2	-4.3	-2.6	1.5	-0.5	2.1
State and local government surplus or deficit (-) (N.I.A. basis)	12.2	9.2	11.3	13.7	12.3	12.2	13.4	13.1
Excluding social insurance funds	-0.6	-3.8	-1.9	0.2	-1.5	-1.9	-1.0	-1.6
Civilian labor force (millions)	93.6	94.5	95.4	95.6	95.9	96.4	96.8	97.3
Unemployment rate (per cent)	7.6	7.4	7.8	7.4	7.1	6.9	6.7	6.6
Nonfarm payroll employment (millions)	78.4	79.0	79.4	79.9	80.5	81.1	81.7	82.3
Manufacturing	18.8	19.0	19.0	19.3	19.5	19.7	19.8	19.9
Industrial production (1967=100)	127.0	129.3	131.5	135.1	137.7	140.5	143.0	145.8
Capacity utilization mfg. (per cent)	72.1	73.0	73.7	75.1	76.1	77.2	78.0	79.0
Materials (per cent)	78.9	78.9	81.5	83.1	84.3	85.4	86.3	87.2
Housing starts, private (millions, A.R.)	1.40	1.44	1.48	1.54	1.60	1.60	1.55	1.55
Sales new autos, (millions, A.R.)	9.99	10.34	10.40	10.65	10.85	11.00	11.05	11.15
Domestic models	8.68	8.90	8.90	9.15	9.30	9.40	9.45	9.50
Foreign models	1.31	1.45	1.50	1.50	1.55	1.60	1.60	1.65
^{1/} Net exports of g. & s. (Bal. of paymts) ^{3/}	3.7	4.5	4.8	5.3	4.4	3.3	7.1	9.1
Exports	154.1	159.9	166.3	171.3	177.1	183.3	188.7	193.8
Imports	150.4	155.4	161.5	166.0	172.7	180.0	181.6	184.7

^{1/} The Federal government receipts estimate continues to assume passage of legislation which extends, through 1977, the tax cuts embodied in the Tax Reduction Act of 1975.

^{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			
	I	II	III	IV	Projected		III	IV
	-----Billions of Dollars-----							
Gross National Product	48.0	37.9	37.7	50.3	48.0	45.7	50.1	52.3
Inventory change	19.1	1.2	-3.2	3.0	2.5	1.5	1.0	1.0
Final purchases	28.9	36.7	40.9	47.3	45.5	44.2	49.1	51.3
Private	28.0	29.4	32.4	36.6	36.7	36.8	41.0	40.4
Net exports	-12.6	-0.3	.0	.9	-1.1	-0.7	3.8	2.0
Excluding net exports	40.6	29.7	32.4	35.7	36.8	37.5	37.2	38.4
Personal consumption expenditures	31.6	21.1	24.2	27.0	27.0	28.2	28.2	29.5
Durable goods	9.6	3.6	3.5	4.5	4.5	5.2	5.2	6.0
Nondurable goods	7.5	5.7	10.0	10.0	10.0	10.0	10.0	10.0
Services	14.6	11.7	10.7	12.5	12.5	13.0	13.0	13.5
Residential fixed investment	4.3	4.0	3.4	2.9	2.8	1.8	1.0	.4
Business fixed investment	4.7	4.5	4.9	5.8	7.0	7.5	8.0	8.5
Government	.9	7.3	8.5	10.7	8.8	7.4	8.1	10.9
Federal	-1.2	2.0	3.0	4.1	2.1	1.6	2.4	4.7
State and local	2.1	5.4	5.4	6.6	6.7	5.8	5.7	6.2
GNP in constant (1972) dollars	27.1	13.1	12.3	17.8	17.1	16.8	17.0	17.1
Final purchases	11.2	12.3	14.8	15.6	15.7	15.6	16.9	16.5
Private	14.5	10.6	11.9	13.4	13.5	13.9	15.3	14.9
	-----In Per Cent Per Year ^{1/} -----							
Gross National Product	12.6	9.6	9.3	12.3	11.3	10.5	11.2	11.4
Final purchases	7.5	9.4	10.2	11.6	10.8	10.2	11.1	11.3
Private	9.4	9.6	10.4	11.5	11.2	10.9	11.9	11.4
Personal consumption expenditures	13.1	8.3	9.4	10.3	10.0	10.2	10.0	10.2
Durable goods	29.8	10.0	9.3	11.8	11.5	13.0	12.6	14.2
Nondurable goods	7.3	5.5	9.5	9.3	9.1	8.9	8.7	8.5
Services	13.7	10.5	9.3	10.7	10.4	10.6	10.3	10.4
Gross private domestic investment	68.9	17.9	8.8	20.6	20.6	17.1	15.1	14.4
Residential structures	34.0	28.3	22.5	18.0	16.6	10.0	5.4	2.1
Business fixed investment	13.3	12.3	12.9	15.0	17.7	18.2	18.7	19.0
Gov't. purchases of goods & services	1.0	8.6	9.7	12.1	9.6	7.8	8.4	11.2
Federal	-3.7	6.3	9.6	12.8	6.2	4.6	6.9	13.7
Defense	-4.1	3.3	9.5	10.3	6.8	3.5	7.9	13.2
Other	-2.7	12.7	10.3	17.9	5.2	6.9	5.0	14.6
State and local	3.8	9.9	9.7	11.6	11.5	9.6	9.2	9.8
GNP in constant (1972) dollars	9.2	4.3	4.0	5.7	5.4	5.2	5.2	5.2
Final purchases	3.7	4.0	4.8	5.1	5.0	4.9	5.3	5.1
Private	6.2	4.4	4.9	5.5	5.5	5.5	6.0	5.8
GNP implicit deflator ^{2/}	3.2	5.1	5.1	6.2	5.6	5.0	5.7	5.9
Gross business product fixed weighted price index ^{3/}	3.7	5.2	5.4	5.4	5.4	5.1	5.1	5.1
Personal income	10.1	9.5	11.2	10.4	9.6	8.8	9.8	9.7
Wage and salary disbursements	12.6	9.4	8.6	11.4	10.4	9.7	9.8	11.4
Disposable income	10.3	9.0	11.2	10.4	9.6	8.8	9.8	9.7
Corporate profits before tax	33.4	12.4	-12.4	23.3	23.0	23.5	26.4	19.0
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	13.4	11.5	6.2	13.0	17.1	12.0	14.0	13.5
Expenditures	4.7	-1.7	14.9	12.8	9.6	6.6	11.7	8.5
Nonfarm payroll employment	4.2	3.1	2.0	2.5	3.0	3.0	3.0	3.0
Manufacturing	6.6	4.3	.0	6.5	4.2	4.2	2.0	2.0
Industrial production	12.6	7.4	7.0	11.4	7.9	8.4	7.3	8.1
Housing starts, private	9.1	11.9	11.6	17.2	16.5	.0	-11.9	.0
Sales new autos	38.4	14.8	2.3	10.0	7.7	5.6	1.8	3.7
Domestic models	48.0	10.5	.0	11.7	6.7	4.4	2.1	2.1
Foreign models	-5.9	50.1	14.5	.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: 1976-I, 3.0 per cent; 1976-IV, 5.7 per cent; 1977-I, 5.5 per cent; 1977-IV, 5.3 per cent.

Using expenditures in 1972 as weights.

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

	1970	1971	1972	1973	1974	1975	Projected	
							1976	1977
Gross National Product	982.4	1063.4	1171.1	1306.6	1413.2	1516.3	1696.1	1882.5
Final purchases	978.6	1057.1	1161.7	1288.6	1402.5	1531.0	1681.2	1862.3
Private	759.7	823.4	908.6	1019.1	1099.2	1192.0	1314.1	1460.0
Excluding net exports	755.8	821.8	911.9	1012.0	1091.7	1171.5	1305.7	1449.2
Personal consumption expenditures	618.8	668.2	733.0	809.9	887.5	973.2	1078.3	1185.5
Durable goods	84.9	97.1	111.2	123.7	121.6	131.7	157.0	175.5
Nondurable goods	264.7	277.7	299.3	333.8	376.2	409.1	440.9	479.8
Services	269.1	293.4	322.4	352.3	389.6	432.4	480.4	530.2
Gross private domestic investment	140.8	160.0	188.3	220.0	215.0	183.7	242.3	283.9
Residential construction	36.6	49.6	62.0	66.1	55.1	51.2	66.7	76.3
Business fixed investment	100.5	104.1	116.8	136.0	149.2	147.1	160.7	187.3
Change in business inventories	3.8	6.4	9.4	17.9	10.7	-14.6	14.9	20.2
Nonfarm	3.7	5.1	8.8	14.7	12.2	-17.6	15.1	20.2
Net exports of goods and services	3.9	1.6	-3.3	7.1	7.5	20.5	8.4	10.8
Exports	62.5	65.6	72.7	101.6	144.4	148.1	162.3	184.9
Imports	58.5	64.0	75.9	94.4	136.9	127.6	153.9	174.1
Gov't. purchases of goods and services	218.9	233.7	253.1	269.5	303.3	339.0	367.1	402.3
Federal	95.6	96.2	102.1	102.2	111.6	124.4	133.2	144.0
Defense	73.5	70.2	73.5	73.5	77.3	84.3	88.3	94.9
Other	22.1	26.0	28.6	28.7	34.3	40.1	44.9	49.1
State and local	123.2	137.5	151.0	167.3	191.6	214.5	233.9	258.3
Gross national product in constant (1972) dollars	1075.3	1107.5	1171.1	1235.0	1214.0	1191.7	1266.7	1332.0
GNP implicit deflator (1972=100)	91.4	96.0	100.0	105.8	116.4	127.3	133.9	141.3
Personal income	801.3	859.1	942.5	1052.4	1153.3	1249.7	1381.4	1516.9
Wage and salary disbursements	546.5	579.4	633.8	701.3	765.0	806.7	891.6	982.2
Disposable income	685.9	742.8	801.3	901.7	982.9	1080.9	1189.0	1301.3
Personal saving	50.6	57.3	49.4	70.3	72.2	84.0	85.6	89.3
Saving rate (per cent)	7.4	7.7	6.2	7.8	7.3	7.8	7.2	6.9
Corporate profits with I.V.A. and C.C. Adj.	67.9	77.2	92.1	99.1	84.8	91.6	117.3	144.5
Corporate profits with I.V.A., without C.C. Adj.	66.4	76.9	89.6	97.2	87.8	103.1	132.2	158.8
Corporate profits before tax	71.5	82.0	96.2	115.8	127.6	114.5	143.8	169.3
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts ^{2/}	192.1	198.6	227.5	258.3	288.2	286.5	328.1	370.8
Expenditures	204.2	220.6	244.7	265.0	299.7	357.8	388.8	426.6
Surplus or deficit (-)	-12.1	-22.0	-17.3	-6.7	-11.5	-71.2	-60.7	-55.8
High employment surplus or deficit (-)	6.5	-1.7	-1.0	6.6	26.3	-9.8	-3.4	.1
State and local government surplus or deficit (-) (N.I.A. basis)	2.8	3.7	13.7	13.0	7.3	6.9	11.6	12.8
Excluding social insurance funds	-4.0	-3.8	5.6	4.1	-2.8	-5.1	-1.5	-1.5
Civilian labor force (millions)	82.7	84.1	86.5	88.7	91.0	92.6	94.8	96.6
Unemployment rate (per cent)	4.9	5.9	5.6	4.9	5.6	8.5	7.5	6.8
Nonfarm payroll employment (millions)	70.9	71.2	73.7	76.9	78.4	77.0	79.2	81.4
Manufacturing	19.3	18.6	19.1	20.1	20.0	18.3	19.0	19.7
Industrial production (1967=100)	107.8	109.6	119.7	129.8	129.3	117.8	130.7	141.8
Capacity utilization, mtg. (per cent)	78.3	75.0	78.6	83.0	78.9	68.7	73.5	77.6
Materials (per cent)	84.3	83.1	88.0	92.5	87.7	73.5	80.6	85.8
Housing starts, private (millions, A.R.)	1.43	2.05	2.36	2.05	1.34	1.16	1.46	1.57
Sales new autos (millions, A.R.)	8.40	10.24	10.93	11.44	8.87	8.66	10.35	11.01
Domestic models	7.12	8.68	9.32	9.67	7.45	7.08	8.91	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	-6.0	3.3	3.2	15.9	4.6	6.0
Exports	62.4	65.5	72.7	101.5	144.4	148.0	162.9	185.7
Imports	59.5	65.8	78.6	98.3	141.2	132.2	158.3	179.8

^{2/} The Federal government receipts estimate continues to assume passage of legislation which extends, through 1977, the tax cuts embodied in the Tax Reduction Act of 1975.

^{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.

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1970	1971	1972	1973	1974	1975	Projected	
							1976	1977
-----Billions of Dollars-----								
Gross National Product	46.9	81.0	107.7	135.5	106.6	103.1	179.8	186.4
Inventory change	-5.6	2.6	3.0	8.5	-7.2	-25.3	29.5	5.3
Final purchases	52.4	78.5	104.6	126.9	113.9	128.5	150.2	181.1
Private	41.4	63.7	85.2	110.5	80.1	92.8	122.1	145.9
Net exports	2.1	-2.3	-4.9	10.4	.4	13.0	-12.1	2.4
Excluding net exports	39.3	66.0	90.1	100.1	79.7	79.8	134.2	143.5
Personal consumption expenditures	39.1	49.4	64.8	76.9	77.6	85.7	105.1	107.2
Durable goods	-.6	12.2	14.1	12.5	-2.1	10.1	25.3	18.5
Nondurable goods	17.7	13.0	21.6	34.5	42.4	32.9	31.8	38.9
Services	21.9	24.3	29.0	29.9	37.3	42.8	48.0	49.8
Residential fixed investment	-1.3	13.0	12.4	4.1	-11.0	-3.9	15.5	9.6
Business fixed investment	1.6	3.6	12.7	19.2	13.2	-2.1	13.6	26.6
Government	11.0	14.8	19.4	16.4	33.8	35.7	28.1	35.2
Federal	-1.9	.6	5.9	.1	9.4	12.8	8.8	10.8
State and local	12.8	14.3	13.5	16.3	24.3	22.9	19.4	24.4
GNP in constant (1972) dollars	-3.5	32.2	63.6	63.9	-21.0	-22.3	75.0	65.3
Final purchases	2.8	29.9	60.8	56.8	-13.0	-1.8	52.7	62.1
Private	9.3	30.7	57.1	57.4	-16.9	-6.4	48.6	53.9
-----In Per Cent Per Year-----								
Gross National Product	5.0	8.2	10.1	11.6	8.2	7.3	11.9	11.0
Final purchases	5.7	8.0	9.9	10.9	8.8	9.2	9.8	10.8
Private	5.8	8.4	10.3	12.2	7.9	8.4	10.2	11.1
Personal consumption expenditures	6.7	8.0	9.7	10.5	9.6	9.7	10.8	9.9
Durable goods	-.7	14.4	14.6	11.2	-1.7	8.3	19.2	11.8
Nondurable goods	7.2	4.9	7.8	11.5	12.7	8.7	7.8	8.8
Services	8.9	9.0	9.9	9.3	10.6	11.0	11.1	10.4
Gross private domestic investment	-3.7	13.6	17.7	16.8	-2.3	-14.6	31.9	17.2
Residential structures	-3.4	35.5	25.1	6.6	-16.7	-7.1	30.3	14.4
Business fixed investment	1.6	3.6	12.3	16.4	9.7	-1.4	9.2	16.6
Gov't. purchases of goods & services	5.3	6.8	8.3	6.5	12.5	11.8	8.3	9.6
Federal	-1.9	.6	6.1	.1	9.2	11.5	7.1	8.1
Defense	-3.7	-4.5	4.7	.0	5.2	9.1	4.7	7.5
Other	4.2	17.6	10.0	.3	19.5	16.9	12.0	9.4
State and local	11.6	11.6	9.8	10.8	14.5	11.9	9.0	10.5
GNP in constant (1972) dollars	-.3	3.0	5.7	5.5	-1.7	-1.8	6.3	5.2
Final purchases	.3	2.8	5.5	4.9	-1.1	-.1	4.4	4.9
Private	1.1	3.7	6.7	6.3	-1.7	-.7	5.2	5.4
GNP implicit deflator	5.4	5.1	4.1	5.8	10.0	9.3	5.3	5.5
Gross business product fixed weighted price index ^{1/}	4.4	4.4	3.3	5.7	10.2	9.3	4.9	5.2
Personal income	7.4	7.2	9.7	11.7	9.6	8.4	10.5	9.8
Wage and salary disbursements	6.2	6.0	9.4	10.7	9.1	5.5	10.5	10.2
Disposable income	8.8	8.3	7.9	12.5	9.0	10.0	10.0	9.4
Corporate profits before tax	-14.3	14.7	17.3	20.4	10.2	-10.3	25.6	17.7
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	-2.5	3.4	14.6	13.5	11.6	-.6	14.5	13.0
Expenditures	8.4	8.0	10.9	8.3	13.1	19.4	8.7	9.7
Nonfarm payroll employment	.7	.4	3.5	4.3	2.0	-1.8	2.9	2.8
Manufacturing	-4.5	-3.6	2.7	5.2	-.5	-8.5	3.8	3.7
Industrial production	-3.0	1.7	9.2	8.4	-.4	-8.9	11.0	8.5
Housing starts, private	-2.7	43.4	15.1	-13.1	-34.6	-13.4	25.9	7.5
Sales new autos	-12.2	21.9	6.7	4.7	-22.5	-2.4	19.5	6.4
Domestic models	-15.8	21.9	7.4	3.8	-23.0	-5.0	25.8	5.6
Foreign models	15.3	21.9	3.2	9.9	-19.8	11.3	-8.9	11.1

Using expenditures in 1972 as weights.

FEDERAL SECTOR ACCOUNTS
(billions of dollars)

	Fiscal Year 1976*	Fiscal Year 1977 ^{e/}				CY 1976 F.R. Board	Calendar quarters; unadjusted data					
		Admin. est. 1/	Cong. est. 2/	F.R. Board	1976				1977			
					I*		II*	III3/	IV	I	II	
Unified budget receipts	300.0	352.5	362.5	355.5	316.5	66.9	93.6	81.8	74.2	79.0	108.5	
Unified budget outlays	365.6	400.0	413.1	410.0	379.3	89.6	91.5	98.0	100.2	103.5	102.3	
Surplus(+)/deficit(-), unified budget	-65.6	-47.5	-50.6	-54.5	-62.7	-22.7	2.2	-16.2	-26.0	-24.5	6.2	
Surplus(+)/deficit(-), off-budget agencies ^{4/}	-8.0	-11.4	n.a.	-11.4	-11.5	-3.8	-0.7	-3.9	-3.1	-3.1	-2.6	
Means of financing combined deficits:												
Net borrowing from public	82.8	56.9	n.a.	61.2	71.9	24.1	9.4	17.7	20.7	25.0	1.0	
Decrease in cash operating balance	-7.2	n.a.	n.a.	4.2	-2	.4	-6.8	-4	6.5	-4	-3.6	
Other ^{5/}	-1.9	n.a.	n.a.	.5	2.5	2.0	-4.0	2.7	1.8	3.0	-1.0	
Cash operating balance, end of period	14.8	n.a.	n.a.	11.0	8.7	8.0	14.8	15.2	8.7	9.1	12.7	
Memo: Sponsored agency borrowing ^{6/}	3.5	10.8 ^{7/}	n.a.	n.a.	3.4	.3	.5	1.6	1.0	1.2	n.a.	
<u>NIA Budget</u>						<u>Seasonally adjusted; annual rates</u>						
Receipts	310.8 ^{8/}	n.a.	n.a.	358.0 ^{9/}	328.1	316.5	325.2	330.1	340.4	354.1	364.3	
Outlays	374.7 ^{8/}	n.a.	n.a.	417.5 ^{9/}	388.8	380.3	378.7	392.1	404.1	413.5	420.2	
Surplus(+)/deficit(-)	-63.9 ^{8/}	n.a.	n.a.	-59.5 ^{9/}	-60.8	-63.8	-53.5	-62.0	-63.7	-59.4	-55.9	
High Employment surplus(+)/deficit(-), (NIA basis) ^{10/11/}	-6.0	n.a.	n.a.	-1.5	-3.4	-9.9	1.9	-1.2	-4.3	-2.6	1.5	
	*actual	e--estimated		n.e.--not estimated		n.a.--not available				p--preliminary		

1/ Mid-Session Review of the 1977 Budget, July 16, 1976.

2/ Conference Report on Second Concurrent Resolution on the Budget, September 10, 1976.

3/ Effective in CY 1976, the fiscal year for the U.S. Government changes from July 1 - June 30 to October 1 - September 30. Hence, 1976 QIII represents a transition quarter.

4/ Includes Federal Financing Bank, Postal Service, Export-Import Bank, Rural Electrification and Telephone revolving fund, Housing for the Elderly or Handicapped Fund, and Pension Benefit Guaranty Corporation.

5/ Checks issued less checks paid, accrued items and other transactions.

6/ Includes Federal Home Loan Banks, Federal National Mortgage Association, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

7/ Derived from Special Analyses, Budget of the United States Government, fiscal year 1977, January 21, 1976.

8/ Quarterly average exceeds fiscal year total by \$.7 billion for FY 1976 due to spreading of wage base effect over calendar year.

9/ Quarterly average exceeds fiscal year total by \$.8 billion for FY 1977 due to spreading of wage base effect over calendar year.

10/ Estimated by FRB staff.

11/ The high employment budget estimates now fully incorporates taxes on inventory profits beginning 1973.

Comments on Federal Sector Outlook

(Beginning with this Greenbook, the foregoing Federal Sector Accounts table has been shifted to Part I; ^{as} appropriate, written comments will also be provided on the details in the fiscal policy outlook.)

The staff now estimates that the transition quarter deficit will total about \$16 billion, \$2 billion below the estimate in the last Greenbook. Projected receipts for the quarter are essentially unchanged from last month's estimate of approximately \$82 billion. But unified outlays for the period ending September 30 are now forecast at \$98 billion. This estimate reflects a larger than expected sale of Mid-Atlantic oil leases as well as an unanticipated August sale of assets by the Government National Mortgage Association (GNMA). With the exception of these items, which are treated as negative outlays in budget accounting, incoming data are generally consistent with the staff's earlier views regarding transition quarter spending.

Turning to fiscal year 1977, a conference committee recently set Congressional budget targets for the fiscal year which begins on October 1. Outlays are expected to total \$413.1 billion, about \$13 billion higher than the Administration's most recent estimate. The Second Concurrent Budget Resolution rejects many of the President's proposals to hold down domestic spending, especially in the areas of veteran's benefits, foodstamps and medicare. The House and the Senate also decided not to accept the Administration's call to substitute block grants for categorical grants in the areas of health, education and child nutrition.

Much of this additional spending had been incorporated into our previous outlays estimates which currently remain at \$410 billion. The \$3 billion difference between the staff and the Congressional outlay forecast is due mainly to proposed spending initiatives, especially for public service employment.

The Second Concurrent Budget Resolution set a FY '77 receipts target of \$362.5 billion. This estimate includes both the extension of last year's tax cuts and the tax reforms recently approved by a House-Senate Conference Committee. The legislative assumptions of the Congress and those used by the staff are consistent, and differences in the two projections are thus due to different income forecasts and alternative assumptions regarding likely effective tax rates. In this case, the congressional resolution shows about \$7 billion higher receipts than the Greenbook.

Finally, on a full employment budget basis, the staff projection indicates a modest shift toward restraint between calendar years 1976 and 1977.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Short-term interest rates currently are unchanged to slightly lower than at the time of the August FOMC meeting. With aggregate credit demands quite moderate, the Federal funds rate stable around 5-1/4 per cent, and the monetary aggregates growing within expected ranges, market participants continue to anticipate that short-term interest rates are unlikely to be subjected to appreciable upward pressures in the near term. In corporate bond markets, yields have declined as much as 20 basis points since the August Committee meeting, in association with relatively light supplies of new issues being marketed. Large offerings of municipal issues have been absorbed at declining yields as demand by institutional investors has been strong.

The slowdown in corporate bond offerings has been attributable mainly to a reduced volume of issues by high-grade industrial firms. Moreover, a few of the recent non-industrial offerings have been advance refundings of telephone issues sold during the spring of 1970 when rates were about 1 percentage point higher than now. In addition, the recent rate declines prompted several financial firms to schedule bond offerings for the near term.

Since the mid-August refunding, the Treasury has raised \$3.2 billion of new money through two intermediate-term note auctions, and announced a note offering for late this month which will raise \$800 million net. This operation will complete the Treasury's financing for the current quarter and will add further to the already exceptionally

high cash balance. The Treasury continues to emphasize the need for debt lengthening and virtually all the net increase in marketable issues in the third quarter has been in the form of coupon securities.

In short-term markets, business credit demands weakened in August and early September. Growth in outstanding commercial paper issued by nonfinancial firms slackened in August and bank loans to businesses declined slightly. Given weak loan demands and strong inflows of savings and other time deposits, banks permitted a substantial run-off of large negotiable CD's. By early September, large CD's outstanding had declined about \$10 billion from the level at mid-year.

Net inflows to thrift institutions also have been quite strong recently, as offering rates have been attractive relative to yields available on market instruments. Savings and loan associations have maintained strong mortgage credit extensions and reportedly increased mortgage loan commitments further. Rates on new home mortgages have changed little over the past month, although secondary market rates have drifted lower partly in sympathy with declining corporate bond yields.

Outlook. Both Treasury and private credit demands may increase in the fourth quarter. The Treasury currently is expected to raise about \$20 billion of new money in securities markets and in addition to finance part of its need by reductions in the cash balance. With the pace of economic activity expected to pick up, associated private credit demands should also rise. Consumer instalment and mortgage credit growth may

increase at a somewhat faster pace than recently. Business credit demands in short-term markets are unlikely to increase much before year-end, given the strong flow of internal funds relative to expenditures. But corporate bond issuance seems likely to rise somewhat from the relatively low levels during the third quarter, as a number of firms may accelerate financing to take advantage of the currently more attractive level of interest rates.

At current market rates, fund flows into savings and consumer-type time deposits at banks and thrift institutions are likely to remain quite strong. These institutions appear to be in a position to meet expected credit demands with little change in their liquidity positions or reliance on borrowed funds. Any significant upward adjustment in market rates likely would produce a prompt and sizable slowdown in net inflows of savings deposits such as occurred in June, but such a slowing probably would be at least partly offset at banks by issuance of large CD's.

Overall, credit demands and the supply of funds are likely to be in reasonable balance over the next few months at around prevailing interest rates. Assuming an acceleration in economic activity from its recent pace, involving in part financing of greater inventory accumulation, some upward rate pressures may become evident late this year.

INTERNATIONAL DEVELOPMENTS

Summary: Over the past five weeks the dollar has depreciated by more than one per cent against most major currencies except the pound sterling, which came under sharp downward pressure last week in the wake of labor unrest, and the Italian lira. Strains among currencies within the EC snake have subsided for the moment. On a weighted-average basis the value of the dollar declined by about half a percentage point over the five-week period, with most of the decline occurring in mid-August.

After being pegged to the U.S. dollar at a rate of 12.50 per dollar for 22 years, the Mexican peso was allowed to float on September 1. This action was taken in the face of declining Mexican foreign exchange reserves and an increasing divergence between the Mexican and U.S. inflation rates. The Mexican authorities have now stabilized the peso at 19.90 - 19.70 per dollar, equal to a 50 per cent increase in the peso price of the dollar and to a 37 per cent decline in the dollar value of the peso.

Data for U.S. international transactions in July show a substantial increase in the merchandise trade deficit to an annual rate of almost \$13 billion. The rise in the deficit was the result of sizable increases in both fuel and non-fuel imports from second-quarter rates that outweighed the continued upward trend in agricultural and non-agricultural exports. The rise in the trade deficit in July does not appear to reflect a change in the underlying trend. New orders for machinery exports reached record levels in July and non-fuel imports are expected to drop back to more normal rates.

A surge in new Canadian bond issues and a large IBRD issue pushed new foreign bond issues in the U.S. market in July to over \$2 billion. (The preliminary figure for August was one-fourth as large.) Bank-reported private capital transactions showed a small net inflow in July.

Recent data on economic activity in the major foreign industrial countries indicate some slowing from the exceptionally rapid pace of expansion early in the year. Inflation has leveled off at high rates in most countries, but there is some evidence of an increase in inflationary pressures in France and, perhaps, Japan.

Activity in international capital markets was slightly reduced in the second quarter but remained at a high level. In the second quarter the volume of medium-term Euro-credits arranged was very high, including large borrowings by non-oil developing countries, but borrowing by these countries appears to have tapered off in July and August. International bond placements moderated somewhat in the second quarter, mainly because Canadian borrowing dropped, at least temporarily.

Outlook. The apparent pause in the expansion of economic activity in the major foreign industrial countries is expected to be temporary, since it largely reflects a natural adjustment to earlier high rates of expansion. We expect average real growth in these countries to equal or, perhaps, exceed the U.S. rate of growth over the next five quarters. As a consequence, and given our expectation that the average value of the dollar will be essentially unchanged over the forecast period, we continue to project

a trade deficit of about \$6 billion this year and nearer \$7 billion in 1977. The primary reason for the increase will be a rising value of oil imports. The deficit is expected to continue to rise moderately until mid-1977 when Alaskan oil is scheduled to begin to flow through the pipeline. Rising net service receipts should produce a surplus of about \$5 billion on goods and services combined (international accounts basis) in both 1976 and 1977. Finally, the volume of new Canadian bond issues in the U.S. market during the last four months of 1976 is anticipated to be over \$1 billion, somewhat larger than was expected earlier but about half the average rate in the first eight months of 1976.