

CONFIDENTIAL (FR)

February 11, 1976

SUMMARY AND OUTLOOK

By the Staff  
Board of Governors  
of the Federal Reserve System

## STAFF GNP PROJECTIONS

|                          | Per cent change, annual rate         |         |          |         |  |         |                              |         |
|--------------------------|--------------------------------------|---------|----------|---------|--|---------|------------------------------|---------|
|                          | Changes in nominal GNP (\$ billions) |         | Real GNP |         | Gross private product fixed weighted price index |         | Unemployment rate (per cent) |         |
|                          | 1/14/76                              | 2/11/76 | 1/14/76  | 2/11/76 | 1/14/76  | 2/11/76 | 1/14/76                      | 2/11/76 |
| 1972 <u>1/</u>           | 107.7                                | 107.7   | 5.7      | 5.7     | 3.3  | 3.3     | 5.6                          | 5.6     |
| 1973 <u>1/</u>           | 135.2                                | 135.2   | 5.3      | 5.3     | 6.3  | 6.3     | 4.9                          | 4.9     |
| 1974 <u>1/</u>           | 100.6                                | 100.6   | -1.8     | -1.8    | 11.4   | 11.4    | 5.6                          | 5.6     |
| 1975 <u>1/</u>           | 92.9                                 | 92.9    | -2.0     | -2.0    | n.a.   | n.a.    | 8.5                          | 8.5     |
| 1976                     | 175.0                                | 186.4   | 5.6      | 6.3     | n.a.   | n.a.    | 8.0                          | 7.6     |
| 1975-I <u>1/</u>         | -7.7                                 | -7.7    | -9.2     | -9.2    | 7.7  | 7.7     | 8.3                          | 8.1     |
| II <u>1/</u>             | 27.0                                 | 27.0    | 3.3      | 3.3     | 5.5  | 5.5     | 8.9                          | 8.7     |
| III <u>1/</u>            | 67.9                                 | 67.9    | 11.9     | 11.9    | 7.3  | 7.3     | 8.4                          | 8.6     |
| IV <u>1/</u>             | 47.9                                 | 44.7    | 6.1      | 5.4     | 5.9  | 5.9     | 8.4                          | 8.5     |
| 1976-I                   | 37.0                                 | 44.9    | 4.5      | 6.5     | 5.6  | 5.8     | 8.2                          | 7.9     |
| II                       | 40.3                                 | 44.3    | 4.5      | 5.5     | 5.6  | 5.6     | 8.1                          | 7.6     |
| III                      | 41.0                                 | 44.6    | 4.3      | 5.1     | 5.6  | 5.6     | 7.9                          | 7.4     |
| IV                       | 42.5                                 | 47.0    | 4.0      | 5.0     | 5.5  | 5.5     | 7.9                          | 7.3     |
| 1977-I                   | n.a.                                 | 46.8    | n.a.     | 5.4     | n.a.   | 5.7     | n.a.                         | 7.2     |
| II                       | n.a.                                 | 47.3    | n.a.     | 5.5     | n.a.   | 5.7     | n.a.                         | 7.1     |
| Change:                  |                                      |         |          |         |  |         |                              |         |
| 74-IV to 75-IV <u>1/</u> | 135.1                                | 131.9   | 2.7      | 2.6     | 6.6  | 6.6     | 1.8                          | 1.8     |
| 75-II to 76-II           | 193.1                                | 201.8   | 6.7      | 7.3     | 6.1  | 6.2     | -.8                          | -1.1    |
| 75-IV to 76-IV           | 160.8                                | 120.8   | 4.3      | 5.5     | 5.6  | 5.6     | -.5                          | -1.2    |
| 76-II to 77-II           | n.a.                                 | 185.7   | n.a.     | 5.2     | n.a.   | 5.6     | n.a.                         | -.5     |

1/ Actual

NOTE: Changes in GNP, nominal and real, are based on the revised estimates, but changes in gross private product fixed weighted price index are based on the former series. Unemployment rates and changes therein for 2/11/76 projection reflect the revised series (new seasonal factors); for 1/14/76 the figures are based on former series.

## CLASS II FOMC

## GROSS NATIONAL PRODUCT AND RELATED ITEMS

(Quarterly figures are seasonally adjusted. Expenditures and income figures are billions of dollars, with quarter figures at annual rates.)

|  | 1975                |                     | 1976      |        |        |        | 1977   |        |
|--|---------------------|---------------------|-----------|--------|--------|--------|--------|--------|
|  | III                 | IV                  | Projected |        |        |        | I      | II     |
| Gross National Product   | 1528.5              | 1573.2              | 1618.1    | 1662.4 | 1707.0 | 1754.0 | 1800.8 | 1848.1 |
| Final purchases  | 1530.6              | 1573.4              | 1611.8    | 1653.4 | 1696.0 | 1740.0 | 1782.8 | 1826.1 |
| Private  | 1196.5              | 1229.6              | 1262.2    | 1296.6 | 1331.6 | 1365.9 | 1401.5 | 1438.4 |
| Excluding net exports  | 1174.4              | 1207.2              | 1243.7    | 1279.3 | 1315.8 | 1351.2 | 1388.9 | 1427.9 |
| Personal consumption expenditures                                | 977.4               | 998.7               | 1025.4    | 1052.8 | 1079.3 | 1106.1 | 1135.1 | 1164.6 |
| Durable goods  | 131.8               | 136.1               | 141.9     | 148.0  | 154.4  | 161.2  | 169.0  | 176.8  |
| Nondurable goods   | 416.4               | 424.8               | 436.3     | 448.3  | 459.4  | 469.9  | 480.9  | 492.4  |
| Services   | 429.2               | 437.7               | 447.2     | 456.5  | 465.5  | 475.0  | 485.2  | 495.4  |
| Gross private domestic investment                                | 194.9               | 208.3               | 224.6     | 235.5  | 247.5  | 259.1  | 271.8  | 285.3  |
| Residential construction   | 50.4                | 55.7                | 60.1      | 64.1   | 69.1   | 71.7   | 73.4   | 74.9   |
| Business fixed investment  | 146.7               | 152.7               | 156.7     | 160.9  | 165.9  | 171.9  | 178.9  | 186.9  |
| Change in business inventories                                   | -2.1                | -2                  | 7.8       | 10.5   | 12.5   | 15.5   | 19.5   | 23.5   |
| Nonfarm  | -5.7                | -5.7                | 6.8       | 11.5   | 13.5   | 16.5   | 19.5   | 23.5   |
| Net exports of goods and services <sup>1/</sup>                  | 22.1                | 22.4                | 18.5      | 17.3   | 15.8   | 14.7   | 12.6   | 10.5   |
| Exports  | 148.5               | 151.9               | 154.5     | 158.0  | 161.3  | 165.0  | 168.7  | 173.3  |
| Imports  | 126.4               | 129.4               | 136.0     | 140.7  | 145.5  | 150.3  | 156.1  | 162.8  |
| Gov't. purchases of goods and services                           | 334.1               | 343.8               | 349.6     | 356.8  | 364.4  | 374.1  | 381.3  | 387.7  |
| Federal  | 124.2               | 129.8               | 131.5     | 133.2  | 135.3  | 139.1  | 140.7  | 141.5  |
| Defense  | 84.9                | 87.4                | 88.2      | 89.4   | 90.6   | 92.9   | 94.1   | 94.4   |
| Other  | 39.3                | 42.3                | 43.3      | 43.8   | 44.7   | 46.2   | 46.6   | 47.1   |
| State and local  | 209.9               | 214.1               | 218.1     | 223.6  | 229.1  | 235.0  | 240.6  | 246.2  |
| Gross national product in constant (1972) dollars                | 1201.5              | 1217.4              | 1236.7    | 1253.4 | 1268.9 | 1284.9 | 1301.8 | 1319.2 |
| GNP implicit deflator (1972 = 100)                               | 127.2               | 129.2               | 130.8     | 132.6  | 134.5  | 136.5  | 138.3  | 140.1  |
| Personal income  | 1261.7              | 1294.8              | 1327.9    | 1358.0 | 1391.6 | 1424.7 | 1458.8 | 1490.9 |
| Wage and salary disbursements                                    | 807.3               | 830.5               | 851.9     | 873.0  | 894.4  | 918.7  | 941.6  | 964.3  |
| Disposable income  | 1087.1              | 1114.4              | 1145.5    | 1170.2 | 1197.6 | 1225.2 | 1255.9 | 1282.7 |
| Personal saving  | 85.9                | 91.3                | 95.6      | 92.7   | 93.5   | 94.2   | 95.8   | 93.1   |
| Saving rate (per cent)   | 7.9                 | 8.2                 | 8.3       | 7.9    | 7.8    | 7.7    | 7.6    | 7.3    |
| Corporate profits with I.V.A. and C.C. Adj.                      | 113.1               | 120.3               | 123.3     | 132.7  | 138.8  | 145.9  | 147.6  | 156.8  |
| Corporate profits w/I.V.A., without C.C. Adj.                    | 119.6               | 128.9               | 131.3     | 140.2  | 145.8  | 152.6  | 154.1  | 163.3  |
| Corporate profits before taxes                                   | 129.5               | 144.7               | 145.3     | 152.7  | 156.8  | 162.1  | 163.1  | 171.8  |
| Federal government receipts and expenditures, (N.I.A. basis)     |                     |                     |           |        |        |        |        |        |
| Receipts   | 293.3               | 304.9               | 313.2     | 323.9  | 334.5  | 344.8  | 359.4  | 370.1  |
| Expenditures   | 363.8               | 374.2               | 382.6     | 390.2  | 399.5  | 406.8  | 416.0  | 420.2  |
| Surplus or deficit (-)   | -70.5               | -69.3               | -69.3     | -66.3  | -65.0  | -62.0  | -56.5  | -50.0  |
| High employment surplus or deficit (-)                           | -6.7                | -7.3                | -11.9     | -8.8   | -7.0   | -2.0   | 5.3    | 12.3   |
| State and local government surplus or deficit (-) (N.I.A. basis) | 12.9                | 12.3                | 12.6      | 12.5   | 13.2   | 12.1   | 12.1   | 11.7   |
| Civilian labor force (millions)                                  | 93.1                | 93.2                | 93.7      | 94.1   | 94.5   | 95.0   | 95.4   | 96.0   |
| Unemployment rate (per cent)                                     | 8.6                 | 8.5                 | 7.9       | 7.6    | 7.4    | 7.3    | 7.2    | 7.1    |
| Nonfarm payroll employment (millions)                            | 77.0                | 77.6                | 78.4      | 79.1   | 79.6   | 80.1   | 80.5   | 81.2   |
| Manufacturing  | 18.3                | 18.5                | 18.8      | 19.1   | 19.3   | 19.5   | 19.7   | 19.9   |
| Industrial production (1967 = 100)                               | 114.2               | 117.5               | 120.8     | 123.6  | 125.9  | 128.3  | 130.7  | 133.4  |
| Capacity utilization, mfg. (per cent)                            | 69.0                | 70.8                | 72.2      | 73.3   | 74.1   | 74.8   | 75.6   | 76.6   |
| Major materials (per cent)                                       | 78.0                | 80.8                | 82.3      | 83.4   | 84.3   | 85.1   | 85.9   | 86.9   |
| Housing starts, private (millions, A.R.)                         | 1.26                | 1.37                | 1.50      | 1.65   | 1.70   | 1.75   | 1.80   | 1.80   |
| Sales new autos (millions, A.R.)                                 | 9.21                | 9.20                | 9.65      | 9.85   | 10.00  | 10.20  | 10.50  | 10.70  |
| Domestic models  | 7.52                | 7.87                | 8.25      | 8.35   | 8.50   | 8.70   | 8.90   | 9.10   |
| Foreign models   | 1.69                | 1.33                | 1.40      | 1.50   | 1.50   | 1.50   | 1.60   | 1.60   |
| 1/ Net export of g.&s. (Bal. of paymts)                          | 18.0 <sub>2</sub>   | 16.5 <sub>3</sub>   | 11.8      | 10.2   | 8.7    | 7.6    | 5.5    | 3.4    |
| Exports <sup>2/</sup>  | 148.7 <sup>2/</sup> | 152.6 <sup>2/</sup> | 154.7     | 158.2  | 161.5  | 165.2  | 168.9  | 173.5  |
| Imports  | 130.7               | 136.1               | 142.9     | 148.0  | 152.8  | 157.6  | 163.4  | 170.1  |

2/ Federal government N.I.A. receipts in 1975-II reflects the \$8.1 billion rebate of 1974 individual income taxes and in 1975-III and following quarters the \$9.3 billion reduction in 1975 individual income taxes; the withholding rates associated with the latter reduction are assumed to be continued in 1976. Includes \$.3 billion, annual rate of shipments of military equipment and supplies to Israel which are not included in GNP exports.

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

|   | 1975  |       | 1976 |      |      |      | 1977 |      |
|---|-------|-------|------|------|------|------|------|------|
|   | III   | IV    | I    | II   | III  | IV   | I    | II   |
| Gross National Product                                      | 67.9  | 44.7  | 44.9 | 44.3 | 44.6 | 47.0 | 46.8 | 47.3 |
| Inventory change  | 27.5  | 1.9   | 6.5  | 2.7  | 2.0  | 3.0  | 4.0  | 4.0  |
| Final purchases   | 40.4  | 42.8  | 38.4 | 41.6 | 42.6 | 44.0 | 42.8 | 43.3 |
| Private   | 31.0  | 33.1  | 32.6 | 34.4 | 35.0 | 34.3 | 35.6 | 36.9 |
| Net exports   | -2.1  | .3    | -3.9 | -1.2 | -1.5 | -1.1 | -2.1 | -2.1 |
| Excluding net exports                                       | 33.1  | 32.8  | 36.5 | 35.6 | 36.5 | 35.4 | 37.7 | 39.0 |
| Personal consumption expenditures                           | 27.1  | 21.3  | 26.7 | 27.4 | 26.5 | 26.8 | 29.0 | 29.5 |
| Durable goods   | 8.0   | 4.3   | 5.8  | 6.1  | 6.4  | 6.8  | 7.8  | 7.8  |
| Nondurable goods  | 11.6  | 8.4   | 11.5 | 12.0 | 11.1 | 10.5 | 11.0 | 11.5 |
| Services  | 7.6   | 8.5   | 9.5  | 9.3  | 9.0  | 9.5  | 10.2 | 10.2 |
| Residential fixed investment                                | 5.4   | 5.3   | 4.4  | 4.0  | 5.0  | 2.6  | 1.7  | 1.5  |
| Business fixed investment                                   | .6    | 6.0   | 4.0  | 4.2  | 5.0  | 6.0  | 7.0  | 8.0  |
| Government  | 9.4   | 9.7   | 5.8  | 7.2  | 7.6  | 9.7  | 7.2  | 6.4  |
| Federal   | 5.0   | 5.6   | 1.7  | 1.7  | 2.1  | 3.8  | 1.6  | .8   |
| State and local   | 4.4   | 4.2   | 4.0  | 5.5  | 5.5  | 5.9  | 5.6  | 5.6  |
| GNP in constant (1972) dollars                              | 33.4  | 15.9  | 19.3 | 16.7 | 15.5 | 16.0 | 16.9 | 17.4 |
| Final purchases   | 13.5  | 14.9  | 13.5 | 15.2 | 14.9 | 14.2 | 14.1 | 14.6 |
| Private   | 9.7   | 12.5  | 11.8 | 13.3 | 13.1 | 12.4 | 13.1 | 13.8 |
| -----In Per Cent Per Year <sup>1/</sup> -----               |       |       |      |      |      |      |      |      |
| Gross National Product                                      | 19.9  | 12.2  | 11.9 | 11.4 | 11.2 | 11.5 | 11.1 | 10.9 |
| Final purchases   | 11.3  | 11.7  | 10.1 | 10.7 | 10.7 | 10.8 | 10.2 | 10.1 |
| Private   | 11.1  | 11.5  | 11.0 | 11.4 | 11.2 | 10.7 | 10.8 | 11.0 |
| Personal consumption expenditures                           | 11.9  | 9.0   | 11.1 | 11.1 | 10.5 | 10.3 | 10.9 | 10.8 |
| Durable goods   | 28.5  | 13.7  | 18.2 | 18.3 | 18.5 | 18.8 | 20.8 | 19.8 |
| Nondurable goods  | 12.0  | 8.3   | 11.3 | 11.5 | 10.3 | 9.5  | 9.7  | 9.9  |
| Services  | 7.4   | 8.2   | 9.0  | 8.6  | 8.1  | 8.4  | 8.9  | 8.7  |
| Gross private domestic investment                           | 112.6 | 30.5  | 31.6 | 21.0 | 22.1 | 20.2 | 21.2 | 21.5 |
| Residential structures                                      | 57.4  | 49.2  | 35.5 | 29.4 | 35.0 | 15.9 | 9.8  | 8.4  |
| Business fixed investment                                   | 1.7   | 17.4  | 10.9 | 11.2 | 13.0 | 15.3 | 17.3 | 19.1 |
| Gov't purchases of goods & services                         | 12.1  | 12.1  | 6.9  | 8.5  | 8.8  | 11.1 | 7.9  | 6.9  |
| Federal   | 17.9  | 19.3  | 5.3  | 6.5  | 11.7 | 5.3  | 4.7  | 2.3  |
| Defense   | 14.4  | 12.3  | 3.7  | 5.6  | 5.5  | 10.5 | 5.3  | 1.3  |
| Other   | 25.9  | 34.2  | 9.8  | 4.7  | 8.5  | 14.1 | 3.5  | 4.4  |
| State and local   | 8.8   | 8.2   | 7.7  | 10.5 | 10.2 | 10.7 | 9.9  | 9.6  |
| GNP in constant (1972) dollars                              | 11.9  | 5.4   | 6.5  | 5.5  | 5.0  | 5.1  | 5.4  | 5.5  |
| Final purchases   | 4.6   | 5.1   | 4.5  | 5.0  | 4.9  | 4.6  | 4.5  | 4.6  |
| Private   | 4.2   | 5.4   | 5.0  | 5.6  | 5.4  | 5.1  | 5.3  | 5.5  |
| GNP implicit deflator <sup>2/</sup>                         | 7.2   | 6.4   | 5.0  | 5.6  | 5.9  | 6.1  | 5.5  | 5.3  |
| Private GNP fixed weighted index <sup>3/</sup>              | 7.3   | 5.9   | 5.8  | 5.6  | 5.6  | 5.5  | 5.7  | 5.7  |
| Personal income   | 13.0  | 10.9  | 10.6 | 9.4  | 10.3 | 9.9  | 9.9  | 9.1  |
| Wage and salary disbursements                               | 10.4  | 12.0  | 10.7 | 10.3 | 10.2 | 11.3 | 10.3 | 10.0 |
| Disposable income   | 2.0   | 10.4  | 11.6 | 8.9  | 9.7  | 9.5  | 10.4 | 8.8  |
| Corporate profits before tax                                | 105.2 | 55.9  | 1.7  | 22.0 | 11.2 | 14.2 | 2.5  | 23.1 |
| Federal Government receipts and expenditures (N.I.A. basis) |       |       |      |      |      |      |      |      |
| Receipts  | 89.1  | 16.8  | 11.3 | 14.4 | 13.7 | 12.9 | 18.0 | 12.5 |
| Expenditures  | 13.7  | 11.9  | 9.3  | 8.2  | 9.9  | 7.5  | 9.4  | 4.1  |
| Nonfarm payroll employment                                  | 3.2   | 3.2   | 4.2  | 3.6  | 2.6  | 2.5  | 2.0  | 3.5  |
| Manufacturing   | 4.5   | 4.4   | 6.6  | 6.5  | 4.3  | 4.2  | 4.2  | 4.1  |
| Industrial production                                       | 14.5  | 12.1  | 11.7 | 9.6  | 7.7  | 7.8  | 7.7  | 8.5  |
| Housing starts, private                                     | 92.3  | 39.8  | 43.7 | 46.4 | 12.7 | 12.3 | 11.9 | .0   |
| Sales new autos   | 84.7  | -.4   | 21.0 | 8.6  | 6.2  | 8.2  | 12.3 | 7.8  |
| Domestic models   | 99.2  | 20.0  | 20.8 | 4.9  | 7.4  | 9.7  | 9.5  | 9.3  |
| Foreign models  | 34.3  | -61.6 | 22.8 | 31.8 | .0   | .0   | 29.5 | .0   |

<sup>1/</sup> Percentage rates are annual rates compounded quarterly.<sup>2/</sup> Excluding Federal pay increases rates of change are: 1975-IV, 5.8 per cent; 1976-I, 5.0 per cent; 1976-IV, 5.4 per cent; 1977-I, 5.4 per cent.<sup>3/</sup> Using expenditures in 1967 as weights.

CONFIDENTIAL - FR  
CLASS 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.)

|   | 1969   | 1970   | 1971   | 1972   | 1973   | 1974   | 1975   | Projected<br>1976 |
|---|--------|--------|--------|--------|--------|--------|--------|-------------------|
| Gross National Product  | 935.5  | 982.4  | 1063.4 | 1171.1 | 1306.3 | 1406.9 | 1499.0 | 1685.4            |
| Final purchases   | 926.1  | 978.6  | 1057.0 | 1161.7 | 1288.8 | 1397.2 | 1513.2 | 1675.3            |
| Private   | 718.2  | 759.7  | 823.3  | 908.6  | 1018.9 | 1096.1 | 1182.3 | 1314.1            |
| Excluding net exports   | 716.4  | 755.8  | 821.7  | 911.9  | 1011.5 | 1088.4 | 1160.8 | 1297.5            |
| Personal consumption expenditures                                   | 579.7  | 618.8  | 668.2  | 733.0  | 808.5  | 885.9  | 963.2  | 1065.9            |
| Durable goods   | 85.5   | 84.9   | 97.1   | 111.2  | 122.9  | 121.9  | 127.7  | 151.4             |
| Nondurable goods  | 247.0  | 264.7  | 277.7  | 299.3  | 334.4  | 375.7  | 410.0  | 453.5             |
| Services  | 247.2  | 269.1  | 293.4  | 322.4  | 315.3  | 388.3  | 425.5  | 461.1             |
| Gross private domestic investment                                   | 146.2  | 140.8  | 160.0  | 188.3  | 220.5  | 212.2  | 183.3  | 241.7             |
| Residential construction  | 37.9   | 36.6   | 49.6   | 62.0   | 66.5   | 54.6   | 48.8   | 66.3              |
| Business fixed investment   | 98.9   | 100.5  | 104.1  | 116.8  | 136.5  | 147.9  | 148.7  | 163.9             |
| Change in business inventories                                      | 9.4    | 3.8    | 6.4    | 9.4    | 17.5   | 9.7    | -14.2  | 11.6              |
| Nonfarm   | 9.2    | 3.7    | 5.1    | 8.8    | 14.1   | 11.6   | -16.1  | 12.1              |
| Net exports of goods and services <sup>1/</sup>                     | 1.8    | 3.9    | 1.6    | -3.3   | 7.4    | 7.7    | 21.5   | 16.6              |
| Exports   | 54.7   | 62.5   | 65.6   | 72.7   | 101.5  | 144.2  | 147.3  | 159.7             |
| Imports   | 52.9   | 58.5   | 64.0   | 75.9   | 94.2   | 136.5  | 125.8  | 143.1             |
| Gov't. purchases of goods and services                              | 207.9  | 218.9  | 233.7  | 253.1  | 269.9  | 301.1  | 330.9  | 361.2             |
| Federal   | 97.5   | 95.6   | 96.2   | 102.1  | 102.0  | 111.7  | 123.1  | 134.8             |
| Defense   | 76.3   | 73.5   | 70.2   | 73.5   | 73.4   | 77.4   | 84.0   | 90.3              |
| Other   | 21.2   | 22.1   | 26.0   | 28.6   | 28.6   | 34.3   | 39.2   | 44.5              |
| State and local   | 110.4  | 123.2  | 137.5  | 151.0  | 168.0  | 189.4  | 207.8  | 226.5             |
| Gross national product in<br>constant (1972) dollars                | 1078.8 | 1075.3 | 1107.5 | 1171.1 | 1233.4 | 1210.7 | 1186.4 | 1261.0            |
| GNP implicit deflator (1972=100)                                    | 86.7   | 91.4   | 96.0   | 100.0  | 105.9  | 116.2  | 126.4  | 133.6             |
| Personal income   | 745.8  | 801.3  | 859.1  | 942.5  | 1054.3 | 1154.7 | 1246.0 | 1375.6            |
| Wage and salary disbursements                                       | 514.6  | 546.5  | 579.4  | 633.8  | 701.0  | 763.6  | 801.6  | 884.3             |
| Disposable income   | 630.4  | 685.9  | 742.8  | 801.3  | 903.1  | 983.6  | 1076.8 | 1184.6            |
| Personal saving   | 35.1   | 50.6   | 57.3   | 49.4   | 72.7   | 74.0   | 89.6   | 94.0              |
| Saving rate (per cent)  | 5.6    | 7.4    | 7.7    | 6.2    | 8.0    | 7.5    | 8.3    | 7.9               |
| Corporate profits with I.V.A. and C.C.Adj.                          | 81.4   | 67.9   | 77.2   | 92.1   | 100.2  | 91.3   | 102.1  | 135.2             |
| Corporate profits with I.V.A., without<br>C.C.Adj.                  | 77.9   | 66.4   | 76.9   | 85.6   | 98.6   | 93.6   | 108.3  | 142.5             |
| Corporate profits before tax  | 83.4   | 71.5   | 82.0   | 96.2   | 117.0  | 132.1  | 119.8  | 154.2             |
| Federal government receipts and<br>expenditures, (N.I.A. basis)     |        |        |        |        |        |        |        |                   |
| Receipts <sup>2/</sup>  | 197.0  | 192.1  | 198.6  | 227.5  | 257.9  | 288.4  | 283.5  | 329.1             |
| Expenditures  | 188.4  | 204.2  | 220.6  | 224.7  | 264.8  | 300.1  | 356.9  | 394.8             |
| Surplus or deficit (-) <sup>2/</sup>                                | -8.5   | -12.1  | -22.0  | -17.3  | -6.9   | -11.7  | -73.4  | -64.2             |
| High employment surplus or deficit (-)                              | 13.4   | 6.5    | -1.7   | -1.0   | 4.3    | 18.0   | -9.9   | -7.4              |
| State and local government surplus or<br>deficit (-) (N.I.A. basis) | 2.1    | 2.8    | 3.7    | 13.7   | 12.9   | 8.1    | 9.9    | 12.6              |
| Civilian labor force (millions)                                     | 77.9   | 78.6   | 79.1   | 81.7   | 84.4   | 85.9   | 92.7   | 94.3              |
| Unemployment rate (per cent)  | 3.5    | 4.9    | 5.9    | 5.6    | 4.9    | 5.6    | 8.5    | 7.6               |
| Nonfarm payroll employment (millions)                               | 70.4   | 70.9   | 71.2   | 73.7   | 76.9   | 78.4   | 77.0   | 79.3              |
| Manufacturing   | 20.2   | 19.3   | 18.6   | 19.1   | 20.1   | 20.0   | 18.4   | 19.2              |
| Industrial production (1967=100)                                    | 110.7  | 106.6  | 106.8  | 115.2  | 125.6  | 124.8  | 113.4  | 124.7             |
| Capacity utilization, mfg. (per cent)                               | 86.5   | 78.3   | 75.0   | 78.6   | 83.0   | 78.9   | 68.7   | 73.6              |
| Major materials (per cent)  | 90.0   | 86.2   | 85.3   | 89.6   | 93.0   | 87.0   | 74.9   | 83.8              |
| Housing starts, private (millions, A.R.)                            | 1.47   | 1.43   | 2.05   | 2.36   | 2.05   | 1.34   | 1.18   | 1.65              |
| Sales new autos (millions, A.R.)                                    | 9.57   | 8.40   | 10.24  | 10.93  | 11.44  | 8.87   | 8.66   | 9.93              |
| Domestic models   | 8.46   | 7.12   | 8.68   | 9.32   | 9.67   | 7.45   | 7.08   | 8.45              |
| Foreign models  | 1.11   | 1.28   | 1.56   | 1.61   | 1.77   | 1.42   | 1.58   | 1.48              |

<sup>1/</sup> Net exports of g. & s. (Bal. of paymts) 1.0 3.0 -2 -5.9 4.2 3.8 16.8 9.6  
  Exports 54.7 62.4 65.5 72.6 102.1<sup>3/</sup> 144.4<sup>3/</sup> 146.7<sup>3/</sup> 160.0  
  Imports 53.6 59.5 65.8 78.5 97.9 140.6 130.8 150.4

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

<sup>3/</sup> Includes \$3 billion, annual rate of shipments of military equipment and supplies to Israel which are not included in GNP exports.

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

|  | 1969                           | 1970  | 1971 | 1972  | 1973  | 1974  | 1975  | Projected<br>1976 |
|--|--------------------------------|-------|------|-------|-------|-------|-------|-------------------|
| Gross National Product   | 67.0                           | 46.9  | 81.0 | 107.7 | 135.2 | 100.6 | 92.1  | 186.4             |
| Inventory change   | 1.7                            | -5.6  | 2.6  | 3.0   | 8.1   | -7.8  | -23.9 | 24.3              |
| Final purchases  | 65.3                           | 52.5  | 78.4 | 104.7 | 127.1 | 108.4 | 116.0 | 162.1             |
| Private  | 56.1                           | 41.5  | 63.6 | 85.3  | 110.3 | 77.2  | 86.2  | 131.8             |
| Net exports  | -5.5                           | 2.1   | -2.3 | -4.9  | 10.7  | .3    | 13.8  | -4.9              |
| Excluding net exports  | 56.6                           | 39.4  | 65.9 | 90.2  | 99.6  | 76.9  | 72.4  | 136.7             |
| Personal consumption expenditures                              | 43.8                           | 39.1  | 49.4 | 64.8  | 75.5  | 77.4  | 77.3  | 104.2             |
| Durable goods  | 5.5                            | -6    | 12.2 | 14.1  | 11.7  | -1.0  | 5.8   | 24.2              |
| Nondurable goods   | 16.6                           | 17.7  | 13.0 | 21.6  | 35.1  | 41.3  | 34.3  | 44.5              |
| Services   | 21.6                           | 21.9  | 24.3 | 29.0  | 28.9  | 37.0  | 37.2  | 35.6              |
| Residential fixed investment                                   | 3.4                            | -1.3  | 13.0 | 12.4  | 4.5   | -11.9 | -5.8  | 17.5              |
| Business fixed investment                                      | 9.6                            | 1.6   | 3.6  | 12.7  | 19.7  | 11.4  | .8    | 15.2              |
| Government   | 9.2                            | 11.0  | 14.8 | 19.4  | 16.8  | 31.2  | 29.8  | 30.3              |
| Federal  | -5                             | -1.9  | .6   | 5.9   | -1    | 9.7   | 11.4  | 11.7              |
| State and local  | 9.7                            | 12.8  | 14.3 | 13.5  | 17.0  | 21.4  | 18.4  | 18.7              |
| GNP in constant (1972) dollars                                 | 27.0                           | -3.5  | 32.2 | 63.6  | 62.3  | -22.7 | -24.3 | 74.7              |
| Final purchases  | 25.1                           | 2.8   | 29.9 | 60.8  | 55.7  | -14.4 | -6.5  | 57.7              |
| Private  | 27.6                           | 9.3   | 30.7 | 57.1  | 56.3  | -16.2 | -9.6  | 49.5              |
|  | -----In Per Cent Per Year----- |       |      |       |       |       |       |                   |
| Gross national product   | 7.7                            | 5.0   | 8.2  | 10.1  | 11.5  | 7.7   | 6.5   | 12.4              |
| Final purchases  | 7.6                            | 5.7   | 8.0  | 9.9   | 10.9  | 8.4   | 8.3   | 10.7              |
| Private  | 8.5                            | 5.8   | 8.4  | 10.4  | 12.1  | 7.6   | 7.9   | 11.1              |
| Personal consumption expenditures                              | 8.2                            | 6.7   | 8.0  | 9.7   | 10.3  | 9.6   | 8.7   | 10.7              |
| Durable goods  | 6.9                            | -7    | 14.4 | 14.5  | 10.5  | -8    | 4.8   | 18.6              |
| Nondurable goods   | 7.2                            | 7.2   | 4.9  | 7.8   | 11.7  | 12.4  | 9.1   | 10.6              |
| Services   | 9.6                            | 8.9   | 9.0  | 9.9   | 9.0   | 10.5  | 9.6   | 8.4               |
| Gross private domestic investment                              | 11.2                           | -3.7  | 13.6 | 17.7  | 17.1  | -3.8  | -13.6 | 31.9              |
| Residential structures   | 9.9                            | -3.4  | 35.5 | 25.0  | 7.3   | -17.9 | -10.6 | 35.9              |
| Business fixed investment                                      | 10.8                           | 1.6   | 3.6  | 12.2  | 16.9  | 8.4   | .5    | 10.2              |
| Gov't. purchases of goods & services                           | 4.6                            | 5.3   | 6.8  | 8.3   | 6.6   | 11.6  | 9.9   | 9.2               |
| Federal  | -5                             | -1.9  | .6   | 6.1   | .1    | 9.5   | 10.2  | 9.5               |
| Defense  | -8                             | -3.7  | -4.5 | 4.7   | -1    | 5.4   | 8.5   | 7.5               |
| Other  | .0                             | 4.2   | 17.6 | 10.0  | .0    | 19.9  | 14.3  | 13.5              |
| State and local  | 9.6                            | 11.6  | 11.6 | 9.8   | 11.3  | 12.7  | 9.7   | 9.0               |
| GNP in constant (1972) dollars                                 | 2.6                            | -.3   | 3.0  | 5.7   | 5.3   | -1.8  | -2.0  | 6.3               |
| Final purchases  | 2.4                            | .3    | 2.8  | 5.5   | 4.8   | -1.2  | -.5   | 4.8               |
| Private  | 3.5                            | 1.1   | 3.7  | 6.7   | 6.2   | -1.7  | -1.0  | 5.3               |
| GNP implicit deflator  | 5.0                            | 5.4   | 5.0  | 4.2   | 5.9   | 9.7   | 8.8   | 5.7               |
| Private GNP fixed weighted index <sup>1/</sup>                 | 5.0                            | 5.4   | 4.9  | 4.1   | 6.4   | 10.8  | 6.6   | 5.6               |
| Personal income  | 8.8                            | 7.4   | 7.2  | 9.7   | 11.9  | 9.5   | 7.9   | 10.4              |
| Wage and salary disbursements                                  | 9.6                            | 6.2   | 6.0  | 9.4   | 10.6  | 8.9   | 5.0   | 10.3              |
| Disposable income  | 7.2                            | 8.8   | 8.3  | 7.9   | 12.7  | 8.9   | 9.5   | 10.0              |
| Corporate profits before tax                                   | -2.6                           | -14.3 | 14.7 | 17.3  | 21.6  | 12.9  | -9.3  | 28.7              |
| Federal Government receipts and<br>expenditures (N.I.A. basis) |                                |       |      |       |       |       |       |                   |
| Receipts   | 12.8                           | -2.5  | 3.4  | 14.6  | 13.4  | 11.8  | -1.7  | 16.1              |
| Expenditures   | 4.3                            | 8.4   | 8.0  | 10.9  | 8.2   | 13.3  | 18.9  | 10.6              |
| Nonfarm payroll employment                                     | 3.5                            | .7    | .4   | 3.5   | 4.3   | 2.0   | -1.8  | 3.0               |
| Manufacturing  | 2.0                            | -4.5  | -3.6 | 2.7   | 5.2   | .5    | -8.0  | 4.3               |
| Industrial production  | 4.7                            | -3.7  | .2   | 7.9   | 9.0   | -.6   | -9.1  | 10.0              |
| Housing starts, private  | -2.6                           | -2.7  | 43.4 | 15.1  | -13.1 | -34.6 | -11.9 | 39.8              |
| Sales new autos  | -.7                            | -12.2 | 21.9 | 6.7   | 4.7   | -22.5 | -2.4  | 14.7              |
| Domestic models  | -1.9                           | -15.8 | 21.9 | 7.4   | 3.8   | -23.0 | -5.0  | 19.4              |
| Foreign models   | 8.8                            | 15.3  | 21.9 | 3.2   | 9.9   | -19.8 | 11.3  | -6.3              |

<sup>1/</sup> Using expenditures in 1967 as weights.

CONFIDENTIAL (FR)

February 11, 1976

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

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

|                                       | 1975               |                   |                    | 1976               |                    |                    |
|---------------------------------------|--------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
|                                       | Year <sup>e/</sup> | QIV <sup>e/</sup> | Dec. <sup>e/</sup> | Jan. <sup>e/</sup> | Feb. <sup>f/</sup> | Mar. <sup>f/</sup> |
| <u>Gross offerings</u>                |                    |                   |                    |                    |                    |                    |
| Corporate securities--Total           | 4,358              | 1,958             | 3,550              | 3,650              | 3,500              | 3,500              |
| Publicly offered bonds                | 2,717              | 1,946             | 1,750              | 2,200              | 1,800              | 2,200              |
| By quality                            |                    |                   |                    |                    |                    |                    |
| Aaa and Aa <sup>1/</sup>              | 1,422              | 776               | 625                | 1,275              | --                 | --                 |
| Less than Aa <sup>1/</sup>            | 1,295              | 1,170             | 1,125              | 925                | --                 | --                 |
| By type of borrower                   |                    |                   |                    |                    |                    |                    |
| Utility                               | 925                | 783               | 625                | 600                | --                 | --                 |
| Industrial                            | 1,432              | 767               | 675                | 1,050              | --                 | --                 |
| Other                                 | 360                | 396               | 450                | 550                | --                 | --                 |
| Privately placed bonds                | 743                | 946               | 1,000              | 750                | 750                | 750                |
| Stocks                                | 898                | 1,066             | 800                | 700                | 950                | 950                |
| Foreign securities <sup>2/</sup>      | 451                | 634               | 975                | 605                | 500                | 500                |
| State and local government securities |                    |                   |                    |                    |                    |                    |
| Long-term                             | 2,544              | 2,252             | 2,052              | 2,360              | 2,000              | 1,900              |
| Short-term                            | 2,415              | 2,197             | 1,793              | 1,000              | 1,500              | 1,800              |
| <u>Net Offerings</u>                  |                    |                   |                    |                    |                    |                    |
| U.S. Treasury <sup>2/</sup>           | 7,576              | 8,097             | 9,850              | 6,159              | 7,898              | 8,000              |
| Sponsored Federal Agencies            | 197                | 374               | 472                | 789                | -734               | 388                |

<sup>e/</sup> Estimated.

<sup>f/</sup> Forecast.

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

<sup>2/</sup> Includes only publicly offered issues of marketable securities.



APPENDIX A\*  
THE FEDERAL BUDGET FOR 1977

This appendix discusses the principal features of the President's budget proposals for fiscal year 1977. Section I outlines the major contours of the President's budget and reviews its implications for economic stabilization. Section II examines the principal tax law changes proposed by the President. Section III reviews the spending actions requested by the Administration.

Overview of the Budget

The Administration is projecting a unified budget deficit of approximately \$43 billion for fiscal 1977, (beginning October 1, 1975). Revenues are estimated at \$351 billion, and a ceiling of \$394 billion is proposed for Federal spending. With outlays for the off-budget agencies estimated at \$11 billion, the enlarged Federal deficit is projected at \$54 billion. Table I summarizes the major fiscal aggregates.

Despite the large size of the unified deficit, the Administration's budget is not expected to provide significant fiscal stimulus in the near-term future. Indeed, the full employment budget would swing from about a \$16 billion deficit in the current fiscal year, to a full employment surplus of around \$3 billion, estimated for 1977. Although the movement toward a full employment surplus is initiated in the current calendar year, the major shift toward fiscal restraint occurs in early CY 1977 when substantial deceleration in the rate of Federal spending contributes importantly to the development of a surplus in the full employment budget.

Revenue Estimates

The Administration's revenue estimate for FY 1977 represents an increase of about 18 per cent, or \$54 billion over the projection for fiscal 1976. This expansion in revenues is primarily generated by a sharp increase in nominal GNP, projected to rise at an annual rate slightly in excess of 12 per cent over the period. The net effect of tax law changes proposed by the Administration is to provide an offset of about \$23 billion to the growth in potential revenues for FY 1977, assuming expiration of the Revenue Adjustment Act on June 30, 1976.

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\* Prepared by Wayne M. Ayers, Economist, Government Finance Section, Division of Research and Statistics.

Under the Administration program, individual and corporate income taxes are reduced by about \$29 billion--a cut of about \$10 billion more than would be realized if the Revenue Adjustment Act of 1975 were extended for all of CY 1976. 1/ Increases in social security and unemployment compensation taxes have been recommended, however, which would produce about \$7.8 billion of additional revenue, (annual rate, beginning January, 1977).

For individuals, the Administration budget embodies proposals which differ from those contained in the Revenue Adjustment Act. 1) An increase in the personal exemption from \$750 to \$1,000, 2) substitution of a flat \$2,500 standard deduction for the current low income allowance and percentage standard deduction, and 3) a reduction in marginal tax rates for incomes up to \$24,000.

For corporations, it is proposed that 1) the rate changes as well as the increase in the investment tax credit be made permanent, 2) the maximum corporate tax rate be reduced from 48 to 46 per cent, and 3) legislation be enacted to provide tax relief to electric utilities.

The Administration has also proposed a variety of special tax incentives designed to encourage specific economic activity. To encourage financial institutions to hold residential mortgages, the Administration has proposed, as part of the Financial Institutions Act, a new tax credit on interest income from such holdings; this measure would substitute for the current tax provision which permits thrift institutions to maintain excess bad debt reserves. To foster more broad-based ownership of common stock, a proposal to defer taxes on funds placed in a stock purchase plan and held there for at least 7 years is recommended. Finally, to promote job creation in areas of high unemployment, the Administration supports a program of accelerated depreciation of new plant and equipment in areas where the unemployment rate exceeds 7 per cent is proposed. Qualifying firms must undertake projects before January 20, 1977 and complete them within 36 months.

The other major tax proposals contained in the budget are designed to improve the fiscal soundness of the social security and unemployment trust funds. Under the President's program, the combined employer-employee social security tax rate would increase from the current 11.7 to 12.3 per cent. Also proposed is an increase in the

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1/ The proposed changes in income tax provisions were originally estimated at \$23 billion. More recently, the cost has been estimated at \$29 billion.

Federal unemployment tax rate from .5 per cent to .65 per cent, and an increase in the taxable wage base from \$4,200 to \$6,000.

Table II compares the Administration proposals with the Revenue Adjustment Act of 1976, and indicates the impact on Federal revenues for fiscal 1977.

### Outlay Estimates

In evaluating the implications of the President's spending program, it is useful to compare the President's outlay proposals with those estimated in the current services budget. This alternative budget represents projection of outlays assuming continuation of Federal benefits, services, and purchases as provided under existing law.

In the absence of any Administration proposals, outlays would rise \$41 billion in FY 1977 to an estimated current service level of \$414.5 billion, an increase of 11 per cent. As detailed in Table III, the President has proposed, however, a Federal spending level some \$20 billion below the current service level thereby holding the expansion from FY 1976 to a 5.5 per cent increase. <sup>2/</sup> All functional categories of spending would be cut below current service levels, but 90 per cent of the total reduction is concentrated in non-defense spending. Moreover, various cuts in domestic transfers for individuals would account for 80 per cent of the proposed total decline in non-defense spending.

An alternative perspective on the degree of fiscal restraint in the President's budget can be gained by comparing it with past spending patterns. In recent years, spending has been accelerating very rapidly, advancing at annual rates of 20 per cent in fiscal 1975

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<sup>2/</sup> It should be noted that the 5.5 per cent growth rate overstates somewhat the increase in actual spending since the budget for FY'77 includes estimated outlays for the Export-Import Bank. In past years, this agency had off-budget status, and its expenditures were consequently not reflected in fiscal year outlay totals. Moreover, a simple comparison between fiscal years 1976 and 1977 is misleading, since it ignores the transition quarter, and thus essentially compares a 15-month year to a 12-month year. Adjusting for these special factors reduces the growth rate of current dollar spending to 4--4.5 per cent.

and 15 per cent in fiscal 1976. Outlays in these years, of course, were expanded by counter-recessionary programs and inflation, but growth has also been relatively strong in every fiscal year of the present decade. Indeed, the 5.5 per cent rise proposed for FY 1977 would be the slowest rate of expansion since 1969 when expenditure growth was moderated by the deceleration of the Vietnam conflict and the initial adoption of a Congressional spending ceiling. Moreover, if spending is contained at \$394.0 billion and prices rise as projected by the Administration, Federal outlays would decline by about 3 per cent in real terms.

While the Administration's budget represents an attempt to restrain the overall growth in spending, it also proposes a substantial 9 per cent increase in defense outlays. For the entire period between 1969 and 1975, defense spending grew by only 8 per cent. Real defense spending actually fell by 31 per cent in that period. For the second consecutive year, the Administration is proposing an increase however modest, in the level of real defense expenditure.

In other categories, however, spending is to be severely restrained. Income security, for example, which includes social security and a variety of domestic transfer programs grew at an average annual rate of 16 per cent between 1969 and 1975, and an additional 18 per cent in 1976. This category is held to a 6.7 per cent increase for the next fiscal year. The President has suggested actual reductions from 1976 levels for education, training, and social services, veterans benefits, agriculture, commerce and transportation, and community and regional development. The President has proposed a variety of measures to achieve these economies. In addition to a 5 per cent cap on civilian and military pay raises, the Budget assumes a phase out of special and temporary unemployment assistance, and public service jobs, a tightening of eligibility standards for food stamps and for Aid to Families with Dependent Children, and a reduction in veterans educational benefits. Health spending is to be restrained by substituting a single block grant with no matching requirements for 16 separate categorical programs. The block grant approach is also proposed to consolidate 27 education grant programs and 15 child nutrition programs. Increased costs for catastrophic insurance coverage for Medicare recipients are offset by proposals to raise cost sharing by participants and limiting payment increases to physicians and hospitals.

Nearly all of the above proposals will require Congressional approval. Moreover, under the provisions of the Congressional Budget Act, the Congress is expected to formulate an alternative FY 1977 budget by May 15 of this year.

TABLE I  
The President's Budget  
Fiscal Year 1977

|   | 1975  | 1976 <sup>e/</sup> | TO <sup>e/</sup> | 1977 <sup>e/</sup> |
|---|-------|--------------------|------------------|--------------------|
| <u>Unified Budget</u>                       |       |                    |                  |                    |
| Receipts                                    | 281.0 | 297.5              | 81.9             | 351.3              |
| Outlays                                     | 324.6 | 373.5              | 98.0             | 394.2              |
| Deficit (-)                                 | -43.6 | -76.0              | -16.1            | -43.0              |
| <u>Per cent increase in <sup>1/</sup></u>   |       |                    |                  |                    |
| Receipts                                    | 6.1   | 5.9                | --               | 13.1               |
| Outlays                                     | 20.9  | 15.1               | --               | 5.5                |
| <u>Off-budget outlays</u>                   | 9.5   | 9.3                | 4.0              | 11.1               |
| Memo:                                       |       |                    |                  |                    |
| <u>NIA Budget</u>                           |       |                    |                  |                    |
| Receipts                                    | 281.5 | 307.4              | 86.5             | 364.7              |
| Expenditures                                | 323.7 | 373.7              | 97.2             | 404.5              |
| Deficit (-)                                 | -42.2 | -66.3              | -10.7            | -39.8              |
| <u>Per cent increase in <sup>1/</sup></u>   |       |                    |                  |                    |
| Receipts                                    | 3.6   | 9.2                | --               | 13.6               |
| Expenditures                                | 17.9  | 15.2               | --               | 6.3                |
| <u>Full-employment Budget</u> <sup>2/</sup> |       |                    |                  |                    |
| Receipts                                    | 323   | 347                | --               | 339                |
| Expenditures                                | 317   | 363                | --               | 336                |
| Surplus/Deficit (-)                         | +6.0  | -16                | --               | +3                 |

<sup>1/</sup> Calculations ignore the time gap created by the Transition Quarter.

<sup>2/</sup> Unified Budget basis.

TABLE II

Comparison of Administration Tax Cut Proposals  
and Revenue Adjustment Act of 1976  
(All data shown are at annual rates)

|  | Revenue Adjustment |                |
|--|--------------------|----------------|
|  | Act                | Administration |
|  | (\$ billions)      |                |
| <u>Tax Provisions</u> <sup>1/</sup>                                    |                    |                |
| <u>Individuals:</u>  | <u>-14.8</u>       | <u>-21.6</u>   |
| 1) Standard deduction  | -3.9               | -4.2           |
| 2) Personal exemption  | --                 | -10.6          |
| 3) Tax credit  | -9.5               | --             |
| 4) Rate reductions   | --                 | -6.8           |
| 5) Earned income credit  | -1.4               | --             |
| <u>Business:</u>   | <u>-4.9</u>        | <u>-8.0</u>    |
| 1) Investment tax credit   | -3.0               | -3.0           |
| 2) 1975 corporate rate reductions<br>and surtax exemption              | -1.9               | -1.9           |
| 3) Corporate rate reductions: 48<br>to 46 per cent                     | --                 | -2.5           |
| 4) Other <sup>2/</sup>   | --                 | -.6            |
| <u>Grand Total</u>   | <u>-19.7</u>       | <u>-29.6</u>   |
| Memo:  |                    |                |
| <u>Other Income Tax Proposals:</u> <sup>3/</sup>                       | <u>--</u>          | <u>-.9</u>     |
| Financial Institutions Act   | --                 | -.3            |
| Stock ownership incentives   | --                 | -.3            |
| Accelerated depreciation on invest-<br>ment in high unemployment areas | --                 | -.3            |
| <u>Other Tax Proposals</u> <sup>4/</sup>                               | <u>--</u>          | <u>+7.8</u>    |
| Social security tax rate increase                                      | --                 | +4.7           |
| Unemployment tax rate and wage base<br>increase                        | --                 | +3.1           |

<sup>1/</sup> Annual rate; projected 1976 income level.

<sup>2/</sup> Electric utility tax relief.

<sup>3/</sup> Annual rate; projected CY 1977 income level.

TABLE III  
 Budget Outlays for FY 1977 Compared to  
 Current Service Outlays for FY 1977  
 (\$ billions)

|                                  | Outlays, FY 1977      |                       |              |
|----------------------------------|-----------------------|-----------------------|--------------|
|                                  | President's<br>Budget | Current *<br>Services | Difference   |
| Defense                          | <u>101.1</u>          | <u>103.1</u>          | <u>-2.0</u>  |
| Non-Defense                      | <u>293.1</u>          | <u>311.4</u>          | <u>-18.3</u> |
| Human Resources <sup>1/</sup>    | 205.3                 | 220.2                 | -14.9        |
| Physical Resources <sup>2/</sup> | 37.5                  | 40.6                  | -3.1         |
| Interest                         | 32.9                  | 33.2                  | -.3          |
| All Other <sup>3/</sup>          | 17.3                  | 17.4                  | -.1          |
| Total                            | <u>394.2</u>          | <u>414.5</u>          | <u>-20.3</u> |

<sup>1/</sup> Includes the functional categories of Education, Health, Income Security and Veterans Benefits.

<sup>2/</sup> Includes functional categories of Natural Resources, Agriculture, Commerce and Community and Regional Development.

<sup>3/</sup> Includes functional categories of International Affairs, General Science, Space and Technology, Law Enforcement, General Government, Revenue Sharing, Allowances for pay increases, payments to employee retirement funds, and rents for royalties on continental shelf.

\* SOURCE: Current Service Estimates for FY 1977, November 10, 1975. Estimates reflect legislation enacted as of September 15, 1975.

A - 3  
TABLE IV  
Budget Outlays by Function  
(\$ billions)

| Functional Category                                    | Projected for<br>Fiscal 1977 | Change from<br>Fiscal 1976 |
|--|------------------------------|----------------------------|
| Total  | <u>\$394.2</u>               | <u>21.2</u>                |
| <u>Categories Increasing</u>                           |                              |                            |
| National Defense                                       | 101.1                        | 8.3                        |
| Income Security  | 137.1                        | 3.6                        |
| Net Interest   | 32.9                         | 6.5                        |
| Health   | 34.4                         | 2.3                        |
| Natural Resources, Environment and Energy              | 13.8                         | 2.0                        |
| Allowances   | 2.3                          | 2.1                        |
| International Affairs <u>1/</u>                        | 6.8                          | 1.1                        |
| 3 Other Categories <u>2/</u>                           | <u>11.9</u>                  | <u>.4</u>                  |
| Total  | 340.3                        | 31.3                       |
| <u>Categories Declining</u>                            |                              |                            |
| Education, Training, Employment<br>and Social Services | 16.6                         | -2.3                       |
| Veterans Benefits and Services                         | 17.2                         | -1.8                       |
| Agriculture  | 1.7                          | -1.2                       |
| Commerce and Transportation                            | 16.5                         | -1.3                       |
| 2 Other Categories <u>3/</u>                           | <u>12.3</u>                  | <u>-.4</u>                 |
| Total  | 64.3                         | -7.0                       |
| Undistributed Offsetting Receipts <u>4/</u>            | -10.5                        | 3.3                        |

1/ Includes outlays of the Export-Import Bank.

2/ General Space Science and Technology, Revenue Sharing and Law Enforcement.

3/ General Government and Community and Regional Development.

4/ This item reflects payments by Federal Agencies to employee retirements and rents and royalties on the outer continental shelf.



CONFIDENTIAL (FR)  
CLASS II - FOMC

February 13, 1976

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

ERRATAS:

Part I: GNP tables, pp. I - 9 to I - 12

|                        |                       | GNP Final Purchases       |                       |
|------------------------|-----------------------|---------------------------|-----------------------|
|                        |                       | Private                   |                       |
|                        | Total Final purchases | Total Private             | Excluding Net Exports |
| p. I-9 <u>LEVELS</u>   |                       | (Bill \$, SAAR)           |                       |
| 1976 - I               | 1,610.3               | 1,260.7                   | 1,242.2               |
| II                     | 1,651.9               | 1,295.1                   | 1,277.8               |
| III                    | 1,694.5               | 1,330.1                   | 1,314.3               |
| IV                     | 1,738.5               | 1,364.4                   | 1,349.7               |
| 1977 - I               | 1,781.3               | 1,400.0                   | 1,387.4               |
| II                     | 1,824.6               | 1,436.9                   | 1,426.4               |
| p. I-10 <u>CHANGES</u> |                       | (Bill \$, SAAR)           |                       |
| 1976 - I               | 36.9                  | 31.1                      | 35.0                  |
|                        |                       | (Per cent at Annual Rate) |                       |
| 1976 - I               | 9.7                   | 10.5                      |                       |
| II                     |                       | 11.5                      |                       |
| III                    |                       | 11.1                      |                       |
| IV                     |                       | 10.7                      |                       |
| 1977 - I               |                       | 10.9                      |                       |
| p. I-11 <u>LEVELS</u>  |                       |                           |                       |
| 1976                   | 1,673.8               | 1,312.6                   | 1,296.0               |
| p. I-12 <u>CHANGES</u> |                       | (Bill \$)                 |                       |
| 1976                   | 160.6                 | 130.3                     | 135.2                 |
|                        |                       | (Per cent)                |                       |
| 1976                   | 10.6                  | 11.0                      |                       |

Part II:

PII-5, lower table; footnote should read: "NOTE: Real wage and salary disbursements and real personal income are published data deflated by the consumer price index. Reference months are specific highs and lows for deflated wage and salary component."

pII-10, lower table; second line of title should read: "(Seasonally adjusted, measured in millions of square feet)".

pII-12, lower table; second line of title should read: "(Seasonally adjusted monthly averages, billions of dollars)".