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March 9, 1977

SUMMARY AND OUTLOOK

By the Staff
Board of Governors
of the Federal Reserve System

SUMMARY AND OUTLOOK

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. Employment, retail sales, and industrial production estimates for February suggest a quick snapback from the disruptions in economic activity brought on by severe winter weather and natural gas shortages. Most indicators of current and prospective economic activity show underlying strength. The inflation picture, on the other hand, is less encouraging. Wholesale prices of most industrial commodities have risen more rapidly over the past half year. In January, moreover, consumer prices spurted ahead sharply, with an especially large rise for food. Since the January data preceded the Florida freeze, the February indexes are likely to reflect further increases in food prices.

Although plant shutdowns and energy related layoffs were still evident as of the reference week for the employment surveys (ending February 12), total employment advanced by 400,000 from early January (household survey). But the labor force rebounded even more sharply following its January decline, and the unemployment rate rose 0.2 per cent to 7.5 per cent. Reflecting growth in about three-fifths of the reporting industries, nonfarm payroll jobs increased by 260,000 (establishment survey). The factory workweek shot up 0.8 hour to 40.4 hours--almost half an hour more than in December--as production was expanded to make up for January losses. Manufacturing employment held steady in February at its higher January level. The employment and hours figures, together with fragmentary physical production data, suggest that industrial production may have returned to about the December level in February after dropping 1 per cent in January.

The data also suggest an appreciable gain in personal income in February. In January, growth of personal income had slowed to a 3.2 per cent annual rate as workers lost some \$2 billion (annual rate) in wages and salaries due to weather-related factors.

Gains in employment and income in recent months have been accompanied by a pickup in consumer spending. Demand for autos has held up well, despite the severe weather; total auto sales were estimated to be at a 10.7 million unit annual rate in February, up 240,000 from January. Sales of foreign models were especially strong. Retail sales of goods other than autos and nonconsumption items are estimated by the staff to have recovered much of the 1.2 per cent January decline.

Residential construction activity was severely affected by weather in January. Starts were a fifth below the advanced fourth-quarter rate and total outlays were estimated to have been off by 10 per cent from December, with most of the weakness in the hard hit Northeast and North Central states. Sales of homes continued strong, however, and with favorable financial conditions and low vacancy rates for rental units, a prompt recovery of activity appears likely.

There have also been some signs of improvement in business demand. Estimates of nondefense capital goods orders for December were revised up substantially and are now indicated to have recouped all of the November decline. Advance partial sample data indicate that these orders increased by another 3.1 per cent in January. The latest Commerce

survey of capital spending plans taken in February showed an 11.7 per cent increase for 1977, only fractionally above the fall survey results. However, the McGraw Hill survey shows a 15 per cent increase for 1977 over 1976, 2 percentage points higher than in the fall survey, and manufacturers' capital appropriations in the fourth quarter more than recovered the third quarter decline. Contracts for commercial and industrial construction (measured in floor space) recovered somewhat during the fourth quarter, according to revised data, but after a small decline in January the recent level was no higher than at mid-1976.

The inventory overhang that apparently dampened gains in industrial production for a number of months last year now appears to have been largely eliminated. Book values of business inventories rose only marginally in November and December, and the \$11.4 billion increase in the fourth quarter (annual rate) was only about one-third of the average rise recorded over the previous half year. In December, the inventory-sales ratio for trade was back down to the levels of early 1976. The manufacturing inventory-shipments ratio remained near its lowest point since 1973 despite an increase of \$10.2 billion in the book value of inventories in January.

The Consumer Price Index jumped 0.8 per cent in January, about twice as much as the average monthly rise during 1976. Food prices, which were little changed during 1976, rose 0.9 per cent, reflecting higher prices for coffee, meats, cereal and bakery products.

Further large increases for apparel accounted for much of the rise in nonfood commodities prices. Wholesale prices of industrial commodities other than energy items rose 0.7 per cent in January, extending the more rapid rise of the last half of 1976.

Outlook. The current staff projection shows a slightly faster growth of real output than the previous projection, reflecting indications of more underlying strength in business demands. The projection also shows slightly larger price increases, reflecting the adverse impact of unusual weather on food prices and additional pressure on industrial prices.

The policy assumptions underlying the staff projections are basically unchanged. The tax bill just passed by the House has roughly the same dimensions and timing as the package included in last month's policy assumptions, except for technical features that may shift the proposed \$50 payments to social security beneficiaries from the second to the third quarter. Pending further Congressional action, we continue to assume that both the tax rebates and the one-time payments to nontaxpayers will take place in May and June. However, the projected level of Federal spending has been reduced by \$5 billion in FY 1977 and \$2-1/2 billion in FY 1978, to reflect a continued pattern of spending levels below earlier estimates. This point is discussed further in the following Federal Sector Outlook.

In regard to monetary policy we continue to assume a growth rate of M_1 that averages 5-1/2 per cent over the four quarters of 1976,

although the pattern within the year reflects an expected second-quarter bulge in the money stock generated by the rebates. As previously, short-term interest rates are projected to rise this year--mainly over the second half of 1977.

Real GNP is now projected to increase at an annual rate of 4.5 per cent in the first quarter, as compared to the 3.8 per cent shown in the last Greenbook. Flow data now suggest more strength in demand for producers durable equipment than had been indicated earlier, and we now expect a modest increase in the rate of inventory investment. Last month, before the full magnitude of the slowing of inventory investment in the fourth quarter was known, we had anticipated a further slowing. Projections for consumer spending are essentially unchanged while governmental purchases have been reduced somewhat.

We continue to anticipate a strong rise of real GNP growth in the second quarter--at an annual rate close to 8 per cent--reflecting a further recovery from the economic effects of the severe weather and some spending of the tax rebates and related payments. For the four quarters of 1977, real GNP growth is projected to average 6-1/4 per cent. The annual rate of growth in the first half of 1978 is expected to ease to 5-3/4 per cent, partly because of a leveling out of housing starts at a 2 million unit annual rate as financial markets become somewhat less supportive.

The average growth over the projection period is about 1/4 of a percentage point larger than last month. This increase reflects slightly

stronger outlays for business fixed investment, as indicated by recent data, and the expectation that a faster rate of inventory accumulation will accompany improved final sales late this year and early in 1978. However, the projection still assumes that businessmen will follow a relatively conservative inventory investment policy throughout the projection period.

Based on these GNP developments, we have projected a gradual decline in the unemployment rate to 7 per cent by the fourth quarter of 1977 and to about 6-1/2 per cent by mid-1978.

On the income side, we continue to project that corporate profits will rise substantially further--by over 15 per cent from 1976 to 1977. While this is an unusually large increase for the third year of recovery, our projected GNP increase is also more rapid for this stage of economic expansion. Moreover, the recovery of corporate profits as a share of total GNP so far has lagged behind previous cyclical experience.

The upward revision in the price projection reflects larger expected increases in food prices as well as the recent persistence of a more rapid rate of rise in industrial prices. The fixed-weighted price index for gross business product is projected to increase at a 6 per cent rate in the first quarter when the advance in food prices is likely to be most pronounced and to moderate thereafter, averaging a 5-1/4 per cent increase in late 1977 and early 1978.

Details of the staff projection are shown in the tables that follow.

STAFF GNP PROJECTIONS

	Per cent changes, annual rate							
	Nominal GNP		Real GNP		Gross business product fixed weighted price index		Unemployment rate (per cent)	
	2/9/77	3/9/77	2/9/77	3/9/77	2/9/77	3/9/77	2/9/77	3/9/77
1973 ^{1/}	11.6	11.6	5.5	5.5	5.7	5.7	4.9	4.9
1974 ^{1/}	8.2	8.2	-1.7	-1.7	10.2	10.2	5.6	5.6
1975 ^{1/}	7.3	7.3	-1.8	-1.8	9.3	9.3	8.5	8.5
1976 ^{1/}	11.6	11.5	6.2	6.1	5.2	5.2	7.7	7.7
1977	10.7	10.9	4.9	5.0	5.3	5.5	7.3	7.2
1976-III ^{1/}	8.5	8.5	3.9	3.9	4.3	4.3	7.8	7.8
1976-IV ^{1/}	9.4	8.3	3.0	2.4	5.0	4.9	7.9	7.9
1977-I	9.2	10.6	3.8	4.5	5.7	6.1	7.7	7.4
1977-II	14.1	14.2	7.8	7.9	5.5	5.5	7.4	7.2
1977-III	11.9	12.3	6.0	6.3	5.0	5.2	7.2	7.1
1977-IV	12.4	13.0	5.8	6.1	5.0	5.3	7.1	7.0
1978-I	11.3	12.0	5.5	5.7	5.2	5.3	6.9	6.7
1978-II	11.2	11.5	5.5	5.7	5.3	5.3	6.7	6.6
Change:								
75-IV to 76-IV ^{1/}	10.1	9.8	5.1	5.0	4.6	4.5	-.5	-.5
76-II to 77-II	10.3	10.4	4.6	4.7	5.3	5.2	.0	-.2
76-IV to 77-IV	11.9	12.5	5.9	6.2	5.3	5.5	-.8	-.9
77-II to 78-II	11.7	12.2	5.7	6.0	5.0	5.3	-.7	-.6

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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	I	II	Projected		I	II
					III	IV		
Gross National Product	1709.8	1744.3	1788.8	1849.2	1903.6	1962.6	2018.9	2074.5
Final purchases	1694.7	1742.6	1783.4	1840.8	1890.7	1944.2	1994.5	2043.6
Private	1325.1	1366.4	1402.1	1449.2	1487.1	1527.2	1568.2	1606.9
Excluding net exports	1320.4	1363.1	1403.1	1447.5	1485.2	1524.1	1564.6	1605.7
Personal consumption expenditures	1088.5	1122.0	1151.9	1185.1	1210.6	1237.6	1267.1	1298.7
Goods	599.4	618.0	631.8	651.7	664.7	679.2	695.2	713.0
Services	489.1	504.0	520.1	533.4	545.9	558.4	571.9	585.7
Gross private domestic investment	247.0	242.8	256.6	270.8	287.5	304.9	321.9	337.9
Residential construction	68.9	75.5	79.1	84.6	90.6	95.8	99.8	101.8
Business fixed investment	163.0	165.6	172.1	177.8	184.0	190.7	197.7	205.2
Change in business inventories	15.1	1.7	5.4	8.4	12.9	18.4	24.4	30.9
Nonfarm	15.6	2.2	5.9	8.4	12.9	18.4	24.4	30.9
Net exports of goods and services ^{1/}	4.7	3.3	-1.0	1.7	1.9	3.1	3.6	1.2
Exports	167.7	168.6	172.1	178.3	184.0	189.7	194.5	200.0
Imports	163.0	165.3	173.1	176.6	182.1	186.6	190.9	198.8
Gov't. purchases of goods and services	369.6	376.2	381.3	391.6	403.6	417.0	426.3	436.7
Federal ^{2/}	134.5	138.9	140.0	142.7	147.2	153.3	156.0	159.8
State and local	235.0	237.4	241.3	248.9	256.4	263.7	270.3	276.9
Gross national product in constant (1972) dollars	1272.2	1279.9	1294.0	1318.9	1339.3	1359.3	1378.4	1397.7
Personal income	1386.0	1421.7	1457.3	1506.3	1532.9	1574.9	1610.8	1652.3
Wage and salary disbursements	897.8	921.0	943.9	968.0	993.0	1022.3	1046.6	1075.9
Disposable income	1190.2	1216.5	1245.7	1322.4	1313.5	1348.1	1380.8	1415.0
Saving rate (per cent)	6.4	5.6	5.3	8.3	5.7	6.1	6.1	6.1
Corporate profits with I.V.A. and C.C. Adj.	122.0	117.5	116.8	133.0	143.7	154.8	162.6	169.5
Corporate profits before tax	150.2	153.9	150.8	165.0	173.2	181.8	187.6	193.5
Federal government surplus or deficit (-) (N.I.A. basis)	-57.4	-59.7	-55.4	-99.0	-59.9	-59.2	-55.7	-53.2
High employment surplus or deficit (-)	-9.9	-8.6	-2.1	-49.0	-11.5	-12.3	-10.2	-8.8
State and local government surplus or deficit (-) (N.I.A. basis)	12.7	21.9	21.2	22.6	23.8	24.0	24.9	25.1
Excluding social insurance funds	-.6	8.4	7.4	8.5	9.4	9.3	9.9	9.8
Civilian labor force (millions)	95.3	95.7	96.0	96.6	97.1	97.5	98.0	98.6
Unemployment rate (per cent)	7.8	7.9	7.4	7.2	7.1	7.0	6.7	6.6
Nonfarm payroll employment (millions)	79.7	80.1	80.8	81.3	81.9	82.7	83.4	84.1
Manufacturing	19.0	19.0	19.2	19.5	19.7	20.0	20.2	20.5
Industrial production (1967=100)	130.9	131.6	132.7	136.1	138.9	141.9	145.0	148.7
Capacity utilization: all manufacturing (per cent)	80.8	80.4	80.4	81.9	83.0	84.2	85.4	87.0
Materials (per cent)	81.3	80.1	79.3	80.7	81.8	83.1	84.5	86.0
Housing starts, private (millions, A.R.)	1.57	1.77	1.60	1.85	1.95	2.00	2.00	2.00
Sales new autos, (millions, A.R.)	10.16	10.00	10.65	11.05	11.25	11.35	11.45	11.60
Domestic models	8.61	8.32	8.90	9.30	9.50	9.60	9.70	9.80
Foreign models	1.55	1.68	1.75	1.75	1.75	1.75	1.75	1.80

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

Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

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CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1976		1977				1978	
	III	IV	I	II	Projected III IV		I	II
	-----Billions of dollars-----							
Gross National Product	34.6	34.5	44.5	60.4	54.4	59.0	56.3	55.6
Inventory change	-.9	-13.4	3.7	3.0	4.5	5.5	6.0	6.5
Final purchases	35.5	47.9	40.8	57.4	49.9	53.5	50.3	49.1
Private	27.9	41.3	35.7	47.1	37.9	40.1	41.0	38.7
Net exports	-4.6	-1.4	-4.3	2.7	.2	1.2	.5	-2.4
Excluding net exports	32.5	42.7	40.0	44.4	37.7	38.9	40.5	41.1
Personal consumption expenditures	23.8	33.5	29.9	33.2	25.5	27.0	29.5	31.6
Goods	9.6	18.6	13.8	19.9	13.0	14.5	16.0	17.8
Services	14.2	14.9	16.1	13.3	12.5	12.5	13.5	13.8
Residential fixed investment	3.6	6.6	3.6	5.5	6.0	5.2	4.0	2.0
Business fixed investment	5.1	2.6	6.5	5.7	6.2	6.7	7.0	7.5
Government	7.6	6.6	5.1	10.3	12.0	13.4	9.3	10.4
Federal	3.3	4.4	1.1	2.7	4.5	6.1	2.7	3.8
State and local	4.1	2.4	3.9	7.6	7.5	7.3	6.6	6.6
GNP in constant (1972) dollars	12.2	7.7	14.1	24.9	20.4	20.0	19.1	19.3
Final purchases	13.2	17.0	11.7	23.2	17.6	17.3	16.3	16.2
Private	11.3	17.2	12.4	19.7	13.4	14.1	14.5	13.4
	-----In Per Cent Per Year ^{1/} -----							
vs National Product	8.5	8.3	10.6	14.2	12.3	13.0	12.0	11.5
Final purchases	8.8	11.8	9.7	13.5	11.3	11.8	10.8	10.2
Private	8.9	13.1	10.9	14.1	10.9	11.2	11.2	10.2
Personal consumption expenditures	9.2	12.9	11.1	12.0	8.9	9.2	9.9	10.4
Goods	6.7	13.0	9.2	13.2	8.2	9.0	9.8	10.6
Services	12.5	12.8	13.4	10.6	9.7	9.5	10.0	10.0
Gross private domestic investment	13.8	-6.7	24.7	24.0	27.0	26.5	24.2	21.4
Residential structures	24.3	43.7	20.5	30.9	31.5	25.0	17.8	8.3
Business fixed investment	13.5	6.5	16.6	13.9	14.7	15.4	15.5	16.1
Gov't. purchases of goods & services	8.6	7.4	5.5	11.3	12.8	14.0	9.2	10.1
Federal	10.7	13.6	3.3	7.9	13.2	17.6	7.2	10.1
State and local	7.4	4.0	6.8	13.2	12.6	11.9	10.4	10.1
GNP in constant (1972) dollars	3.9	2.4	4.5	7.9	6.3	6.1	5.7	5.7
Final purchases	4.3	5.5	3.7	7.4	5.5	5.3	4.9	4.8
Private	4.7	7.1	5.0	7.9	5.2	5.4	5.5	5.0
GNP implicit deflator ^{2/}	4.4	5.7	5.9	5.8	5.6	6.5	5.9	5.4
Gross business product fixed-weight price index ^{3/}	4.3	4.9	6.1	5.5	5.2	5.3	5.3	5.3
Personal income	7.2	10.7	10.4	14.1	7.2	11.4	9.4	10.7
Wage and salary disbursements	7.8	10.7	10.3	10.6	10.7	12.3	9.9	11.7
Disposable income	6.2	9.1	9.9	27.0	-2.7	11.0	10.0	10.3
Corporate profits before tax	11.4	10.1	-8.0	43.4	21.6	21.3	13.5	13.2
Nonfarm payroll employment	2.0	2.0	3.5	2.5	3.0	4.0	3.4	3.4
Manufacturing	.0	.0	4.3	6.4	4.2	6.2	4.1	6.1
Industrial production	4.7	2.2	3.4	10.7	8.4	9.1	9.0	10.4
Housing starts, private	41.3	61.5	-33.2	78.7	23.4	10.7	.0	.0
Sales new autos	-6.8	-6.2	28.6	15.9	7.4	3.6	3.6	5.3
Domestic models	-12.4	-12.8	30.9	19.2	8.9	4.3	4.2	4.2
Foreign models	34.2	38.0	17.7	.0	.0	.0	.0	11.9

centage rates are annual rates compounded quarterly.

^{1/} Excluding Federal pay increases rates of change are: 1976-IV, 5.2 per cent; 1977-I, 5.8 per cent; 1977-IV, 5.9 per cent; 1978-I, 5.8 per cent.

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

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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	1691.4	1876.0
Final purchases	978.6	1057.1	1161.7	1288.6	1402.5	1531.0	1679.5	1864.8
Private	759.7	823.4	908.6	1019.1	1099.2	1192.0	1313.9	1466.4
Excluding net exports	755.8	821.8	911.9	1012.0	1091.7	1171.5	1307.5	1465.0
Personal consumption expenditures	618.8	668.2	733.0	809.9	887.5	973.2	1079.7	1196.3
Goods	349.6	374.8	410.5	457.5	497.8	540.8	596.9	656.8
Services	269.1	293.4	322.4	352.3	389.6	432.4	482.8	539.4
Gross private domestic investment	140.8	160.0	188.3	220.0	215.0	183.7	239.6	279.9
Residential construction	36.6	49.6	62.0	66.1	55.1	51.2	67.7	87.5
Business fixed investment	100.5	104.1	116.8	136.0	149.2	147.1	160.0	181.1
Change in business inventories	3.8	6.4	9.4	17.9	10.7	-14.6	11.9	11.3
Nonfarm	3.7	5.1	8.8	14.7	12.2	-17.6	11.9	11.4
Net exports of goods and services	3.9	1.6	-3.3	7.1	7.5	20.5	6.4	1.4
Exports	62.5	65.6	72.7	101.6	144.4	148.1	162.7	181.0
Imports	58.5	64.0	75.9	94.4	136.9	127.6	156.3	179.6
Gov't. purchases of goods and services	218.9	233.7	253.1	269.5	303.3	339.0	365.6	398.4
Federal	95.6	96.2	102.1	102.2	111.6	124.4	133.4	145.8
State and local	123.2	137.5	151.0	167.3	191.6	214.5	232.2	252.6
Gross national product in constant (1972) dollars	1075.3	1107.5	1171.1	1235.0	1214.0	1191.7	1264.6	1327.9
Personal income	801.3	859.1	942.5	1052.4	1153.3	1249.7	1375.3	1517.8
Wage and salary disbursements	546.5	579.4	633.8	701.3	765.0	806.7	890.4	981.8
Disposable income	685.9	742.8	801.3	901.7	982.9	1080.9	1181.7	1307.4
Saving rate (per cent)	7.4	7.7	6.2	7.8	7.3	7.8	6.5	6.4
Corporate profits with I.V.A. and C.C. Adj.	67.9	77.2	92.1	99.1	84.8	91.6	117.7	137.1
Corporate profits before tax	71.5	82.0	96.2	115.8	127.6	114.5	147.8	167.7
Federal government surplus or deficit (-) (N.I.A. basis)	-12.1	-22.0	-17.3	-6.7	-11.5	-71.2	-58.7	-68.4
High employment surplus or deficit (-)	3.0	-5.3	-5.9	-7	16.8	-17.2	-11.3	-18.7
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	22.9
Excluding social insurance funds	-4.0	-3.8	5.6	4.1	-2.8	-5.1	.9	8.7
Civilian labor force (millions)	82.8	84.1	86.5	88.7	91.0	92.6	94.8	96.8
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	77.0	79.4	81.7
Manufacturing	19.3	18.6	19.1	20.1	20.0	18.3	19.0	19.6
Industrial production (1967=100)	107.8	109.6	119.7	129.8	129.3	117.8	129.7	137.4
Capacity utilization: all manufacturing (per cent)	79.2	78.0	83.1	87.5	84.2	73.6	80.1	82.4
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	1.85
Sales new autos (millions, A.R.)	8.40	10.24	10.93	11.42	8.91	8.66	10.12	11.07
Domestic models	7.12	8.68	9.32	9.65	7.49	7.08	8.63	9.32
Foreign models	1.28	1.56	1.61	1.77	1.42	1.58	1.50	1.75

March 9, 1977

CONFIDENTIAL - FR
CLASS II FOMCCHANGES 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	175.1	184.6
Inventory change	-5.6	2.6	3.0	8.5	-7.2	-25.3	26.5	-.6
Final purchases	52.4	78.5	104.6	126.9	113.9	128.5	148.5	185.3
Private	41.4	63.7	85.2	110.5	80.1	92.8	121.9	152.5
Net exports	2.1	-2.3	-4.9	10.4	.4	13.0	-14.1	-5.0
Excluding net exports	39.3	66.0	90.1	100.1	79.7	79.8	136.0	157.5
Personal consumption expenditures	39.1	49.4	64.8	76.9	77.6	85.7	106.5	116.6
Goods	17.1	25.2	35.7	47.0	40.3	43.0	56.1	59.9
Services	21.9	24.3	29.0	29.9	37.3	42.8	50.4	56.6
Residential fixed investment	-1.3	13.0	12.4	4.1	-11.0	-3.9	16.5	19.8
Business fixed investment	1.6	3.6	12.7	19.2	13.2	-2.1	12.9	21.1
Government	11.0	14.8	19.4	16.4	33.8	35.7	26.6	32.8
Federal	-1.9	.6	5.9	.1	9.4	12.8	9.0	12.4
State and local	12.8	14.3	13.5	16.3	24.3	22.9	17.7	20.4
GNP in constant (1972) dollars	-3.5	32.2	63.6	63.9	-21.0	-22.3	72.9	63.3
Final purchases	2.8	29.9	60.8	56.8	-13.0	-1.8	52.7	64.8
Private	9.3	30.7	57.1	57.4	-16.9	-6.4	49.6	58.8
-----In Per Cent Per Year-----								
National Product	5.0	8.2	10.1	11.6	8.2	7.3	11.5	10.9
Final purchases	5.7	8.0	9.9	10.9	8.8	9.2	9.7	11.0
Private	5.8	8.4	10.3	12.2	7.9	8.4	10.2	11.6
Personal consumption expenditures	6.7	8.0	9.7	10.5	9.6	9.7	10.9	10.8
Goods	5.1	7.2	9.5	11.4	8.8	8.6	10.4	10.0
Services	8.9	9.0	9.9	9.3	10.6	11.0	11.7	11.7
Gross private domestic investment	-3.7	13.6	17.7	16.8	-2.3	-14.6	30.5	16.8
Residential structures	-3.4	35.5	25.1	6.6	-16.7	-7.1	32.4	29.2
Business fixed investment	1.6	3.6	12.3	16.4	9.7	-1.4	8.7	13.2
Gov't. purchases of goods & services	5.3	6.8	8.3	6.5	12.5	11.8	7.9	9.0
Federal	-1.9	.6	6.1	.1	9.2	11.5	7.2	9.3
State and local	11.6	11.6	9.8	10.8	14.5	11.9	8.2	8.8
GNP in constant (1972) dollars	-.3	3.0	5.7	5.5	-1.7	-1.8	6.1	5.0
Final purchases	.3	2.8	5.5	4.9	-1.1	-.1	4.4	5.2
Private	1.1	3.7	6.7	6.3	-1.7	-.7	5.3	5.9
GNP implicit deflator	5.4	5.1	4.1	5.8	10.0	9.3	5.1	5.6
Gross business product fixed weighted price index ^{1/}	4.4	4.4	3.3	5.7	10.2	9.3	5.2	5.5
Personal income	7.4	7.2	9.7	11.7	9.6	8.4	10.1	10.4
Wage and salary disbursements	6.2	6.0	9.4	10.7	9.1	5.5	10.4	10.3
Disposable income	8.8	8.3	7.9	12.5	9.0	10.0	9.3	10.6
Corporate profits before tax	-14.3	14.7	17.3	20.4	10.2	-10.3	29.1	13.5
Nonfarm payroll employment	.7	.4	3.5	4.3	2.0	-1.8	3.1	2.9
Manufacturing	-4.5	-3.6	2.7	5.2	-.5	-8.5	3.8	3.2
Industrial production	-3.0	1.7	9.2	8.4	-.4	-8.9	10.1	5.9
Housing starts, private	-2.7	43.4	15.1	-13.1	-35.1	-12.8	32.8	20.1
Sales new autos	-12.2	21.9	6.7	4.5	-22.0	-2.8	16.9	9.4
Domestic models	-15.8	21.9	7.4	3.5	-22.4	-5.5	21.9	8.0
Foreign models	15.3	21.9	3.2	9.9	-19.8	11.3	-5.1	16.7

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

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1976 *	FY 1977 e/ 1/		FY 1978 e/		CY 1976*	CY 1977 F.R. Board	F.R.B. staff estimates									
		Admin. est. 2/	F.R. Board	Admin. est. 2/	F.R. Board			Calendar quarters; unadjusted data									
								1976				1977				1978	
								IV*3/	I	II	III	IV	I	II			
Unified budget receipts	300.0	349.4	345.0	401.6	398.0	318.5	353.7	76.2	78.8	98.1	91.9	84.9	88.0	120.1			
Unified budget outlays	366.5	417.4	410.0	459.4	456.5	375.1	422.4	99.0	96.0	105.5	109.5	111.4	109.1	115.8			
Surplus(+)/Deficit(-), unified budget	-66.5	-68.0	-65.0	-57.7	-58.5	-56.5	-68.7	-22.8	-17.2	-7.4	-17.6	-26.5	-21.1	4.3			
Surplus(+)/Deficit(-), off-budget agencies 4/	-7.3	-10.8	-10.7	-8.5	-6.8	-5.7	-7.5	.4	-4.8	-.8	-5.5	3.6	-6.3	.3			
Means of financing combined deficits:																	
Net borrowing from public	82.9	73.0	69.1	65.8	66.3	69.0	75.1	17.4	20.5	10.6	20.6	23.4	24.9	--			
Decrease in cash operating balance	-7.2	n.a.	7.4	n.a.	-.5	-3.2	1.7	5.7	.5	-.8	2.0	--	1.0	-3.1			
Other 5/	-1.9	n.a.	-.9	n.a.	-.5	-3.5	-.6	-.8	1.0	-1.6	.5	-.5	1.5	-1.5			
Cash operating balance, end of period	14.8	n.a.	10.0	n.a.	10.5	11.7	10.0	11.7	11.2	12.0	10.0	10.0	9.0	12.1			
Memo: Sponsored agency borrowing 6/	3.4	n.a.	4.6	n.a.	n.e.	2.9	4.7	.4	1.2	1.8	1.2	.5	n.e.	n.e.			
NIA Budget								Seasonally adjusted, annual rates									
Receipts	313.6	357.4	351.1 ^{7/}	414.7	n.e.	330.2	362.2	345.8	354.7	333.1	373.9	386.9	403.1	415.6			
Outlays	373.0	426.3	420.1	466.0	463.0	388.9	430.2	405.6	409.6	431.7	433.6	445.8	458.8	468.7			
Purchases (total)	127.2	145.0	142.2	160.7	157.9	133.5	145.8	138.9	140.0	142.7	147.2	153.3	156.0	159.8			
Defense	85.8	94.8	93.4	105.1	102.8	88.2	95.6	91.3	92.0	93.7	96.7	100.0	102.2	103.8			
Non-defense	41.4	50.2	48.8	55.6	55.1	45.2	50.2	47.6	48.0	49.0	50.5	53.3	53.8	56.0			
All other outlays	245.8	281.3	277.9 ^{7/}	305.3	305.1	255.4	284.4	266.7	269.6	289.0	286.4	292.5	302.8	308.9			
Surplus(+)/Deficit(-)	-59.4	-68.9	-69.0 ^{7/}	-51.3	n.e.	-58.8	-68.0	-59.7	-54.9	-98.6	-59.7	-58.9	-55.7	-53.1			
High Employment Surplus(+)/Deficit(-) (NIA basis) 8/	-14.7	n.a.	-17.8	n.a.	n.e.	-11.3	-18.7	-8.6	-2.1	-49.0	-11.5	-12.3	-10.2	-8.8			

- *actual e--estimated r--revised n.e.--not estimated n.a.--not available p--preliminary
- 1/ Congress' Third Concurrent Resolution on the Budget (March 3, 1977) set receipts at \$347.7, outlays at \$417.5 and unified deficit at \$69.8.
- 2/ Fiscal Year 1978 Budget Revisions, February 1977.
- 3/ NIA data are preliminary.
- 4/ 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.
- 5/ Checks issued less checks paid, accrued items and other transactions.
- 6/ Includes Federal Home Loan Banks, FNMA, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.
- 7/ Quarterly average exceeds fiscal year total by \$.8 billion for FY 1977 due to spreading of wage base effect over calendar year.
- 8/ 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.

Comments on the Federal Sector Outlook

Treasury Department data on Federal spending in January and February have been weak suggesting that Federal agencies have over-estimated their FY 1977 spending levels. The spending "shortfall" appears to be widespread but it is particularly noticeable in the areas of defense, veterans benefits, unemployment compensation and in some grants categories. Accordingly, the Board staff has revised its outlay estimate down from \$415 to \$410 billion. This is about \$7 billion below President Carter's revised outlay estimate (\$417.2 billion). Receipts, on the other hand, continue to be projected at \$345 billion in fiscal year 1977. These estimates suggest a unified deficit in fiscal year 1977 of \$65 billion and a total deficit to be financed (unified plus off-budget) of \$75 billion.

The Treasury has already raised \$32.6 billion during this fiscal year, including \$15.1 billion thus far this calendar quarter. Another \$9.0 billion is expected to be raised in the market before the April 15 tax date. During the remainder of the second quarter, tax receipts are expected to be seasonally high, thus moderating the Treasury's new cash needs during that period.

The staff's outlay projection for FY 1978 has been revised down by \$2-1/2 billion from last month's \$459 billion estimate. The current forecast allows for an increase in outlays due to President Carter's request for an expansion of the petroleum storage program;

however, this rise was more than offset by a downward adjustment for agency spending over-estimates. The staff's \$398 billion receipts projection continues to assume passage of the Administration's proposed tax reductions. This estimate is almost \$4 billion below the Administration's, mainly because our projection of income growth is less rapid.

For calendar year 1977, the staff now projects a \$8 billion deepening in the full employment deficit to a \$19 billion level.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Recent credit flows have been dominated by large public sector demands and by an increased level of short-term borrowing by businesses. So far this year, virtually all of the Treasury's new financing has been in the coupon market and long-term offerings by State and local governments have been augmented by advance refundings. Public offerings of corporate bonds have moderated, and in February were quite modest as higher rated issuers withdrew from the market when long-term rates continued at levels 25 to 30 basis points above those at the turn of the year. Although private placements remained sizable, total corporate security offerings in February were about one-fourth below the average monthly pace of 1976.

The slowdown in corporate security financing probably contributed to the February strength in business loans at banks and in commercial paper issuance by nonfinancial corporations. This growth in short-term borrowing by business firms extends a trend that began last fall and has contributed to a more than 9 per cent annual rate of growth of business loans over the last five months. In addition to the February increase in business loans, banks acquired a substantial volume of new Treasury issues and expanded their real estate and consumer loans. As a result, bank credit in February increased at its fastest rate in over 2-1/2 years.

Short-term interest rates have changed little on balance since the February FOMC meeting, reflecting the general stability of the Federal funds rate. Most longer-term rates, however, have

continued to edge higher since mid-February. Inflows of smaller denomination time and savings deposits at banks and thrift institutions slackened further in February as the higher market rates of interest and the earlier shaving of offering rates reduced the attractiveness of such deposits. The impact of weather conditions on wage and salary income, as well as increased fuel bills, also may have contributed to reduced savings flows to depository institutions. In January, aggregate mortgage commitments outstanding at S&L's remained near their record December level.

While mortgage rates in the primary market continued to edge down irregularly in lagged reaction to previous declines in securities market rates, secondary mortgage market yields extended their rise which began early this year. With yields on GNMA-guaranteed pass-through securities increasing in sympathy with bond yields, mortgage bankers have bid aggressively for FNMA forward purchase commitments.

Outlook. Although the staff has reduced its projection of the Treasury's cash needs in line with recent shortfalls in Federal expenditures, we still expect Treasury borrowing to be relatively large in coming months. State and local offerings also are projected to remain sizable, but are likely to be readily absorbed as such buyers as fire and casualty insurance companies and mutual funds continue to acquire substantial amounts of such securities. Advance refundings of outstanding high coupon tax-exempt bonds will continue to be large, and the proceeds of such issues must be used to purchase

special Treasury arbitrage bonds. In addition, the State and local sector (including public pension funds) is projected to invest a significant volume of its improving cash position in Treasury issues.

In the months immediately ahead, outstanding business loans are likely to increase less than in recent months, even though corporate income tax payments over the March-June period will be about \$6 billion more than last year. Inventory investment is projected to be relatively modest in the second quarter and internal funds generation is likely to remain ample relative to capital expenditures of corporations. Moreover, corporate bond issuance in March is expected to recover a significant part of its recent shortfall; more than \$750 million of telephone issues are scheduled in March, the proceeds of which will be used in part to retire recent temporary loans at banks and in the paper market. Beyond March, capital market financing is projected to remain an important source of funds to the corporate sector, even with the reduced need of businesses to restructure their balance sheets.

Unless business credit demands strengthen significantly more than the staff now expects, prospective credit demands in the aggregate do not seem to imply any more than modest upward rate pressures this spring. However, with thrift institution inflows moderating and their outstanding mortgage commitments near record levels, new commitment volume might be expected to slow, and home mortgage rates in the primary market to rise somewhat, in the months

ahead. Moreover, mortgage bankers are likely to continue to bid aggressively for FNMA forward purchase commitments in order to protect their positions. This would lead to some further rise in secondary mortgage yields.

INTERNATIONAL DEVELOPMENTS

Summary. The trade-weighted average value of the dollar has changed very little over the past four weeks, extending further the period of relative stability in this index that began last April.

While the dollar was unchanged on average in the latest four weeks, there was considerable movement in the exchange rates of individual currencies. The Canadian dollar was off sharply, the Italian lira came under some downward pressure, and the Swiss franc extended its decline. On the other hand, the Japanese yen and the European currencies associated in the snake rose somewhat.

Announcement of a record U.S. trade deficit for January did not have a significant effect on the average value of the dollar. U.S. exports were down in January from the fourth quarter rate, partly through the effects of the severe winter weather on deliveries of coal and perhaps other commodities, and also because of the decline in wheat exports anticipated in view of the availability of ample stocks here and abroad. Other agricultural exports were up. Imports in January rose markedly from the fourth quarter rate. Fuel continued to be imported in heavy

volume with prices edging up, and price increases also raised the value of imports of coffee and cocoa.

Bank-reported private capital movements registered a small net inflow in January, compared to a net outflow of \$1.8 billion in December. In January both foreign assets and foreign liabilities of U.S. banks were reduced from the advanced levels reached at year-end. Head offices of U.S. banks reduced their takings from their branches in January, reflecting the seasonal slack in U.S. credit demand. U.S. banks also reduced their claims on foreigners, especially claims on Japan. In addition, U.S. offices of foreign banks reversed their large year-end foreign placements in January, at the same time as they made a smaller reduction in their foreign borrowings.

On balance there was a net inflow from transactions in securities in January; foreigners continued to be net purchasers of U.S. equities in moderate amounts, while U.S. residents' net purchases of foreign securities dropped below \$100 million. This drop reflected both a lull in offerings of new foreign bonds and the redemption of several IBRD issues. New issues volume rose again in February and March, but the projected total for the quarter of \$1.7 billion is well below last year's average.

Medium-term credits arranged in the Euro-market were unusually large -- \$8.0 billion -- in the fourth quarter of 1976, and are expected to be about as large in the first quarter of this year. The first

quarter amount includes \$1-1/2 billion by the United Kingdom, \$1 billion by Sweden, \$1/2 billion by a French agency, \$1.2 billion by Venezuela, 3 loans totalling \$1/2 billion by Brazil, and \$300 million by Pemex of Mexico. Activity in the Euro-bond market appears to be heading for a high first quarter, with about \$1-1/2 billion offered in January and a similar amount slated for February -- mainly for industrial countries.

Economic activity abroad continued to reflect cautious stabilization policies in the fourth quarter of last year and probably also in early 1977. Discussion at the OECD at the beginning of March indicated that apart from the new U.S. program there was little likelihood of significant changes in the policies already in place in major countries. The stronger countries -- notably Germany and Japan -- were expecting growth rates above the average of the other countries, though still well within their productive capabilities, and most other countries feel constrained to less expansionary policies by their external deficits. A major consideration, moreover, is the fact that there is only limited evidence of success in dealing with inflation in most countries. Consumer prices showed some tendency to decelerate during 1976, but deceleration was most evident in those countries whose inflation rates were already on the low side. Wholesale price increases moderated in the last half of 1976, except in Italy and the United Kingdom, but rising commodity prices may push them up again.

Outlook. The economic outlook abroad continues to be for rather slow growth, little further gain on the inflation front, and only moderate success in reducing external imbalances in the year ahead. There seems to be a consensus among countries that present policies should be pursued in the hope of laying the basis for better balance internally and among countries.

Against this background, of prospects abroad, and the continuation of large OPEC surpluses, the U.S. trade balance is expected to register substantial deficits through the middle of next year. However, net receipts from military and service transactions are projected to rise sufficiently to just about offset the trade deficit. With rough balance on goods and services combined, probably better than average performance of U.S. prices, and perhaps some relative rise in interest rates, the staff would expect the average value of the dollar to appreciate by about 4 per cent over the year ahead. Exchange market developments, mainly the stronger current spot rates for sterling and the lira, have led the staff to expect somewhat less of an appreciation of the dollar than had been projected in the last Greenbook.

	1975	1976	1977 ^P	1976				1977 ^P				1978 ^P	
				I	II	III	IV	I	II	III	IV	I	II
Billions of dollars													
Net Exports of Goods and Services (GNP basis of net exports) <u>1/</u>	16.3 (20.5)	4.4 ^e (6.4)	0 (1.4)	5.6 (8.4)	6.2 (9.3)	3.3 (4.7)	2.5 ^e (3.3)	-1.9 (-1.0)	.4 (1.7)	.1 (1.9)	1.0 (3.1)	1.4 (3.6)	-1.1 (1.2)
Merchandise trade balance (excl. military)	9.0	-9.5	-16.7	-5.3	-6.1	-12.3	-14.2	-18.7	-16.4	-16.5	-15.5	-15.2	-17.7
Exports (excl. military)	107.1	114.5	127.5	108.0	113.5	117.9	118.7	120.9	125.4	129.6	133.9	137.7	142.3
Agricultural	22.2	23.4	22.9	21.5	23.1	25.3	23.7	21.8	22.7	23.3	23.8	23.8	24.3
Nonagricultural	84.8	91.1	104.6	86.5	90.4	92.6	95.0	99.1	102.7	106.3	110.1	113.9	118.0
Imports	98.1	124.0	144.2	113.3	119.7	130.2	132.9	139.6	141.8	146.1	149.4	152.9	160.0
Fuels	28.5	37.1	43.0	32.5	35.3	40.1	40.5	43.2	42.6	43.3	42.7	42.5	45.8
Nonfuels	69.5	86.9	101.2	80.8	84.4	90.1	92.5	96.4	99.2	102.8	106.7	110.4	114.2
Military and Service Transactions, net	7.3	13.9 ^e	16.7	10.9	12.3	15.6	16.7 ^e	16.8	16.8	16.6	16.5	16.6	16.6
Military transactions, net	-9	.6 ^e	1.5	--	-6	1.5	1.4 ^e	1.4	1.5	1.5	1.6	1.6	1.7
Investment income, net	6.0	10.4 ^e	11.7	9.1	9.8	10.8	11.9 ^e	11.9	11.9	11.6	11.5	11.6	11.6
Other services, net	2.1	2.9 ^e	3.5	1.8	3.1	3.3	3.4	3.5	3.4	3.5	3.4	3.4	3.3
U.S. Current Account Balance <u>2/</u> (excl. special transactions with Israel) <u>3/</u>	11.7 (12.0)	-.8 ^e (-.2) ^e	-5.0 (-5.0)	1.2 (1.3)	2.6 (2.3)	-4.4 (-1.7)	-2.0 ^e (-2.1)	-6.8 (-6.8)	-4.4 (-4.4)	-5.0 (-5.0)	-4.0 (-4.0)	-3.7 (-3.7)	-6.2 (-6.2)
Constant (1972) dollars													
Merchandise exports (excl. military) (% change, annual rates)	64.6 (-2.4)	66.4 (2.8)	70.1 (5.6)	63.8 (-16.3)	66.4 (17.0)	68.2 (11.0)	67.2 (-5.9)	68.2 (5.9)	69.5 (7.9)	70.6 (6.6)	71.9 (7.7)	72.9 (5.4)	74.2 (7.1)
Merchandise imports (% change, annual rates)	51.3 (-12.5)	62.7 (22.2)	68.3 (8.9)	58.7 (41.5)	60.9 (15.5)	65.2 (31.6)	65.9 (4.5)	67.9 (12.7)	67.6 (-2.0)	68.5 (5.6)	69.0 (3.2)	69.8 (4.5)	72.1 (13.6)
Foreign Outlook - Major Industrial Countries <u>4/</u>													
Real GNP, % change, annual rate	-1.0	4.9 ^e	3.2	8.1	3.2	1.6	3.7	2.4	3.6	4.2	5.4	5.4	5.2
Wholesale Prices, % change, A.R. <u>5/</u>	5.9	9.5 ^e	9.6	11.3	17.0	11.9	8.7	10.2	8.4	7.6	6.9	6.6	6.2

1/ The GNP account excludes from service imports, U.S. Government interest payments to foreigners (\$4.5 billion in 1975), and excludes from exports, military shipments to Israel under cash grant programs (\$340 million in 1975). It also lags the international accounts data significantly in taking account of data revisions.

2/ Includes goods and services plus private and official remittances and pensions and U.S. Government grants.

3/ Excludes grants to Israel under military assistance acts and exports financed by those grants.

4/ Weighted by the shares of Canada, France, Germany, Italy, Japan and the United Kingdom in the sum of the real GNP of the six countries in dollar terms.

5/ Data are largely manufactured goods prices.

^{p/} Projected

^{e/} Estimated