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CONFIDENTIAL (FR)

April 13, 1977

SUMMARY AND OUTLOOK

By the Staff
Board of Governors
of the Federal Reserve System

SUMMARY AND OUTLOOK

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. Economic activity has strengthened considerably in recent months. Production, employment and retail sales showed substantial gains in March, and for the first quarter as a whole. In addition, inventory investment and purchases of business equipment continued to rebound in February from their sluggish fourth quarter levels. At the same time, higher prices for food and fuels have aggravated inflationary pressures since the beginning of the year.

Industrial production is estimated to have risen nearly 1-1/2 per cent in March, reflecting large advances in production of autos, iron and steel, machinery and trucks, and smaller gains in most other groups. Some of the March advance, especially in the automotive group, was a make-up of earlier shortfalls attributable to weather impacts. Industrial production increased at a 5-1/4 per cent annual rate in the first quarter. Demand for labor also intensified; manufacturing employment rose by 165,000 in March and the factory workweek edged up to 40.3 hours. Widespread job gains in other sectors boosted total employment by about half a million. The labor force also rose sharply (by nearly 400,000), however, and the unemployment rate declined only slightly in March to 7.3 per cent--the same as in January.

Consumer spending rose strongly further in March. Total auto sales surged to a 12.2 million unit annual rate, up 1-1/2 million from February, with sales of both domestic and foreign models up strongly. Retail sales, excluding the automotive group and nonconsumption items,

rose 1.7 per cent last month after an upward revised 2.2 per cent gain in February. For the first quarter as a whole, these sales were up 2 per cent from the advanced fourth quarter rate.

Total private housing starts were at a 1.8 million unit annual rate in February--up sharply from the weather-depressed January level and about equal to the fourth quarter average. The February rebound was concentrated wholly in single-family starts, but a rise in permits for multi-family units in February and a further decline in rental vacancy rates may presage renewed strength in this sector.

Business fixed capital spending appears to have rebounded in the past few months following little growth in the fourth quarter, which was damped by strikes in the motor vehicle and farm equipment industries. While new orders for nondefense capital goods fell 2-1/2 per cent in February, they had risen 4-3/4 per cent the previous month and their average level during the first two months was 6 per cent above the fourth quarter. However, contracts for commercial and industrial buildings--measured in floor space--for January and February remained 1 per cent below the fourth quarter average.

Business inventory investment appears to have strengthened considerably since the turn of the year. Book value of manufacturing inventories rose at a \$12.4 billion annual rate in February, somewhat more than in January and well above the fourth quarter rate of increase. Nevertheless, shipments rose more than stocks in February and the inventory sales ratio fell back to its December level--the lowest since 1973.

The deficit in U.S. merchandise trade deepened considerably in January and February. Nonagricultural exports were sluggish while imports of fuels and consumer goods rose. Higher coffee prices also contributed to the increased deficit.

The wholesale price index increased 1.1 per cent last month. Prices of farm and food products rose 2.1 per cent, principally as a result of higher prices for coffee, cocoa, tea, soybeans, sugar, fruits, and vegetables. Industrial prices rose by 0.8 per cent. Metals and metal products and fuels and power accounted for half the rise and transportation equipment and textiles for about a fourth. For the first quarter as a whole, prices of industrial commodities excluding fuels increased at a 6.4 per cent annual rate--about the same rate as the quickened pace over the last half of 1976.

In February, the consumer price index rose 1 per cent. Excluding food and energy items, the advance of consumer prices was 0.6--less than in January but higher than during the second half of 1976. The March consumer price index will no doubt reflect recent food price increases at wholesale.

Outlook. The staff estimate of first quarter growth has been raised slightly, but for the six quarter period ending QII, 1978, real GNP is still anticipated to increase at about a 6 per cent annual rate. The price outlook has deteriorated somewhat, mainly reflecting recent larger increases in food prices and some scaling up of anticipated food price increases over the next year.

The projections still assume passage of a tax rebate package, but disbursements are now expected to commence somewhat later, in mid-May. In line with recent Congressional actions, the assumed total size of the rebates has been reduced to about \$10 billion from about \$11-1/2 billion. The monetary policy assumptions call for a 5-1/2 per cent growth for M_1 from 1977-Q1 to 1978-Q1. As before, short term interest rates are expected to rise, with the increases mainly in the last half of the year.

Information now available suggests a rise of about 4-3/4 per cent in real GNP in the first quarter. Construction outlays and net exports apparently were somewhat weaker than we had estimated last month. But this weakness was more than offset by substantially stronger consumer outlays, increased spending on business equipment, and a somewhat higher rate of inventory investment following the extremely low rate of accumulation in the last quarter of 1976.

Smaller aggregate tax rebates are now assumed for the second quarter and the projected increase in real GNP for this period has been reduced slightly to a 7-1/4 per cent annual rate. The annual rate of real GNP growth is still projected to average about a 6-1/4 per cent in the second half of 1977 and to moderate to about 5-3/4 per cent in early 1978.

We are still projecting a rise in business capital spending of about 13 per cent in 1977 (survey basis) and a slightly faster pace in early 1978. Inventory investment is also expected to be supportive

of overall growth throughout the projection period and the inventory/sales ratio--which has fallen to a quite low level--is projected to begin edging up early next year. It still appears likely that residential construction activity will cease expanding toward year-end as flows to thrift institutions moderate in an environment of rising interest rates.

The labor market implications of the staff output projection are little changed from last month, involving a steady decline in the unemployment rate to about 6-1/2 per cent by 1978-QIII. Productivity gains are estimated to average about 3 per cent over the projection period and unit labor costs are projected to rise at about a 5-1/2 per cent annual rate.

The price outlook has become less favorable, largely because of developments in the food sector. As a result of high and rising coffee prices and weather-induced increases in prices of other foods, overall consumer food prices appear to have risen at an annual rate of about 10 per cent between the fourth and first quarters. There are signs of less favorable longer-term developments as well. These include the recent boost in dairy price supports, continued water shortages in the West, and likely reductions in beef production later this year. Consequently, the staff projection of the rate of advance of food prices has been increased.

For the remaining categories, projected price increases have been edged up slightly to allow for some additional rise in labor costs associated with earlier and larger minimum wage adjustments than we had

previously assumed and for faster wholesale price increases for some industrial commodities. The present projection foresees a rise of nearly 6-1/2 per cent in the gross business product fixed-weighted price index for the first quarter, and increases at about a 5-3/4 per cent rate over the remainder of the projection period.

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)	
	3/9/77	4/13/77	3/9/77	4/13/77	3/9/77	4/13/77	3/9/77	4/13/77
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/}	11.5	11.6	6.1	6.1	5.2	5.2	7.7	7.7
1977	10.9	11.0	5.0	5.0	5.5	5.9	7.2	7.1
1976-III ^{1/}	8.5	8.5	3.9	3.9	4.3	4.3	7.8	7.8
1976-IV ^{1/}	8.3	8.5	2.4	2.6	4.9	4.9	7.9	7.9
1977-I	10.6	11.4	4.5	4.8	6.1	6.4	7.4	7.4
1977-II	14.2	13.7	7.9	7.2	5.5	5.8	7.2	7.1
1977-III	12.3	12.4	6.3	6.4	5.2	5.6	7.1	7.0
1977-IV	13.0	12.8	6.1	5.9	5.3	5.7	7.0	6.9
1978-I	12.0	11.7	5.7	5.7	5.3	5.6	6.7	6.7
1978-II	11.5	11.3	5.7	5.6	5.3	5.7	6.6	6.6
Change:								
75-IV to 76-IV ^{1/}	9.8	9.9	5.0	5.0	4.5	4.5	-.5	-.5
76-II to 77-II	10.4	10.5	4.7	4.6	5.2	5.3	-.2	-.3
76-IV to 77-IV	12.5	12.6	6.2	6.0	5.5	5.9	-.9	-1.0
77-II to 78-II	12.2	12.1	6.0	5.9	5.3	5.6	-.6	-.5

^{1/} Actual

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S II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of dollars, with quarter figures at annual rates.)

	1976		1977				1978	
	III	IV	I	II	III	IV	I	II
Gross National Product	1709.8	1745.1	1792.8	1851.1	1905.9	1964.3	2019.6	2074.5
Final purchases	1694.7	1743.4	1785.8	1840.6	1890.9	1944.3	1994.1	2042.5
Private	1325.1	1367.2	1404.6	1449.4	1487.8	1527.5	1568.4	1606.8
Excluding net exports	1320.4	1363.0	1406.5	1450.1	1489.5	1528.5	1569.3	1610.8
Personal consumption expenditures	1088.5	1122.0	1156.8	1188.0	1214.5	1241.5	1271.0	1303.0
Goods	599.4	618.0	636.8	654.7	668.7	683.2	699.2	717.2
Services	489.1	504.0	520.0	533.3	545.8	558.3	571.8	585.8
Gross private domestic investment	247.0	242.8	256.7	272.6	290.0	307.0	323.8	339.8
Residential construction	68.9	75.5	77.1	83.6	90.1	95.4	99.7	101.7
Business fixed investment	163.0	165.6	172.6	178.5	184.9	191.6	198.6	206.1
Change in business inventories	15.1	1.7	7.0	10.5	15.0	20.0	25.5	32.0
Nonfarm	15.6	2.2	7.0	10.0	15.0	20.0	25.5	32.0
Net exports of goods and services ^{1/}	4.7	4.2	-1.9	-.7	-1.7	-1.0	-.9	-4.0
Exports	167.7	168.5	172.1	178.0	183.3	188.5	193.2	198.5
Imports	163.0	164.3	174.0	178.7	185.0	189.5	194.1	202.5
Gov't. purchases of goods and services	369.6	376.2	381.2	391.2	403.1	416.8	425.7	435.7
Federal ^{2/}	134.5	138.9	140.1	143.0	147.2	153.3	156.0	159.8
State and local	235.0	237.4	241.1	248.2	255.9	263.5	269.7	275.9
Gross national product in constant (1972) dollars	1272.2	1280.4	1295.5	1318.1	1338.5	1357.7	1376.6	1395.5
Personal income	1386.0	1421.7	1459.3	1500.4	1541.2	1577.3	1615.3	1657.0
Age and salary disbursements	897.8	921.0	947.9	972.0	998.0	1027.3	1054.6	1081.9
Disposable income	1190.2	1216.5	1247.4	1312.3	1321.4	1350.1	1384.3	1418.7
Saving rate (per cent)	6.4	5.6	5.1	7.4	5.9	5.9	6.1	6.1
Corporate profits with I.V.A. and C.C. Adj.	122.0	118.1	118.2	132.3	141.0	149.9	152.5	159.5
Corporate profits before tax	150.2	154.5	156.1	166.3	171.5	177.9	177.5	183.5
Federal government surplus or deficit (-) (N.I.A. basis)	-57.4	-59.2	-53.4	-86.1	-66.6	-60.0	-56.2	-54.3
High employment surplus or deficit (-)	-9.9	-8.4	-2.1	-38.1	-17.3	-12.7	-8.9	-7.8
State and local government surplus or deficit (-) (N.I.A. basis)	12.7	21.9	22.6	23.0	25.8	24.9	24.8	25.4
Excluding social insurance funds	-.6	8.4	8.8	8.9	11.4	10.2	9.8	10.1
Civilian labor force (millions)	95.3	95.7	96.1	96.6	97.1	97.6	98.2	98.7
Unemployment rate (per cent)	7.8	7.9	7.4	7.1	7.0	6.9	6.7	6.6
Nonfarm payroll employment (millions)	79.7	80.1	80.9	81.5	82.2	82.9	83.5	84.1
Manufacturing	19.0	19.0	19.3	19.6	19.8	20.0	20.2	20.4
Industrial production (1967=100)	130.9	131.7	133.5	136.4	139.4	142.1	145.1	148.6
Capacity utilization: all manufacturing (per cent)	80.8	80.6	80.9	81.9	83.1	84.2	85.3	86.8
Materials (per cent)	81.3	80.3	80.0	81.0	82.3	83.4	84.7	86.2
Housing starts, private (millions, A.R.)	1.57	1.77	1.65	1.85	1.95	2.00	2.00	2.00
Sales new autos, (millions, A.R.)	10.16	10.00	11.12	11.65	11.55	11.25	11.35	11.60
Domestic models	8.61	8.32	9.28	10.00	10.00	9.75	9.85	10.00
Foreign models	1.55	1.68	1.84	1.65	1.55	1.50	1.50	1.60

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

^{2/} 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	Projected				I	II
			I	II	III	IV		
-----Billions of dollars-----								
Gross National Product	34.6	35.3	47.7	58.3	54.8	58.4	55.3	54.9
Inventory change	-.9	-13.4	5.3	3.5	4.5	5.0	5.5	6.5
Final purchases	35.5	48.7	42.4	54.8	50.3	53.4	49.8	48.4
Private	27.9	42.1	37.4	44.8	38.4	39.7	40.9	38.4
Net exports	-4.6	-.5	-6.1	1.2	-1.0	.7	.1	-3.1
Excluding net exports	32.5	42.6	43.5	43.6	39.4	39.0	40.8	41.5
Personal consumption expenditures	23.8	33.5	34.8	31.2	26.5	27.0	29.5	32.0
Goods	9.6	18.6	18.8	17.9	14.0	14.5	16.0	18.0
Services	14.2	14.9	16.0	13.3	12.5	12.5	13.5	14.0
Residential fixed investment	3.6	6.6	1.6	6.5	6.5	5.3	4.3	2.0
Business fixed investment	5.1	2.6	7.0	5.9	6.4	6.7	7.0	7.5
Government	7.6	6.6	5.0	10.0	11.9	13.7	8.9	10.0
Federal	3.3	4.4	1.2	2.9	4.2	6.1	2.7	3.8
State and local	4.1	2.4	3.7	7.1	7.7	7.6	6.2	6.2
GNP in constant (1972) dollars	12.2	8.2	15.1	22.6	20.5	19.2	18.9	18.8
Final purchases	13.2	17.5	11.6	20.3	17.4	16.0	15.4	14.7
Private	11.3	17.7	12.5	17.0	13.2	12.7	13.6	12.2
-----In Per Cent Per Year ^{1/} -----								
Gross National Product	8.5	8.5	11.4	13.7	12.4	12.8	11.7	11.3
Final purchases	8.8	12.0	10.1	12.9	11.4	11.8	10.6	10.1
Private	8.9	13.3	11.4	13.4	11.0	11.1	11.1	10.2
Personal consumption expenditures	9.2	12.9	13.0	11.2	9.2	9.2	9.8	10.5
Goods	6.7	13.0	12.7	11.7	8.8	9.0	9.7	10.7
Services	12.5	12.8	13.3	10.6	9.7	9.5	10.0	10.2
Gross private domestic investment	13.8	-6.7	24.9	27.2	28.1	25.6	23.8	21.3
Residential structures	24.3	43.7	8.7	38.2	34.9	25.7	19.3	8.3
Business fixed investment	13.5	6.5	18.0	14.4	15.1	15.3	15.4	16.0
Gov't. purchases of goods & services	8.6	7.4	5.4	10.9	12.7	14.3	8.8	9.7
Federal	10.7	13.6	3.6	8.5	12.3	17.6	7.2	10.1
State and local	7.4	4.0	6.5	12.3	13.0	12.4	9.7	9.5
GNP in constant (1972) dollars	3.9	2.6	4.8	7.2	6.4	5.9	5.7	5.6
Final purchases	4.3	5.7	3.7	6.4	5.4	4.9	4.7	4.4
Private	4.7	7.3	5.0	6.8	5.2	4.9	5.2	4.6
GNP implicit deflator ^{2/}	4.4	5.8	6.3	6.1	5.7	6.6	5.7	5.4
Gross business product fixed-weight price index ^{3/}	4.3	4.9	6.4	5.8	5.6	5.7	5.6	5.7
Personal income	7.2	10.7	11.0	11.8	11.3	9.7	10.0	10.7
Wage and salary disbursements	7.8	10.7	12.2	10.6	11.1	12.3	11.1	10.8
Disposable income	6.2	9.1	10.5	22.5	2.8	9.0	10.5	10.3
Corporate profits before tax	11.4	12.0	4.1	28.8	13.1	15.7	-.8	14.1
Nonfarm payroll employment	2.0	2.0	4.1	3.0	3.5	3.5	2.9	2.9
Manufacturing	.0	.0	6.5	6.4	4.1	4.1	4.1	4.0
Nonfarm business sector								
Output per hour	2.6	-1.0	2.3	4.7	3.1	2.8	2.5	2.4
Compensation per hour	7.1	7.2	9.5	7.6	8.6	7.8	9.1	7.7
Unit labor costs	4.3	8.2	7.2	2.9	5.5	5.0	6.6	5.3
Industrial production	4.7	2.5	5.6	9.1	8.9	8.2	8.5	10.1
Housing starts, private	41.3	61.5	-24.5	58.0	23.4	10.7	.0	.0
Sales new autos	-6.8	-6.2	52.9	20.5	-3.4	-10.0	3.6	9.1
Domestic models	-12.4	-12.8	54.8	34.8	.0	-9.6	4.2	6.2
Foreign models	34.2	38.0	43.9	-35.3	-22.1	-12.3	.0	29.5

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

^{2/}Excluding Federal pay increases rates of change are: 1976-IV, 5.3 per cent; 1977-I, 6.2 per cent; 1977-IV, 6.0 per cent; 1978-I, 5.6 per cent.

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

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

	1970	1971	1972	1973	1974	1975	1976	Projected 1977
Gross National Product	982.4	1063.4	1171.1	1306.6	1413.2	1516.3	1691.6	1878.5
Final purchases	978.6	1057.1	1161.7	1288.6	1402.5	1531.0	1679.7	1865.4
Private	759.7	823.4	908.6	1019.1	1099.2	1192.0	1314.1	1467.3
Excluding net exports	755.8	821.8	911.9	1012.0	1091.7	1171.5	1307.5	1468.6
Personal consumption expenditures	618.8	668.2	733.0	809.9	887.5	973.2	1079.7	1200.2
Goods	349.6	374.8	410.5	457.5	497.8	540.8	596.9	660.8
Services	269.1	293.4	322.4	352.3	389.6	432.4	482.8	539.3
Gross private domestic investment	140.8	160.0	188.3	220.0	215.0	183.7	239.6	281.6
Residential construction	36.6	49.6	62.0	66.1	55.1	51.2	67.7	86.5
Business fixed investment	100.5	104.1	116.8	136.0	149.2	147.1	160.0	181.9
Change in business inventories	3.8	6.4	9.4	17.9	10.7	-14.6	11.9	13.1
Nonfarm	3.7	5.1	8.8	14.7	12.2	-17.6	11.9	13.0
Net exports of goods and services	3.9	1.6	-3.3	7.1	7.5	20.5	6.6	-1.3
Exports	62.5	65.6	72.7	101.6	144.4	148.1	162.7	180.5
Imports	58.5	64.0	75.9	94.4	136.9	127.6	156.0	181.8
Gov't. purchases of goods and services	218.9	233.7	253.1	269.5	303.3	339.0	365.6	398.1
Federal	95.6	96.2	102.1	102.2	111.6	124.4	133.4	145.9
State and local	123.2	137.5	151.0	167.3	191.6	214.5	232.2	252.2
Gross national product in constant (1972) dollars	1075.3	1107.5	1171.1	1235.0	1214.0	1191.7	1264.7	1327.4
Personal income	801.3	859.1	942.5	1052.4	1153.3	1249.7	1375.3	1519.5
Wage and salary disbursements	546.5	579.4	633.8	701.3	765.0	806.7	890.4	986.3
Disposable income	685.9	742.8	801.3	901.7	982.9	1080.9	1181.7	1307.8
Saving rate (per cent)	7.4	7.7	6.2	7.8	7.3	7.8	6.5	6.1
Corporate profits with I.V.A. and C.C. Adj.	67.9	77.2	92.1	99.1	84.8	91.6	117.9	135.3
Corporate profits before tax	71.5	82.0	96.2	115.8	127.6	114.5	148.0	167.9
Federal government surplus or deficit (-) (N.I.A. basis)	-12.1	-22.0	-17.3	-6.7	-11.5	-71.2	-58.6	-66.5
High employment surplus or deficit (-)	3.0	-5.3	-5.9	-7	16.8	-17.2	-11.2	-17.5
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	24.1
Excluding social insurance funds	-4.0	-3.8	5.6	4.1	-2.8	-5.1	.9	9.8
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	7.1
Nonfarm payroll employment (millions)	70.9	71.2	73.7	76.9	78.4	77.1	79.4	81.9
Manufacturing	19.3	18.6	19.1	20.1	20.0	18.3	19.0	19.7
Industrial production (1967=100)	107.8	109.6	119.7	129.8	129.3	117.8	129.8	137.9
Capacity utilization: all manufacturing (per cent)	79.2	78.0	83.1	87.5	84.2	73.6	80.1	82.5
Materials (per cent)	84.3	83.1	88.0	92.4	87.7	73.6	80.3	81.7
Housing starts, private (millions, A.R.)	1.43	2.05	2.36	2.05	1.33	1.16	1.54	1.86
Sales new autos (millions, A.R.)	8.40	10.24	10.93	11.42	8.91	8.66	10.12	11.39
Domestic models	7.12	8.68	9.32	9.65	7.49	7.08	8.63	9.76
Foreign models	1.28	1.56	1.61	1.77	1.42	1.58	1.50	1.64

April 13, 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	175.3	186.9
Inventory change	-5.6	2.6	3.0	8.5	-7.2	-25.3	26.5	1.2
Final purchases	52.4	78.5	104.6	126.9	113.9	128.5	148.7	185.7
Private	41.4	63.7	85.2	110.5	80.1	92.8	122.1	153.2
Net exports	2.1	-2.3	-4.9	10.4	.4	13.0	-13.9	-7.9
Excluding net exports	39.3	66.0	90.1	100.1	79.7	79.8	136.0	161.1
Personal consumption expenditures	39.1	49.4	64.8	76.9	77.6	85.7	106.5	120.5
Goods	17.1	25.2	35.7	47.0	40.3	43.0	56.1	63.9
Services	21.9	24.3	29.0	29.9	37.3	42.8	50.4	56.5
Residential fixed investment	-1.3	13.0	12.4	4.1	-11.0	-3.9	16.5	18.8
Business fixed investment	1.6	3.6	12.7	19.2	13.2	-2.1	12.9	21.9
Government	11.0	14.8	19.4	16.4	33.8	35.7	26.6	32.5
Federal	-1.9	.6	5.9	.1	9.4	12.8	9.0	12.5
State and local	12.8	14.3	13.5	16.3	24.3	22.9	17.7	20.0
GNP in constant (1972) dollars	-3.5	32.2	63.6	63.9	-21.0	-22.3	73.0	62.7
Final purchases	2.8	29.9	60.8	56.8	-13.0	-1.8	52.9	62.5
Private	9.3	30.7	57.1	57.4	-16.9	-6.4	49.8	56.7
-----In Per Cent Per Year-----								
Gross National Product	5.0	8.2	10.1	11.6	8.2	7.3	11.6	11.0
Final purchases	5.7	8.0	9.9	10.9	8.8	9.2	9.7	11.1
Private	5.8	8.4	10.3	12.2	7.9	8.4	10.2	11.7
Personal consumption expenditures	6.7	8.0	9.7	10.5	9.6	9.7	10.9	11.2
Goods	5.1	7.2	9.5	11.4	8.8	8.6	10.4	10.7
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	17.5
Residential structures	-3.4	35.5	25.1	6.6	-16.7	-7.1	32.4	27.8
Business fixed investment	1.6	3.6	12.3	16.4	9.7	-1.4	8.7	13.7
Gov't. purchases of goods & services	5.3	6.8	8.3	6.5	12.5	11.8	7.9	8.9
Federal	-1.9	.6	6.1	.1	9.2	11.5	7.2	9.4
State and local	11.6	11.6	9.8	10.8	14.5	11.9	8.2	8.6
GNP in constant (1972) dollars	-.3	3.0	5.7	5.5	-1.7	-1.8	6.1	5.0
Final purchases	.3	2.8	5.5	4.9	-1.1	-.1	4.4	5.0
Private	1.1	3.7	6.7	6.3	-1.7	-.7	5.3	5.7
GNP implicit deflator	5.4	5.1	4.1	5.8	10.0	9.3	5.1	5.8
Gross business product fixed weighted price index ^{1/}	4.4	4.4	3.3	5.7	10.2	9.3	5.2	5.9
Personal income	7.4	7.2	9.7	11.7	9.6	8.4	10.1	10.5
Wage and salary disbursements	6.2	6.0	9.4	10.7	9.1	5.5	10.4	10.8
Disposable income	8.8	8.3	7.9	12.5	9.0	10.0	9.3	10.7
Corporate profits before tax	-14.3	14.7	17.3	20.4	10.2	-10.3	29.3	13.4
Nonfarm payroll employment	.7	.4	3.5	4.3	2.0	-1.7	3.0	3.1
Manufacturing	-4.5	-3.6	2.7	5.2	-5	-8.5	3.8	3.7
Nonfarm business sector								
Output per hour	.2	2.9	3.0	1.7	-3.5	1.6	3.7	2.4
Compensation per hour	6.7	6.6	5.8	7.8	9.4	9.5	7.4	8.0
Unit labor costs	6.5	3.5	2.7	6.0	13.4	7.7	3.6	5.6
Industrial production	-3.0	1.7	9.2	8.4	-.4	-8.9	10.2	6.2
Housing starts, private	-2.7	43.4	15.1	-13.1	-35.1	-12.2	32.8	20.8
Sale of autos	-12.2	21.9	6.7	4.5	-22.0	-2.8	16.9	12.5
Light models	-15.8	21.9	7.4	3.5	-22.4	-5.5	21.9	13.1
Heavy models	15.3	21.9	3.2	9.9	-19.8	11.3	-5.1	9.3

^{1/} Using 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*	I	II	III	IV	I	II			
Unified budget receipts	300.0	349.4	346.7	401.6	394.0	318.5	355.8	76.2	79.0	99.2	92.3	85.3	86.9	117.7			
Unified budget outlays	366.5	417.4	410.5	459.4	456.5	375.1	422.9	99.0	97.2	105.9	108.4	111.4	109.1	115.8			
Surplus(+)/Deficit(-), unified budget	-66.5	-68.0	-63.8	-57.7	-62.5	-56.6	-67.1	-22.8	-18.2	-6.7	-16.1	-26.1	-22.2	1.9			
Surplus(+)/Deficit(-), off-budget entities 3/	-7.3	-10.8	-10.7	-8.5	-6.8	-5.7	-7.5	.4	-4.6	-1.0	-5.5	3.6	-6.3	.3			
Means of financing combined deficits:																	
Net borrowing from public	82.9	73.0	65.9	65.8	70.4	69.0	71.6	17.4	17.7	12.6	18.2	23.1	26.0	2.4			
Decrease in cash operating balance	-7.2	n.a.	7.5	n.a.	-.6	-3.2	1.7	5.7	2.7	-3.3	2.4	-.1	1.0	-3.1			
Other 4/	-1.9	n.a.	1.0	n.a.	-.5	-3.5	1.3	-.8	2.4	-1.6	1.0	-.5	1.5	-1.5			
Cash operating balance, end of period	14.8	n.a.	9.9	n.a.	10.5	11.7	10.0	11.7	9.0	12.3	9.9	10.0	9.0	12.1			
Memo: Sponsored agency borrowing 5/	3.4	n.a.	5.1	n.a.	n.e.	2.9	6.1	.4	1.0	1.8	1.8	1.4	n.e.	n.e.			
NIA Budget								Seasonally adjusted, annual rates									
Receipts	313.6	357.4	353.9 ^{6/}	414.7	n.e.	330.3	365.0	346.4	358.2	339.0	375.2	387.6	402.7	415.0			
Outlays	373.0	426.3	421.0	466.0	463.9	388.9	431.5	405.6	411.6	425.1	441.8	447.6	458.9	469.3			
Purchases (total)	127.2	145.0	142.3	160.7	157.9	133.5	145.9	138.9	140.1	143.0	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	48.9	55.6	55.1	45.2	50.3	47.6	48.1	49.3	50.5	53.3	53.8	56.0			
All other outlays	245.8	281.3	278.7 ^{6/}	305.3	306.0	255.4	285.6	266.7	271.5	282.1	294.6	294.3	302.9	309.5			
Surplus(+)/Deficit(-)	-59.4	-68.9	-67.2 ^{6/}	-51.3	n.e.	-58.7	-66.5	-59.3	-53.4	-86.1	-66.6	-60.0	-56.2	-54.3			
High Employment Surplus(+)/Deficit(-) (NIA basis) 7/	-14.7	n.a.	-16.5	n.a.	n.e.	-11.2	-17.5	-8.4	-2.1	-38.1	-17.3	-12.7	-8.9	-7.8			

- *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/ 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.
- 4/ Checks issued less checks paid, accrued items and other transactions.
- 5/ Includes Federal Home Loan Banks, FNMA, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.
- 6/ Quarterly average exceeds fiscal year total by \$.8 billion for FY 1977 due to spreading of wage base effect over calendar year.
- 7/ 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 Federal Outlook

The staff's projection for calendar year 1977 continues to assume passage of a rebate package, but disbursements are now expected to start in mid-May, about two weeks later than was previously assumed. The tax legislation, now being considered by Congress, also contains provisions that would limit the rebate to those tax paying units with incomes less than \$30,000, and that would prevent social security recipients from receiving both a tax rebate and a \$50 special payment. These features are expected to reduce the size of the package from \$11-1/2 billion to \$10 billion, and will delay the one-time payment to social security beneficiaries until the third quarter.

With the exception of these adjustments, the budget projections are essentially unchanged from last month. Incoming data still appear to be consistent with the staff's projection of fiscal year 1977 outlays at around \$410 billion, approximately \$7 billion less than proposed by the President in February. The fiscal 1977 receipts forecast, reflecting mainly the reduced size of the tax rebate, has been increased from \$345 to \$347 billion. Budget projections for fiscal year 1978 continue to assume ~~extension~~ of the personal and corporate tax cuts initiated in 1975.

The unified deficit for the current fiscal year is projected to be \$64 billion, with the total deficit (unified plus off-budget) to be financed around \$75 billion. About \$7 billion of this deficit is likely to be financed through a run-down of the exceptionally high balance that the Treasury had built up at the start of the fiscal year.

The remaining \$68 billion must be raised through security sales; of this, \$35 billion has already been issued during the first six months of the current fiscal year (through March 1977). Since April 1, the Treasury has obtained new cash of \$2.6 billion through the sale of five-year notes. The Treasury also recently sold \$4.5 billion of cash management bills that are scheduled to mature in late April along with \$2.0 billion of such bills that were previously issued. The Treasury has announced that it will roll over maturing 2-year notes at the end of April, but in May and June it is expected to add to its regular two and four-year note cycles and to raise new money in its mid-May refunding.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Aggregate credit demands in March, while sizable, were satisfied with virtually no change in interest rates. In the securities markets, gross offerings of tax-exempt bonds--buoyed by a continued high pace of advance refundings and revenue bond offerings--rose to record levels, but public offerings of corporate bonds, although higher than the depressed February pace, were moderate. Treasury borrowing in the market was less than expected earlier in the year, reflecting spending shortfalls, a lower than expected Treasury cash balance, and the continued issuance of a sizable volume of non-marketable securities, particularly to the State and local units re-investing the proceeds of advance refunds.

Total short-term borrowing by nonfinancial businesses, while still substantially above its depressed pace of the first 1-1/2 years of recovery, edged lower in March as large firms reduced their use of such credit. Nonfinancial commercial paper outstanding declined for the first time in six months, with dealers reporting that many large industrial and utility firms were financing their March needs from internal sources and the proceeds of capital market issues. In addition, in contrast to the previous five months when business loans at large banks had been rising, all of the seasonally adjusted growth in business loans at banks in March occurred at smaller banks, whose customers also tend to be relatively small. Despite the substantial March tax payments, business loans at large banks increased only seasonally.

Outstanding commercial paper of finance companies rose over \$1 billion in March, the largest increase in such borrowing since last summer. Most of this borrowing was by captive finance companies and was reported to be mainly to finance consumer credit expansion and automobile inventories. In February, growth in consumer instalment credit outstanding accelerated to a seasonally adjusted annual rate of nearly 14 per cent, and probably continued to grow rapidly in March.

Inflows of interest-bearing smaller denomination deposits to both banks and thrift institutions continued to edge lower on a monthly average basis in March, despite the stability in market yields. Previous cuts in offering rates on deposits and weather and energy costs probably were still affecting household acquisitions of such deposits. Even with the moderation of deposit inflows, outstanding home mortgage commitments at S&L's rose in February, but mortgage bankers have remained cautious. Offerings to FNMA for forward mortgage purchase commitments continued large in March and early April, and yields on such commitments edged higher.

Stock prices have declined further, on balance, since the last Committee meeting. Apparently, uncertainty regarding inflation and energy problems has made investors in this market more cautious.

Outlook. The continuing improvement in economic activity will be associated with rising credit demands in all private sectors in 1977. Projections of consumer expenditures imply a continued high rate of consumer credit demands. Growth in mortgage debt also can be

expected to remain large, especially given the high level of mortgage commitments outstanding. In addition, revised projections suggest that external financing requirements of businesses will be somewhat larger than anticipated earlier. Moreover, continued inventory accumulation and large April and June corporate tax payments imply that short-term business credit demands in the second quarter should continue at about the higher rate that has emerged recently.

At the same time that private credit demands continue to mount, State and local government borrowing is expected to remain large, and after some seasonal slowing this quarter, the Treasury will have to raise \$20 to \$22 billion in the third quarter. With business, consumer, and real estate loans rising, banks can be expected to slow their purchases of Treasury issues. The large volume of outstanding mortgage commitments suggests that thrifts, too, likely will be acquiring fewer liquid assets in the months ahead.

The total of credit demands suggests increasing upward pressures on interest rates as the year unfolds. In the immediate months ahead, however, it seems likely that the supply of and demand for funds will be balanced at around currently prevailing interest rates. Treasury offerings this quarter are expected to be quite moderate, though mainly for seasonal reasons, and Government security dealer positions are light. In addition, underwriters report that corporate bond offerings are not likely to strengthen in the April-May

period. Moreover, depository institutions may benefit during this quarter from substantial deposit inflows associated with the proposed tax rebate and some proportion of rebate proceeds is likely to be used for consumer debt repayment, slowing net consumer credit demands.

INTERNATIONAL DEVELOPMENTS

Summary. Major features of the U.S. international accounts in January-February were a rise in the trade deficit to a \$24 billion annual rate (from a fourth-quarter deficit rate of \$14 billion) and an offsetting reduction in net outflows of capital through banking and securities transactions.

During the past four weeks the average value of the dollar declined about 1/2 percent, returning to the level at the beginning of the year. The dollar's depreciation in this latest period reflected mainly the sharp appreciation of the Japanese yen.

the yen was allowed
to move up by about 4 percent.

On April 8 the Scandinavian currencies were devalued within the "snake", but the average value of the currencies in the snake changed little against the dollar.

The deficit in U.S. merchandise trade in January-February was considerably greater than had been anticipated a month ago. On the export side, agricultural exports held up well as unit values rose while volume declined. However, non-agricultural exports were at a somewhat lower rate than in the fourth quarter and below earlier staff estimates

for the first quarter. The shortfall in exports reflected in part a flattening out of economic activity abroad in the last half of last year, particularly for machinery-using sectors. In addition, strong export orders data turned out to reflect military orders (which will be reflected in military receipts rather than commercial exports), and demand from developing countries may be lower than projected earlier. On the import side, the value of food imports was sharply higher as more coffee came in at higher prices, and there was also a broadly-based increase in imports of consumer goods. Fuel imports were high, at a \$42 billion annual rate in January-February, but this had been anticipated.

Bank-reported net private capital flows registered a small net inflow in February, as they had in January. Part of the inflows may have been a seasonal reversal of the large outflows at the end of last year. However, shifts in relative interest rates were probably an important influence; interest rates in the United States are currently somewhat above their end-of-year levels while comparable rates abroad are now lower.

Net capital flows connected with securities transactions were also quite small in January-February, in contrast to sizable net outflows throughout 1976. U.S. purchases of foreign bonds were much reduced, though there was a pickup in purchases of foreign equity securities in February. Foreign private purchases of U.S. corporate stock were still small, but were in contrast to net foreign selling in the last half of last year.

The fall-back in foreign interest rates seems to reflect a downward shift in expectations about the strength of economic recovery abroad, as well as some easing of monetary policies. There is little evidence so far of a strong recovery, and even in countries where some evidence of resurgence had appeared earlier -- notably Germany -- latest data raise doubts.

Outlook. The projected U.S. trade deficit for 1977 has been raised to \$21-1/2 billion, about \$5 billion higher than last month's estimate, and the deficit is projected to reach a rate of some \$26 billion by mid-1978. The \$5 billion revision results from a drop of about 1-1/2 percent in expected exports and a 2 percent rise in expected imports. The outlook for exports has been scaled down as the persistent sluggishness in economic activity abroad seems to be showing through in the January-February trade figures. These latest figures also suggest that U.S. imports of consumer goods and of higher priced food-stuffs are relatively strong, and that imports of industrial materials, which have been flat through February, will likely begin to rise.

Though the trade deficit is rising, net receipts from income, services, and military transactions are also projected to increase, so that the current account deficit for 1977 is projected at about \$10 billion. So far, foreign exchange markets do not seem to be perturbed by deficits of this size, and market forward rates for the dollar a year ahead still suggest a small appreciation for the dollar, on average.

In the staff view the outlook for the dollar has weakened in the past few months, but, given the direction of interest rate movements, there should be no great difficulty in financing the U.S. current account deficit while the dollar appreciates by, perhaps, 3 percent over the year ahead.

	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 (6.6)	-5.0 (-1.3)	5.7 (8.4)	6.2 (9.3)	4.8 (4.7)	.9 (4.2)	-5.1 (-1.9)	-4.3 (-7)	-5.7 (-1.7)	-5.3 (-1.0)	-5.3 (-9)	-8.5 (-4.0)
Merchandise trade balance (excl. military)	9.0	-9.2	-21.6	-5.3	-6.1	-11.1	-14.3	-21.2	-20.9	-22.5	-22.3	-22.5	-25.9
Exports (excl. military)	107.1	114.7	125.6	108.0	113.5	118.4	118.9	120.0	123.8	127.3	131.0	134.7	139.0
Agricultural	22.2	23.4	24.0	21.5	23.1	25.3	23.7	23.8	24.0	24.0	24.0	24.0	24.3
Nonagricultural	84.8	91.3	101.6	86.5	90.5	93.1	95.2	96.2	99.8	103.3	107.0	110.7	114.7
Imports	98.1	123.9	147.2	113.3	119.7	129.5	133.2	141.2	144.7	149.8	153.3	157.2	164.9
Fuels	28.5	37.1	42.0	32.5	35.3	40.1	40.7	41.7	41.8	42.6	42.1	42.1	45.6
Nonfuels	69.5	86.8	105.2	80.8	84.4	89.5	92.5	99.5	102.9	107.2	111.2	115.1	119.3
Military and Service Transactions, net	7.3	13.6	16.6	11.0	12.4	15.9	15.2	16.1	16.6	16.8	17.0	17.2	17.4
Military transactions, net	-.9	.4	1.9	-.1	-.6	1.4	.9	1.6	1.8	2.0	2.0	2.0	2.0
Investment income, net	6.0	10.5	12.0	9.1	9.9	11.1	12.0	11.9	12.0	11.9	12.0	12.2	12.3
Other services, net	2.2	2.7	2.7	1.9	3.1	3.4	2.3	2.6	2.8	2.9	3.0	3.0	3.1
U.S. Current Account Balance <u>2/</u> (excl. special transactions with Israel) <u>3/</u>	11.7 (12.0)	-.6 (--)	-9.8 (-9.8)	1.2 ^e (1.3)	2.6 (2.3)	-2.9 (-.2)	-3.3 (-3.5)	-9.8 (-9.8)	-9.1 (-9.1)	-10.7 (-10.7)	-10.3 (-10.3)	-10.3 (-10.3)	-13.5 (-13.5)
Constant (1972) dollars													
Merchandise exports (excl. military) (% change, annual rates)	64.6 (-2.4)	66.5 (+2.9)	68.1 (+2.4)	63.8 (+16.1)	66.4 (+17.4)	68.4 (+12.6)	67.3 (+6.6)	67.3 (--)	67.6 (+1.6)	68.3 (+4.1)	69.3 (+6.1)	70.3 (+5.7)	71.4 (+6.6)
Merchandise imports (% change, annual rates)	51.3 (-12.5)	62.6 (+22.0)	69.0 (+10.2)	58.7 (+41.7)	60.9 (+15.6)	64.9 (+29.1)	66.1 (+7.4)	68.0 (+12.1)	68.2 (+1.2)	69.5 (+7.8)	70.1 (+3.6)	71.0 (+5.3)	73.6 (+15.6)
Foreign Outlook - Major Industrial Countries <u>4/</u>													
Real GNP, % change, annual rate	-.7	5.0	3.4	9.5	3.2	2.0	2.8	3.2	3.6	4.9	5.3	5.3	5.0
Wholesale Prices, % change, A.R. <u>5/</u>	5.8	9.5	9.7	11.2	17.0	11.7	8.7	10.4	8.2	7.8	7.4	6.6	6.1

1/ The GNP account excludes from service imports, U.S. Government interest payments to foreigners (\$4.5 billion in 1976), and excludes from exports, military shipments to Israel under cash grant programs (\$300 million in 1976). 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