

Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,¹ and then making the scanned versions text-searchable.² Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

¹ In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

² A two-step process was used. An advanced optical character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

CONFIDENTIAL (FR)

SUMMARY AND OUTLOOK

**By the Staff
Board of Governors
of the Federal Reserve System**

September 4, 1974

Summary and Outlook

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. No significant change has occurred recently in the pattern of sluggish economic activity and steep inflation. There continues to be evidence of weakness in most private sectors of the economy and present staff projections suggest that real GNP may edge down somewhat further this quarter.

The scattered information now available suggests that industrial production is likely to change little in August, for the third consecutive month, and some softening seems to have occurred in the labor market. Initial claims for unemployment insurance were up over 10 per cent from July, with the rise apparently concentrated in manufacturing and construction.

Sales of domestic-type autos have been very strong since late July; in the first 20 days of August, unit sales were at a 9.6 million annual rate, slightly more than a year earlier. However, this surge is widely expected to be temporary--representing efforts of consumers to avoid the large price increases for the 1975 models. Staff estimates based on weekly data suggest that retail sales other than autos changed little in August following a strong advance in July.

New orders for nondefense capital goods rose sharply in July, in both nominal and real terms, and the second quarter now shows a moderate advance in real orders, as a result of an upward revision of the June data. A record increase during the second quarter in manufacturers' capital appropriations (the Conference Board survey) was concentrated in petroleum and a few other basic materials-producing industries, attesting to the continued need to expand capacity in these lines.

Wholesale prices of farm products, particularly grains and livestock, rose further from mid-July to mid-August, but in the past two weeks prices of grains have declined somewhat. Numerous announcements have been made of further industrial price increases. In July, the rise in the consumer price index slowed somewhat as food prices declined. Prices of other commodities and services, however, continued to rise strongly and food prices probably resumed their increase in August.

Outlook. Staff projections through calendar 1975 incorporate the following monetary and fiscal assumptions: (1) Growth in M_1 is assumed to average an annual rate of about 5-3/4 per cent over the projection period. Given the relatively weak outlook for real GNP, along with the prospect of continued substantial increases in prices, this would imply little change on balance in short-term interest rates. (2) A considerably expanded public employment program is still assumed, but with no Congressional action likely before adjournment prior to the elections, the expanded program has been delayed to the spring of 1975. (3) In line with the President's recent statement, other Federal expenditures for fiscal 1975 are now assumed to total just under \$300 billion on a unified budget basis; this is \$5 billion less than assumed in the last Greenbook and includes a deferral of the Federal pay raise for military and civilian employees from October 1 to January 1, 1975. (4) An increase in social security benefits of over \$4 billion, or 6-1/2 per cent, is assumed to be effective July 1, 1975, under the automatic cost of living adjustment provisions incorporated in existing legislation.

The staff projection of real growth is generally similar to that of three weeks ago--real GNP is projected to drift down through the first half of 1975, and then to show a modest upturn in the second half of next year.

This prospective weakness projected for real GNP to mid-1975 reflects the absence of any important expansive force. Housing starts are still expected to fall further during the second half of this year. By the spring of 1975, however, new Federal programs are expected to help stem further declines in housing activity.

Although the Conference Board survey of manufacturers' capital appropriations indicates the strength of demand for fixed capital in the petroleum and some basic materials producing industries, weakness has been developing in other industries, especially the utilities and commercial construction. With prices rising sharply, total real business fixed investment is expected to decline somewhat. Inventory investment is projected to edge down further, in view of the exceptionally high level of real stocks relative to GNP final sales.

This quarter, consumer spending appears to be providing some offset to weakness elsewhere. However, auto sales are expected to soften as the 1975 models are introduced, and with growth in real disposable income expected to fall short of the rise in consumer prices, real consumer spending is projected to edge down to mid-1975. Federal purchases of goods and services--including defense spending, in line with recent Congressional actions--are projected to rise more slowly than was assumed three weeks ago.

Recent developments suggest a somewhat faster rate of price increase through the first quarter of 1975 than had been expected earlier. In addition to the large price increases already announced for 1975 model automobiles, prices of other consumer durable goods have also been moving up rapidly. Among industrial products, the recent increase in prices of machinery and equipment has been extraordinarily rapid and appears likely to continue for a time. By mid-1975, however, the rise in the fixed weighted deflator is projected to slow to an annual rate of 7 per cent, as the post-control bulge in prices is gradually absorbed.

Employment is projected to decline throughout 1975. Even though expansion in the labor force is expected to slow, the unemployment rate is projected to rise appreciably--reaching 6-3/4 per cent by mid-1975 and exceeding 7 per cent by the end of next year--even on the assumption of an expanded public employment program.

STAFF GNP PROJECTIONS

	Per Cent Change, annual rate							
	Changes in nominal GNP (\$ billion)		Gross private product fixed weighted price index				Unemployment Rate (Per cent)	
	8/14/74	9/4/74	Real GNP				8/14/74	9/4/74
		8/14/74	9/4/74	8/14/74	9/4/74	8/14/74	9/4/74	
1971 <u>1/</u>	77.8	77.8	3.3	3.3	4.3	4.3	5.9	5.9
1972 <u>1/</u>	103.1	103.1	6.2	6.2	3.3	3.3	5.6	5.6
1973 <u>1/</u>	136.9	136.9	5.9	5.9	6.3	6.3	4.9	4.9
1974	104.4	107.7	-1.4	-1.4	10.9	11.0	5.5	5.5
1975	99.1	103.8	- .8	- .8	8.0	8.3	6.9	6.9
1973: I <u>1/</u>	44.2	44.2	9.5	9.5	7.4	7.4	5.0	5.0
II <u>1/</u>	29.0	29.0	2.2	2.2	8.1	8.1	4.9	4.9
III <u>1/</u>	31.0	31.0	1.6	1.6	8.4	8.4	4.7	4.7
IV <u>1/</u>	35.1	35.1	2.3	2.3	9.1	2.3	4.7	4.7
1974: I <u>1/</u>	14.8	14.8	-7.0	-7.0	14.1	14.1	5.2	5.2
II <u>1/</u>	24.7	28.5	-1.2	- .8	12.3	12.3	5.1	5.1
III	31.0	32.5	- .4	- .7	10.1	10.9	5.5	5.5
IV	26.0	24.5	-1.2	-1.7	8.5	9.1	6.0	6.0
1975: I	20.0	22.0	-1.6	-2.0	7.4	7.8	6.4	6.5
II	21.5	23.5	-1.0	- .6	7.1	7.1	6.7	6.8
III	25.0	28.0	.2	1.0	6.7	6.7	7.1	7.1
IV	33.0	34.0	1.7	1.8	6.6	6.7	7.4	7.3
Change: 72-IV to 73-IV	139.3	139.3	3.9	3.9	8.3	8.3	-.6	-.6
73-IV to 74-IV	96.5	100.3	-2.5	-2.6	11.2	11.6	1.3	1.3
74-II to 75-II	98.5	102.5	-1.1	-1.3	8.3	8.7	1.6	1.7
74-IV to 75-IV	99.5	107.5	- .2	.0	6.9	7.1	1.4	1.3

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.)

	1973	1974 Proj.	1973		1974			
			III	IV	I	II	Projected	
							III	IV
Gross National Product	1294.9	1402.6	1308.9	1344.0	1358.8	1387.3	1419.8	1444.3
Final purchases	1279.6	1389.5	1297.0	1315.1	1341.9	1373.8	1408.8	1433.3
Private	1003.2	1082.2	1020.1	1028.7	1045.6	1069.4	1097.5	1116.1
Excluding net exports	999.3	1079.1	1013.4	1019.4	1034.3	1067.4	1096.9	1117.6
Personal consumption expenditures	805.2	878.6	816.3	823.9	840.6	869.1	894.0	910.7
Durable goods	130.3	130.5	132.4	124.3	123.9	129.5	134.5	134.0
Nondurable goods	338.0	380.5	343.8	352.1	364.4	375.8	386.7	395.2
Services	336.9	367.6	340.1	347.4	352.4	363.8	372.8	381.5
Gross private domestic investment	209.4	213.5	209.0	224.5	210.5	211.8	213.9	217.9
Residential construction	57.2	47.8	58.1	53.6	48.4	48.8	47.7	46.1
Business fixed investment	136.8	152.7	139.0	141.9	145.2	149.4	155.2	160.8
Change in business inventories	15.4	13.1	11.8	28.9	16.9	13.5	11.0	11.0
Nonfarm	11.4	11.0	7.4	24.0	13.1	10.4	10.0	10.5
Net exports of goods and services ^{1/}	3.9	3.1	6.7	9.3	11.3	2.0	.6	-1.5
Exports	100.4	141.0	103.7	113.6	131.2	141.0	144.6	147.1
Imports	96.4	137.9	96.9	104.3	119.9	139.0	144.0	148.6
Gov't. purchases of goods and services	276.4	307.3	276.9	286.4	296.3	304.4	311.3	317.2
Federal	106.6	114.5	105.3	108.4	111.5	114.3	115.6	116.4
Defense	74.4	77.1	73.3	75.3	75.8	76.6	77.5	78.5
Other	32.2	37.4	32.0	33.1	35.7	37.7	38.1	37.9
State and local	169.8	192.9	171.6	177.9	184.8	190.1	195.7	200.8
Gross national product in constant (1958) dollars	839.2	827.6	840.8	845.7	830.5	828.8	827.3	823.8
GNP implicit deflator (1958 = 100)	154.3	169.5	155.7	158.9	163.6	167.4	171.6	175.3
Personal income	1055.0	1149.0	1068.0	1099.3	1112.5	1134.6	1164.8	1183.9
Wage and salary disbursements	691.7	752.1	698.2	717.0	727.6	745.2	762.8	772.7
Disposable income	903.7	978.8	913.9	939.4	950.6	966.5	991.3	1006.6
Personal saving	74.4	74.1	73.2	89.3	84.4	71.5	71.1	69.4
Saving rate (per cent)	8.2	7.6	8.0	9.5	8.9	7.4	7.2	6.9
Corporate profits & inventory val. adj.	105.1	113.9	105.2	106.4	107.7	112.6	117.2	117.9
Corporate profits before tax	122.7	146.4	122.7	122.7	138.7	150.4	150.0	146.5
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	258.5	292.8	261.8	268.3	279.4	291.6	298.2	302.1
Expenditures	264.2	295.3	263.4	270.6	281.0	291.6	302.6	306.1
Surplus or deficit (-)	-5.6	-2.5	-1.7	-2.3	-1.5	.0	-4.4	-4.0
High employment surplus or deficit (-)	-6.6	-.5	-4.8	-4.2	-3.0	-3.5	-3.1	7.6
State and local government surplus or deficit (-), (N.I.A. basis)	9.2	2.1	8.4	4.6	3.4	2.4	2.1	.4
Total labor force (millions)	91.0	93.2	91.3	92.2	92.8	92.9	93.4	93.7
Armed forces "	2.3	2.2	2.3	2.3	2.3	2.2	2.2	2.2
Civilian labor force "	88.7	91.0	89.0	89.9	90.5	90.6	91.2	91.5
Unemployment rate (per cent)	4.9	5.5	4.7	4.7	5.2	5.1	5.5	6.0
Nonfarm payroll employment (millions)	75.6	76.9	75.7	76.6	76.7	77.1	77.0	76.8
Manufacturing	19.8	19.8	19.8	20.1	19.9	19.9	19.8	19.6
Industrial production (1967 = 100)	125.6	125.1	126.7	127.0	124.9	125.4	125.3	124.6
Capacity utilization, mfg. (per cent)	83.0	79.4	83.3	82.6	80.5	80.1	79.2	78.0
Major materials (per cent)	93.0	88.8	93.5	92.3	90.2	90.0	88.5	86.5
Housing starts, private (millions, A.R.)	2.05	1.49	2.01	1.58	1.63	1.56	1.40	1.37
Sales new autos (millions, A.R.)	11.44	9.50	11.33	10.15	9.04	9.20	10.25	9.50
Domestic models	9.67	8.17	9.66	8.51	7.49	7.95	9.00	8.25
Foreign models	1.77	1.33	1.67	1.64	1.55	1.25	1.25	1.25
^{1/} Net exports of g. & s. (Bal. of Paymts.)	4.4 ^{2/}	2.0 ^{2/}	6.6	11.2 ^{2/}	10.9 ^{2/}	.7	-.7	2.8
Exports	101.0 ^{2/}	140.8 ^{2/}	103.7	116.0 ^{2/}	131.5 ^{2/}	140.6	144.2	146.7
Imports	96.6	138.8	97.1	104.8	120.6	139.9	144.9	149.5

^{2/} Includes shipments of military equipment and supplies to Israel not included in GNP figures; for 1973-IV these are \$2.4 billion and for 1974-I, \$3 billion.

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.)

	1974 Proj.	1975 Proj.	1974		1975			
			III	IV	Projected		III	IV
					I	II		
Gross National Product	1402.6	1506.4	1419.8	1444.3	1466.3	1489.8	1517.8	1551.8
Final purchases	1389.5	1500.7	1408.8	1433.3	1459.3	1483.8	1512.8	1546.8
Private	1082.2	1163.7	1097.5	1116.1	1134.3	1151.9	1172.4	1196.2
Excluding net exports	1079.1	1167.0	1096.9	1117.6	1136.5	1154.5	1176.1	1201.0
Personal consumption expenditures	878.6	953.8	894.0	910.7	926.9	943.7	962.1	982.3
Durable goods	130.5	134.2	134.5	134.0	133.0	132.2	133.7	137.7
Nondurable goods	380.5	416.6	386.7	395.2	403.5	412.5	421.1	429.3
Services	367.6	403.0	372.8	381.5	390.4	399.0	407.3	415.3
Gross private domestic investment	213.5	219.0	213.9	217.9	216.6	216.8	219.0	223.7
Residential construction	47.8	43.6	47.7	46.1	44.9	42.6	42.8	44.2
Business fixed investment	152.7	169.7	155.2	160.8	164.7	168.2	171.2	174.5
Change in business inventories	13.1	5.8	11.0	11.0	7.0	6.0	5.0	5.0
Nonfarm	11.0	6.0	10.0	10.5	7.5	6.5	5.0	5.0
Net exports of goods and services ^{1/}	3.1	-3.4	.6	-1.5	-2.2	-2.6	-3.7	-4.9
Exports	141.0	154.2	144.6	147.1	149.9	152.2	155.6	159.1
Imports	137.9	157.6	144.0	148.6	152.1	154.8	159.3	164.0
Gov't. purchases of goods and services	307.3	337.0	311.3	317.2	325.0	331.9	340.4	350.7
Federal	114.5	123.4	115.6	116.4	119.5	121.5	124.1	128.6
Defense	77.1	83.5	77.5	78.5	80.7	82.0	83.8	87.3
Other	37.4	40.0	38.1	37.9	38.8	39.5	40.3	41.3
State & local	192.9	213.6	195.7	200.8	205.5	210.4	216.3	222.1
Gross national product in constant (1958) dollars	827.6	820.6	827.3	823.8	819.7	818.4	820.3	823.9
GNP implicit deflator (1958 = 100)	169.5	183.6	171.6	175.3	178.9	182.0	185.0	188.3
Personal income	1149.0	1245.2	1164.8	1183.9	1207.4	1231.7	1258.4	1283.2
Wage and salary disbursements	752.1	814.2	762.8	772.7	789.2	806.0	821.8	839.9
Disposable income	978.8	1057.2	991.3	1006.6	1025.9	1045.9	1068.4	1088.7
Personal saving	74.1	76.3	71.1	69.4	72.2	75.1	79.0	78.8
Saving rate (per cent)	7.6	7.2	7.2	6.9	7.0	7.2	7.4	7.2
Corporate profits & inventory val. adj.	113.9	112.8	117.2	117.9	112.0	109.9	111.9	117.2
Corporate profits before tax	146.4	132.3	150.0	146.5	135.5	130.0	130.0	133.5
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	292.8	312.8	298.2	302.1	306.3	309.4	314.5	321.2
Expenditures	295.3	327.4	302.6	306.1	314.2	321.4	332.9	341.1
Surplus or deficit (-)	-2.5	-14.6	-4.4	-4.0	-7.9	-12.0	-18.4	-19.9
High employment surplus or deficit (-)	-.5	17.8	-3.1	7.6	12.9	19.0	18.2	21.0
State and local government surplus or deficit (-), (N.I.A. basis)	2.1	-2.5	2.1	.4	-1.3	-2.3	-2.7	-3.6
Total labor force (millions)	93.2	94.2	93.4	93.7	93.9	94.1	94.3	94.5
Armed forces "	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Civilian labor force "	91.0	92.0	91.2	91.5	91.7	91.9	92.1	92.3
Unemployment rate (per cent)	5.5	6.9	5.5	6.0	6.5	6.8	7.1	7.3
Nonfarm payroll employment (millions)	76.9	76.5	77.0	76.8	76.6	76.5	76.4	76.5
Manufacturing	19.8	19.1	19.8	19.6	19.4	19.2	18.9	18.9
Industrial production (1967 = 100)	125.1	123.9	125.3	124.6	123.8	123.6	123.8	124.6
Capacity utilization, mfg. (per cent)	79.4	75.9	79.2	78.0	76.8	76.0	75.5	75.3
Major materials (per cent)	88.8	83.3	88.5	86.5	84.4	83.6	83.0	82.4
Housing starts, private (millions, A.R.)	1.49	1.29	1.40	1.37	1.30	1.25	1.25	1.35
Sales new autos (millions, A.R.)	9.50	8.91	10.25	9.50	9.00	8.75	8.75	9.15
Domestic models	8.17	7.66	9.00	8.25	7.75	7.50	7.50	7.90
Foreign models	1.33	1.25	1.25	1.25	1.25	1.25	1.25	1.25
^{1/} Net exports of g. & s. (Bal. of Paymts.)	2.0	-4.7	-.7	-2.8	-3.5	-3.9	-5.0	-6.2
Exports	140.8	153.8	144.2	146.7	149.5	151.8	155.2	158.7
Imports	138.8	158.5	144.9	149.5	153.0	155.7	160.2	164.9

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1973	1974 Proj.	1973		1974			
			III	IV	I	II	Projected	
							III	IV
-----Billions of Dollars-----								
Gross National Product	136.9	107.7	31.0	35.1	14.8	28.5	32.5	24.5
Inventory change	6.9	-2.3	1.1	17.1	-12.0	-3.4	-2.5	.0
Final purchases	130.0	109.9	29.8	18.1	26.8	31.9	35.0	24.5
Private	109.3	79.0	26.2	8.6	16.9	23.8	28.1	18.6
Net exports	9.9	- .8	6.2	2.6	2.0	-9.3	-1.4	-2.1
Excluding net exports	99.4	79.8	20.0	6.0	14.9	33.1	29.5	20.7
Personal consumption expenditures	76.2	73.4	17.3	7.6	16.7	28.5	24.9	16.7
Durable goods	11.9	.2	.3	-8.1	-.4	5.6	5.0	-.5
Nondurable goods	38.0	42.5	11.1	8.3	12.3	11.4	10.9	8.5
Services	26.0	30.7	5.9	7.3	5.0	11.4	9.0	8.7
Residential fixed investment	3.2	-9.4	-.6	-4.5	-5.2	.4	-1.1	-1.6
Business fixed investment	20.0	15.9	3.4	2.9	3.3	4.2	5.8	5.6
Government	20.7	30.9	3.6	9.5	9.9	8.1	6.9	5.9
Federal	1.7	7.9	-.9	3.1	3.1	2.8	1.3	.8
State and local	19.0	23.1	4.5	6.3	6.9	5.3	5.6	5.1
GNP in constant (1958) dollars	46.7	-11.6	3.4	4.9	-15.2	-1.7	-1.5	-3.5
Final purchases	43.0	-8.9	3.1	-7.0	-5.8	.7	-.1	-3.4
Private	45.2	-10.4	3.3	-9.0	-6.1	.9	-.3	-3.3
-----Per Cent Per Year ^{1/} -----								
Gross National Product	11.8	8.3	10.1	11.2	4.5	8.7	9.7	7.1
Final purchases	11.3	8.6	9.7	5.7	8.4	9.9	10.6	7.1
Private	12.2	7.9	11.0	3.4	6.7	9.4	10.9	7.0
Personal consumption expenditures	10.5	9.1	8.9	3.8	8.4	14.3	12.0	7.7
Durable goods	10.1	.2	.9	-22.3	-1.3	19.3	16.4	-1.5
Nondurable goods	12.8	12.6	14.0	10.0	14.7	13.1	12.1	9.1
Services	8.4	9.1	7.3	8.9	5.9	13.6	10.3	9.7
Gross private domestic investment	16.8	2.0	7.8	33.1	-22.7	2.5	4.0	7.7
Residential structures	5.9	-16.4	-4.0	-27.6	-33.5	3.3	-8.7	-12.8
Business fixed investment	17.1	11.6	10.4	8.6	9.6	12.1	16.5	15.2
Gov't. purchases of goods & services	8.1	11.2	5.4	14.4	14.6	11.4	9.4	7.8
Federal	1.6	7.4	-3.3	12.3	11.9	10.4	4.6	2.8
Defense	-.5	3.6	-3.7	11.4	2.7	4.3	4.8	5.3
Other	7.0	16.1	-2.5	14.5	35.3	24.4	4.3	-2.1
State and local	12.6	13.6	11.2	15.5	16.4	12.0	12.3	10.8
GNP in constant (1958) dollars	5.9	-1.4	1.6	2.3	-7.0	-.8	-.7	-1.7
Final purchases	5.5	-1.1	1.5	-3.3	-2.8	.3	-.1	-1.7
Private	6.5	-1.5	1.9	-5.1 ^{2/}	-3.5 ^{2/}	.5	-.2	-2.0
GNP implicit deflator	5.6	9.8	8.3	8.6 ^{2/}	12.3 ^{2/}	9.6	10.5	8.9
Private GNP fixed weighted index ^{3/}	6.3	11.0	8.4	9.1	14.1	12.3	10.9	9.1
Personal income	11.7	8.9	11.6	12.2	4.9	8.2	11.1	6.7
Wage and salary disbursements	10.3	8.7	8.7	11.2	6.0	10.0	9.8	5.3
Disposable income	12.6	8.3	10.1	11.6	4.9	6.9	10.7	6.3
Corporate profits before tax	23.7	19.3	-6.9	.0	63.3	38.3	-1.1	-9.0
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	13.8	13.3	11.1	10.3	17.6	18.6	9.4	5.3
Expenditures	8.0	11.8	1.5	11.4	16.3	16.0	16.0	4.7
Nonfarm payroll employment	3.9	1.8	2.2	4.4	.8	1.8	-.3	-1.0
Manufacturing	4.7	-.1	1.2	4.5	-2.9	.4	-2.7	-4.0
Industrial production	9.0	-.4	6.2	1.0	-6.5	1.6	-.3	-2.2
Housing starts, private	-13.2	-27.1	-32.0	-61.4	11.6	-15.0	-35.6	-8.3
Sales new autos	4.7	-17.0	-21.3	-35.5	-37.1	7.2	54.3	-26.2
Domestic models	3.7	-15.5	-18.6	-39.8	-40.0	27.1	64.2	-29.4
Foreign models	9.8	-24.9	-35.0	-5.9	-20.0	-58.2	1.0	.0

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

^{2/} Excluding Federal pay increases rates of change are: 1973-IV, 8.0 per cent; and 1974-I, 12.2 per cent.

^{3/} Using expenditures in 1967 as weights.

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1974 Proj.	1975 Proj.	1974		1975			
					Projected			
			III	IV	I	II	III	IV
-----Billions of Dollars-----								
Gross National Product	107.7	103.8	32.5	24.5	22.0	23.5	28.0	34.0
Inventory change	-2.3	-7.3	-2.5	.0	-4.0	-1.0	-1.0	.0
Final purchases	109.9	111.2	35.0	24.5	26.0	24.5	29.0	34.0
Private	79.0	81.5	28.1	18.6	18.2	17.6	20.5	23.8
Net exports	-.8	-6.5	-1.4	-2.1	-.7	-.4	-1.1	-1.2
Excluding net exports	79.8	87.9	29.5	20.7	18.9	18.0	21.6	24.9
Personal consumption expenditures	73.4	75.2	24.9	16.7	16.2	16.8	18.4	20.2
Durable goods	.2	3.7	5.0	-.5	-1.0	-.8	1.5	4.0
Nondurable goods	42.5	36.1	10.9	8.5	8.3	9.0	8.6	8.2
Services	30.7	35.4	9.0	8.7	8.9	8.6	8.3	8.0
Residential fixed investment	-9.4	-4.2	-1.1	-1.6	-1.2	-2.3	.2	1.4
Business fixed investment	15.9	17.0	5.8	5.6	3.9	3.5	3.0	3.3
Government	30.9	29.7	6.9	5.9	7.8	6.9	8.5	10.3
Federal	7.9	8.9	1.3	.8	3.1	2.0	2.6	4.5
State and local	23.1	20.7	5.6	5.1	4.7	4.9	5.9	5.8
GNP in constant (1958) dollars	-11.6	-7.0	-1.5	-3.5	-4.1	-1.3	1.9	3.6
Final purchases	-8.9	-3.1	-.1	-3.4	-1.6	-1.1	1.9	3.5
Private	-10.4	-4.1	-.3	-3.3	-1.7	-1.4	.8	2.6
-----Per Cent Per Year ^{1/} -----								
Gross National Product	8.3	7.4	9.7	7.1	6.2	6.6	7.7	9.3
Final purchases	8.6	8.0	10.6	7.1	7.5	6.9	8.0	9.3
Private	7.9	7.5	10.9	7.0	6.7	6.4	7.3	8.4
Personal consumption expenditures	9.1	8.6	12.0	7.7	7.3	7.4	8.0	8.7
Durable goods	.2	2.8	16.4	-1.5	-3.0	-2.4	4.6	12.5
Nondurable goods	12.6	9.5	12.1	9.1	8.7	9.2	8.6	8.0
Services	9.1	9.6	10.3	9.7	9.7	9.1	8.6	8.1
Gross private domestic investment	2.0	2.6	4.0	7.7	-2.4	.4	4.1	8.9
Residential structures	-16.4	-8.8	-8.7	-12.8	-10.0	-19.0	1.9	13.7
Business fixed investment	11.6	11.1	16.5	15.2	10.1	8.8	7.3	7.9
Gov't. purchases of goods & services	11.2	9.7	9.4	7.8	10.2	8.8	10.6	12.7
Federal	7.4	7.8	4.6	2.8	11.1	6.9	8.8	15.3
Defense	3.6	8.3	4.8	5.3	11.7	6.6	9.1	17.8
Other	16.1	7.0	4.3	-2.1	9.8	7.4	8.4	10.3
State and local	13.6	10.7	12.3	10.8	9.7	9.9	11.7	11.2
GNP in constant (1958) dollars	-1.4	-.8	-.7	-1.7	-2.0	-.6	1.0	1.8
Final purchases	-1.1	-.4	-.1	-1.7	-.8	-.5	.9	1.7
Private	-1.5	-.6	-.2	-2.0	-1.0	-.8	.5	1.5 ^{2/}
GNP implicit deflator	9.8	8.3	10.5	8.9	8.4 ^{2/}	7.2 ^{2/}	6.7	7.4 ^{2/}
Private GNP fixed weighted index ^{3/}	11.0	8.3	10.9	9.1	7.8	7.1	6.7	6.7
Personal income	8.9	8.4	11.1	6.7	8.2	8.3	9.0	8.1
Wage and salary disbursements	8.7	8.3	9.8	5.3	8.8	8.8	8.1	9.1
Disposable income	8.3	8.0	10.7	6.3	7.9	8.0	8.9	7.8
Corporate profits before tax	19.3	-9.6	-1.1	-9.0	-26.8	-15.3	.0	11.2
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	13.3	6.9	9.4	5.3	5.7	4.1	6.8	8.8
Expenditures	11.8	10.9	16.0	4.7	11.0	9.5	15.1	10.2
Nonfarm payroll employment	1.8	-.5	-.3	-1.0	-1.0	-.5	-.5	.5
Manufacturing	-.1	-3.5	-2.7	-4.0	-4.0	-4.1	-6.1	.0
Industrial production	-.4	-.9	-.3	-2.2	-2.6	-.8	.9	2.4
Housing starts, private	-27.1	-13.4	-35.6	-8.3	-18.9	-14.5	.0	36.0
Sales new autos	-17.0	-6.2	54.3	-26.2	-19.4	-10.7	.0	19.6
Domestic models	-15.5	-6.2	64.2	-29.4	-22.1	-12.3	.0	23.1
Foreign models	-24.9	-6.0	1.0	.0	.0	.0	.0	.0

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

^{2/} Excluding Federal pay increases rates of change are: 1975-I, 7.8 per cent; 1975-II, 7.1 per cent; and 1975-IV, 6.7 per cent.

DOMESTIC FINANCIAL SITUATION

Private short-term rates generally have fluctuated within a relatively narrow range since the time of the last FOMC meeting, while most long-term rates have risen. Treasury bill rates moved over a broader range, as the Treasury raised a sizable amount of new cash in the short-term market.

In August, for the second consecutive month, there were net deposit outflows from savings banks, even after seasonal adjustment, while net inflows to savings and loan associations on the same basis continued to be very small. Individuals continued to be attracted to market instruments as a result of the relatively high level of market yields, a plentiful supply of floating rate bonds, and the availability of new Treasury issues with high coupons. With savings inflows curtailed, new mortgage commitments by thrift institutions dropped in July and probably also declined further last month.

Total short-term business credit flows appear to have moderated somewhat in August as a result of tighter bank loan policies, continued selectivity by investors in the commercial paper market, and perhaps some easing of short-term business credit demands. Banks in August also faced reduced credit demands from foreign banks--largely in reflection of a new policy of the Japanese government towards dollar

borrowing--and from domestic finance companies, which were borrowing heavily in the commercial paper market. With bank credit demands moderating and other deposit inflows picking up somewhat, commercial banks reduced their reliance on CD's and Euro-dollars.

Outlook. During the late summer and early fall, credit demands are expected to be large in the corporate and tax-exempt bond markets and--to support housing--in the Federal agency market. Businesses, particularly public utilities and industrials, are projected to step up their bond and stock offerings in order to finance capital expenditures and to rebuild liquidity, and the forward calendar suggests only modest abatement of borrowing by State and local governments. Further upward interest rate pressures are also likely in the mortgage market as thrift institution deposit inflows continue to be quite small, although usury ceilings, Federal rate subsidy programs, and nonprice rationing may limit such increases.

The Treasury is not expected to raise additional new cash, however, until the last two months of the year. Also, with loan policies restrictive and inventory accumulation projected to moderate a little further, business loan expansion could slow somewhat, although it would still remain quite large by historical standards. Any easing in bank loan expansion can be expected, as in August, to reduce bank demands on the CD and Euro-dollar markets, although positioning for September tax and dividend maturities may temporarily increase bank CD demands in the near-term.

In general, the supply of funds, given current monetary policy and the staff's forecast of GNP and prices, seems to be about in balance with the continued high level of credit demands. Interest rates thus seem likely to fluctuate around current levels, although particular market sectors--such as those for mortgages and State and local government bonds--may be subject to more pressure than others. However, because of the fairly sizable decline in the Federal funds rate since early July and the growing press emphasis on the weak economic outlook, market sentiment appears to be quite sensitive to shifts in expectations. Thus, further declines in the Federal funds rate could trigger fairly marked general interest rate declines over the near-term. Such declines would be likely to prove temporary, however, given the 5-3/4 per cent growth rate for M_1 that is embodied in the GNP projection and also assuming that the GNP forecast is correct.

INTERNATIONAL DEVELOPMENTS

Summary and outlook. In recent weeks the dollar has appreciated further in foreign exchange markets. Its weighted average value against 10 leading foreign currencies is now about 5 per cent above the mid-May low and about 3 per cent higher than in March 1973, just after the second dollar devaluation and the subsequent floating of major currencies. Recent gains seem to reflect a favorable shift in net capital flows, a return to the view held last winter that oil-exporting countries are likely to invest heavily in U.S. money and capital markets, and some apprehensions about the vulnerability of foreign banks to exchange losses and liquidity pressures.

In July there had been a net inflow of bank reported capital for the first time since January. The flow of bank lending to foreigners diminished to \$1-1/4 billion while the increase in liabilities to private foreigners rose to \$2 billion.

U.S. liabilities to foreign official agencies declined somewhat in August for the first time since January, despite further increases in the official asset holdings in this country of oil-exporting countries, as other central banks, notably in Germany and Japan, sold substantial amounts of dollars to support their currencies.

The trade deficit increased in July, after declining in June, as petroleum imports rose. The July deficit equaled the May-June average of \$9-1/2 billion at an annual rate. Some moderation of the trade deficit seems likely in the months ahead as a result of rising prices for agricultural exports and a leveling off in fuel imports. Other exports and

imports are expected to rise about equally in value, and to decline in volume terms as a result of slackening demand both here and abroad.

In most industrial countries abroad, inflation rates remain extraordinarily high, and upward pressures on wages are strong. At the same time, economic activity in a growing number of countries is level or declining. Real GNP in both Japan and Britain recovered only slightly in the second quarter from sharp first-quarter declines, and remained below year-earlier levels. Little growth is foreseen for either country for the rest of 1974 and early 1975. In Germany, where output also seems to be slackening and where price increases are slower than elsewhere, the government is reviewing the situation and may propose new economic measures this month.

Petroleum output has been cut since June in several OPEC countries, thus eliminating an earlier surplus at current prices that had filled most of the available storage capacity worldwide. Signs have multiplied that most OPEC countries, non-Arab as well as Arab, prefer to leave oil in the ground rather than cut prices.

A large number of oil-importing countries continue to experience serious payments problems. Italy has obtained a \$2 billion, 2-year credit from the Bundesbank against gold collateral, but still needs a sizable amount of longer-term financing.