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CONFIDENTIAL (FR)

June 15, 1977

SUMMARY AND OUTLOOK

By the Staff  
Board of Governors  
of the Federal Reserve System

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## **SUMMARY AND OUTLOOK**

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DOMESTIC NONFINANCIAL DEVELOPMENTS

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Summary. Vigorous growth in economic activity continued in May, with further appreciable gains in production, employment, and retail sales. However, businesses generally remain cautious about their capital spending plans. At the same time, food prices have continued to rise sharply, and the overall inflation rate has remained well above last year's pace.

Industrial production is estimated to have increased 1.1 per cent last month and at a 14-1/2 per cent annual rate since February. Output gains were widespread by industry, with very large increases for business equipment and durable materials. Auto assemblies declined slightly but are scheduled to rise in June.

Manufacturing jobs rose by more than 65,000 in May and the factory workweek edged up. Factory employment has risen by some 300,000 since February. Total employment increased by nearly 400,000 last month--the fourth consecutive month of sharp gains. The labor force expanded about the same amount, however, and at 6.9 per cent the unemployment rate was little changed from 7.0 per cent in April.

Retail sales rose 0.7 per cent from April to May, with larger increases again concentrated in nondurable goods. Excluding autos and nonconsumer items, the rise was also 0.7 per cent--putting the May level nearly 3-1/2 per cent above the first quarter average. Auto sales were at an 11.7 million unit annual rate in May, the same as the advanced April pace and well above the first quarter average. Sales of

small cars picked up, perhaps in part indicating increased interest in fuel economy; foreign models sold at a record 2.6 million unit annual rate (22 per cent of the domestic market). In early June sales of domestic models rose to a 10.1 million unit annual rate, up sharply from the May pace.

Strong demand for single-family homes has been a major force keeping residential construction activity at high levels in recent months. Private housing starts were at an annual rate of 1.38 million units in April, 6 per cent above the advanced average of the preceding two quarters, but down somewhat from the weather-rebound pace of April. The rental vacancy rate in the first quarter was the lowest in over seven years, and this may presage some further gains in the construction of multifamily units.

With stocks comparatively low relative to sales and the growth of final demand strong, firms have increased their rate of inventory accumulation recently. The book value of manufacturers' inventories rose at a \$19 billion annual rate in April--the most rapid monthly rise since last fall and well above the rate of accumulation in March and the first quarter as a whole. Wholesale stocks rose at an \$8.8 billion annual rate in April.

Growth of government spending has picked up in recent months. State and local employment increased by 77,000 since February, reversing earlier declines, and a substantial rise recently has been recorded in the value of construction put-in-place. Growth of State and local

spending should be boosted further by the recent enactment of appropriations bills that more than double Federal funding for public service jobs and public works.

Business fixed investment increased at a substantial rate in the first quarter and further large gains are indicated for the second quarter. Commitments data suggest further strength, as new orders for nondefense capital goods rose 1-3/4 per cent in April to a level more than 15 per cent above April 1976 and overall contracts and orders for plant and equipment rose over 9 per cent in April. On the other hand, the most recent Commerce Department investment anticipation survey, conducted in late April and May, indicates much smaller gains in plant and equipment spending in the last half of 1977.

Food prices rose 1-1/2 per cent in April, and the overall Consumer Price Index rose 0.8 per cent, as compared to 0.6 per cent in March. In May, moreover, wholesale prices of processed foods rose sharply, suggesting further increases in consumer food prices. On the other hand, prices of industrial commodities at wholesale rose 0.4 per cent last month, the smallest rise so far this year. Wage increases have been relatively modest since February and the average hourly earnings index continued this trend in May, rising at a 5-3/4 per cent annual rate. However, increased minimum wages and employer taxes for social security and unemployment insurance boosted labor costs sharply for the first quarter as a whole.

Outlook. With recent indications of continued increases in consumption spending and inventory investment, our estimate of the current quarter net advance in nominal GNP has been increased slightly from that projected a month ago. However, price increases have been substantially larger than anticipated, and real GNP now appears likely to rise at a 6-1/2 per cent annual rate this quarter, about half a percentage point less than last month's indication. The gross business product fixed-weighted price index is now projected to rise at a 7.1 per cent annual rate this quarter, with the upward revision attributable to higher food prices.

Fiscal policy assumptions underlying the staff's projections are little changed from those incorporated in last month's projections. The House Ways and Means Committee has voted to delay the introduction of the Administration's proposed excise tax on fuel-inefficient new autos and to eliminate the proposed rebates on fuel efficient new cars. The fiscal assumptions were modified to conform to this action. The Tax Reduction and Simplification Act, which was enacted shortly after the last Greenbook, resulted in minor modifications to our revenue estimates. Outlays for FY 1977 are projected to be in the \$405 billion range and the resulting unified deficit amounts to \$47 billion--a bit smaller than that indicated last month. Monetary policy assumptions remain consistent with a 5-1/2 per cent growth of  $M_1$  from 1977-I to 1978-I, with growth expected to be somewhat slower in the latter half of this year following the second quarter surge in the money stock.

Real GNP growth is now projected to average 5-1/2 per cent over the four quarters from mid-1977 to mid-1978. This is nearly half a percentage point below the projection of last month. The reduction is mainly due to a downward adjustment in projected business fixed capital spending and the concomitant effects on income and consumption as well as a slower pace of inventory accumulation. With output growth projected to be slower, the unemployment rate is now expected to decline somewhat more slowly but to reach 6.5 per cent in the second quarter of 1978.

Given the recent price performance and the prospect of somewhat larger unit labor cost increases, the price forecast has been raised somewhat further this month. Over the four-quarter period ending in 1978-II, the gross business product fixed-weighted price index is projected to increase at about a 6 per cent annual rate, about a quarter of a percentage point above last month. We are also assuming that the OPEC oil price increase will amount to 10 per cent from late 1976 to late 1977--rather than the 7-1/2 per cent previously assumed. This has only a minor impact on the price projection, however.

The details of the staff projection are shown on 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)	
	5/11/77	6/15/77	5/11/77	6/15/77	5/11/77	6/15/77	5/11/77	6/15/77
1973 <sup>1/</sup>	11.6	11.6	5.5	5.5	5.7	5.7	4.9	4.9
1974 <sup>1/</sup>	8.2	8.2	-1.7	-1.7	10.2	10.2	5.6	5.6
1975 <sup>1/</sup>	7.3	7.3	-1.8	-1.8	9.3	9.3	8.5	8.5
1976 <sup>1/</sup>	11.6	11.6	6.1	6.1	5.2	5.2	7.7	7.7
1977	11.0	11.3	5.0	5.1	6.0	6.3	6.9	6.9
1976-III <sup>1/</sup>	8.5	8.5	3.9	3.9	4.3	4.3	7.8	7.8
1976-IV <sup>1/</sup>	8.5	8.5	2.6	2.6	4.9	4.9	7.9	7.9
1977-I <sup>1/</sup>	11.3	12.2	5.2	6.4	6.8	6.5	7.4	7.4
977-II	14.0	14.2	7.0	6.6	6.1	7.1	6.9	6.9
977-III	11.9	12.3	5.6	5.6	5.5	5.8	6.8	6.8
1977-IV	12.7	12.3	6.1	5.5	5.6	5.8	6.7	6.7
1978-I	12.5	11.9	6.1	5.5	6.0	6.2	6.5	6.6
1978-II	11.7	11.3	5.8	5.4	5.8	6.0	6.4	6.5
Change:								
75-IV to 76-IV <sup>1/</sup>	9.9	9.9	5.0	5.0	4.5	4.5	-.5	-.5
76-II to 77-II	10.6	10.8	4.7	4.9	5.6	5.7	-.5	-.5
76-IV to 77-IV	12.5	12.8	6.0	6.0	6.0	6.3	-1.2	-1.2
77-II to 78-II	12.2	12.0	5.9	5.5	5.7	6.0	-.5	-.4

<sup>1/</sup> Actual

June 15, 1977

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

	1976		1977				1978	
	III	IV	I	II	Projected III	Projected IV	I	II
Gross National Product	1709.8	1745.1	1796.1	1856.9	1911.7	1967.9	2024.0	2079.0
Final purchases	1694.7	1743.4	1782.4	1840.1	1892.9	1945.6	1997.2	2047.2
Private	1325.1	1367.2	1403.9	1451.3	1491.4	1530.8	1572.4	1611.9
Excluding net exports	1320.4	1363.0	1413.2	1459.0	1495.3	1533.8	1576.2	1619.0
Personal consumption expenditures	1088.5	1122.0	1159.1	1192.5	1218.0	1245.8	1277.8	1312.0
Goods	599.4	618.0	638.7	659.8	673.3	688.6	707.0	726.8
Services	489.1	504.0	520.4	532.7	544.7	557.2	570.8	585.2
Gross private domestic investment	247.0	242.8	267.9	283.3	296.1	310.3	325.2	338.8
Residential construction	68.9	75.5	80.2	85.7	91.0	96.0	100.3	102.3
Business fixed investment	163.0	165.6	173.9	180.8	186.3	192.0	198.1	204.7
Change in business inventories	15.1	1.7	13.8	16.8	18.8	22.3	26.8	31.8
Nonfarm	15.6	2.2	13.0	16.3	18.8	22.3	26.8	31.8
Net exports of goods and services <sup>1/</sup>	4.7	4.2	-9.3	-7.7	-3.9	-3.0	-3.8	-7.1
Exports	167.7	168.5	170.5	176.7	182.1	186.9	192.2	197.7
Imports	163.0	164.3	179.8	184.4	186.0	189.9	196.0	204.8
Gov't. purchases of goods and services	369.6	376.2	378.5	388.8	401.5	414.8	424.8	435.3
Federal <sup>2/</sup>	134.5	138.9	138.2	141.3	146.6	152.5	155.7	159.3
State and local	235.0	237.4	240.3	247.5	254.9	262.3	269.1	276.0
Gross national product in constant (1972) dollars	1272.2	1280.4	1300.3	1321.2	1339.2	1357.1	1375.4	1393.6
Personal income	1386.0	1421.7	1464.0	1507.1	1546.1	1588.6	1625.2	1665.8
Wage and salary disbursements	897.8	921.0	947.1	979.4	1005.4	1034.8	1059.7	1086.7
Disposable income	1190.2	1216.5	1245.8	1288.2	1324.8	1360.3	1397.5	1430.5
Saving rate (per cent)	6.4	5.6	4.8	5.3	5.9	6.3	6.5	6.2
Corporate profits with I.V.A. and C.C. Adj.	122.0	117.8	116.2	122.8	131.9	139.1	142.0	149.2
Corporate profits before tax	150.2	154.2	156.3	159.1	164.7	169.4	169.3	175.5
Federal government surplus or deficit (-) (N.I.A. basis)	-57.4	-59.3	-41.3	-44.8	-54.4	-56.4	-56.5	-51.6
High employment surplus or deficit (-)	-9.9	-8.3	10.1	.5	-10.2	-13.7	-13.5	-10.5
State and local government surplus or deficit (-) (N.I.A. basis)	12.7	21.9	20.1	21.2	24.7	25.2	25.7	25.3
Excluding social insurance funds	-.6	8.4	6.3	6.8	9.7	9.6	9.7	8.8
Civilian labor force (millions)	95.3	95.7	96.1	97.1	97.7	98.2	98.8	99.3
Unemployment rate (per cent)	7.8	7.9	7.4	6.9	6.8	6.7	6.6	6.5
Nonfarm payroll employment (millions)	79.7	80.1	80.9	81.8	82.4	83.1	83.7	84.4
Manufacturing	19.0	19.0	19.3	19.6	19.8	20.0	20.3	20.6
Industrial production (1967=100)	130.9	131.8	133.4	137.5	139.6	142.1	145.0	148.3
Capacity utilization: all manufacturing (per cent)	80.8	80.6	81.0	82.9	83.5	84.4	85.5	86.8
Materials (per cent)	81.3	80.2	80.1	82.6	83.1	84.1	85.2	86.6
Housing starts, private (millions, A.R.)	1.57	1.77	1.77	1.93	1.97	2.00	2.00	2.00
Sales new autos, (millions, A.R.)	10.16	10.00	11.12	11.60	11.70	11.55	11.50	11.60
Domestic models	8.61	8.32	9.28	9.30	9.70	9.75	9.80	9.90
Foreign models	1.55	1.68	1.84	2.30	2.00	1.80	1.70	1.70

<sup>1/</sup> Balance of payments data and projection underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<sup>2/</sup> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

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CLASS II FOMCCHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1976		1977				1978	
	III	IV	I	II	III	IV	I	II
	-----Billions of dollars-----							
Gross National Product	34.6	35.3	51.0	60.7	54.8	56.2	56.1	55.0
Inventory change	-.9	-13.4	12.1	3.0	2.0	3.5	4.5	5.0
Final purchases	35.5	48.7	39.0	57.7	52.8	52.7	51.6	50.0
Private	27.9	42.1	36.7	47.4	40.1	39.4	41.6	39.5
Net exports	-4.6	-.5	-13.5	1.6	3.8	.9	-.8	-3.3
Excluding net exports	32.5	42.6	50.2	45.8	36.3	38.5	42.4	42.8
Personal consumption expenditures	23.8	33.5	37.1	33.4	25.5	27.8	32.0	34.2
Goods	9.6	18.6	20.7	21.1	13.5	15.3	18.4	19.8
Services	14.2	14.9	16.4	12.3	12.0	12.5	13.6	14.4
Residential fixed investment	3.6	6.6	4.7	5.5	5.3	5.0	4.3	2.0
Business fixed investment	5.1	2.6	8.3	6.9	5.5	5.7	6.1	6.6
Government	7.6	6.6	2.3	10.3	12.7	13.3	10.0	10.5
Federal	3.3	4.4	-.7	3.1	5.3	5.9	3.2	3.6
State and local	4.1	2.4	2.9	7.2	7.4	7.4	6.8	6.9
GNP in constant (1972) dollars	12.2	8.2	19.9	20.8	18.0	17.9	18.3	18.3
Final purchases	13.2	17.5	11.6	19.3	17.1	15.2	15.4	14.8
Private	11.3	17.7	14.5	16.0	12.5	12.2	13.0	12.1
	-----In Per Cent Per Year <sup>1/</sup> -----							
Gross National Product	8.5	8.5	12.2	14.2	12.3	12.3	11.9	11.3
Final purchases	8.8	12.0	9.3	13.6	12.0	11.6	11.0	10.4
Private	8.9	13.3	11.2	14.2	11.5	11.0	11.3	10.4
Personal consumption expenditures	9.2	12.9	13.9	12.0	8.8	9.4	10.7	11.1
Goods	6.7	13.0	14.1	13.9	8.4	9.4	11.1	11.7
Services	12.5	12.8	13.7	9.8	9.3	9.5	10.1	10.5
Gross private domestic investment	13.8	-6.7	48.2	25.1	19.3	20.6	20.6	17.8
Residential structures	24.3	43.7	27.5	30.4	27.1	23.9	19.2	8.2
Business fixed investment	13.5	6.5	21.7	16.8	12.7	12.8	13.3	14.0
Gov't. purchases of goods & services	8.6	7.4	2.5	11.4	13.7	13.9	10.0	10.3
Federal	10.7	13.6	-1.9	9.4	15.9	17.1	8.7	9.6
State and local	7.4	4.0	5.1	12.5	12.5	12.1	10.8	10.7
GNP in constant (1972) dollars	3.9	2.6	6.4	6.6	5.6	5.5	5.5	5.4
Final purchases	4.3	5.7	3.7	6.1	5.3	4.7	4.7	4.4
Private	4.7	7.3	5.8	6.4	4.9	4.7	4.9	4.5
GNP implicit deflator <sup>2/</sup>	4.4	5.8	5.5	7.2	6.4	6.5	6.1	5.6
Gross business product fixed-weighted price index <sup>3/</sup>	4.3	4.9	6.5	7.1	5.8	5.8	6.2	6.0
Personal income	7.2	10.7	12.4	12.3	10.8	11.5	9.5	10.4
Wage and salary disbursements	7.8	10.7	11.8	14.4	11.0	12.2	10.0	10.6
Disposable income	6.2	9.1	10.0	14.3	11.8	11.2	11.4	9.8
Corporate profits before tax	11.4	11.1	5.6	7.4	15.0	11.9	-.4	15.7
Nonfarm payroll employment	2.0	2.0	4.1	4.4	3.1	3.2	3.2	3.5
Manufacturing	.0	.0	6.5	5.7	4.7	4.6	5.7	5.7
Nonfarm business sector								
Output per hour	2.6	-1.2	4.1	.7	2.7	2.6	2.6	2.4
Compensation per hour	7.1	7.0	10.3	8.7	7.9	8.5	9.9	8.1
Unit labor costs	4.3	8.3	6.0	8.0	5.2	5.9	7.3	5.7
Industrial production	4.7	2.8	4.9	13.0	6.2	7.3	8.4	9.4
Housing starts, private	41.3	61.5	.0	41.4	8.6	6.2	.0	.0
Sales new autos	-6.8	-6.2	52.9	18.4	3.5	-5.0	-1.7	3.5
Domestic models	-12.4	-12.8	54.8	.9	18.3	2.1	2.1	4.1
Foreign models	34.2	38.0	43.9	144.1	-42.8	-34.4	-20.4	.0

<sup>1/</sup> Percentage rates are annual rates compounded quarterly.<sup>2/</sup> Excluding Federal pay increases rates of change are: 1976-IV, 5.3 per cent; 1977-I, 5.4 per cent; 1977-IV, 5.9 per cent; 1978-I, 6.0 per cent.<sup>3/</sup> Using expenditures in 1972 as weights.

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CLASS II FOMC

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

	1970	1971	1972	1973	1974	1975	1976	Projected 1977
Gross National Product	982.4	1063.4	1171.1	1306.6	1413.2	1516.3	1691.6	1883.2
Final purchases	978.6	1057.1	1161.7	1288.6	1402.5	1531.0	1679.7	1865.2
Private	759.7	823.4	908.6	1019.1	1099.2	1192.0	1314.1	1469.4
Excluding net exports	755.8	821.8	911.9	1012.0	1091.7	1171.5	1307.5	1475.3
Personal consumption expenditures	618.8	668.2	733.0	809.9	887.5	973.2	1079.7	1203.8
Goods	349.6	374.8	410.5	457.5	497.8	540.8	596.9	665.1
Services	269.1	293.4	322.4	352.3	389.6	432.4	482.8	538.7
Gross private domestic investment	140.8	160.0	188.3	220.0	215.0	183.7	239.6	289.4
Residential construction	36.6	49.6	62.0	66.1	55.1	51.2	67.7	88.2
Business fixed investment	100.5	104.1	116.8	136.0	149.2	147.1	160.0	183.3
Change in business inventories	3.8	6.4	9.4	17.9	10.7	-14.6	11.9	17.9
Nonfarm	3.7	5.1	8.8	14.7	12.2	-17.6	11.9	17.6
Net exports of goods and services	3.9	1.6	-3.3	7.1	7.5	20.5	6.6	-6.0
Exports	62.5	65.6	72.7	101.6	144.4	148.1	162.7	179.0
Imports	58.5	64.0	75.9	94.4	136.9	127.6	156.0	185.0
Gov't. purchases of goods and services	218.9	233.7	253.1	269.5	303.3	339.0	365.6	395.9
Federal	95.6	96.2	102.1	102.2	111.6	124.4	133.4	144.6
State and local	123.2	137.5	151.0	167.3	191.6	214.5	232.2	251.2
Gross national product in constant (1972) dollars	1075.3	1107.5	1171.1	1235.0	1214.0	1191.7	1264.7	1329.5
Personal income	801.3	859.1	942.5	1052.4	1153.3	1249.7	1375.3	1526.5
Wage and salary disbursements	546.5	579.4	633.8	701.3	765.0	806.7	890.4	991.7
Disposable income	685.9	742.8	801.3	901.7	982.9	1080.9	1181.7	1304.8
Saving rate (per cent)	7.4	7.7	6.2	7.8	7.3	7.8	6.5	5.6
Corporate profits with I.V.A. and C.C. Adj.	67.9	77.2	92.1	99.1	84.8	91.6	117.8	127.5
Corporate profits before tax	71.5	82.0	96.2	115.8	127.6	114.5	147.9	162.4
Federal government surplus or deficit (-) (N.I.A. basis)	-12.1	-22.0	-17.3	-6.7	-11.5	-71.2	-58.6	-49.2
High employment surplus or deficit (-)	3.0	-5.3	-5.9	-.7	16.8	-17.2	-11.2	-3.3
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	22.8
Excluding social insurance funds	-4.0	-3.8	5.6	4.1	-2.8	-5.1	.9	8.1
Civilian labor force (millions)	82.8	84.1	86.5	88.7	91.0	92.6	94.8	97.3
Unemployment rate (per cent)	5.0	6.0	5.6	4.9	5.6	8.5	7.7	6.9
Nonfarm payroll employment (millions)	70.9	71.2	73.7	76.9	78.4	77.1	79.4	82.1
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	138.2
Capacity utilization: all manufacturing (per cent)	79.2	78.0	83.1	87.5	84.2	73.6	80.1	83.0
Materials (per cent)	84.3	83.1	88.0	92.4	87.7	73.6	80.3	82.5
Housing starts, private (millions, A.R.)	1.43	2.05	2.36	2.05	1.33	1.16	1.54	1.92
Sales new autos (millions, A.R.)	8.40	10.24	10.93	11.42	8.91	8.66	10.12	11.49
Domestic models	7.12	8.68	9.32	9.65	7.49	7.08	8.63	9.51
Foreign models	1.28	1.56	1.61	1.77	1.42	1.58	1.50	1.99

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CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1970	1971	1972	1973	1974	1975	1976	Projected 1977
	-----Billions of Dollars-----							
Gross National Product	46.9	81.0	107.7	135.5	106.6	103.1	175.3	191.6
Inventory change	-5.6	2.6	3.0	8.5	-7.2	-25.3	26.5	6.0
Final purchases	52.4	78.5	104.6	126.9	113.9	128.5	148.7	185.5
Private	41.4	63.7	85.2	110.5	80.1	92.8	122.1	155.3
Net exports	2.1	-2.3	-4.9	10.4	.4	13.0	-13.9	-12.6
Excluding net exports	39.3	66.0	90.1	100.1	79.7	79.8	136.0	167.8
Personal consumption expenditures	39.1	49.4	64.8	76.9	77.6	85.7	106.5	124.1
Goods	17.1	25.2	35.7	47.0	40.3	43.0	56.1	68.2
Services	21.9	24.3	29.0	29.9	37.3	42.8	50.4	55.9
Residential fixed investment	-1.3	13.0	12.4	4.1	-11.0	-3.9	16.5	20.5
Business fixed investment	1.6	3.6	12.7	19.2	13.2	-2.1	12.9	23.3
Government	11.0	14.8	19.4	16.4	33.8	35.7	26.6	30.3
Federal	-1.9	.6	5.9	.1	9.4	12.8	9.0	11.2
State and local	12.8	14.3	13.5	16.3	24.3	22.9	17.7	19.0
GNP in constant (1972) dollars	-3.5	32.2	63.6	63.9	-21.0	-22.3	73.0	64.8
Final purchases	2.8	29.9	60.8	56.8	-13.0	-1.8	52.9	61.4
Private	9.3	30.7	57.1	57.4	-16.9	-6.4	49.8	57.6
	-----In Per Cent Per Year-----							
Gross National Product	5.0	8.2	10.1	11.6	8.2	7.3	11.6	11.3
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	11.8
Personal consumption expenditures	6.7	8.0	9.7	10.5	9.6	9.7	10.9	11.5
Goods	5.1	7.2	9.5	11.4	8.8	8.6	10.4	11.4
Services	8.9	9.0	9.9	9.3	10.6	11.0	11.7	11.6
Gross private domestic investment	-3.7	13.6	17.7	16.8	-2.3	-14.6	30.5	20.8
Residential structures	-3.4	35.5	25.1	6.6	-16.7	-7.1	32.4	30.3
Business fixed investment	1.6	3.6	12.3	16.4	9.7	-1.4	8.7	14.6
Gov't. purchases of goods & services	5.3	6.8	8.3	6.5	12.5	11.8	7.9	8.3
Federal	-1.9	.6	6.1	.1	9.2	11.5	7.2	8.4
State and local	11.6	11.6	9.8	10.8	14.5	11.9	8.2	8.2
GNP in constant (1972) dollars	-.3	3.0	5.7	5.5	-1.7	-1.8	6.1	5.1
Final purchases	.3	2.8	5.5	4.9	-1.1	-.1	4.4	4.9
Private	1.1	3.7	6.7	6.3	-1.7	-.7	5.3	5.8
GNP implicit deflator	5.4	5.1	4.1	5.8	10.0	9.3	5.1	5.9
Gross business product fixed-weighted price index <sup>1/</sup>	4.4	4.4	3.3	5.7	10.2	9.3	5.2	6.3
Personal income	7.4	7.2	9.7	11.7	9.6	8.4	10.1	11.0
Wage and salary disbursements	6.2	6.0	9.4	10.7	9.1	5.5	10.4	11.4
Disposable income	8.8	8.3	7.9	12.5	9.0	10.0	9.3	10.4
Corporate profits before tax	-14.3	14.7	17.3	20.4	10.2	-10.3	29.2	9.8
Nonfarm payroll employment	.7	.4	3.5	4.3	2.0	-1.7	3.0	3.4
Manufacturing	-4.5	-3.6	2.7	5.2	-.5	-8.5	3.8	3.7
Nonfarm business sector								
Output per hour	.2	2.9	3.0	1.7	-3.5	1.6	3.7	2.1
Compensation per hour	6.7	6.6	5.8	7.8	9.4	9.5	7.4	8.4
Unit labor costs	6.5	3.5	2.7	6.0	13.4	7.7	3.6	6.3
Industrial production	-3.0	1.7	9.2	8.4	-.4	-8.9	10.2	6.5
Housing starts	-2.7	43.4	15.1	-13.1	-35.1	-12.2	32.8	24.7
Sales new autos	-12.2	21.9	6.7	4.5	-22.0	-2.8	16.9	13.5
Domestic models	-15.8	21.9	7.4	3.5	-22.4	-5.5	21.9	10.2
Foreign models	15.3	21.9	3.2	9.9	-19.8	11.3	-5.1	32.7

<sup>1/</sup>Using expenditures in 1972 as weights.

FEDERAL SECTOR ACCOUNTS  
(Billions of dollars)

	Fiscal Year 1976*	FY 1977 e/		FY 1978 e/			CY 1976 *	CY 1977 e/ F.R. Board	F.R.B. staff estimates Calendar quarters; unadjusted data						
		Admin.	F.R. Board	Admin.	F.R.	Cong.			1977			1978			
		est. 1/	Board	est. 1/	Board	est. 2/			I*	II	III	IV	I	II	III
Unified budget receipts	300.0	359.5	358.4	404.7	395.0	396.3	318.5	367.6	79.5	109.7	93.1	85.3	86.5	118.6	104.5
Unified budget outlays	366.5	408.2	405.4	462.6	457.8	461.0	375.1	415.8	98.2	104.0	104.3	109.3	110.5	117.0	121.0
Surplus(+)/Deficit(-), unified budget	-66.5	-48.7	-47.0	-57.9	-62.8	-64.7	-56.6	-48.2	-18.7	5.7	-11.2	-24.0	-24.0	1.6	-16.5
Surplus(+)/Deficit(-), off-budget agencies 3/	-7.3	-10.8	-9.8	-8.5	-6.8	n.a.	-5.7	-6.7	-4.3	.4	-6.4	3.6	-6.3	.3	-4.4
Means of financing combined deficits:															
Net borrowing from public	82.9	n.a.	46.7	n.a.	69.9	n.a.	69.0	49.9	17.6	-1.1	12.8	20.6	28.8	-.4	20.9
Decrease in cash operating balance	-7.2	n.a.	7.1	n.a.	.3	n.a.	-3.2	1.7	2.6	-5.1	3.8	.3	0.0	0.0	0.0
Other 4/	-1.9	n.a.	2.8	n.a.	-.5	n.a.	-3.5	3.2	2.7	.1	.9	-.5	1.5	-1.5	0.0
Cash operating balance, end of period	14.8	n.a.	10.3	n.a.	10.0	n.a.	11.7	10.0	9.0	14.1	10.3	10.0	10.0	10.0	10.0
Memo: Sponsored agency borrowing 5/	3.4	n.a.	5.6	n.a.	n.e.	n.a.	2.9	7.1	.7	2.5	2.0	1.9	n.e.	n.e.	n.e.
<b>NIA Budget</b>									<b>Seasonally adjusted, annual rates</b>						
Receipts	313.6	368.3	364.3 <sup>6/</sup>	421.2	n.e.	n.a.	330.3	375.9	366.3	370.3	377.7	389.2	403.4	416.6	n.e.
Outlays	373.0	419.1	415.1	468.4	463.5	n.a.	388.9	425.1	407.6	415.1	432.1	445.6	459.9	468.2	480.2
Purchases (total)	127.2	144.2	141.2	162.4	157.4	n.a.	133.4	144.6	138.2	141.3	146.6	152.5	155.7	159.3	162.2
Defense	85.8	92.8	92.8	105.0	102.4	n.a.	88.2	94.8	91.5	93.2	95.2	99.3	101.8	103.5	105.2
Non-defense	41.4	51.4	48.4	57.4	55.0	n.a.	45.2	49.8	46.7	48.1	51.4	53.2	53.9	55.8	57.0
All other outlays	245.8	274.9	273.8 <sup>6/</sup>	306.0	306.0	n.a.	255.5	280.4	269.4	273.8	285.5	293.1	304.2	308.9	318.0
Surplus(+)/Deficit(-)	-59.4	-51.0	-50.9 <sup>6/</sup>	-47.2	n.e.	n.a.	-58.6	-49.2	-41.3	-44.8	-54.4	-56.4	-56.5	-51.6	n.e.
High Employment Surplus(+)/Deficit(-) (NIA basis) 7/	-14.7	n.a.	-2.0	n.a.	n.e.	n.a.	-11.2	-3.3	10.1	.5	-10.2	-13.7	-13.5	-10.5	n.e.

\*actual      e--estimated      r--revised      n.e.--not estimated      n.a.--not available      p--preliminary

1/ OMB Current Budget Estimates, April 1977 and Department of Commerce.

2/ Congress' First Concurrent Resolution on the Budget (May 17, 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 \$.9 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 the Federal Sector Outlook

The staff's policy assumptions have been modified somewhat in order to conform to recent House Ways and Means Committee action on the Administration's proposed energy program. The Committee decided that the tax on fuel inefficient autos should not begin until late 1978 and that the President's plan to provide rebates on fuel efficient autos should not be reported favorably to the House. The current projection continues to incorporate a crude oil equalization tax that begins in early 1978. The additional revenues from this tax--\$4.5 billion in calendar year 1978--are assumed to be fully redistributed to individuals and corporations in the form of per capita tax rebates and energy conservation credits. In addition, Federal outlays in fiscal year 1978 are expected to increase due to higher fuel costs and to the retrofitting of Federal buildings.

Aside from these modifications, the staff's underlying fiscal policy outlook is little changed from last month. Fiscal year 1977 receipts, reflecting this month's income forecast, are now estimated at \$358-1/2 billion, up by almost \$1 billion from the previous forecast. Projected outlays have been reduced from \$407 billion to \$405 billion due to the expectation that current outlay growth (26 per cent at an annual rate from 1977-I to 1977-II) will moderate in the final quarter of this fiscal year (1977-III).

The resulting unified deficit for fiscal year 1977 is now projected to be \$47 billion, and the amount that needs to be financed (unified plus off-budget) is estimated at \$57 billion. The Administration has raised \$35 billion of its requirements during the first six months of this fiscal year, but it is expected that the Treasury will repay a modest amount of debt in the current quarter. To meet the remaining need, the Treasury is expected to run down its cash balance by \$7 billion over the fiscal year, thus leaving about \$13 billion of borrowing to be accomplished in the July to September quarter. About \$11 billion of this total is expected to be raised in the market.

The staff's deficit projection for fiscal 1978 remains unchanged from last month's \$63 billion estimate, but outlays and revenues both have been reduced by \$1 billion. The outlay revision (from \$459 billion to \$458 billion) results from an expected further weakness in spending that more than offsets higher energy related outlays. The receipts adjustment (to \$395 billion) is due mainly to revised estimates of the tax credits associated with the President's energy program. Finally, the Tax Reduction and Simplification Act of 1977 was enacted since the last Greenbook and while there were some minor differences, the bill's provisions conformed quite closely to earlier staff expectations.

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DOMESTIC FINANCIAL DEVELOPMENTS

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Summary. The strong upward pressures on market rates of interest that had characterized late April and early May have abated during recent weeks. Credit demands of several sectors have moderated, and market sentiment has been buoyed by a marked reduction in the growth of the monetary aggregates. Most short-term market yields are about unchanged on balance since the May FOMC meeting, while yields on intermediate- and long-term securities generally have declined 10 to 30 basis points.

Nonfinancial business firms borrowed substantially less in credit markets during May than they had in April. Growth of bank loans and commercial paper outstanding slowed; nonetheless, the two-month growth rate of total short-term business borrowing (excluding bank holdings of acceptances) was still slightly above the 13 per cent average pace of the first quarter. Public bond offerings by non-financial firms declined to a low level in May, while the volume of new stock issues--primarily of utilities--increased significantly. Short-term borrowing by financial firms was about unchanged on a seasonally adjusted basis in May, but in contrast to nonfinancial enterprises, financial corporations issued a sizable volume of long-term debt in the public market.

In the State and local government sector, short-term security offerings have returned to a moderate level following April's New York State seasonal financing. Long-term tax-exempt issues,

however, were at a record level in May and remained exceptionally heavy in early June. Advance refundings continued to account for about one-fifth of municipal bond volume, and thus provided a sizable quantity of funds for the acquisition of special nonmarketable Treasury issues. With the Federal budget moving into a small surplus during the current quarter, the Treasury has been able to pay down \$500-\$900 million of bills in each recent regular auction while limiting net coupon security issuance to moderate amounts.

The April-May rise in market rates of interest has had a damping effect on the growth of time and savings deposits at commercial banks. This has been particularly evident in the case of savings accounts; the level of such balances has declined since mid-May as the yield on 3-month Treasury bills has exceeded the 5 per cent ceiling rate for bank savings deposits. In order to fund asset expansion in May, banks added to CD's outstanding and borrowed from the nonbank public through Federal funds purchases and securities RP's.

Nonbank thrift institutions, which are subject to higher regulatory rate ceilings, experienced deposit growth in May at the same pace as in the preceding two months. This growth rate, however, is significantly lower than the average for the previous two years, and with lending commitments rising still further in April, average interest rates in the primary mortgage market have remained at the higher level reached in mid-May. Rates established in FNMA auctions have edged higher, and the FHA/VA ceiling rate was raised by 1/2 percentage point in May.

Outlook. The Federal Government probably will continue for several more weeks to place only limited demands on the intermediate- and long-term credit markets, and pay-downs of maturing bills may continue a while longer. Staff projections indicate, however, that the Treasury will have to begin borrowing in volume by late July in order to cover a seasonally expanding budget deficit. It is expected that the Treasury will need to raise \$32-35 billion during the second half of calendar 1977.

No offsetting decrease in the aggregate credit demands of the other sectors of the economy appears in prospect for the summer months. In the household sector, further strong expansion of consumer and mortgage debt is implied by the staff's projection of GNP. Business firms meanwhile face a substantial financing gap. The staff expects business financing demands over the near term to be smaller to those in the first half. Because many firms apparently have achieved desired balance sheet restructuring, short-term credit demands probably will not slacken appreciably from the higher level of the last three quarters. Public bond offerings may decline seasonally in the next few months, but private bond placements and other intermediate- and long-term business financing should remain strong.

Securities issuance by State and local governments is likely to edge down from recent record levels. A new IRS arbitrage regulation will make advance refundings less attractive; in addition, some recent tax-exempt bond offerings reportedly were anticipatory, reflecting

desires of governmental units to fund construction projections prior to an expected upward movement in interest rates.

The staff expects that banks and thrift institutions will face strong loan demands in the summer months. Both probably will reduce liquid asset acquisitions; banks also may increase borrowings in money markets, while savings and loan associations may expand their borrowings from Home Loan Banks and seek funds from other sources. As a consequence, the resumption of sizable Treasury borrowing could exert significant upward pressure on market interest rates. Yields on short- and intermediate-term securities may have to rise moderately in order to attract individual investors. (The short-run interest-sensitivity of consumer time deposit flows could be heightened this summer by the unusually large block of deposit maturities--including high rate "wild card" certificates--associated with the fourth anniversary of the July 1973 Regulation Q change.) The resultant slowing of deposit flows to thrift institutions should lead to somewhat tighter price and nonprice conditions in the residential mortgage market. In the bond markets, upward rate movements are likely to be small as life and casualty insurance companies continue to seek long-term investment outlets for large cash flows.

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INTERNATIONAL DEVELOPMENTS

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Summary. During the past five weeks the trade-weighted average value of the dollar against major currencies declined only marginally, despite the report that the April U.S. trade deficit continued larger than had been generally expected. Dollar exchange rates have been supported in recent months by the higher levels in U.S. interest rates relative to those in national markets abroad. While the average value of the dollar has declined slightly over the past month, the dollar depreciated by about 2 per cent against the yen and less than 1/2 per cent against the mark (as Japan and Germany continued to post sizable trade surpluses) and nearly 1-1/2 per cent against the Swiss franc, but has risen by nearly 1 per cent against the Canadian dollar and by 1-1/4 per cent against the Swedish krona. The latter currency has been affected by expectations of another realignment within the snake.

The U.S. trade deficit for April of \$35 billion was nearly as large as the deficit in March. The jump in the deficit in March-April from the already large \$23 billion rate of January-February reflected to a large extent a sharp rise in the volume of fuel imports and some increase in their price. Agricultural exports have been rising a little,

as strength in soybean and cotton exports has offset some decline in grains. Exports of non-agricultural products have been flat, with volume down somewhat since the end of last year, offset by price rises. This sluggishness is particularly evident in machinery exports (one third of the total), reflecting weak investment demand in major foreign markets and possibly a decline in U.S. price competitiveness relative to Japan. U.S. non-fuel imports have continued to rise, with higher coffee prices a principal factor, but the rise also reflects higher imports of automobiles and a further increase in imports of industrial materials in line with the continued strong advance of demand in the United States.

Private capital flows in the U.S. international accounts (for which data are available currently) shifted from a large net outflow in March to a moderate inflow in April. Transactions reported by banks resulted in a net inflow in April, probably related to the relative easing of Euro-dollar short-term interest rates at that time. Since the end of April, U.S. short-term rates have risen markedly, while foreign rates, on balance, have eased further, suggesting that there may have been further net inflows not yet reported. Transactions in securities continued to show small net inflows in April, with the volume of new foreign bond issues in the United States well under last year's pace. However, a moderate rebound in new foreign bond flotations has occurred since April. New foreign security issues in the second quarter will exceed the first quarter rate by about \$1 billion.

Activity in international capital markets through April of this year has continued at approximately last year's record \$60 billion rate. Borrowing in the medium-term Euro-credit markets by developed countries

and the oil-exporters increased further, while borrowing by developing countries appeared to be slowing somewhat. However, a few of these latter countries are raising increasing amounts of funds in the Euro-bond market, and some developed countries also raised greater amounts in this longer-term market.

Economic activity in industrial countries was reviewed early in June at the OECD. Apart from the United States, progress in recovering from the recession continues to be slower than was anticipated last year. Year-over-year increases in real final domestic demand for the whole OECD area are estimated at the same 4 per cent rate in 1977 that was experienced in 1976. Despite the moderateness of the recovery, no improvement in over-all price performance is expected. Another disturbing feature of the present recovery abroad has been the failure of fixed investment to show greater strength. Though fixed investment recovered in 1976 after having fallen in 1975, the recovery was unimpressive as compared with earlier cycles.

Outlook. Projections of the outlook for economic activity in the rest of the world are not encouraging. Even where progress has been greatest, e.g., Japan, it has been based to a large extent on export demand, rather than a resurgence of domestic demand. Continued sluggishness in the rest of the world can have a sizable impact on the United States. It is already evident in the failure of the volume of U.S. non-agricultural exports to expand above their 1974 levels, and current projections show only a 5 per cent increase by mid-1978 over that earlier peak. Meanwhile, U.S. non-fuel imports are rising again as the U.S. economy expands, and are projected to be 23 per cent higher in volume terms by mid-1978 than

they were in 1974. Imports of fuels also have risen rapidly, and, even with the advent of oil shipments from Alaska, are projected to be at a \$46 billion annual rate by mid-1978, down \$9 billion from the exceptional levels of March-April.

The 1977 U.S. trade deficit currently is projected to be \$25 billion, somewhat higher than last month's green book projection. Apart from trade with oil exporters, the U.S. trade position in January-April was about in balance, but nearly \$10 billion lower than 1976. The prospects for the U.S. trade balance with non-OPEC countries principally reflect the different phases of the cycle here and abroad. Over-all balance in the U.S. international accounts has been maintained at a steady dollar rate, largely because dollar-denominated assets have been relatively attractive. Little change in the average value of the dollar is expected in the year ahead.

June 15, 1977

	1975	1976	1977 <sup>P</sup>	1 9 7 6				1 9 7 7 <sup>P</sup>				1978 <sup>P</sup>	
				I	II	III	IV	I	II	III	IV	I	II
<b>Billions of dollars</b>													
Net Exports of Goods and Services (GNP basis of net exports) <u>1/</u>	16.3 (20.5)	4.4 (6.6)	-8.5 (-6.0)	5.7 (8.4)	6.2 (9.3)	4.8 (4.7)	.9 (4.2)	-11.2 (-9.3) <sup>r</sup>	-10.0 (-7.7)	-6.6 (-3.9)	-6.0 (-3.0)	-6.9 (-3.8)	-10.3 (-7.1)
Merchandise trade balance (excl. military)	9.0	-9.2	-25.1	-5.3	-6.1	-11.1	-14.3	-27.3 <sup>r</sup>	-26.6	-23.4	-23.0	-24.1	-27.7
Exports (excl. military)	107.1	114.7	124.1	108.0	113.5	118.4	118.9	118.4 <sup>r</sup>	122.5	126.1	129.4	133.7	138.2
Agricultural	22.2	23.4	24.8	21.5	23.1	25.3	23.7	24.4 <sup>r</sup>	25.2	25.1	24.4	24.8	25.0
Nonagricultural	84.8	91.3	99.3	86.5	90.5	93.1	95.2	94.0 <sup>r</sup>	97.3	101.0	105.0	108.9	113.2
Imports	98.1	123.9	149.2	113.3	119.7	129.5	133.2	145.7 <sup>r</sup>	149.1	149.5	152.4	157.8	165.9
Fuels	28.5	37.1	43.9	32.5	35.3	40.1	40.7	46.7 <sup>r</sup>	45.5	42.3	41.2	42.4	45.9
Nonfuels	69.5	86.8	105.3	80.8	84.4	89.5	92.5	99.0 <sup>r</sup>	103.6	107.2	111.2	115.4	120.0
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 (--)	-13.3 (-13.3)	1.2 (1.3)	2.6 (2.3)	-2.9 (-.2)	-3.3 (-3.5)	-15.9 (-15.9)	-14.8 (-14.8)	-11.6 (-11.6)	-11.0 (-11.0)	-11.9 (-11.9)	-15.3 (-15.3)
<b>Constant (1972) dollars</b>													
Merchandise exports (excl. military) (% change, annual rates)	64.6 (-2.4)	66.5 (+2.9)	67.4 (+1.3)	63.8 (-16.1)	66.5 (+17.4)	68.4 (+12.6)	67.3 (-6.6)	66.4 (-5.3)	67.0 (+4.0)	67.6 (+4.0)	68.5 (+5.3)	69.7 (+7.4)	70.9 (+7.4)
Merchandise imports (% change, annual rates)	51.3 (-12.5)	62.6 (+22.0)	69.1 (+10.4)	58.7 (+41.7)	60.9 (+15.6)	64.9 (+29.1)	66.1 (+7.4)	69.5 (+22.5)	69.7 (+1.2)	68.7 (+6.1)	69.1 (+2.6)	70.7 (+9.5)	73.4 (+16.5)
<b>Foreign Outlook - Major Industrial Countries <u>4/</u></b>													
Real GNP, % change, annual rates	-.8	5.0	3.8	9.5	3.2	1.6	3.2	4.9	4.1	4.1	5.3	5.3	4.9
Wholesale Prices, % change, A.R. <u>5/</u>	5.8	9.5	9.8	11.3	17.0	11.7	8.7	10.8	9.1	7.4	7.0	6.1	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.

<sup>p/</sup> Projected.

<sup>e/</sup> Estimated.

<sup>r/</sup> Revised.