

CONFIDENTIAL (FR)

July 13, 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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## STAFF GNP PROJECTIONS

	Per cent changes, annual rate				Gross business product fixed-weighted price index		Unemployment rate (per cent)	
	Nominal GNP		Real		6/15/77	7/13/77	6/15/77	7/13/77
	6/15/77	7/13/77	6/15/77	7/13/77				
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	11.3	11.6	5.1	5.3	6.3	6.5	6.9	7.0
1978	--	11.8	--	5.3	--	6.2	--	6.4
1977-I <sup>1/</sup>	12.2	13.0	6.4	6.9	6.5	6.5	7.4	7.4
1977-II	14.2	14.6	6.6	6.7	7.1	7.6	6.9	7.0
1977-III	12.3	12.3	5.6	5.5	5.8	5.9	6.8	6.9
1977-IV	12.3	12.7	5.5	5.6	5.8	5.9	6.7	6.7
1978-I	11.9	11.8	5.5	5.4	6.2	6.3	6.6	6.6
1978-II	11.3	10.9	5.4	5.0	6.0	6.0	6.5	6.5
1978-III	--	10.7	--	4.5	--	6.2	--	6.4
1978-IV	--	11.4	--	4.5	--	6.3	--	6.3
Change:								
76-II to 77-II	10.8	11.1	4.9	5.0	5.7	5.9	-.5	-.4
76-IV to 77-IV	12.8	13.2	6.0	6.2	6.3	6.5	-1.2	-1.2
77-II to 78-II	12.0	11.9	5.5	5.4	6.0	6.0	-.4	-.5
77-IV to 78-IV	--	11.2	--	4.9	--	6.1	--	-.4

<sup>1/</sup> Actual

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

	1977				1978			
	I	II	III	IV	Projected			
					I	II	III	IV
Gross National Product	1799.3	1861.8	1916.5	1974.7	2030.4	2083.6	2137.1	2195.8
Final purchases	1785.5	1841.6	1894.3	1950.0	2002.2	2051.9	2104.4	2162.1
Private	1407.0	1452.4	1493.0	1534.7	1575.9	1613.8	1654.7	1700.5
Excluding net exports	1413.2	1457.0	1495.2	1533.7	1577.2	1618.8	1661.2	1706.9
Personal consumption expenditures	1159.1	1189.5	1215.2	1243.0	1276.1	1309.4	1343.6	1380.3
Goods	638.7	656.5	670.1	685.4	704.5	723.8	743.6	765.2
Services	520.4	533.0	545.1	557.6	571.6	585.6	600.0	615.1
Gross private domestic investment	267.9	287.7	302.2	315.4	329.3	341.1	350.3	360.3
Residential construction	80.2	88.9	95.9	100.9	105.2	107.2	108.7	110.2
Business fixed investment	173.9	178.6	184.1	189.8	195.9	202.2	208.9	216.4
Change in business inventories	13.8	20.2	22.2	24.7	28.2	31.7	32.7	33.7
Nonfarm	13.0	19.7	22.2	24.7	28.2	31.7	32.7	33.7
Net exports of goods and services <sup>1/</sup>	-6.2	-4.6	-2.2	1.0	-1.3	-5.0	-6.5	-6.4
Exports	171.4	176.2	180.2	185.8	193.0	199.5	205.9	211.1
Imports	177.6	180.8	182.4	184.8	194.3	204.5	212.4	217.5
Gov't. purchases of goods and services	378.5	389.2	401.3	415.3	426.3	438.1	449.7	461.6
Federal <sup>2/</sup>	138.2	140.5	145.2	151.8	155.0	159.0	163.1	167.6
State and local	240.3	248.7	256.1	263.5	271.3	279.1	286.6	294.0
Gross national product in constant (1972) dollars	1302.0	1323.1	1341.1	1359.4	1377.4	1394.4	1410.0	1425.5
Personal income	1464.0	1508.8	1546.2	1590.4	1628.1	1668.0	1712.9	1759.0
Wage and salary disbursements	947.1	979.5	1003.5	1033.9	1059.9	1085.9	1112.6	1142.8
Disposable income	1245.8	1289.8	1325.2	1362.1	1401.2	1433.6	1465.3	1502.1
Saving rate (per cent)	4.8	5.6	6.2	6.6	6.8	6.6	6.2	6.1
Corporate profits with I.V.A. and C.C. Adj.	117.9	128.1	137.7	145.4	146.3	153.6	158.9	165.5
Corporate profits before tax	160.0	169.9	175.2	179.9	178.3	184.6	188.9	195.5
Federal government surplus or deficit (-) (N.I.A. basis)	-41.2	-40.1	-49.4	-52.4	-53.8	-49.7	-43.3	-36.6
High employment surplus or deficit (-)	8.8	2.9	-7.3	-12.3	-11.4	-8.5	-2.4	2.8
State and local government surplus or deficit (-) (N.I.A. basis)	20.2	18.8	23.1	24.0	23.8	22.4	20.3	18.2
Excluding social insurance funds	6.3	4.4	8.1	8.4	7.8	5.9	3.3	.7
Civilian labor force (millions)	96.1	97.2	97.8	98.3	98.9	99.5	100.0	100.6
Unemployment rate (per cent)	7.4	7.0	6.9	6.7	6.6	6.5	6.4	6.3
Nonfarm payroll employment (millions)	80.9	81.9	82.4	83.1	83.8	84.4	85.0	85.6
Manufacturing	19.3	19.6	19.7	19.9	20.2	20.5	20.7	20.9
Industrial production (1967=100)	133.5	137.7	139.7	142.1	145.1	148.2	150.9	153.4
Capacity utilization: all manufacturing (per cent)	81.0	83.0	83.5	84.3	85.5	86.7	87.5	88.3
Materials (per cent)	80.2	82.6	83.1	84.0	85.1	86.3	87.0	87.7
Housing starts, private (millions, A.R.)	1.76	1.94	1.98	2.00	2.00	2.00	1.95	1.90
Sales new autos, (millions, A.R.)	11.12	11.70	11.70	11.65	11.70	11.80	11.80	11.80
Domestic models	9.28	9.34	9.70	9.75	9.80	9.90	9.90	9.90
Foreign models	1.84	2.36	2.00	1.90	1.90	1.90	1.90	1.90

<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.

CONFIDENTIAL - FR  
CLASS II FOMC

July 13, 1977

I - 8

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1977				1978			
	I	II	III	IV	I	II	III	IV
----- Billions of dollars -----								
Gross National Product	54.2	62.5	54.7	58.2	55.7	53.2	53.5	58.7
Inventory change	12.1	6.5	2.0	2.5	3.5	3.5	1.0	1.0
Final purchases	42.1	56.1	52.7	55.7	52.2	49.7	52.5	57.7
Private	39.8	45.4	40.6	41.7	41.2	37.9	40.9	45.8
Net exports	-10.4	1.6	2.4	3.2	-2.3	-3.7	-1.5	.1
Excluding net exports	50.2	43.8	38.2	38.5	43.5	41.6	42.4	45.7
Personal consumption expenditures	37.1	30.4	25.7	27.8	33.1	33.3	34.2	36.7
Goods	20.7	17.8	13.6	15.3	19.1	19.3	19.8	21.6
Services	16.4	12.6	12.1	12.5	14.0	14.0	14.4	15.1
Residential consumption expenditures	4.7	8.7	7.0	5.0	4.3	2.0	1.5	1.5
Business fixed investment	8.3	4.7	5.5	5.7	6.1	6.3	6.7	7.5
Government	2.3	10.7	12.1	14.0	11.0	11.8	11.6	11.9
Federal	-.7	2.3	4.7	6.6	3.2	4.0	4.1	4.5
State and local	2.9	8.4	7.4	7.4	7.8	7.8	7.5	7.4
GNP in constant (1972) dollars	21.6	21.1	17.9	18.4	17.9	17.0	15.5	15.6
Final purchases	13.4	17.3	17.2	16.4	15.7	14.6	14.9	14.8
Private	16.3	13.7	12.8	13.0	12.7	11.0	11.7	13.6
----- In Per Cent Per Year <sup>1/</sup> -----								
Gross National Product	13.0	14.6	12.3	12.7	11.8	10.9	10.7	11.4
Final purchases	10.0	13.2	11.9	12.3	11.1	10.3	10.6	11.4
Private	12.2	13.5	11.7	11.6	11.2	10.0	10.5	11.5
Personal consumption expenditures	13.9	10.9	8.9	9.5	11.1	10.9	10.9	11.4
Goods	14.1	11.6	8.5	9.5	11.6	11.4	11.4	12.1
Services	13.7	10.1	9.4	9.5	10.4	10.2	10.2	10.5
Less private domestic investment	48.2	33.1	21.7	18.7	18.8	15.1	11.2	11.9
Residential construction	27.5	51.0	35.4	22.5	18.2	7.8	5.7	5.6
Business fixed investment	21.7	11.2	12.9	13.0	13.5	13.5	13.9	15.2
Gov't. purchases of goods and services	2.5	11.8	13.0	14.7	11.0	11.5	11.0	11.0
Federal	-1.9	6.9	14.1	19.5	8.7	10.7	10.7	11.5
State and local	5.1	14.7	12.4	12.1	12.4	12.0	11.2	10.7
GNP in constant (1972) dollars	6.9	6.7	5.5	5.6	5.4	5.0	4.5	4.5
Final purchases	4.3	5.5	5.3	5.0	4.8	4.4	4.4	4.3
Private	6.6	5.4	5.0	5.0	4.8	4.1	4.3	5.0
GNP implicit deflator <sup>2/</sup>	5.7	7.5	6.4	6.7	6.1	5.6	5.9	5.7
Gross business product fixed-weighted price index <sup>3/</sup>	6.5	7.6	5.9	5.9	6.3	6.0	6.2	6.3
Personal income	12.4	12.8	10.3	11.9	9.8	10.2	11.2	11.2
Wage and salary disbursements	11.8	14.4	10.2	12.7	10.4	10.2	10.2	11.3
Disposable income	10.0	14.9	11.4	11.6	12.0	9.6	9.1	10.4
Corporate profits before tax	15.9	27.1	13.0	11.1	-3.5	14.9	9.7	14.6
Nonfarm payroll employment	4.2	4.8	2.5	3.4	3.3	2.9	3.0	2.9
Manufacturing	5.3	6.0	3.4	4.3	4.9	5.7	4.7	4.0
Nonfarm business sector								
Output per hour	4.1	2.3	2.7	2.6	2.5	2.1	2.1	2.0
Compensation per hour	10.3	8.6	7.9	7.9	10.6	8.1	8.1	8.2
Unit labor costs	6.0	6.3	5.2	5.3	8.1	6.0	6.0	6.2
Industrial production	5.3	12.3	5.9	7.1	8.8	8.9	7.3	6.8
Housing starts, private	-2.2	47.6	8.5	4.1	.0	.0	-9.6	-9.9
Sales new autos	52.9	22.6	.0	-1.7	1.7	3.5	.0	.0
Domestic models	54.8	2.6	16.3	2.1	2.1	4.1	.0	.0
Foreign models	43.9	170.6	-48.4	-18.5	.0	.0	.0	.0

<sup>1/</sup> Percentage rates are annual rates compounded quarterly.

<sup>2/</sup> Excluding Federal pay increases rates of change are: 1977-I, 5.6 per cent; 1977-IV, 6.1 per cent; 1978-I, 6.0 per cent; 1978-IV, 6.7 per cent.

Using expenditures in 1972 as weights.

CONFIDENTIAL - PR  
CLASS II FOMC

I - 9

July 13, 1977

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

	1971	1972	1973	1974	1975	1976	Projected 1977	1978
Gross National Product	1063.4	1171.1	1306.6	1413.2	1516.3	1691.6	1888.1	2111.7
Final purchases	1057.1	1161.7	1288.6	1402.5	1531.0	1679.7	1867.9	2080.1
Private	823.4	908.6	1019.1	1099.2	1192.0	1314.1	1471.8	1636.2
Excluding net exports	821.8	911.9	1012.0	1091.7	1171.5	1307.5	1474.8	1641.0
Personal consumption expenditures	668.2	733.0	809.9	887.5	973.2	1079.7	1201.7	1327.3
Goods	374.8	410.5	457.5	497.8	540.8	596.9	662.7	734.3
Services	293.4	322.4	352.3	389.6	432.4	482.8	539.0	593.1
Gross private domestic investment	160.0	188.3	220.0	215.0	183.7	239.6	293.3	345.2
Residential construction	49.6	62.0	66.1	55.1	51.2	67.7	91.5	107.8
Business fixed investment	104.1	116.8	136.0	149.2	147.1	160.0	181.6	205.8
Change in business inventories	6.4	9.4	17.9	10.7	-14.6	11.9	20.2	31.6
Nonfarm	5.1	8.8	14.7	12.2	-17.6	11.9	19.9	31.6
Net exports of goods and services	1.6	-3.3	7.1	7.5	20.5	6.6	-3.0	-4.8
Exports	65.6	72.7	101.6	144.4	148.1	162.7	178.4	202.4
Imports	64.0	75.9	94.4	136.9	127.6	156.0	181.4	207.2
Gov't. purchases of goods and services	233.7	253.1	269.5	303.3	339.0	365.6	396.1	443.9
Federal	96.2	102.1	102.2	111.6	124.4	133.4	143.9	161.2
State and local	137.5	151.0	167.3	191.6	214.5	232.2	252.1	282.7
Gross national product in constant (1972) dollars	1107.5	1171.1	1235.0	1214.0	1191.7	1264.7	1331.4	1401.8
Personal income	859.1	942.5	1052.4	1153.3	1249.7	1375.3	1527.4	1692.0
Wage and salary disbursements	579.4	633.8	701.3	765.0	806.7	890.4	991.0	1100.3
Disposable income	742.8	801.3	901.7	982.9	1080.9	1181.7	1305.7	1450.6
Saving rate (per cent)	7.7	6.2	7.8	7.3	7.8	6.5	5.8	6.4
Corporate profits with I.V.A. and C.C. Adj.	77.2	92.1	99.1	84.8	91.6	117.8	132.3	156.1
Corporate profits before tax	82.0	96.2	115.8	127.6	114.5	147.9	171.3	186.8
Federal government surplus or deficit (-) (N.I.A. basis)	-22.0	-17.3	-6.7	-11.5	-71.2	-58.6	-45.8	-45.9
High employment surplus or deficit (-)	-5.3	-5.9	-.7	16.8	-17.2	-11.2	-2.0	-4.9
State and local government surplus or deficit (-) (N.I.A. basis)	3.7	13.7	13.0	7.3	6.9	14.0	21.5	21.2
Excluding social insurance funds	-3.8	5.6	4.1	-2.8	-5.1	.9	6.8	4.4
Civilian labor force (million)	84.1	86.5	88.7	91.0	92.6	94.8	97.3	99.7
Unemployment rate (per cent)	6.0	5.6	4.9	5.6	8.5	7.7	7.0	6.4
Nonfarm payroll employment (millions)	71.2	7.37	76.9	78.4	77.1	79.4	82.1	84.7
Manufacturing	18.6	19.1	20.1	20.0	18.3	19.0	19.6	20.6
Industrial production (1967=100)	109.6	119.7	129.8	129.3	117.8	129.8	138.2	149.4
Capacity utilization: all manufacturing (per cent)	78.0	83.1	87.5	84.2	73.6	80.1	82.9	87.0
Materials (per cent)	83.1	88.0	92.4	87.7	73.6	80.3	82.5	86.5
Housing starts, private (millions, A.R.)	2.05	2.36	2.05	1.33	1.16	1.54	1.92	1.96
Sales new autos (millions, A.R.)	10.24	10.93	11.42	8.91	8.66	10.12	11.54	11.77
Domestic models	8.68	9.32	9.65	7.49	7.08	8.63	9.52	9.87
Foreign models	1.56	1.61	1.77	1.42	1.58	1.50	2.03	1.90

CONFIDENTIAL - FR  
CLASS II FOMC

CHANGES IN CROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1971	1972	1973	1974	1975	1976	Projected 1977	Projected 1978
Billions of Dollars								
Gross National Product	81.0	107.7	135.5	106.6	103.1	175.3	196.5	223.6
Inventory change	2.6	3.0	8.5	-7.2	-25.3	26.5	8.3	11.4
Final purchases	78.5	104.6	126.9	113.9	128.5	148.7	188.2	212.3
Private	63.7	85.2	110.5	80.1	92.8	122.1	157.7	164.4
Net exports	-2.3	-4.9	10.4	.4	13.0	-13.9	-9.6	-1.8
Excluding net exports	66.0	90.1	100.1	79.7	79.8	136.0	167.3	166.2
Personal consumption expenditures	49.4	64.8	76.9	77.6	85.7	106.5	122.0	125.7
Goods	25.2	35.7	47.0	40.3	43.0	56.1	65.8	71.6
Services	24.3	29.0	29.9	37.3	42.8	50.4	56.2	54.1
Residential fixed investment	13.0	12.4	4.1	-11.0	-3.9	16.5	23.8	16.4
Business fixed investment	3.6	12.7	19.2	13.2	-2.1	12.9	21.6	24.2
Government	14.8	19.4	16.4	33.8	35.7	26.6	30.5	47.9
Federal	.6	5.9	.1	9.4	12.8	9.0	10.5	17.3
State and local	14.3	13.5	16.3	24.3	22.9	17.7	19.9	30.6
GNP in constant (1972) dollars	32.2	63.6	63.9	-21.0	-22.3	73.0	66.7	70.4
Final purchases	29.9	60.8	56.8	-13.0	-1.8	52.9	61.9	63.0
Private	30.7	57.1	57.4	-16.9	-6.4	49.8	57.9	49.8
In Per Cent Per Year								
Gross National Product	8.2	10.1	11.6	8.2	7.3	11.6	11.6	11.8
Final purchases	8.0	9.9	10.9	8.8	9.2	9.7	11.2	11.4
Private	8.4	10.3	12.2	7.9	8.4	10.2	12.0	11.2
Personal consumption expenditures	8.0	9.7	10.5	9.6	9.7	10.9	11.3	10.5
Goods	7.2	9.5	11.4	8.8	8.6	10.4	11.0	10.8
Services	9.0	9.9	9.3	10.6	11.0	11.7	11.6	10.0
Gross private domestic investment	13.6	17.7	16.8	-2.3	-14.6	30.5	22.4	17.7
Residential structures	35.5	25.1	6.6	-16.7	-7.1	32.4	35.2	17.9
Business fixed investment	3.6	12.3	16.4	9.7	-1.4	8.7	13.5	13.4
Gov't. purchases of goods & services	6.8	8.3	6.5	12.5	11.8	7.9	8.3	12.1
Federal	.6	6.1	.1	9.2	11.5	7.2	7.9	12.0
State and local	11.6	9.8	10.8	14.5	11.9	8.2	8.6	12.1
GNP in constant (1972) dollars	3.0	5.7	5.5	-1.7	-1.8	6.1	5.3	5.3
Final purchases	2.8	5.5	4.9	-1.1	-.1	4.4	4.9	4.8
Private	3.7	6.7	6.3	-1.7	-.7	5.3	5.8	4.7
GNP implicit deflator	5.1	4.1	5.8	10.0	9.3	5.1	6.0	6.2
Gross business product fixed-weighted price index <sup>1/</sup>	4.4	3.3	5.7	10.2	9.3	5.2	6.5	6.2
Personal income	7.2	9.7	11.7	9.6	8.4	10.1	11.1	10.8
Wage and salary disbursements	6.0	9.4	10.7	9.1	5.5	10.4	11.3	11.0
Disposable income	8.3	7.9	12.5	9.0	10.0	9.3	10.5	11.1
Corporate profits before tax	14.7	17.3	20.4	10.2	-10.3	29.2	15.8	9.1
Nonfarm payroll employment	.4	3.5	4.3	2.0	-1.7	3.0	3.4	3.2
Manufacturing	-3.6	2.7	5.2	-.5	-8.5	3.8	3.2	5.1
Nonfarm business sector								
Output per hour	2.9	3.0	1.7	-3.5	1.6	3.7	2.4	2.4
Compensation per hour	6.6	5.8	7.8	9.4	9.5	7.4	8.3	8.7
Unit labor costs	3.5	2.7	6.0	13.4	7.7	3.6	5.9	6.3
Industrial production	1.7	9.2	8.4	-.4	-8.9	10.2	6.5	8.1
Housing starts	43.4	15.1	-13.1	-35.1	-12.2	32.8	24.7	2.2
Sales new autos	21.9	6.7	4.5	-22.0	-2.8	16.9	14.0	2.0
Domestic models	21.9	7.4	3.5	-22.4	-5.5	21.9	10.3	3.7
Foreign models	21.9	3.2	9.9	-19.8	11.3	-5.1	35.3	-6.4

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

FEDERAL SECTOR ACCOUNTS  
(billions of dollars)

	Fiscal Year 1976*	FY 1977 e/ est. 1/ Board			FY 1978 e/ est. 1/ Board			CY 1976 * Board	CY 1977 e/ F.R. Board	F.R.B. staff estimates Calendar quarters; unadjusted data 1978						
		Admin.	F.R.	Cong.	Admin.	F.R.	Cong.			I*	II	III	IV	I	II	III
		est. 1/ Board	est. 2/		est. 1/ Board	est. 2/										
Unified budget receipts 3/	299.2	358.3	358.3		401.4	397.0	396.3	317.6	367.9	79.0	109.8	93.3	85.8	86.5	119.7	105.0
Unified budget outlays 3/	365.7	406.4	403.7		462.9	456.8	461.0	374.2	413.7	97.6	102.8	104.3	109.0	109.5	116.3	122.0
Surplus(+) / Deficit(-), unified budget	-66.5	-48.1	-45.4		-61.5	-59.8	-64.7	-56.6	-45.8	-18.7	7.0	-11.0	-23.2	-23.0	3.4	-17.0
Surplus(+) / Deficit(-), off-budget agencies 4/		-7.3	-10.1	-10.1	-7.7	-6.8	n.a.	-5.7	-10.3	-4.3	.3	-6.6	.3	-3.0	.3	-4.4
Means of financing combined deficits:																
Net borrowing from public	82.9	n.a.	46.4	n.a.	66.0	n.a.	69.0	50.6	17.6	-1.1	12.5	21.6	24.5	-2.2	22.1	
Decrease in cash operating balance	-7.2	n.a.	5.3	n.a.	1.1	n.a.	-3.2	.7	2.6	-7.3	4.2	1.1	0	0	0	
Other 5/	-1.9	n.a.	4.0	n.a.	-.5	n.a.	-3.5	5.0	2.7	1.1	1.0	.2	1.5	-1.5	-.7	
Cash operating balance, end of period	14.8	n.a.	12.1	n.a.	11.0	n.a.	11.7	11.0	9.0	16.3	12.1	11.0	11.0	11.0	11.0	
Memo: Sponsored agency borrowing 6/	3.4	n.a.	5.4	n.a.	n.e.	n.a.	2.9	6.6	.7	2.5	1.8	1.6	n.e.	n.e.	n.e.	
<b>NIA Budget</b>																
Receipts	313.6	n.a.	366.3 7/	n.a.	413.8	n.a.	330.3	378.8	366.4	374.4	381.2	393.0	406.0	419.1	437.1	
Outlays	373.0	n.a.	414.6	n.a.	463.6	n.a.	388.9	424.5	407.6	414.5	430.6	445.4	459.8	468.8	480.4	
Purchases (total)	127.2	n.a.	140.7	n.a.	157.2	n.a.	133.4	143.9	138.2	140.5	145.2	151.8	155.0	159.0	163.1	
Defense	85.8	n.a.	92.5	n.a.	102.1	n.a.	88.2	94.4	91.5	92.5	94.7	99.0	101.2	103.2	105.0	
Non-defense	41.4	n.a.	48.2	n.a.	55.1	n.a.	45.2	49.5	46.7	48.0	50.5	52.8	53.8	55.8	58.1	
All other outlays	245.8	n.a.	273.9	n.a.	306.4	n.a.	255.5	280.6	269.4	274.0	285.4	293.6	304.8	309.8	317.3	
Surplus(+) / Deficit(-)	-59.4	n.a.	-48.3 7/	n.a.	-49.8	n.a.	-58.6	-45.8	-41.2	-40.1	-49.4	-52.4	-53.8	-49.7	-43.3	
High Employment Surplus(+) / Deficit(-) (NIA basis) 8/	-14.7	n.a.	-1.0	n.a.	-8.7	n.a.	-11.2	-2.0	8.8	2.9	-7.3	-12.3	-11.4	-8.5	-2.4	

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

1/ OMB Mid-Session Review of the 1978 Budget (July 1, 1977).

2/ Congress' First Concurrent Resolution on the Budget (May 17, 1977).

3/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds.

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.

CONFIDENTIAL (FR)  
CLASS II FOMC

July 13, 1977

U.S. Net Exports and Related Items  
(seasonally adjusted annual rates)

	1976	1977p	1978p	1976		1977				1978p			
				III	IV	I	IIp	IIIp	IVp	I	II	III	IV
<u>Billions of dollars</u>													
Net Exports of Goods and Services (GNP basis of net exports) 1/	3.7 (6.6)	-9.9 (-3.0)	-13.7 (-4.8)	3.6 (4.7)	-1.3 (4.2)	-12.7 (-6.2)	-11.2 (-4.6)	-9.2 (-2.2)	-6.6 (1.0)	-9.9 (-1.3)	-14.0 (-5.0)	-15.5 (-6.5)	-15.5 (-6.4)
Merchandise trade balance (excl. military)	-9.2	-24.9	-29.7	-11.1	-14.3	-27.9	-26.2	-24.3	-21.5	-25.1	-29.6	-32.0	-32.2
Exports (excl. military)	114.7	122.8	139.2	118.4	118.9	117.9	121.4	123.9	127.7	131.9	136.8	141.9	146.2
Agricultural	23.4	25.0	24.7	25.0	23.6	24.5	26.4	24.8	24.2	24.0	24.4	25.2	25.2
Nonagricultural	91.3	97.8	114.5	93.5	95.3	93.4	95.3	99.1	103.5	107.9	112.4	116.7	121.0
Imports	123.9	147.7	168.9	129.5	133.2	145.8	147.6	148.2	149.2	157.0	166.4	173.9	178.4
Petroleum and Products	34.6	41.0	44.7	37.6	37.4	44.3	43.3	39.7	36.8	40.1	44.0	46.8	47.8
Nonpetroleum	89.3	106.7	124.2	91.9	95.8	101.5	104.3	108.5	112.4	116.9	122.4	127.1	130.6
Military and Service Transactions, net	12.9	15.1	16.0	14.7	13.0	15.3	15.0	15.1	14.9	15.2	15.6	16.5	16.7
Military transactions, net	.4	.8	1.4	.9	.9	.3	.9	1.0	1.1	1.2	1.3	1.4	1.5
Investment income, net	9.8	12.4	13.1	10.7	9.7	12.7	12.2	12.4	12.3	12.4	12.8	13.5	13.7
Other services, net	2.7	1.9	1.5	3.1	2.4	2.3	1.9	1.7	1.5	1.6	1.5	1.6	1.5
U.S. Current Account Balance 2/ (excl. special transactions with Israel) 3/	-1.3 (-.9)	-14.6 (-14.6)	-18.9 (-18.9)	-4.1 (-1.5)	-5.4 (-5.9)	-17.3 (-17.1)	-15.9 (-15.9)	-14.1 (-14.1)	-11.4 (-11.4)	-15.0 (-15.0)	-19.1 (-19.1)	-20.8 (-20.8)	-20.8 (-20.8)
<u>Constant (1972) dollars</u>													
Merchandise exports (excl. military) (% change, annual rates)	66.7 (3.4)	66.9 (0.3)	71.0 (6.1)	68.4 (13.0)	67.3 (-6.6)	66.2 (-7.0)	66.5 (2.0)	66.8 (1.6)	67.9 (6.6)	69.1 (7.8)	70.5 (8.2)	71.7 (7.4)	72.9 (6.6)
Merchandise imports (% change, annual rates)	62.8 (22.5)	69.2 (10.3)	74.7 (7.8)	64.9 (29.1)	66.1 (7.4)	70.0 (26.2)	69.8 (-1.2)	69.0 (-5.5)	68.4 (-4.0)	70.9 (15.6)	74.1 (18.8)	76.3 (12.6)	77.1 (4.1)
<u>Foreign Outlook - Major Industrial Countries 4/</u>													
Real GNP, % change, annual rates	5.1	4.0	4.9	1.2	4.5	4.9	3.7	4.5	4.9	5.3	5.7	4.5	4.5
Wholesale Prices, % change, A.R. 5/	9.5	9.8	6.9	11.7	8.7	10.8	8.7	7.4	7.0	6.6	7.0	6.6	5.7

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.

\*/ Published data.

CONFIDENTIAL (FR)

July 13, 1977

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

SECURITY OFFERINGS  
(Monthly totals or monthly averages, in millions of dollars)

	1976 Year	1977				
		QI	QII	June <sup>e/</sup>	July <sup>f/</sup>	Aug. <sup>f/</sup>
<u>Gross offerings</u>						
Corporate securities--Total	4,445	4,064	3,700	4,300	4,300	3,200
Publicly offered bonds	2,204	2,168	1,767	2,200	2,500	1,500
By quality <u>1/</u>						
Aaa and Aa	1,050	1,230	1,064	1,540	--	--
Less than Aa <u>2/</u>	1,154	938	703	660	--	--
By type of borrower						
Utility	675	734	772	1,060	--	--
Industrial	874	709	382	245	--	--
Other	655	725	613	895	--	--
Privately placed bonds	1,317	1,024	1,133	1,200	1,000	900
Stocks	924	872	800	900	800	800
Foreign securities--Total	857	464	773	1,050	--	--
Publicly offered <u>3/</u>	520	286	600	850	900	300
Privately placed	337	178	173	200	--	--
State and local gov't. securities--Total	4,756	5,152	7,142	7,300	4,900	4,800
Long-term	2,932	3,565	4,475	5,700	3,600	3,200
Short-term	1,824	1,587	2,667	1,600	1,300	1,600
<u>Net offerings</u>						
U.S. Treasury	4,850	4,703	-1,767	-300	-300	7,000
Sponsored Federal agencies	361	734	460	810	162	212

1/ Bonds categorized according to Moody's bond ratings.

2/ Includes issues not rated by Moody's.

3/ Classified by original offering date.

e/ Estimated.

f/ Forecast.

## Appendix A\*

### The President's July Mid-Session Budget Review

#### Current Budget Estimates: An Overview

On July 1, the Administration released its revised budget outlook for fiscal years 1977 and 1978. As Table 1 shows, the budget deficit in the current fiscal year now ~~was~~ expected to be \$48.1 billion, marginally below the April estimate and about \$20 billion below the February estimate. The deficit projection for fiscal 1978 has been widened in the new forecast to \$61.5 billion from approximately \$58 billion in both February and April. While these revised estimates do not contain any major surprises, they do offer the first detailed look since the spring budget update at the assumptions behind the Administration's spending and revenue estimates.

Table 1  
Comparison of Administration Budget Estimates  
(fiscal years; billions of dollars)

	1977			1978		
	Feb. Est. 1/	Apr. Est. 2/	Current	Feb. Est. 1/	Apr. Est. 2/	Current
	Receipts	348.5	358.6	358.3	400.7	403.8
Outlays	416.6	407.3	406.4	458.5	461.7	462.9
Deficit (-)	-68.0	-48.7	-48.1	-57.7	-57.9	-61.5

1/ Fiscal year 1978 Budget Revisions, February 1977.

2/ OMB Budget Estimates, April 1977.

#### Economic Assumptions

Economic conditions significantly affect the budget's receipts and expenditure totals. Consequently, the Office of Management and Budget's economic forecasts provide a useful starting point for analyzing the July budget estimates. As can be seen in Table 2, the Administration currently expects that real economic growth in 1977 will be

\* Prepared by James S. Fralick, Economist, Government Finance Section, Division of Research and Statistics.

somewhat faster than was expected in April but slightly less growth now is projected for 1978. The unemployment rate is expected to fall to 6.6 per cent by the end of 1977 and to 6.1 per cent by the end of 1978, a slight reduction from earlier forecasts. The rate of increase in consumer prices is expected to be 6.0 per cent, an increase from April's 5.7 per cent forecast. This 0.3 per cent rise reflects the impact of the crude oil equalization tax on the consumer price index.

Outlay Shortfalls

As in fiscal year 1976 and the transition quarter, actual spending in fiscal 1977 appears to be falling well below levels projected in earlier budgets. Several fundamental characteristics of Federal spending account for these shortfalls.

(1) Congress and OMB do not control expenditures directly. Congress determines an Agency's budget or new obligational authority. This allows the Agency to commit or obligate funds and these obligations are in turn liquidated by the disbursement of funds (spending). In many instances, the timing between obligations and outlays is fairly close as in the case of wage and salary disbursements to Federal employees. For other programs such as military construction, however, funds obligated in one year may be spent--in the form of progress payments--over a number of future years. Overall, it is the agencies--not the Congress or the Administration--that exercise a good deal of discretion in determining the spending time path, and even then the precise timing of such spending cannot be predicted accurately.

(2) The budget estimates are in many respects not forecasts but representations of the President's plan for the current or future fiscal years. These plans may be modified by Congressional action (or inaction) or they may be modified by the President himself in the light of incoming economic information. The dropping of the \$50 rebate proposal is an example of such a change in plans.

(3) Congress has created a number of entitlement programs--food stamps and unemployment compensation--where payments are made to individuals who meet certain eligibility requirements. Spending for these programs depend on variables that cannot be anticipated with certainty, including numbers of eligible beneficiaries, unemployment rates and prices.

Table 2  
Comparison of Administration's Economic Forecasts  
(calendar years; billions of dollars)

	Forecast			
	<u>1977</u>		<u>1978</u>	
	April	July	April	July
<b>Gross National Product</b>				
Current dollars:				
amount	1887	1883	2103	2106
per cent	11.0	11.3	12.0	11.9
Constant dollars:				
amount	1327	1330	1400	1399
per cent	4.9	5.1	5.6	5.3
<b>Prices (per cent change)</b>				
GNP deflator (year over year)	5.8	5.9	6.1	6.3
CPI (year over year)	6.2	6.5	5.7	6.0
<b>Unemployment Rate (per cent)</b>				
Total:				
yearly average	7.2	7.0	6.4	6.3
fourth quarter	6.9	6.6	6.1	6.1
Interest rate, 91 Treasury bills <u>1/</u>	4.6	4.9	4.6	5.0

1/ Average rate of new issues within period. The Administration's forecast assumes continuation of current market rates.

These three characteristics of Federal spending, therefore, imply that neither the Congress nor the Administration can completely forecast and control expenditures. As shown in Table 3, shortfalls have occurred in five out of the last six years, with the average error for those five years being -1.7%.

Table 3  
 Comparison of Estimated and Actual Outlays  
 Fiscal Years 1971-1976  
 (in billions of dollars)

Fiscal Year	<u>Second Budget Estimate</u>	<u>Actual</u>	<u>Actual less Estimate as % of Actual</u>
1971	212.8	211.4	-0.7
1972	236.6	231.9	-2.0
1973	249.8	246.5	-1.3
1974	274.7	268.3	-2.4
1975	314.4	324.6	3.1
1976	373.5	365.6	-2.2

Fiscal Year 1977

The Administration now estimates that FY 1977 outlays will be \$406.4 billion, down from the \$416.6 billion February forecast. Receipts are estimated to be \$353.3 billion, \$9.8 billion more than in February. As Table 4 shows, \$8.2 billion of the receipts revision was due to the removal of the \$50 rebate, and the remainder was due mainly to income changes and technical reestimates.

The fiscal 1977 outlay revision can be attributed to several factors.

First, withdrawal of the Administration's proposed \$50 tax rebate--which are counted as outlays when paid to nontaxpayers--reduced the fiscal 1977 estimate by \$3.2 billion. (Second line of Table 5.)

Second, drawdowns by State and local authorities for numerous grants categories (highways, waste treatment, community development and local public works) have been slower than expected; some of this slowdown is due in part to the impact of the cold winter on state and local construction.

Third, defense outlays for operations--maintenance, procurement and personnel have been smaller than expected.

Fourth, the employment situation has lowered spending for unemployment compensation but this has been partially offset by a larger than expected cost of living increase for social security recipients.

Fifth, the large grain crop and the resulting lower prices for food grains have increased price support and grain storage expenditures.

Finally, some revisions are of a financial nature. Loan authorizations by the Export-Import Bank and default claims on FHA mortgages were lower than expected.

Overall, approximately two-thirds of the approximately \$10 billion outlay shortfall may have been due either to financial factors or to overall economic conditions. These shortfalls are not expected to be made up in fiscal 1978. Furthermore, the Mid-Session Review suggests that some of these shortfall trends are likely to continue into fiscal 1978, especially in the areas of defense operation-maintenance, military personnel costs and state-local construction grants.

Table 4  
Changes in Budget Receipts 1/  
(Fiscal years; billions of dollars)

	<u>1977</u>	<u>1978</u>
February estimate	348.5	400.7
Changes in legislation	8.0	
(Removal of rebate)	(8.2)	(--)
(Tax Reduction Act of 1977)	(-.5)	(-1.7)
(Delayed enactment of 1977 Tax Act)	(.3)	(-.3)
(Energy proposals)	(--)	(.3)
(Miscellaneous)	(--)	(.4)
Revised income and technical reestimates	<u>1.8</u>	<u>2.0</u>
July Estimate	\$358.3	\$401.4

1/ Earned income credit payments in excess of an individual tax liability formerly treated as outlays, are now treated as income tax refunds. The FRB staff's revenue and outlay estimates for both fiscal years 1977 and 1978 have been adjusted to account for this reclassification. The net impact of this change on the budget deficit is zero and the change does not affect the NIA estimates.

Table 5

Reconciliation of February Outlay Forecast with July Estimates 1/  
(fiscal years; billions of dollars)

	<u>1977</u>	<u>1978</u>
February estimate	\$416.6	\$458.5
Withdrawal of fiscal proposals	-3.2	-0.2
(rebates and payments)	(-3.2)	( -- )
(payroll tax credit and other)	( -- )	(-0.2)
Reestimates and other changes:		
Defense and Military Assistance	-3.2	1.1
(Defense)	(-2.0)	( .1)
(Military Assistance)	(-1.1)	( 1.0)
Social Security	.6	1.9
Farm Price Supports	1.6	1.7
Unemployment Trust Fund	-.3	-1.0
Strategic Petroleum Storage	-.1	1.1
Export-Import Bank	-.4	-.8
Employment Programs (Labor)	-.8	*
Medicare-Medicaid	-.8	-.1
Mortgage Credit	-.7	-.1
Offshore Oil Receipts	-.+	.7
Waste Treatment Grants	-.5	-.1
All Other	<u>-2.4</u>	<u>.2</u>
July estimate	\$406.4	\$462.9

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds.

Since 1972 each Mid-Session Review--excluding the recession year of 1975--has over estimated actual budget outlays by \$1 to \$3 billion. (Table 6). The FRB staff estimates that fiscal 1977 outlays will be \$404 billion; about \$2-1/2 billion below the Administration's most recent estimate. We expect continued slow spending during the remainder of FY 1977 in a number of grants categories, especially public works, public employment, waste treatment and community development.

Table 6  
 Comparison of Mid-Session Forecast (MSF)  
 with Actual Budget Outlays  
 (Fiscal years; billions of dollars)

Fiscal Year	Mid-Session Forecast	Actual	Mid-Session Forecast less Actual
1972	233.0	231.9	-1.1
1973	249.8	246.5	-3.3
1974	269.5	268.4	-1.1
1975	323.6	326.1	+2.5
1976	369.1	366.5	-2.6

#### Fiscal Year 1978

The President's current estimate of FY'78 receipts is \$401.4 billion, \$0.7 billion above the February forecast. Technical re-estimates and income revisions mainly are responsible for this increase. The FRB staff's forecast is about \$4 billion below the estimate presented in the Mid-Session Review, with income assumptions explaining most of the difference.

Fiscal 1978 outlays now are estimated by the Administration to be around \$463 billion as compared to February's forecast of \$458-1/2 billion. Defense spending is expected to be \$1.1 billion higher due to higher procurement and military assistance outlays. (Since, the President's original budget did contain funds for the B-1 bomber and since the materials in the Mid-Session Review were assembled before the President's decision, then some future downward adjustment to fiscal 1978 defense outlays seems likely.) Social security outlays in FY 1978 have been increased by \$1.9 billion due to the Supreme Court decision affecting the eligibility of husbands and widowers, and larger than projected cost of living payments. Other factors responsible for the added FY 1978 spending include higher farm price supports, increased outlays for the petroleum storage program and lower projected offshore oil receipts (negative outlays).

Some outlay shortfall may occur again in fiscal year 1978. The magnitude of the underspending, of course, cannot be predicted with precision. However, the FRB staff expects that the fiscal 1978 shortfall will be about in line with the shortfalls experienced in the two previous years (\$8 to 10 billion), with most of the underspending occurring in the defense and grants categories.

CONFIDENTIAL (FR)  
CLASS II - FOMC

July 15, 1977

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

two months, the increase in total durable goods inventories (\$24.6 billion, annual rate) was more rapid than that in nondurable goods (\$14.6 billion). The total manufacturing and trade inventory-sales ratio edged up to 1.46 from 1.45 in April--still fairly low by historical standards.

The Domestic Financial Economy

No textual addendums to the Greenbook were required, but the usual updating of interest rate developments is contained in the table on page 6.

ERRATA

Part I: Page I-13, line 5 should read: "deficit in the last half of calendar 1976,

Page I-15, last line: change "7.6" to "7.3"

Page I-16, first line: change "27.6" to "23.5"

Page I-20, first line: change \$14.6 million to \$14.6 billion

Part II: Page II-11: See revised tables "Business Inventories" and "Inventory Ratios" on page 4.

Page III-4: See revised table "Monetary Aggregates" on page 5.