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CONFIDENTIAL (FR)

March 10, 1976

SUMMARY AND OUTLOOK

By the Staff
Board of Governors
of the Federal Reserve System

SUMMARY AND OUTLOOK

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. Economic expansion has continued to be relatively brisk in recent months, while price increases have moderated--at least temporarily. Consumer expenditures apparently increased sharply in February; industrial production rose again, and employment increased further. The latest Commerce survey indicates little change since December in 'Business' 1976 plans for capital spending. However, manufacturers' capital appropriations rose sharply during the fourth quarter.

Industrial production is estimated to have increased about one-half per cent in February, a little less than in the previous three months. Strength was broadly based among consumer goods and materials. Auto production increased 5 per cent and other durable consumer goods were also up. Output of nondurable consumer goods, which had already surpassed its prerecession high, edged up further. Production of business equipment apparently was about unchanged. Over-all, the industrial production index is still 4-1/2 per cent below its previous high, and its rate of recovery has been less rapid than in the 1958 upswing.

Nonfarm payroll employment rose by 210,000 in February to a level two million above its low last June. February gains were largely concentrated in trade and services. Manufacturing employment also increased, but the average factory workweek declined somewhat. The unemployment rate fell from 7.8 to 7.6 per cent in February, as household employment increased further.

Retail sales rose by about 2-1/2 per cent in February, judging by weekly data. This increase puts the February level of retail sales markedly above the fourth quarter average. Large gains were recorded last month for the more discretionary groups such as autos, apparel, furniture and appliances, and general merchandise. Sales at food stores declined substantially, in part reflecting lower meat prices.

Unit sales of new autos rose to a 10.2 million annual rate in February. With the exception of August 1974, when sales bulged temporarily, this is the highest level of car sales since November 1973. Sales of domestic-type autos in February were 8.7 million units at an annual rate--about 10 per cent above the fourth quarter. Foreign car sales picked up last month after declining in the second half of last year because of short supplies and weakening demands.

For some time now, inventory-sales ratios for nondurables have been quite low both in the manufacturing and trade sectors. Stocks of durables, though more ample, have also been declining relative to sales. These conditions indicate a potential demand for inventory replenishment. In January the book value of manufacturers' inventories rose at a modest \$2.5 billion annual rate, following a \$1.2 billion decline in December; wholesale inventories rose at a \$6 billion annual rate in January, offsetting the December reduction.

The new Commerce survey of capital spending plans, taken in early February, indicates that business firms have not revised their spending plans materially since December. Present plans are

to increase nominal capital expenditures this year by 6-1/2 per cent over last year's level--rather than 5-1/2 per cent, as reported two months ago. New orders for nondefense capital goods, and the contract awards series, have also failed to show significant strength as yet. On the other hand, capital appropriations of large manufacturing companies, which have a fairly long lead time over expenditures, increased 22 per cent in the fourth quarter, recovering nearly two-thirds of the loss from their 1974 peak.

Housing starts declined in January for the third consecutive month to a seasonally adjusted annual rate of 1.2 million units--the lowest monthly figure since July. Most of the January reduction was in the volatile multifamily sector. However, residential building permits rose 10 per cent during the month, and with financial factors continuing favorable, housing starts are likely to resume their upward course relatively soon.

Continued improvement has been evident recently in the behavior of wages. Over the past several months, the average annual rate of increase in the hourly earnings index has been rising in the 6 to 7 per cent range, compared with a rate close to 3 per cent during the first three quarters of last year.

The improvement in prices has been more substantial. Wholesale prices fell in February for the fourth consecutive month--due to continuing price declines for farm and food products. The increase in industrial commodity prices in February slowed to 0.3 per

cent. Prices of fuel and power fell by 2 per cent--partly reflecting the removal of the oil import fee. Prices of most other industrial commodity groups continued to rise.

The consumer price increase in January slowed to a 5 per cent annual rate, as prices of food and petroleum products declined. Further near-term reductions in such prices are possible, as recent declines at the wholesale level may be passed through. In the last several months the service sector has put considerable upward pressure on retail prices. In January, service prices rose at more than a 13 per cent annual rate, as postal fees and automobile insurance rates both rose sharply.

Outlook. The staff GNP projection has not been changed much over the past month. Consumption has been strengthened somewhat, but business investment has been lowered a bit. Our policy assumptions have remained virtually unchanged.

For monetary policy, our assumptions include an M_1 growth rate averaging around 6 per cent over the projection period, and a growth rate of M_2 averaging around 9 per cent. Short-term interest rates are projected to continue their recent upward drift, with the commercial paper rate moving from its current level of 5-1/4 per cent to the neighborhood of 3 per cent a year from now. Long-term rates are expected to show only limited upward movement.

For the current fiscal year, our fiscal policy assumptions are close to the Administration's Budget. Personal tax refunds in the first half of 1976 are projected at \$29 billion--above those of

last year, excluding the special tax rebates on 1974 incomes. So far, however, the receipt of tax returns and the processing of refunds has been lagging somewhat, suggesting that there will be a bigger stimulus to consumption from refunds in the second quarter.

For fiscal 1977, we continue to assume budget outlays of \$410 billion--about \$15 billion more than in the Administration's Budget. However, we assume the extension of current income tax provisions, instead of additional tax cuts at mid-1976, so that projected tax receipts are also larger than in the Budget Document.

During the current quarter, real GNP growth is still expected to move up to around a 6-1/2 per cent annual rate. Consumption spending has been strong recently, and we expect a shift to inventory accumulation to develop this quarter. Real growth is projected to taper off next quarter, and to remain in a range of 5-1/4 to 5-1/2 per cent, annual rate, through mid-1977. By that time, we expect the unemployment rate to have declined to 7 per cent.

Our projection for business fixed investment has been scaled down somewhat since the last Greenbook, reflecting the results of the recent Commerce survey. We now project a year-over-year increase in 1976 of 7 per cent on a survey basis, and 8-1/2 per cent over-all. Growth in consumption spending over the projection period has been revised up marginally, however, with the personal saving rate now declining to 7.2 per cent by the middle of next year. The upward revision has been mainly in durables, reflecting recent stronger demands for autos and household goods. For other major sectors of the economy, our projections have remained about the same.

Our current price projections are basically unchanged, although recent price behavior suggests a smaller over-all rise in the general price level during the first quarter than assumed a month ago. This recent improvement heavily reflects developments in the food and fuel area that are likely to be temporary. From now until mid-1977, price increases are expected to average around a 5-1/2 per cent annual rate--about equal to the projected rate of rise in unit labor costs.

STAFF GNP PROJECTIONS

	Per cent change, annual rate							
	Changes in nominal GNP (\$ billions)		Real GNP		Gross private product fixed weighted price index		Unemployment rate (per cent)	
	2/11/76	3/10/76	2/11/76	3/10/76	2/11/76 ^{1/}	3/10/76	2/11/76	3/10/76
1972 ^{2/}	107.7	107.7	5.7	5.7	3.3	3.3	5.6	5.6
1973 ^{2/}	135.2	135.2	5.3	5.3	6.3	5.7	4.9	4.9
1974 ^{2/}	100.6	100.6	-1.8	-1.8	11.4	9.8	5.6	5.6
1975 ^{2/}	92.9	92.9	-2.0	-2.0	n.a.	9.1	8.5	8.5
1976	186.4	183.9	6.3	6.2	n.a.	5.8	7.6	7.4
1975-I ^{2/}	-7.7	-7.7	-9.2	-9.2	7.7	8.1	8.1	8.1
II ^{2/}	27.0	27.0	3.3	3.3	5.5	4.5	8.7	8.7
III ^{2/}	67.9	67.9	12.0	12.0	7.3	7.6	8.6	8.6
IV ^{3/}	44.7	44.0	5.4	4.9	5.9	6.7	8.5	8.5
1976-I	44.9	43.4	6.5	6.6	5.8	5.3	7.9	7.6
II	44.3	42.5	5.5	5.2	5.6	5.4	7.6	7.4
III	44.6	45.5	5.0	5.3	5.6	5.6	7.4	7.4
IV	47.0	48.7	5.1	5.3	5.5	5.5	7.3	7.2
1977-I	46.8	45.5	5.4	5.3	5.7	5.5	7.2	7.1
II	47.3	49.7	5.5	5.5	5.7	5.5	7.1	7.0
Change:								
74-IV to								
75-IV ^{3/}	131.9	131.2	2.6	2.5	6.6	6.6	1.8	1.8
75-II to								
76-II	201.8	197.8	7.3	7.1	6.2	6.2	-1.1	-1.3
75-IV to								
76-IV	180.8	180.1	5.5	5.6	5.6	5.5	-1.2	-1.3
76-II to								
77-II	185.7	189.4	5.2	5.3	5.6	5.5	-.5	-.4

^{1/} Fixed-weighted price index for 2/11/76 projection was for gross private product. The projected quarter-to-quarter changes in this index were almost the same as those in the gross business product fixed-weighted price index which is shown for the current projection.

^{2/} Actual.

March 10, 1976

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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.)

	1975		1976				1977	
	III	IV	I	II	Projected III	IV	I	II
Gross National Product	1528.5	1572.5	1615.9	1658.4	1703.9	1752.6	1798.1	1847.8
Final purchases	1530.6	1574.4	1609.9	1648.9	1691.9	1737.6	1779.6	1825.3
Private	1196.5	1229.6	1259.3	1291.5	1326.8	1362.9	1397.5	1436.7
Excluding net exports	1174.4	1208.4	1241.8	1275.3	1311.6	1349.3	1385.9	1424.7
Personal consumption expenditures	977.4	1001.0	1027.8	1055.2	1082.4	1109.6	1137.9	1166.9
Durable goods	131.8	137.6	146.6	154.1	161.6	169.3	177.2	185.4
Nondurable goods	416.4	423.7	432.0	442.4	452.6	462.6	473.5	484.8
Services	429.2	439.7	449.2	458.7	468.2	477.7	487.2	496.7
Gross private domestic investment	194.9	205.4	220.0	229.6	241.2	254.7	266.5	280.3
Residential construction	50.4	55.4	59.1	61.9	66.6	71.3	72.9	74.7
Business fixed investment	146.7	151.9	154.9	158.2	162.6	168.4	175.1	183.1
Change in business inventories	-2.1	-2.0	6.0	9.5	12.0	15.0	18.5	22.5
Nonfarm	-5.7	-7.5	5.0	10.5	13.0	16.0	18.5	22.5
Net exports of goods and services ^{1/}	22.1	21.2	17.5	16.2	15.2	13.6	11.6	12.0
Exports	148.5	153.5	155.3	158.9	162.6	167.1	171.8	177.1
Imports	126.4	132.2	137.8	142.7	147.4	153.5	160.2	165.1
Gov't. purchases of goods and services	334.1	344.8	350.6	357.4	365.1	374.7	382.1	388.6
Federal	124.2	129.9	131.5	133.1	135.1	138.9	140.5	141.3
Defense	84.9	87.4	88.2	89.3	90.5	92.8	94.0	94.3
Other	39.3	42.5	43.3	43.8	44.6	46.1	46.5	47.0
State and local	209.9	214.8	219.1	224.3	230.0	235.8	241.6	247.3
Gross national product in constant (1972) dollars	1201.5	1215.9	1235.5	1251.1	1267.5	1284.0	1300.6	1318.1
implicit deflator (1972 = 100)	127.2	129.3	130.8	132.6	134.4	136.5	138.3	140.2
Personal income	1261.7	1294.5	1328.2	1359.6	1392.6	1425.9	1459.5	1493.3
wage and salary disbursements	807.3	830.7	853.0	873.4	895.0	919.6	942.7	965.5
Disposable income	1087.1	1114.0	1145.6	1171.8	1198.6	1226.3	1256.3	1284.9
Personal saving	85.9	88.6	93.3	91.9	91.4	91.8	93.4	93.0
Saving rate (per cent)	7.9	7.9	8.1	7.8	7.6	7.5	7.4	7.2
Corporate profits with I.V.A. and C.C. Adj.	113.1	120.4	122.9	130.7	137.9	147.0	147.4	159.2
Corporate profits with I.V.A., without C.C. Adj.	119.6	127.0	129.4	137.0	144.0	152.9	153.3	165.1
Corporate profits before taxes	129.5	141.7	144.4	151.5	155.5	163.9	164.8	177.1
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	293.3	305.6	314.1	324.5	334.7	345.8	360.5	372.5
Expenditures	363.8	374.2	381.8	390.8	399.4	407.0	415.6	421.8
Surplus or deficit (-) ^{2/}	-70.5	-68.6	-67.7	-66.3	-64.7	-61.2	-55.1	-49.3
High employment surplus or deficit (-)	-7.6	-7.6	-9.2	-8.5	-6.1	-2.8	4.5	9.6
State and local government surplus or deficit (-) (N.I.A. basis)	12.9	12.2	12.4	12.2	13.1	12.2	11.9	11.9
Civilian labor force (millions)	93.1	93.2	93.5	93.9	94.5	94.9	95.4	96.0
Unemployment rate (per cent)	8.6	8.5	7.6	7.4	7.4	7.2	7.1	7.0
Nonfarm payroll employment (millions)	77.0	77.6	78.4	79.0	79.6	80.2	80.6	81.3
Manufacturing	18.3	18.5	18.8	19.1	19.3	19.5	19.7	19.9
Industrial production (1967 = 100)	114.2	117.6	120.2	122.9	125.4	127.9	130.4	133.2
Capacity utilization, mfg. (per cent)	69.0	70.8	71.8	72.8	73.7	74.6	75.4	76.4
Major materials (per cent)	78.0	80.6	81.2	82.4	83.3	84.2	85.0	86.1
Housing starts, private (millions, A.R.)	1.26	1.37	1.38	1.55	1.65	1.75	1.80	1.80
Sales new autos (millions, A.R.)	9.21	9.20	9.90	10.10	10.35	10.50	10.80	11.00
Domestic models	7.52	7.87	8.60	8.70	8.85	9.00	9.20	9.40
Foreign models	1.69	1.33	1.30	1.40	1.50	1.50	1.60	1.60
1/ Net export of g.&s. (Bal. of paymts) ^{3/}	18.0	17.2	12.7	11.2	9.8	7.7	5.3	5.5
Exports	148.7	153.3	154.6	158.2	161.9	166.4	171.1	176.4
Imports	130.7	136.1	141.9	147.0	152.1	158.7	165.8	170.9

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 of 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

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	1975		1976				1977	
	III	IV	I	II	Projected		I	II
					III	IV		
Gross National Product	67.9	44.0	43.4	42.5	45.5	48.7	45.5	49.7
Inventory change	27.5	.1	8.0	3.5	2.5	3.0	3.5	4.0
Final purchases	40.4	43.8	35.5	39.0	43.0	45.7	42.0	45.7
Private	31.0	33.1	29.7	32.2	35.3	36.1	34.6	39.2
Net exports	-2.1	-.9	-3.7	-1.3	-1.0	-1.6	-2.0	.4
Excluding net exports	33.1	34.0	33.4	33.5	36.3	37.7	36.6	38.8
Personal consumption expenditures	27.1	23.6	26.8	27.4	27.2	27.2	28.3	29.0
Durable goods	8.0	5.8	9.0	7.5	7.5	7.7	7.9	8.2
Nondurable goods	11.6	7.3	8.3	10.4	10.2	10.0	10.9	11.3
Services	7.6	10.5	9.5	9.5	9.5	9.5	9.5	9.5
Residential fixed investment	5.4	5.0	3.7	2.8	4.7	4.7	1.6	1.8
Business fixed investment	.6	5.2	3.0	3.3	4.4	5.8	6.7	8.0
Government	9.4	10.7	5.8	6.8	7.7	9.6	7.4	6.5
Federal	5.0	5.7	1.6	1.6	2.0	3.8	1.6	.8
State and local	4.4	4.9	4.3	5.2	5.7	5.8	5.8	5.7
GNP in constant (1972) dollars	33.4	14.4	19.6	15.6	16.4	16.5	16.6	17.6
Final purchases	13.7	15.1	13.8	13.6	15.8	15.3	14.0	15.5
Private	9.9	12.2	12.5	12.1	13.4	14.0	12.5	14.3
	-----In Per Cent Per Year ^{1/} -----							
Gross National Product	19.9	12.2	11.5	10.9	11.4	11.9	10.8	11.5
Final purchases	11.3	11.9	9.3	10.0	10.8	11.3	10.0	10.7
Private	11.1	11.5	10.0	10.6	11.4	11.3	10.5	11.7
Personal consumption expenditures	11.9	10.0	11.1	11.1	10.7	10.4	10.6	10.6
Durable goods	28.5	18.8	28.8	22.1	20.9	20.5	20.0	19.8
Nondurable goods	12.0	7.2	8.1	10.0	9.5	9.1	9.8	9.9
Services	7.4	10.2	8.9	8.7	8.5	8.4	8.2	8.0
Gross private domestic investment	112.6	23.4	31.6	18.6	21.8	24.3	19.9	22.4
Residential structures	57.4	46.0	29.5	20.3	34.0	31.4	9.3	10.2
Business fixed investment	1.7	15.0	8.1	8.8	11.6	15.0	16.9	19.6
Gov't. purchases of goods & services	12.1	13.4	6.9	8.0	8.9	10.9	8.1	7.0
Federal	17.9	19.7	5.0	5.0	6.1	11.7	4.7	2.3
Defense	14.4	12.3	3.7	5.1	5.5	10.6	5.3	1.3
Other	25.9	36.8	7.7	4.7	7.5	14.1	3.5	4.4
State and local	8.8	9.7	8.3	9.8	10.6	10.5	10.2	9.8
GNP in constant (1972) dollars	11.9	4.9	6.6	5.2	5.3	5.3	5.3	5.5
Final purchases	4.7	5.1	4.6	4.5	5.2	4.9	4.5	4.9
Private	4.3	5.3	5.3	5.1	5.6	5.8	5.1	5.7
GNP implicit deflator ^{2/}	7.1	6.8	4.7	5.5	5.8	6.3	5.2	5.7
Gross business product fixed weighted price index ^{3/}	7.6	6.7	5.3	5.4	5.6	5.5	5.5	5.5
Personal income	13.0	10.8	10.8	9.8	10.1	9.9	9.8	9.6
Wage and salary disbursements	10.4	12.1	11.2	9.9	10.3	11.5	10.4	10.0
Disposable income	2.0	10.3	11.8	9.5	9.5	9.6	10.2	9.4
Corporate profits before tax	105.2	43.4	7.8	21.2	11.0	23.1	2.5	34.3
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	89.1	17.8	11.6	13.9	13.2	13.9	18.1	14.0
Expenditures	13.7	11.9	8.4	9.8	9.1	7.8	8.7	6.1
Nonfarm payroll employment	3.2	3.2	4.2	3.1	3.1	3.0	2.0	3.5
Manufacturing	4.5	4.4	6.6	6.5	4.3	4.2	4.2	4.1
Industrial production	14.5	12.5	9.1	9.3	8.4	8.3	7.8	8.9
Housing starts, private	92.3	39.8	3.0	59.2	28.4	26.5	11.9	.0
Sales new autos	84.7	-.4	34.1	8.3	10.3	5.9	11.9	7.6
Domestic models	99.2	20.0	42.6	4.7	7.1	7.0	9.2	9.0
Foreign models	34.3	-61.6	-8.7	34.5	31.8	.0	29.5	.0

Percentage rates are annual rates compounded quarterly.

^{2/} Excluding Federal pay increases rates of change are: 1975-IV, 6.1 per cent; 1976-I, 4.5 per cent; 1976-IV, 5.6 per cent; 1977-I, 5.2 per cent.^{3/} Using expenditures in 1972 as weights.

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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.)

	1969	1970	1971	1972	1973	1974	1975	Projected 1976
Gross National Product	935.5	982.4	1063.4	1171.1	1306.3	1406.9	1498.8	1682.7
Final purchases	926.2	978.6	1057.1	1161.7	1288.8	1397.2	1513.4	1672.1
Private	718.3	759.7	823.4	908.6	1018.9	1096.1	1182.2	1310.1
Excluding net exports	716.5	755.8	821.8	911.9	1011.5	1088.4	1161.0	1294.5
Personal consumption expenditures	579.7	618.8	668.2	733.0	808.5	885.9	963.8	1068.8
Durable goods	85.5	84.9	97.1	111.2	122.9	121.9	128.1	157.9
Nondurable goods	247.0	264.7	277.7	299.3	334.4	375.7	409.8	447.4
Services	247.2	269.1	293.4	322.4	351.3	388.3	426.0	463.5
Gross private domestic investment	146.2	140.8	160.0	188.3	220.5	212.2	182.6	236.4
Residential construction	37.9	36.6	49.6	62.0	66.5	54.6	48.7	64.7
Business fixed investment	98.9	100.5	104.1	116.8	136.5	147.9	148.5	161.0
Change in business inventories	9.4	3.8	6.4	9.4	17.5	9.7	-14.6	10.6
Nonfarm	9.2	3.7	5.1	8.8	14.1	11.6	-16.5	11.1
Net exports of goods and services ^{1/}	1.8	3.9	1.6	-3.3	7.4	7.7	21.2	15.6
Exports	54.7	62.5	65.6	72.7	101.5	144.2	147.7	161.0
Imports	52.9	58.5	64.0	75.9	94.2	136.5	126.5	145.4
Gov't. purchases of goods and services	207.9	218.9	233.7	253.1	269.9	301.1	331.2	362.0
Federal	97.5	95.6	96.2	102.1	102.0	111.7	123.2	134.7
Defense	76.3	73.5	70.2	73.5	73.4	77.4	84.0	90.2
Other	21.2	22.1	26.0	28.6	28.6	34.3	39.2	44.5
State and local	110.4	123.2	137.5	151.0	168.0	189.4	208.0	227.3
Gross national product in constant (1972) dollars	1078.8	1075.3	1107.5	1171.1	1233.4	1210.7	1186.0	1259.5
GNP implicit deflator (1972=100)	86.7	91.4	96.0	100.0	105.9	116.2	126.4	133.6
Personal income	745.8	801.3	859.1	942.5	1054.3	1154.7	1245.9	1376.6
Wage and salary disbursements	514.6	546.5	579.4	633.8	701.0	763.6	801.6	885.3
Disposable income	630.4	685.9	742.8	801.3	903.1	983.6	1076.7	1185.6
Personal saving	35.1	50.6	57.3	49.4	72.7	74.0	88.9	92.1
Saving rate (per cent)	5.6	7.4	7.7	6.2	8.0	7.5	8.3	7.8
Corporate profits with I.V.A. and C.C.Adj.	81.4	67.9	77.2	92.1	100.2	91.3	102.3	134.6
Corporate profits with I.V.A., without C.C.Adj.	77.9	66.4	76.9	89.6	98.6	93.6	107.9	140.8
Corporate profits before tax	83.4	71.5	82.0	96.2	117.0	132.1	119.1	153.8
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts ^{2/}	197.0	192.1	198.6	227.5	257.9	288.4	283.2	329.8
Expenditures	188.4	204.2	220.6	244.7	264.8	300.1	356.9	394.8
Surplus or deficit (-) ^{2/}	8.5	-12.1	-22.0	-17.3	-6.9	-11.7	-73.7	-65.0
High employment surplus or deficit (-)	13.4	6.5	-1.7	-1.0	4.3	18.0	-10.0	-6.6
State and local government surplus or deficit (-) (N.I.A. basis)	2.1	2.8	3.7	13.7	12.9	8.1	9.9	12.5
Civilian labor force (millions)	77.9	78.6	79.1	81.7	84.4	85.9	92.7	94.2
Unemployment rate (per cent)	3.5	4.9	5.9	5.6	4.9	5.6	8.5	7.4
Nonfarm payroll employment (millions)	70.4	70.9	71.2	73.7	76.9	78.4	77.0	79.3
Manufacturing	20.2	19.3	18.6	19.1	20.1	20.0	18.4	19.2
Industrial production (1967=100)	110.7	106.6	106.8	115.2	125.6	124.8	113.4	124.1
Capacity utilization, mfg. (per cent)	86.5	78.3	75.0	78.6	83.0	78.9	68.8	73.2
Major materials (per cent)	90.0	86.2	85.3	89.6	93.0	87.0	74.9	82.8
Housing starts, private (millions, A.R.)	1.47	1.43	2.05	2.36	2.05	1.33	1.17	1.58
Sales new autos (millions, A.R.)	9.57	8.40	10.24	10.93	11.44	8.87	8.66	10.21
Domestic models	8.46	7.12	8.68	9.32	9.67	7.45	7.08	8.79
Foreign models	1.11	1.28	1.56	1.61	1.77	1.42	1.58	1.43
1/ Net exports of g. & s. (Bal. of paymts) ^{3/}	1.0	3.0	-.2	-5.9	4.2	3.8	16.9	10.4
Exports	54.7	62.4	65.5	72.6	102.1	144.4	147.7	160.3
Imports	53.6	59.5	65.8	78.5	97.9	140.6	130.8	149.9

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

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

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1969	1970	1971	1972	1973	1974	1975	Projected 1976
Gross National Product	67.0	46.9	81.0	107.7	135.2	100.6	91.9	183.9
Inventory change	1.7	-5.6	2.6	3.0	8.1	-7.8	-24.3	25.2
Final purchases	65.4	52.4	78.5	104.6	127.1	108.4	116.2	158.7
Private	56.2	41.4	63.7	85.2	110.3	77.2	86.1	127.9
Net exports	-5	2.1	-2.3	-4.9	10.7	.3	13.5	-5.6
Excluding net exports	56.7	39.3	66.0	90.1	99.6	76.9	72.6	133.5
Personal consumption expenditures	43.8	39.1	49.4	64.8	75.5	77.4	77.9	105.0
Durable goods	5.5	-.6	12.2	14.1	11.7	-1.0	6.2	29.8
Nondurable goods	16.6	17.7	13.0	21.6	35.1	41.3	34.1	37.6
Services	21.6	21.9	24.3	29.0	28.9	37.0	37.7	37.5
Residential fixed investment	3.4	-1.3	13.0	12.4	4.5	-11.9	-5.9	16.0
Business fixed investment	9.6	1.6	3.6	12.7	19.7	11.4	.6	12.5
Government	9.2	11.0	14.8	19.4	16.8	31.2	30.1	30.8
Federal	-.5	-1.9	.6	5.9	-.1	9.7	11.5	11.5
State and local	9.7	12.8	14.3	13.5	17.0	21.4	18.6	19.3
GNP in constant (1972) dollars	27.0	-3.5	32.2	63.6	62.3	-22.7	-24.7	73.5
Final purchases	25.1	2.8	29.9	60.8	55.6	-14.3	-6.4	56.6
Private	27.6	9.3	30.7	57.1	56.2	-16.1	-9.7	48.7
	-----In Per Cent Per Year-----							
Gross national product	7.7	5.0	8.2	10.1	11.5	7.7	6.5	12.3
Final purchases	7.6	5.7	8.0	9.9	10.9	8.4	8.3	10.5
Private	8.5	5.8	8.4	10.3	12.1	7.6	7.9	10.8
Personal consumption expenditures	8.2	6.7	8.0	9.7	10.3	9.6	8.8	10.9
Durable goods	6.9	-.7	14.4	14.5	10.5	-.8	5.1	23.3
Nondurable goods	7.2	7.2	4.9	7.8	11.7	12.4	9.1	9.2
Services	9.6	8.9	9.0	9.9	9.0	10.5	9.7	8.8
Business private domestic investment	11.2	-3.7	13.6	17.7	17.1	-3.8	-13.9	29.5
Residential structures	9.9	-3.4	35.5	25.0	7.3	-17.9	-10.8	32.9
Business fixed investment	10.8	1.6	3.6	12.2	16.9	8.4	.4	8.4
Gov't. purchases of goods & services	4.6	5.3	6.8	8.3	6.6	11.6	10.0	9.3
Federal	-.5	-1.9	.6	6.1	.1	9.5	10.3	9.3
Defense	-.8	-3.7	-4.5	4.7	-.1	5.4	8.5	7.4
Other	.0	4.2	17.6	10.0	.0	19.9	14.3	13.5
State and local	9.6	11.6	11.6	9.8	11.3	12.7	9.8	9.3
GNP in constant (1972) dollars	2.6	-.3	3.0	5.7	5.3	-1.8	-2.0	6.2
Final purchases	2.4	.3	2.8	5.5	4.8	-1.2	-.5	4.7
Private	3.5	1.1	3.7	6.7	6.2	-1.7	-1.0	5.2
GNP implicit deflator	5.0	5.4	5.1	4.1	5.9	9.7	8.7	5.7
Gross business product fixed weighted price index ^{1/}	4.7	4.4	4.4	3.3	5.7	9.8	9.1	5.8
Personal income	8.8	7.4	7.2	9.7	11.9	9.5	7.9	10.5
Wage and salary disbursements	9.6	6.2	6.0	9.4	10.6	8.9	5.0	10.4
Disposable income	7.2	8.8	8.3	7.9	12.7	8.9	9.5	10.1
Corporate profits before tax	-2.6	-14.3	14.7	17.3	21.6	12.9	-9.8	29.1
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	12.8	-2.5	3.4	14.6	13.4	11.8	-1.8	16.5
Expenditures	4.3	8.4	8.0	10.9	8.2	13.3	18.9	10.6
Nonfarm payroll employment	3.5	.7	.4	3.5	4.3	2.0	-1.3	3.0
Manufacturing	2.0	-4.5	-3.6	2.7	5.2	.5	-8.0	4.3
Industrial production	4.7	-3.7	.2	7.9	9.0	-.6	-9.1	9.4
Housing starts, private	-2.6	-2.7	43.4	15.1	-13.1	-35.1	-12.0	35.0
Sales new autos	-.7	-12.2	21.9	6.7	4.7	-22.5	-2.4	17.9
Domestic models	-1.9	-15.8	21.9	7.4	3.8	-23.0	-5.0	24.2
Foreign models	8.8	15.3	21.9	3.2	9.9	-19.8	11.3	-9.5

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

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. A considerable volume of funds has been raised in bond and equity markets in recent weeks, while short-term borrowing has remained modest. In February and early March, total issues of corporate bonds have continued to be quite large, and offerings of corporate stock have risen substantially in the wake of the sharp rise in stock prices since year end. Long-term borrowing by municipal governments has also been relatively heavy, while the Treasury has sold an exceptionally large amount of intermediate and longer-term debt.

In short-term markets, businesses repaid debt on balance in February; a drop in business loans at banks more than offset new funds raised through the commercial paper market. Short-term borrowing by municipalities dropped back significantly in February, as governmental entities apparently were attempting to reduce the risk of having to roll over debt frequently in a market still strongly affected by the New York situation. At the same time, the Treasury, given the substantial volume of funds raised in longer-term markets, reduced its additions to the supply of bills. Consumer credit, on the other hand, increased appreciably in January and, with household purchases of durable goods reported to have strengthened, it seems likely that another sharp rise occurred in February.

The large volume of long-term issues was readily absorbed by the market, as institutional investors continued to have ample supplies of lendable funds. As a result, longer-term interest rates have changed

little on balance since the last Committee meeting. However, short-term rates have risen somewhat despite relatively weak short-term demands, mainly reflecting a temporary rise in the Federal funds rate. Most recently, the funds rate has dropped back.

Short-term market rates have remained low relative to deposit rates at banks and other thrift institutions. As a result, the flow of funds into small-denomination interest bearing deposit accounts remained exceptionally strong. At commercial banks, growth in time deposits other than large CD's spurted to an annual rate of more than 21 per cent in February, spurred largely by continued exceptionally large flows into savings accounts. Deposit growth at non-bank thrift institutions has also been quite strong, and mortgage yields have edged down on balance since the last Committee meeting.

Outlook. Over the next few weeks, a heavy calendar of corporate and municipal issues will be augmented by Treasury demands for additional new money of about \$8-9 billion. Thereafter, Treasury credit demands will abate for a time, as customarily occurs in the second quarter of the year, but will pick up again during the summer. In addition, the staff expects business short-term credit demands to rise over the next six months to help finance growing working capital needs, and consumer credit demands are likely to increase further.

Short-term interest rates may show little change over the next few weeks, but as credit demands expand, rates are likely to begin

moving up later in the spring and summer. Net inflows of funds to depository institutions will probably slow from their recent exceptional pace, but are expected to remain sizable at least through summer. Under these circumstances, and given the liquidity already built up by banks and thrift institutions, financial markets should still be in position to accommodate expanding credit demands.

In long-term markets, the staff expects the volume of new corporate and municipal bond offerings to moderate somewhat from the recent pace. Thus, long-term yields may show little net change over the next several months, assuming inflationary expectations remain dampened. Mortgage rates are also likely to change little, as thrift institutions, with fund inflows generally ample, continue to expand mortgage portfolios aggressively.

INTERNATIONAL DEVELOPMENTS

Summary. In the past four weeks, the dollar has appreciated against all major currencies except the Canadian dollar. The trade-weighted average value of the dollar has risen about 1-3/4 per cent, reaching its highest level in two years. The dollar's rise partly reflected the continued weakness of the Italian lira and the recent slump of the British pound as well as recent indications of the strength of the U.S. economic upturn and accompanying market expectations about rises in U.S. relative to foreign interest rates.

After dropping sharply from mid-January to late February, the Italian lira steadied in response to a further tightening of Italian monetary policy, plans for a \$1 billion EEC loan to Italy, and the announcement that the official foreign exchange market would be reopened on March 1. After the reopening, however, the lira weakened further

On March 4, the British pound came under pressure after several months during which the effective exchange rate for the pound fluctuated in a narrow range. Over the next several days the pound declined by about 5 per cent against the dollar and on an effective basis. The depreciation of the pound was associated with several factors: the market's view that the British authorities were not prepared to resist a decline of the pound and might even welcome the stimulus to U.K. exports that it could provide; a relative decline in U.K. interest rates; and a U.K. inflation

rate that, although slowing recently, continues to remain above inflation rates in its major trading partners. The depreciation of the pound was accompanied by renewed strains on the exchange rate between the French franc and the German mark in the EEC snake.

The announcement of a U.S. trade deficit for January, which was \$4.6 billion at an annual rate on a balance-of-payments basis, had only a transitory depressing effect on the dollar's exchange rate. This swing into deficit from a \$9 billion surplus for the fourth quarter of 1975 partly reflected a decline in non-agricultural exports but mainly resulted from a sharp rise in imports of fuels, and a continuation of the upward trend in non-fuel imports. Monthly trade data are extremely volatile, and in addition the rise in fuel imports may reflect in part difficulties in making seasonal adjustments. The evidence for January alone should not be interpreted as a fundamental shift in the underlying situation.

U.S. bank-reported capital transactions snifted back to a small net inflow in January from a substantial net outflow in December, as the rate of increase in bank claims on foreigners was cut in half and banks increased their liabilities abroad. Net transactions in securities other than U.S. Treasury issues also shifted to a small net inflow in January due largely to a temporary reduction in the heavy volume of new foreign bond issues, which picked up again in February.

Recent data on real economic activity in the major foreign industrial countries indicate somewhat greater strength than was evident a month ago, especially in Germany. On the inflation front, however, the moderating trend in rates of increase in prices since late 1974 has become less pronounced in recent months. The outlook is for at best a modest improvement in the average of inflation rates in 1976 compared with 1975.

Publicized medium-term Euro-currency bank credits in the fourth quarter of 1975 reached the highest level since the first quarter of 1974 when the oil price increase and the prospect of large current account deficits led to massive anticipatory borrowings. New issues of foreign and international bonds also rose substantially in the fourth quarter of last year, and this pace has moderated only slightly in the early months of 1976.

Outlook. Only small adjustments have been made in the forecast for net exports of goods and services that was presented in last month's green book. Given the outlook for U.S. economic activity, which continues to be stronger than the outlook abroad, we expect the U.S. trade balance to move into deficit during 1976 and to reach a \$7 billion annual rate of deficit in the second quarter of 1977. Net transactions in services are expected to continue in large surplus throughout the forecast period, and, therefore, net exports of goods and services on a balance-of-payments basis are expected to remain in surplus, declining to about a \$5.5 billion

rate in the second quarter of 1977. Developments in the domestic economies of the major foreign industrial countries are expected to continue to diverge, and we anticipate that pressures among their currencies, particularly those within the snake, will also persist. However, over the forecast period, we see no pronounced tendency for the dollar to appreciate or depreciate on average against the major foreign currencies.