

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551



April 15, 1977

CONFIDENTIAL (FR)
CLASS II - FOMC

TO: Federal Open Market Committee

FROM: James L. Kichline

Attached are revised staff projections of GNP and related items. Following publication of Part I of the Greenbook, the President announced withdrawal of his proposed tax rebate and increase in the business investment tax credit. Consequently, the staff has eliminated these portions of the fiscal package assumptions underlying the GNP projections. Compared with the fiscal assumptions contained in the Greenbook of April 13, 1977, the removal of the rebate program and the investment tax credit reduces the package by \$10 billion and \$2.5 billion, respectively.

The first table attached compares the revised projections of GNP, prices, and unemployment with those of April 13, 1977.

Attachments

Table 1

STAFF GNP PROJECTIONS

	Per cent changes, annual rate							
	Nominal GNP		Real GNP		Gross business product fixed weighted price index		Unemployment rate (per cent)	
	4/13/77	4/15/77	4/13/77	4/15/77	4/13/77	4/15/77	4/13/77	4/15/77
1976 ^{1/}	11.6	11.6	6.1	6.1	5.2	5.2	7.7	7.7
1977	11.0	10.7	5.0	4.6	5.9	5.8	7.1	7.2
1977-I	11.4	11.4	4.8	4.8	6.4	6.4	7.4	7.4
1977-II	13.7	12.4	7.2	6.0	5.8	5.8	7.1	7.2
1977-III	12.4	11.2	6.4	5.3	5.6	5.5	7.0	7.1
1977-IV	12.8	12.9	5.9	6.1	5.7	5.5	6.9	7.0
1978-I	11.7	12.0	5.7	6.0	5.6	5.5	6.7	6.8
1978-II	11.3	11.6	5.6	5.8	5.7	5.6	6.6	6.7
Change:								
76-II to 77-II	10.5	10.2	4.6	4.3	5.3	5.3	-.3	-.2
76-IV to 77-IV	12.6	12.0	6.0	5.6	5.9	5.8	-1.0	-.9
77-II to 78-II	12.1	11.9	5.9	5.8	5.6	5.5	-.5	-.5

^{1/} Actual

Table 2

April 15, 1977

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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				1978	
	III	IV	Projected				I	II
			I	II	III	IV		
Gross National Product	1709.8	1745.1	1792.8	1846.1	1895.8	1954.1	2010.2	2066.1
Final purchases	1694.7	1743.4	1785.8	1837.6	1883.7	1936.8	1987.4	2036.7
Private	1325.1	1367.2	1404.6	1446.4	1480.6	1520.0	1561.7	1601.0
Excluding net exports	1320.4	1363.0	1406.5	1446.6	1481.4	1520.0	1561.7	1604.2
Personal consumption expenditures	1088.5	1122.0	1156.8	1184.5	1206.4	1233.4	1264.4	1298.0
Goods	599.4	618.0	636.8	653.2	664.6	679.1	696.3	715.5
Services	489.1	504.0	520.0	531.3	541.8	554.3	568.1	582.5
Gross private domestic investment	247.0	242.8	256.7	270.6	287.1	303.9	320.1	335.6
Residential construction	68.9	75.5	77.1	83.6	90.1	95.4	99.7	101.7
Business fixed investment	163.0	165.6	172.6	178.5	184.9	191.2	197.6	204.5
Change in business inventories	15.1	1.7	7.0	8.5	12.1	17.3	22.8	29.4
Nonfarm	15.6	2.2	7.0	8.0	12.1	17.3	22.8	29.4
Net exports of goods and services ^{1/}	4.7	4.2	-1.9	-.2	-.8	.0	.0	-3.2
Exports	167.7	168.5	172.1	178.0	183.3	188.5	193.2	198.5
Imports	163.0	164.3	174.0	178.2	184.1	188.5	193.2	201.7
Gov't. purchases of goods and services	369.6	376.2	381.2	391.2	403.1	416.8	425.7	435.7
Federal ^{2/}	134.5	138.9	140.1	143.0	147.2	153.3	156.0	159.8
State and local	235.0	237.4	241.1	248.2	255.9	263.5	269.7	275.9
Gross national product in constant (1972) dollars	1272.2	1280.4	1295.5	1314.5	1331.6	1351.6	1371.4	1391.1
Personal income	1386.0	1421.7	1459.3	1493.0	1532.4	1574.5	1612.5	1654.7
Wage and salary disbursements	897.8	921.0	947.9	970.0	995.0	1024.3	1051.6	1079.4
Disposable income	1190.2	1216.5	1247.4	1276.4	1313.1	1347.8	1382.1	1416.9
Saving rate (per cent)	6.4	5.6	5.1	5.0	6.0	6.4	6.4	6.3
Corporate profits with I.V.A. and C.C. Adj.	122.0	118.1	118.2	130.0	135.3	144.1	147.3	154.5
Corporate profits before tax	150.2	154.5	156.1	164.0	165.8	172.1	172.3	178.5
Federal government surplus or deficit (-) (N.I.A. basis)	-57.4	-59.2	-52.4	-52.2	-62.5	-62.0	-57.9	-55.6
High employment surplus or deficit (-)	-9.9	-8.4	-.5	-1.8	-9.5	-11.0	-7.2	-6.1
State and local government surplus or deficit (-) (N.I.A. basis)	12.7	21.9	22.6	22.4	24.4	23.5	23.7	24.4
Excluding social insurance funds	-.6	8.4	8.8	8.3	10.0	8.8	8.7	9.1
Civilian labor force (millions)	95.3	95.7	96.1	96.7	97.1	97.6	98.2	98.7
Unemployment rate (per cent)	7.8	7.9	7.4	7.2	7.1	7.0	6.8	6.7
Nonfarm payroll employment (millions)	79.7	80.1	80.9	81.5	82.1	82.8	83.4	84.0
Manufacturing	19.0	19.0	19.3	19.6	19.8	20.0	20.2	20.4
Industrial production (1967=100)	130.9	131.8	133.5	135.9	138.3	141.2	144.2	147.9
Capacity utilization: all manufacturing (per cent)	80.8	80.6	80.9	81.5	82.4	83.5	84.7	86.3
Materials (per cent)	81.3	80.3	80.0	80.6	81.6	82.8	84.1	85.7
Housing starts, private (millions, A.R.)	1.57	1.77	1.65	1.85	1.95	2.00	2.00	2.00
Sales new autos, (millions, A.R.)	10.16	10.00	11.12	11.50	11.40	11.15	11.25	11.50
Domestic models	8.61	8.32	9.28	9.90	9.90	9.65	9.75	9.90
Foreign models	1.55	1.68	1.84	1.60	1.50	1.50	1.50	1.60

^{1/} Balance of payments data and projection underlying these estimates are shown in the International Developments section of the Greenbook.

^{2/} Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

Table 3

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1976		1977				1978	
	III	IV	Projected				I	II
			I	II	III	IV		
-----Billions of dollars-----								
Gross National Product	34.6	35.3	47.7	53.3	49.7	58.3	56.1	55.9
Inventory change	-.9	-13.4	5.3	1.5	3.6	5.2	5.5	6.6
Final purchases	35.5	48.7	42.4	51.8	46.1	53.1	50.6	49.3
Private	27.9	42.1	37.4	41.8	34.2	39.4	41.7	39.3
Net exports	-4.6	-.5	-6.1	1.7	-.6	.8	.0	-3.2
Excluding net exports	32.5	42.6	43.5	40.1	34.8	38.6	41.7	42.5
Personal consumption expenditures	23.8	33.5	34.8	27.7	21.9	27.0	31.0	33.6
Goods	9.6	18.6	18.8	16.4	11.4	14.5	17.2	19.2
Services	14.2	14.9	16.0	11.3	10.5	12.5	13.8	14.4
Residential fixed investment	3.6	6.6	1.6	6.5	6.5	5.3	4.3	2.0
Business fixed investment	5.1	2.6	7.0	5.9	6.4	6.3	6.4	6.9
Government	7.6	6.6	5.0	10.0	11.9	13.7	8.9	10.0
Federal	3.3	4.4	1.2	2.9	4.2	6.1	2.7	3.8
State and local	4.1	2.4	3.7	7.1	7.7	7.6	6.2	6.2
GNP in constant (1972) dollars	12.2	8.2	15.1	19.0	17.1	19.9	19.9	19.6
Final purchases	13.2	17.5	11.6	18.0	14.7	16.6	16.3	15.4
Private	11.3	17.7	12.5	14.7	10.4	13.1	14.6	12.9
-----In Per Cent Per Year ^{1/} -----								
Gross National Product	8.5	8.5	11.4	12.4	11.2	12.9	12.0	11.6
Final purchases	8.8	12.0	10.1	12.1	10.4	11.8	10.9	10.3
Private	8.9	13.3	11.4	12.4	9.8	11.1	11.4	10.5
Personal consumption expenditures	9.2	12.9	13.0	9.9	7.6	9.3	10.4	11.1
Goods	6.7	13.0	12.7	10.7	7.2	9.0	10.5	11.5
Services	12.5	12.8	13.3	9.0	8.1	9.6	10.3	10.5
Gross private domestic investment	13.8	-6.7	24.9	23.5	26.7	25.5	23.1	20.8
Residential structures	24.3	43.7	8.7	38.2	34.9	25.7	19.3	8.3
Business fixed investment	13.5	6.5	18.0	14.4	15.1	14.3	14.1	14.7
Gov't. purchases of goods & services	8.6	7.4	5.4	10.9	12.7	14.3	8.8	9.7
Federal	10.7	13.6	3.6	8.5	12.3	17.6	7.2	10.1
State and local	7.4	4.0	6.5	12.3	13.0	12.4	9.7	9.5
GNP in constant (1972) dollars	3.9	2.6	4.8	6.0	5.3	6.1	6.0	5.8
Final purchases	4.3	5.7	3.7	5.7	4.6	5.1	5.0	4.6
Private	4.7	7.3	5.0	5.9	4.1	5.1	5.6	4.9
GNP implicit deflator ^{2/}	4.4	5.8	6.3	6.1	5.6	6.4	5.6	5.4
Gross business product fixed-weight price index ^{3/}	4.3	4.9	6.4	5.8	5.5	5.5	5.5	5.6
Personal income	7.2	10.7	11.0	9.6	11.0	11.4	10.0	10.9
Wage and salary disbursements	7.8	10.7	12.2	9.7	10.7	12.3	11.1	11.0
Disposable income	6.2	9.1	10.5	9.6	12.0	11.0	10.6	10.4
Corporate profits before tax	11.4	12.0	4.1	21.7	4.6	16.0	.6	15.1
Nonfarm payroll employment	2.0	2.0	4.1	3.0	3.0	3.5	2.9	2.9
Manufacturing	.0	.0	6.5	6.4	4.1	4.1	4.1	4.0
Nonfarm business sector								
Output per hour	2.6	-1.0	2.2	3.4	2.5	3.1	2.8	2.8
Compensation per hour	7.1	7.2	9.5	7.6	8.6	7.8	8.7	7.7
Unit labor costs	4.3	8.2	7.3	4.2	6.1	4.7	5.9	4.9
Industrial production	4.7	2.8	5.3	7.3	7.4	8.5	9.0	10.5
Housing starts, private	41.3	61.5	-24.5	58.0	23.4	10.7	.0	.0
Sales new autos	-6.8	-6.2	52.9	14.4	-3.4	-8.5	3.6	9.2
Domestic models	-12.4	-12.8	54.8	29.5	.0	-9.7	4.2	6.3
Foreign models	34.2	38.0	43.9	-42.8	-22.8	.0	.0	29.5

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

^{2/} Excluding Federal pay increases rates of change are: 1976-IV, 5.3 per cent; 1977-I, 6.2 per cent; 1977-IV, 5.8 per cent; 1978-I, 5.6 per cent.

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

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Table 4

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

	1970	1971	1972	1973	1974	1975	1976	Projected 1977
Gross National Product	982.4	1063.4	1171.1	1306.6	1413.2	1516.3	1691.6	1872.2
Final purchases	978.6	1057.1	1161.7	1288.6	1402.5	1531.0	1679.7	1861.0
Private	759.7	823.4	908.6	1019.1	1099.2	1192.0	1314.1	1462.9
Excluding net exports	755.8	821.8	911.9	1012.0	1091.7	1171.5	1307.5	1463.6
Personal consumption expenditures	618.8	668.2	733.0	809.9	887.5	973.2	1079.7	1195.3
Goods	349.6	374.8	410.5	457.5	497.8	540.8	596.9	658.4
Services	269.1	293.4	322.4	352.3	389.6	432.4	482.8	536.8
Gross private domestic investment	140.8	160.0	188.3	220.0	215.0	183.7	239.6	279.6
Residential construction	36.6	49.6	62.0	66.1	55.1	51.2	67.7	86.5
Business fixed investment	100.5	104.1	116.8	136.0	149.2	147.1	160.0	181.8
Change in business inventories	3.8	6.4	9.4	17.9	10.7	-14.6	11.9	11.2
Nonfarm	3.7	5.1	8.8	14.7	12.2	-17.6	11.9	11.1
Net exports of goods and services	3.9	1.6	-3.3	7.1	7.5	20.5	6.6	-.7
Exports	62.5	65.6	72.7	101.6	144.4	148.1	162.7	180.5
Imports	58.5	64.0	75.9	94.4	136.9	127.6	156.0	181.2
Gov't. purchases of goods and services	218.9	233.7	253.1	269.5	303.3	339.0	365.6	398.1
Federal	95.6	96.2	102.1	102.2	111.6	124.4	133.4	145.9
State and local	123.2	137.5	151.0	167.3	191.6	214.5	232.2	252.2
Gross national product in constant (1972) dollars	1075.3	1107.5	1171.1	1235.0	1214.0	1191.7	1264.7	1323.3
Personal income	801.3	859.1	942.5	1052.4	1153.3	1249.7	1375.3	1514.8
Wage and salary disbursements	546.5	579.4	633.8	701.3	765.0	806.7	890.4	984.3
Disposable income	685.9	742.8	801.3	901.7	982.9	1080.9	1181.7	1296.2
Saving rate (per cent)	7.4	7.7	6.2	7.8	7.3	7.8	6.5	5.6
Corporate profits with I.V.A. and C.C. Adj.	67.9	77.2	92.1	99.1	84.8	91.6	117.9	131.9
Corporate profits before tax	71.5	82.0	96.2	115.8	127.6	114.5	148.0	164.5
Federal government surplus or deficit (-) (N.I.A. basis)	-12.1	-22.0	-17.3	-6.7	-11.5	-71.2	-58.6	-57.3
High employment surplus or deficit (-)	3.0	-5.3	-5.9	-.7	16.8	-17.2	-11.2	-5.7
State and local government surplus or deficit (-) (N.I.A. basis)	2.8	3.7	13.7	13.0	7.3	6.9	14.0	23.2
Excluding social insurance funds	-4.0	-3.8	5.6	4.1	-2.8	-5.1	.9	9.0
Civilian labor force (millions)	82.8	84.1	86.5	88.7	91.0	92.6	94.8	96.9
Unemployment rate (per cent)	5.0	6.0	5.6	4.9	5.6	8.5	7.7	7.2
Nonfarm payroll employment (millions)	70.9	71.2	73.7	76.9	78.4	77.1	79.4	81.8
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	129.8	137.2
Capacity utilization: all manufacturing (per cent)	79.2	78.0	83.1	87.5	84.2	73.6	80.1	82.1
Materials (per cent)	84.3	83.1	88.0	92.4	87.7	73.6	80.3	81.2
Housing starts, private (millions, A.R.)	1.43	2.05	2.36	2.05	1.33	1.16	1.54	1.86
Sales new autos (millions, A.R.)	8.40	10.24	10.93	11.42	8.91	8.66	10.12	11.29
Domestic models	7.12	8.68	9.32	9.65	7.49	7.08	8.63	9.68
Foreign models	1.28	1.56	1.61	1.77	1.42	1.58	1.50	1.61

Table 5

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1970	1971	1972	1973	1974	1975	1976	Projected 1977
-----Billions of Dollars-----								
Gross National Product	46.9	81.0	107.7	135.5	106.6	103.1	175.3	180.6
Inventory change	-5.6	2.6	3.0	8.5	-7.2	-25.3	26.5	-.7
Final purchases	52.4	78.5	104.6	126.9	113.9	128.5	148.7	181.3
Private	41.4	63.7	85.2	110.5	80.1	92.8	122.1	148.8
Net exports	2.1	-2.3	-4.9	10.4	.4	13.0	-13.9	-7.3
Excluding net exports	39.3	66.0	90.1	100.1	79.7	79.8	136.0	156.1
Personal consumption expenditures	39.1	49.4	64.8	76.9	77.6	85.7	106.5	115.6
Goods	17.1	25.2	35.7	47.0	40.3	43.0	56.1	61.5
Services	21.9	24.3	29.0	29.9	37.3	42.8	50.4	54.0
Residential fixed investment	-1.3	13.0	12.4	4.1	-11.0	-3.9	16.5	18.8
Business fixed investment	1.6	3.6	12.7	19.2	13.2	-2.1	12.9	21.8
Government	11.0	14.8	19.4	16.4	33.8	35.7	26.6	32.5
Federal	-1.9	.6	5.9	.1	9.4	12.8	9.0	12.5
State and local	12.8	14.3	13.5	16.3	24.3	22.9	17.7	20.0
GNP in constant (1972) dollars	-3.5	32.2	63.6	63.9	-21.0	-22.3	73.0	58.6
Final purchases	2.8	29.9	60.8	56.8	-13.0	-1.8	52.9	59.5
Private	9.3	30.7	57.1	57.4	-16.9	-6.4	49.8	53.7
-----In Per Cent Per Year-----								
Gross National Product	5.0	8.2	10.1	11.6	8.2	7.3	11.6	10.7
Final purchases	5.7	8.0	9.9	10.9	8.8	9.2	9.7	10.8
Private	5.8	8.4	10.3	12.2	7.9	8.4	10.2	11.3
Personal consumption expenditures	6.7	8.0	9.7	10.5	9.6	9.7	10.9	10.7
Goods	5.1	7.2	9.5	11.4	8.8	8.6	10.4	10.3
Services	8.9	9.0	9.9	9.3	10.6	11.0	11.7	11.2
Gross private domestic investment	-3.7	13.6	17.7	16.8	-2.3	-14.6	30.5	16.7
Residential structures	-3.4	35.5	25.1	6.6	-16.7	-7.1	32.4	27.8
Business fixed investment	1.6	3.6	12.3	16.4	9.7	-1.4	8.7	13.6
Gov't. purchases of goods & services	5.3	6.8	8.3	6.5	12.5	11.8	7.9	8.9
Federal	-1.9	.6	6.1	.1	9.2	11.5	7.2	9.4
State and local	11.6	11.6	9.8	10.8	14.5	11.9	8.2	8.6
GNP in constant (1972) dollars	-.3	3.0	5.7	5.5	-1.7	-1.8	6.1	4.6
Final purchases	.3	2.8	5.5	4.9	-1.1	-.1	4.4	4.7
Private	1.1	3.7	6.7	6.3	-1.7	-.7	5.3	5.4
GNP implicit deflator	5.4	5.1	4.1	5.8	10.0	9.3	5.1	5.8
Gross business product fixed weighted price index ^{1/}	4.4	4.4	3.3	5.7	10.2	9.3	5.2	5.8
Personal income	7.4	7.2	9.7	11.7	9.6	8.4	10.1	10.1
Wage and salary disbursements	6.2	6.0	9.4	10.7	9.1	5.5	10.4	10.5
Disposable income	8.8	8.3	7.9	12.5	9.0	10.0	9.3	9.7
Corporate profits before tax	-14.3	14.7	17.3	20.4	10.2	-10.3	29.3	11.1
Nonfarm payroll employment	.7	.4	3.5	4.3	2.0	-1.7	3.0	3.0
Manufacturing	-4.5	-3.6	2.7	5.2	-.5	-8.5	3.8	3.7
Nonfarm business sector								
Output per hour	.2	2.9	3.0	1.7	-3.5	1.6	3.7	2.1
Compensation per hour	6.7	6.5	5.8	7.8	9.4	9.5	7.4	8.1
Unit labor costs	6.5	3.5	2.7	6.0	13.4	7.7	3.6	6.0
Industrial production	-3.0	1.7	9.2	8.4	-.4	-8.9	10.2	5.7
Housing starts, private	-2.7	43.4	15.1	-13.1	-35.1	-12.2	32.8	20.8
Sales new autos	-12.2	21.9	6.7	4.5	-22.0	-2.8	16.9	11.6
Domestic models	-15.8	21.9	7.4	3.5	-22.4	-5.5	21.9	12.2
Foreign models	15.3	21.9	3.2	9.9	-19.8	11.3	-5.1	7.3

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

TABLE 6
FEDERAL SECTOR ACCOUNTS (revised)
(billions of dollars)

	Fiscal Years			Calendar Years		Calendar quarters; unadjusted data							
	1976*	1977 ^{1/}	1978 ^{1/}	1976*	1977 ^{1/}	1976 IV*	1977 ^{1/} I	II	III	IV	1978 ^{1/} I	II	III
Unified budget receipts	300.0	354.2	394.0	318.5	363.4	76.2	79.1	106.6	92.3	85.4	87.0	117.8	103.8
Unified budget outlays	366.5	407.7	456.5	375.1	420.1	99.0	97.2	104.6	106.9	111.4	109.1	115.8	120.2
Surplus(+)/Deficit(-), unified budget	-66.5	-53.5	-62.5	-56.6	-56.7	-22.8	-18.1	2.0	-14.6	-26.0	-22.1	2.0	-16.4
Surplus(+)/Deficit(-), off-budget entities ^{2/}	-7.3	-10.7	-6.8	-5.7	-7.5	.4	-4.6	-1.0	-5.5	3.6	-6.3	.3	-4.4
Means of financing combined deficit:													
Net borrowing from public	82.9	55.6	70.4	69.0	61.2	17.4	17.6	3.9	16.7	23.0	25.9	2.3	19.2
Decrease in cash operating balance	-7.2	7.5	-.6	-3.2	1.7	5.7	2.7	-3.3	2.4	-.1	1.0	-3.1	1.6
Other ^{3/}	-1.9	1.0	-.5	-3.5	1.3	-.8	2.4	-1.6	1.0	-.5	1.5	-1.5	--
Cash operating balance, end of period	14.8	9.9	10.5	11.7	10.0	11.7	9.0	12.3	9.9	10.0	9.0	12.1	10.5
Memo: Sponsored agency borrowing ^{4/}	3.4	5.1	n.e.	2.9	6.1	.4	1.0	1.8	1.8	1.4	n.e.	n.e.	n.e.
High employment surplus(+)/deficit(-) (NIA basis) ^{5/}	-14.7	-5.0	n.e.	-11.2	-5.7	-8.4	-.5	-1.8	-9.5	-11.0	-7.2	-6.1	n.e.
			*actual					n.e.--not estimated					

^{1/} Staff estimate.

^{2/} Includes Federal Financing Bank, Postal Service, U.S. Railway Association, Rural Electrification and Telephone Revolving fund, Housing for the Elderly or Handicapped Fund, and Pension Benefit Guaranty Corporation.

^{3/} Checks issued less checks paid, accrued items and other transactions.

^{4/} Includes Federal Home Loan Banks, FNMA, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

^{5/} Estimated by F.R.B. staff. The high employment budget forecast incorporates the Council of Economic Advisors revised estimates of potential GNP and also fully incorporates taxes on inventory profits beginning 1973.