

## **Part 1**

December 10, 1975

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

Prepared for the Federal Open Market Committee  
By the staff of the Board of Governors of the Federal Reserve System

CONFIDENTIAL (FR)

December 10, 1975

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)	
	11/12/75	12/10/75	11/12/75	12/10/75	11/12/75	12/10/75	11/12/75	12/10/75
1972 <u>1/</u>	103.1	103.1	6.2	6.2	3.3	3.3	5.6	5.6
1973 <u>1/</u>	136.9	136.9	5.9	5.9	6.3	6.3	4.9	4.9
1974 <u>1/</u>	102.5	102.5	-2.1	-2.1	11.4	11.4	5.6	5.6
1975	78.8	80.2	-3.0	-2.9	9.3	9.2	8.5	8.5
1976	172.7	168.9	5.9	5.6	6.0	6.0	7.9	8.0
1974-I <u>1/</u>	14.8	14.8	-7.0	-7.0	14.1	14.1	5.2	5.2
II <u>1/</u>	25.0	25.0	-1.6	-1.6	12.3	12.3	5.1	5.1
III <u>1/</u>	32.5	32.5	-1.9	-1.9	13.8	13.8	5.5	5.5
IV <u>1/</u>	14.6	14.6	-9.0	-9.0	12.6	12.6	6.6	6.6
1975-I <u>1/</u>	-14.3	-14.3	-11.4	-11.4	7.7	7.7	8.3	8.3
II <u>1/</u>	24.3	24.3	1.9	1.9	5.5	5.5	8.9	8.9
III <u>1/</u>	56.2	62.6	11.2	13.2	7.7	7.3	8.4	8.4
IV	51.6	45.6	7.4	5.0	6.4	6.5	8.3	8.4
1976-I	39.2	37.7	4.9	4.8	5.9	5.9	8.1	8.2
II	40.2	39.4	5.0	4.8	5.6	5.6	8.0	8.1
III	39.6	39.5	4.6	4.6	5.3	5.3	7.8	7.9
IV	41.4	41.2	4.5	4.3	4.9	5.0	7.8	7.9
Change:								
74-II to 75-II <u>1/</u>	57.1	57.1	-5.3	-5.3	9.8	9.3	3.8	3.8
74-IV to 75-IV	118.5	118.3	1.9	1.8	6.8	6.7	1.7	1.8
75-II to 76-II	127.3	125.4	7.1	6.9	6.4	6.3	- .9	- .8
75-IV to 76-IV	160.8	157.8	4.8	4.7	5.4	5.4	- .5	- .5

1/ Actual.

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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			
					Projected			
	I	II	III	IV	I	II	III	IV
Gross National Product	1416.6	1440.9	1503.6	1549.2	1586.9	1626.3	1665.8	1707.0
Final purchases	1435.8	1471.9	1509.1	1545.2	1576.4	1613.3	1651.8	1693.0
Private	1104.2	1133.8	1165.6	1194.3	1220.2	1250.3	1281.0	1310.3
Excluding net exports	1095.4	1117.6	1153.4	1182.2	1214.7	1246.9	1277.7	1307.0
Personal consumption expenditures	913.2	938.6	968.8	990.2	1014.3	1036.9	1058.2	1078.5
Durable goods	124.9	130.6	138.6	140.3	143.1	146.6	150.3	154.0
Non durable goods	398.8	410.1	422.7	431.4	441.0	449.5	456.5	463.1
Services	389.5	397.9	407.5	418.5	430.2	440.8	451.4	461.4
Gross private domestic investment	163.1	148.1	179.1	196.0	210.9	223.0	233.5	242.5
Residential construction	35.3	36.4	41.0	44.5	48.2	52.2	55.7	57.0
Business fixed investment	146.9	142.7	143.6	147.5	152.2	157.8	163.8	171.5
Change in business inventories	-19.2	-31.0	-5.5	4.0	10.5	13.0	14.0	14.0
Nonfarm	-17.8	-30.6	-7.2	2.5	10.0	13.0	14.0	14.0
Net exports of goods and services <sup>1/</sup>	8.8	16.2	12.2	12.1	5.5	3.4	3.3	3.3
Exports	142.2	136.0	142.0	147.5	150.5	155.0	159.7	164.4
Imports	133.4	119.8	129.8	135.4	145.0	151.6	156.4	161.1
Gov't. purchases of goods and services	331.6	338.1	343.5	350.9	356.2	363.0	370.8	382.7
Federal	126.5	128.4	130.5	135.2	137.0	139.0	141.0	146.7
Defense	84.7	84.8	86.1	89.2	90.0	91.5	92.6	96.6
Other	41.8	43.6	44.4	46.0	47.0	47.5	48.4	50.1
State and local	205.1	209.7	213.0	215.7	219.2	224.0	229.8	236.0
Gross national product in constant (1958) dollars	780.0	783.6	808.3	818.2	827.9	837.8	847.3	856.3
GNP implicit deflator (1958=100)	181.6	183.9	186.0	189.3	191.7	194.1	196.6	199.4
Personal income	1193.4	1220.5	1255.2	1291.9	1325.2	1354.3	1385.8	1416.5
Wage and salary disbursements	765.1	773.0	791.4	811.9	831.5	851.0	870.1	891.9
Disposable income	1015.5	1078.5	1079.6	1106.0	1135.5	1159.6	1183.7	1208.2
Personal saving	75.9	113.8	84.6	89.0	93.8	94.8	97.1	100.8
Saving rate (per cent)	7.5	10.6	7.8	8.0	8.3	8.2	8.2	8.3
Corporate profits & inventory val. adj.	94.3	104.9	122.5	129.0	130.1	138.0	146.6	154.0
Corporate profits before tax	101.2	113.3	134.1	142.0	142.1	149.0	156.6	163.0
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts <sup>2/</sup>	284.1	251.8	295.7	309.7	318.5	327.9	340.3	350.9
Expenditures	338.5	355.0	362.7	374.3	383.7	390.7	401.1	413.2
Surplus or deficit (-) <sup>2/</sup>	-54.4	-103.3	-67.1	-64.6	-65.2	-62.8	-60.8	-62.3
High employment surplus or deficit (-)	10.2	-35.9	-11.2	-10.9	-10.3	-9.0	-9.7	-10.5
State and local government surplus or deficit (-) (N.I.A. basis)	-1.6	-.9	4.1	8.8	10.2	11.0	10.3	10.2
Total labor force (millions)	94.0	94.7	95.3	95.4	95.8	96.3	96.7	97.2
Armed forces "	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Civilian labor force "	91.8	92.5	93.1	93.2	93.6	94.1	94.5	95.0
Unemployment rate (per cent)	8.3	8.9	8.4	8.4	8.2	8.1	7.9	7.9
Nonfarm payroll employment (millions)	76.9	76.4	77.0	77.5	77.9	78.4	78.9	79.4
Manufacturing	18.5	18.1	18.3	18.5	18.7	18.9	19.0	19.1
Industrial production (1967=100)	111.6	110.4	114.1	116.7	118.7	120.6	122.2	123.8
Capacity utilization, mfg. (per cent)	68.2	67.0	68.9	69.8	70.5	71.0	71.4	71.7
Major materials (per cent)	70.0	70.9	77.9	79.9	80.5	81.1	81.4	81.7
Housing starts, private (millions, A.R.)	1.00	1.07	1.26	1.43	1.55	1.60	1.65	1.65
Sales new autos (millions, A.R.)	8.31	7.90	9.21	9.10	9.50	9.75	10.00	10.20
Domestic models	6.60	6.33	7.52	7.80	8.00	8.25	8.50	8.70
Foreign models	1.71	1.57	1.69	1.30	1.50	1.50	1.50	1.50

<sup>1/</sup> Net exports of g. & s. (Bal.of paymts) 12.7<sup>3/</sup> 21.2 15.8 15.7 9.1 7.0 6.9 6.9  
 Exports 148.43<sup>3/</sup> 141.7 146.6 152.1 155.1 159.6 164.3 169.0  
 Imports 135.7 120.5 130.8 136.4 146.0 152.6 157.4 162.1

<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.

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December 10, 1975

CLASS II FOMC

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1975				1976			
					Projected			
	I	II	III	IV	I	II	III	IV
Gross National Product	-14.3	24.3	62.7	45.6	37.7	39.4	39.5	41.2
Inventory change	-37.0	-11.8	25.5	9.5	6.5	2.5	1.0	.0
Final purchases	22.7	36.1	37.2	36.1	31.2	36.9	38.5	41.2
Private	14.9	29.6	31.8	28.7	25.9	30.1	30.7	29.3
Net exports	6.9	7.4	-4.0	-.1	-6.6	-2.1	-0.1	.0
Excluding net exports	8.0	22.2	35.8	28.8	32.5	32.2	30.8	29.3
Personal consumption expenditures	17.4	25.4	30.2	21.4	24.1	22.6	21.3	20.3
Durable goods	4.2	5.7	8.0	1.7	2.8	3.5	3.7	3.7
Non durable goods	7.1	11.3	12.6	8.7	9.6	8.5	7.0	6.6
Services	6.0	8.4	9.6	11.0	11.7	10.6	10.6	10.0
Residential fixed investment	-5.1	1.1	4.6	3.5	3.7	4.0	3.5	1.3
Business fixed investment	-4.3	-4.2	.9	3.9	4.7	5.6	6.0	7.7
Government	7.8	6.5	5.4	7.4	5.3	6.8	7.8	11.9
Federal	2.0	1.9	2.1	4.7	1.8	2.0	2.0	5.7
State and local	5.8	4.6	3.3	2.7	3.5	4.8	5.8	6.2
GNP in constant (1958) dollars	-24.0	3.6	24.7	9.9	9.7	9.9	9.5	9.0
Final purchases	-1.3	8.9	9.9	5.6	6.0	8.5	9.1	9.2
Private	-2.7	7.4	9.0	5.4	5.6	7.3	7.9	7.2
-----In Per Cent Per Year-----								
Gross national product	-3.9	7.0	18.6	12.7	10.1	10.3	10.1	10.3
Final purchases	6.6	10.4	10.5	9.9	8.3	9.7	9.9	10.4
Private	5.6	11.2	11.7	10.2	9.0	10.2	10.2	9.5
Personal consumption expenditures	8.0	11.6	13.5	9.1	10.1	9.2	8.5	7.9
Durable goods	14.7	19.5	26.8	5.0	8.2	10.1	10.5	10.2
Non durable goods	7.4	11.8	12.9	8.5	9.2	7.9	6.4	5.9
Services	6.4	8.9	10.0	11.2	11.7	10.2	10.0	9.2
Gross private domestic investment	-63.2	-32.0	113.9	43.4	34.1	25.0	20.2	16.3
Residential structures	-41.7	13.1	61.0	38.8	37.6	37.6	29.6	9.7
Business fixed investment	-10.9	-11.0	2.5	11.3	13.4	15.5	16.1	20.2
Gov't purchases of goods & services	10.0	8.1	6.5	8.9	6.2	7.9	8.9	13.5
Federal	6.6	6.1	6.7	15.2	5.4	6.0	5.9	17.2
Defense	3.4	.5	6.3	15.2	3.6	6.8	4.9	18.4
Other	12.4	18.4	7.5	15.2	9.0	4.3	7.8	14.8
State and local	12.2	9.3	6.4	5.2	6.6	9.1	10.8	11.2
GNP in constant (1958) dollars	-11.4	1.9	13.2	5.0	4.8	4.8	4.6	4.3
Final purchases	-.7	4.6	5.0	2.8	3.0	4.2	4.5	4.5
Private	-1.7	4.7	5.6	3.4	3.4	4.4	4.7	4.3
GNP implicit deflator	8.4 <sup>2/</sup>	5.1	4.7	7.3	5.0	5.2	5.2	5.7
Private GNP fixed weighted index <sup>3/</sup>	7.7	5.5	7.3	6.5	5.9	5.6	5.3	5.0
Personal income	2.2	9.4	11.9	12.2	10.7	9.1	9.6	9.2
Wage and salary disbursements	-2.1	4.2	9.9	10.8	10.0	9.7	9.3	10.4
Disposable income	2.7	27.2	.4	10.1	11.1	8.8	8.6	8.5
Corporate profits before tax	-64.9	57.1	96.2	25.7	.3	20.9	22.0	17.4
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	-13.6	-38.3	90.2	20.3	11.9	12.3	16.0	13.1
Expenditures	26.3	21.0	9.0	13.4	10.4	7.5	11.1	12.6
Nonfarm payroll employment	-7.1	-2.2	3.0	2.6	2.1	2.6	2.6	2.6
Manufacturing	-21.2	-6.9	2.5	4.4	4.4	4.3	2.1	2.1
Industrial production	-28.4	-4.7	14.1	9.4	7.0	6.6	5.4	5.3
Housing starts, private	-2.4	32.7	91.9	65.9	38.0	13.5	13.1	.0
Sales new autos	60.9	-18.2	84.6	-4.7	18.8	10.9	10.7	8.2
Domestic models	41.8	-15.3	99.3	15.7	10.7	13.1	12.7	9.7
Foreign models	172.4	-28.8	33.3	-65.0	77.3	.0	.0	.0

<sup>1/</sup> Percentage rates are annual rates compounded quarterly.<sup>2/</sup> Excluding Federal pay increases rates of change are: 1975-I, 8.3 per cent; 1975-II, 6.6 per cent, 1976-I, 4.9 per cent, and 1976-IV, 5.0 per cent.<sup>3/</sup> Using expenditures in 1967 as weights.

## CLASS II FOMC

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

	1969	1970	1971	1972	1973	1974	1975	1976 Projected
Gross National Product	930.3	977.1	1054.9	1158.0	1294.9	1397.4	1477.6	1646.5
Final purchases								
Private	922.5	972.6	1048.6	1149.5	1279.6	1383.2	1490.5	1633.6
Excluding net exports	712.5	753.1	814.4	893.8	1003.2	1074.0	1149.5	1265.5
710.6	749.5	814.6	899.8	999.3	1071.9	1137.2	1261.6	
Personal consumption expenditures	579.5	617.6	667.1	729.0	805.2	876.7	952.7	1047.0
Durable goods	90.8	91.3	103.9	118.4	130.3	127.5	133.6	148.5
Nondurable goods	245.9	263.8	278.4	299.7	338.0	380.2	415.8	452.5
Services	242.7	262.6	284.8	310.9	336.9	369.0	403.4	446.0
Gross private domestic investment	139.0	136.3	153.7	179.3	209.4	209.4	171.6	227.5
Residential Construction	32.6	31.2	42.8	54.0	57.2	46.0	39.3	53.3
Business fixed investment	98.5	100.6	104.6	116.8	136.8	149.2	145.2	161.3
Change in business inventories	7.8	4.5	6.3	8.5	15.4	14.2	-12.9	12.9
Nonfarm	7.7	4.3	4.9	7.8	11.4	11.9	-13.3	12.8
Net exports of goods and services <sup>1/</sup>	1.9	3.6	-.2	-6.0	3.9	2.1	12.3	3.9
Exports	55.5	62.9	65.4	72.4	100.4	140.2	141.9	157.4
Imports	53.6	59.3	65.6	78.4	96.4	138.1	129.6	153.5
Gov't. purchases of goods and services	210.0	219.5	234.2	255.7	276.4	309.2	34.10	368.2
Federal	98.8	96.2	97.6	104.9	106.6	116.9	130.2	140.9
Defense	78.4	74.6	71.2	74.8	74.4	78.7	86.2	92.7
Other	20.4	21.6	26.5	30.1	32.2	38.2	44.0	48.3
State & local	111.2	123.3	136.6	150.8	169.8	192.3	210.9	227.3
Gross national product in constant (1958) dollars	725.6	722.5	746.3	792.5	839.2	821.2	797.5	842.3
GNP implicit deflator (1958=100)	128.2	135.2	141.4	146.1	154.3	170.2	185.2	195.5
Personal income	750.9	808.3	864.0	944.9	1055.0	1150.5	1240.3	1370.5
Wage and salary disbursements	509.7	542.0	573.0	626.8	691.7	751.2	785.4	861.1
Disposable income	634.4	691.7	746.4	802.5	903.7	979.7	1069.9	1171.6
Personal saving	38.2	56.2	60.5	52.6	74.4	77.0	90.8	96.6
Saving rate (per cent)	6.0	8.1	8.1	6.6	8.2	7.9	8.5	8.2
Corporate profits & inventory val. adj.	79.8	69.2	78.7	92.2	105.1	105.6	112.7	142.2
Corporate profits before tax	84.9	74.0	83.6	99.2	122.7	140.7	122.7	152.7
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	197.3	192.0	198.5	227.2	258.5	291.1	285.3	334.4
Expenditures	189.2	203.9	220.3	244.7	264.2	299.1	357.6	397.2
Surplus or deficit (-)	8.1	-11.9	-21.9	-17.5	-5.6	-8.1	-217.7	-62.8
High employment surplus or deficit (-)	8.8	3.7	-4.7	-6.7	-.7	19.1	-12.0	-9.8
State and local government surplus or deficit (-), (N.I.A. basis)	.7	1.8	3.4	12.3	9.2	1.8	2.6	10.4
Total labor force (millions)	84.2	85.9	86.9	89.0	91.0	93.2	94.9	96.5
Armed forces "	3.5	3.2	2.8	2.4	2.3	2.2	2.2	2.2
Civilian labor force "	80.7	82.7	84.1	86.5	88.7	91.0	92.7	94.3
Unemployment rate (per cent)	3.5	4.9	5.9	5.6	4.9	5.6	8.5	8.0
Nonfarm payroll employment (millions)	70.4	70.9	71.2	73.7	76.8	78.3	77.0	98.7
Manufacturing	20.2	19.3	18.6	19.1	20.1	20.0	18.4	18.9
Industrial production (1967 = 100)	110.7	106.7	106.8	115.2	125.6	124.7	113.2	121.3
Capacity utilization, mfg. (per cent)	86.5	78.3	75.0	78.6	83.0	78.9	68.5	71.2
Major materials (per cent)	90.0	86.2	85.3	89.6	93.0	87.0	74.7	81.2
Housing starts, private (millions, A.R.)	1.47	1.43	2.05	2.36	2.05	1.34	1.19	1.61
Sales new autos (millions, A.R.)	9.57	8.40	10.24	10.93	11.44	8.87	8.63	9.86
Domestic models	8.46	7.12	8.68	9.32	9.67	7.45	7.06	8.36
Foreign models	1.11	1.28	1.56	1.61	1.77	1.42	1.57	1.50
<sup>1/</sup> Net exports of g. & s. (Bal. of Paymts.)	1.3	2.9	-.2	-6.0	4.4	2/ 3.32	16.4	7.5
Exports	55.0	62.3	65.4	72.4	101.0	2/ 142.62	147.2	162.0
Imports	53.6	59.4	65.6	78.4	96.6	131.4	130.9	154.5

<sup>2/</sup> Includes shipments of military equipment and supplies to Israel which are not included in GNP exports; amounts in billions of dollars are 1973, \$.6, 1974, \$.325; and 1975, \$.150.

December 10, 1975

CLASS II FOMC

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1969	1970	1971	1972	1973	1974	Projected 1975	Projected 1976
-----Billions of Dollars-----								
Gross National Product	66.	46.8	77.8	103.1	136.9	102.5	80.2	168.9
Inventory change	.	-3.3	1.8	2.2	6.9	-1.2	-27.1	25.8
Final purchases	65.4	50.1	76.0	100.9	130.1	103.6	107.3	143.1
Private	55.0	40.6	61.3	79.4	109.4	70.8	75.5	116.0
Net exports	-.6	1.7	-3.8	-5.8	9.9	-1.8	10.2	-8.4
Excluding net exports	55.6	38.9	65.1	85.2	99.5	72.6	65.3	124.4
Personal consumption expenditures	43.3	38.1	49.6	61.9	76.2	71.5	76.0	94.3
Durable goods	6.8	.5	12.6	14.5	11.9	-2.8	6.1	14.9
Non durable goods	15.1	17.9	14.6	21.3	38.3	42.2	35.6	36.7
Services	21.4	19.9	22.2	26.1	26.0	32.1	34.4	42.6
Residential fixed investment	2.5	-1.4	11.6	11.2	3.2	-11.2	-6.7	14.0
Business fixed investment	9.7	2.1	4.0	12.2	20.0	12.4	-4.0	16.1
Government	10.4	9.5	14.7	21.5	20.7	32.8	31.8	27.2
Federal	.0	-2.6	1.4	7.3	1.7	10.3	13.3	10.7
State and local	10.4	12.1	13.3	14.2	19.0	22.5	18.6	16.4
GNP in constant (1958) dollars	19.0	-3.1	23.8	46.2	46.7	-18.0	-23.7	44.8
Final purchases	18.7	-.4	-22.5	-44.4	43.0	-15.9	-7.7	30.6
Private	20.6	6.2	18.5	46.1	45.2	-17.5	-10.9	27.2
-----Per Cent per Year-----								
Gross National Product	7.6	5.0	8.0	9.8	11.8	7.9	5.7	11.4
Final purchases	7.6	5.4	7.8	9.6	11.3	8.1	7.8	9.6
Private	8.4	5.7	8.1	9.7	12.2	7.1	7.0	10.1
Personal consumption expenditures	8.1	6.6	8.0	9.3	10.5	8.9	8.7	9.9
Durable goods	8.1	.6	13.8	14.0	10.1	-2.1	4.8	11.2
Non durable goods	6.5	7.3	5.5	7.7	12.8	12.5	9.4	8.8
Services	9.7	8.2	8.5	9.2	8.4	9.5	9.3	10.6
Gross private domestic investment	10.3	-1.9	12.8	16.7	16.8	.0	-18.1	32.6
Residential structures	8.3	-4.3	37.2	26.2	5.9	-19.6	-14.6	35.6
Business fixed investment	10.9	2.1	4.0	11.7	17.1	9.1	-2.7	11.1
Gov't purchases of goods & services	5.2	4.5	6.7	9.2	8.1	11.9	10.3	8.0
Federal	.0	-2.6	1.5	7.5	1.6	9.7	11.4	8.2
Defense	.1	-4.8	-4.6	5.1	-.5	5.8	9.5	7.5
Other	-.5	5.9	22.7	13.6	7.0	18.6	15.2	9.8
State and local	10.3	10.9	10.8	10.4	12.6	13.3	9.7	7.8
GNP in constant (1958) dollars	2.7	-.4	3.3	6.2	5.9	-2.1	-2.9	5.6
Final purchases	2.7	-.1	3.1	6.0	5.5	-1.9	-.9	3.8
Private	3.7	1.1	3.9	6.7	6.5	-2.6	-1.6	4.1
GNP implicit deflator	4.8	5.5	4.6	3.4	5.6	10.3	8.8	5.6
Private GNP fixed weighted index <sup>1/</sup>	4.7	4.8	4.3	3.3	6.3	11.4	9.0	6.6
Personal income	9.0	7.6	6.9	9.4	11.7	9.1	7.8	10.5
Wage and salary disbursements	9.6	6.3	5.8	9.3	10.4	8.6	4.6	9.6
Disposable income	7.3	9.0	7.9	7.5	12.6	8.4	9.2	9.5
Corporate profits before tax	-3.1	-12.8	13.0	18.7	23.7	14.7	.12.8	24.4
Federal Government receipts and expenditures (N.I.A. basis)								
Receipts	12.7	-2.7	3.4	14.5	13.8	12.6	-2.0	17.2
Expenditures	4.2	7.8	8.0	11.1	8.0	13.2	19.6	11.1
Nonfarm payroll employment	3.7	7	.4	3.5	4.2	2.0	-1.7	28.2
Manufacturing	2.0	-4.1	-4.0	2.8	5.0	-.2	-8.0	2.7
Industrial production	4.7	-3.6	.1	7.9	9.0	-.7	-9.2	7.2
Housing starts, private	-2.7	-2.3	43.2	14.9	-13.2	-34.6	-11.2	35.3
Sales new autos	-.6	-12.3	21.9	6.7	4.7	-22.5	-2.7	14.3
Domestic models	-1.8	-15.9	21.9	7.4	3.7	-23.0	-5.2	18.4
Foreign models	9.0	15.5	21.8	3.3	9.8	-20.1	10.6	-4.5

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

Table 1  
 FUNDS RAISED IN CREDIT MARKETS  
 Seasonally adjusted annual rates  
 Flow-of-funds basis  
 1975-76  
 (\$ billions)

Line No.	Sector	Period			
		1975		1976	
		H1	HII Est.	QI Proj.	QII Proj.
1.	ALL GOVERNMENTS -- TOTAL	108	97	87	94
2.	U.S. Government 1/	84	79	70	70
3.	Sponsored agencies 2/	9	6	7	13
4.	States and local gov'ts.	15	12	10	11
5.	PRIVATE DOMESTIC (Non-Fin. & Non-Gov't.)	77	96	122	133
6.	Business	29	39	56	62
7.	Short-term 3/	-27	-1	11	16
8.	Long-term 4/	56	40	45	46
9.	Consumer credit	-1	10	11	12
10.	Residential Mortgages	40	44	49	53
11.	Other	9	3	6	6
12.	FOREIGN	10	13	10	8
13.	PVT. FINANCIAL INSTITUTIONS (Credit and Equity Market Borrowing) 5/	-4	13	17	19
14.	TOTAL FUNDS RAISED IN CREDIT MARKETS	191	219	236	253

- 1/ Direct marketable and nonmarketable debt, savings bonds, and other issues by on-budget and off-budget agencies.
- 2/ FHLB, FNMA, FICB, Bank for Coops, Land Banks, and GNMA Guaranteed Mortgage Backed Securities.
- 3/ Business bank loans and open market paper.
- 4/ Bonds, equities, and nonresidential mortgages.
- 5/ Includes FHLB advances to savings and loan associations as follows

1975 H1: \$-8B

HII: \$-1B

1976 QI: \$3B

QII: \$4B

Note: All dollar amounts are rounded to the nearest billion, and components may not add to totals.

Table 2  
 FUNDS ADVANCED IN CREDIT MARKETS  
 Seasonally adjusted annual rates  
 Flow-of-funds basis  
 1974-75  
 (\$ billions)

Line No.	Sector	Period			
		1975		1976	
		H1	HII Est.	QI Proj.	QII Proj.
1.	PRIVATE FINANCIAL INSTITUTIONS	127	159	150	158
2.	Domestic commercial bank and affiliates	18	57	53	62
3.	Thrift institutions <u>1/</u>	59	55	42	40
4.	Insurance and pension funds <u>2/</u>	49	48	49	49
5.	All other <u>3/</u>	1	-1	6	6
6.	U.S. GOVERNMENT	30	28	27	30
7.	Direct <u>4/</u>	12	11	8	8
8.	Sponsored credit agencies <u>5/</u>	11	6	9	15
9.	Federal Reserve	7	12	10	7
10.	HOUSEHOLDS	-2	6	30	34
11.	ALL OTHER <u>6/</u>	37	25	30	32
12.	TOTAL FUNDS ADVANCED IN CREDIT MARKETS	<u>191</u>	<u>219</u>	<u>236</u>	<u>253</u>

1/ Savings and loan associations, mutual savings banks, and credit unions.

2/ Life and other insurance companies, private and public pension funds.

3/ Finance companies, REIT's, open-end investment companies, and securities brokers and dealers.

4/ Lending by on-budget and off-budget agencies.

5/ FNMA, FHLB, FICB, Land Banks, Banks for Coop. Includes mortgage pools GNMA guaranteed securities.

6/ Businesses, State and local governments, and rest of world.

NOTE: All dollar amounts are rounded to the nearest billion, and components may not add to totals.

## **Part 2**

**December 10, 1975**

## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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**Prepared for the Federal Open Market Committee  
By the staff of the Board of Governors of the Federal Reserve System**

CONFIDENTIAL (FR)

December 10, 1975

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

FEDERAL BUDGET  
(In billions of dollars)

	Fiscal Year 1975*	Fiscal Year 1976 <sup>e/</sup>			Calendar Years		F.R.B. Staff Estimates						
		Admin. Est. <sup>1/</sup>	Cong. Est. <sup>2/</sup>	F.R. Board	1974 Actual	1975 FRB <sup>e/</sup>	Calendar Quarters			1975			
							I*	II*	III*	IV	I	II	
<b>Federal Budget--Unified</b>													
Surplus/deficit	-43.6	-67.6	-74.1	-70.5	-10.9	-71.0	-18.0	-12.0	-18.5	-24.8	-27.5	.4	
Receipts	281.0	299.0	300.8	299.5	280.5	281.6	65.1	76.1	72.3	66.7	66.2	94.3	
Outlays	324.6	366.6	374.9	370.0	291.4	352.6	83.1	88.1	90.8	91.5	93.7	93.9	
Means of financing:							<b>Unadjusted data</b>						
Net borrowing from the public	50.9	n.a.	n.a.	76.1	11.8	82.5	19.4	16.6	23.5	24.3	24.6	3.7	
Decrease in cash operating balance	1.6	n.a.	n.a.	1.6	4.5	-1.6	-.7	-1.0	-3.0	2.4	2.5	-.4	
Off-budget deficit <sup>3/</sup>	-9.5	n.a.	n.a.	-9.8	-3.6	-4.8	-5.3	-2.5	-.8	-3.1	-3.1	-2.8	
Other <sup>4/</sup>	.6	n.a.	n.a.	2.6	-1.7	1.9	4.6	-1.1	-1.2	1.2	3.5	-.9	
Cash operating balance, end of period	7.6	n.a.	n.a.	6.0	5.9	7.4	6.6	7.6	10.5	8.1	5.6	6.0	
Memo: Sponsored agency borrowing <sup>5/</sup>	10.8	n.a.	n.a.	6.0	16.6	2.2	-.2	-.2	.9	1.7	1.6	1.8	
<b>NIA Budget</b>													
Surplus/deficit	-47.2 <sup>p/</sup>	n.a.	n.a.	-65.8 <sup>6/</sup>	-8.1	-72.3	-54.4	-103.2	-67.0	-64.6	-65.2	-62.8	
Receipts	282.8 <sup>p/</sup>	n.a.	n.a.	312.1 <sup>6/</sup>	291.1	285.3	284.1	251.8	295.7	309.7	318.5	327.9	
Expenditures	330.0 <sup>p/</sup>	n.a.	n.a.	377.9	299.1	357.6	338.5	355.0	362.7	374.3	383.7	390.7	
High Employment surplus/deficit (NIA basis) <sup>7/8/</sup>	3.7	n.a.	n.a.	-10.3	18.8	-12.0	10.0	-36.0	-11.2	-10.9	-10.3	-9.0	

\* Actual                    e--projected                    n.e.--not estimated                    n.a.--not available                    p--preliminary

1/ Revised estimates contained in Administration's FY'77 current services Budget, November 10, 1975

2/ Second Concurrent Budget Resolution, as of December 9, 1975.

3/ Deficit of off-budget Federal agencies, i.e., Federal Financing Bank, Postal Service, Export-Import Bank, Rural Electrification and Telephone revolving fund, Housing for the Elderly or Handicapped Fund, and Pension Benefit Guaranty Corporation.

4/ Checks issued less checks paid, accrued items, and other transactions.

5/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Association, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

6/ Quarterly average exceeds fiscal year total by \$.6 billion for fiscal 1975 and \$.9 billion for fiscal 1976 due to spreading of wage base effect over calendar year.

7/ Estimated by F.R. Board staff.

8/ The high-employment budget estimates now fully incorporate taxes on inventory profits beginning 1973.

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

	H1	QIII <sup>e/</sup>	Oct. <sup>e/</sup>	Nov. <sup>e/</sup>	Dec. <sup>f/</sup>	1976 Jan. <sup>f/</sup>
<b>Gross offerings</b>						
Corporate securities--Total	5,155	3,383	4,600	3,750	3,450	3,400
Publicly offered bonds	3,556	1,819	2,300	1,700	1,700	1,800
Utility	1,005	740	875	850	650	800
Industrial	2,046	587	1,150	475	550	1,000
Other	505	492	275	375	500	
Privately placed bonds	650	734	700	1,200	1,000	750
Stock	949	802	1,600	850	750	850
Foreign securities--Total <sup>1/</sup>	382	408	102	825	950	300
Canadian	214	175	102	550	50	300
Other	168	233	--	275	900	
<b>State and local government securities</b>						
Long-term	2,543	2,826	2,253	2,261	1,900	2,400
Short-term	2,828	1,808	2,690	2,016	2,000	2,000
<b>Net borrowings</b>						
U.S. Treasury <sup>2/</sup>	6,010	7,817	11,743	5,500	7,100	7,500
Sponsored Federal Agencies	-70	273	1,267	150	286	537

e/ Estimated.

f/ Forecast.

1/ Includes publicly offered issues of foreign private and official institutions.

2/ Total Treasury issues, including Federal Financing Bank.

CONFIDENTIAL (FR)  
CLASS II - FOMC

December 12, 1975

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

APPENDIX B\*

THE CURRENT SERVICES BUDGET  
for FY 1977

Under the provisions of the Congressional Budget and Impoundment Control Act of 1974, the President is required to submit a current services budget to the Congress by November 10 of each year, beginning in 1975. In fulfilling this requirement, the Administration recently released its first current services budget for fiscal year 1977. Publication of the current services budget is a significant innovation in the budget-making process, since it provides estimates of the outlays, revenues and proposed budget authority that would be expected to develop in the next fiscal year if all programs and activities were carried on as presently budgeted, and without policy changes. In other words, it assumes continuation of the existing level of services being provided by the Federal government.

The purpose of the current services budget is to provide a base against which alternative budget totals, either Presidential or Congressional, can be measured and compared. The outlay and revenue estimates contained in the Administration's usual January budget document, reflect not only the effects of ongoing programs, but also any new spending and tax initiatives proposed by the Administration. To assess the magnitude and direction of the President's budget accurately therefore, it is useful to differentiate the expected effects of these new initiatives, from those of ongoing programs. Early submission of the current services budget also provides extra time for the Congressional budget staff to become familiar with the base budget, and in this way facilitates Congressional action on the new Administration budget once it becomes available.

Current Service Economic Assumptions

The current services budget, like any other budget, must make certain economic assumptions concerning rates of inflation, unemployment, and economic growth. The budget just presented for fiscal year 1977 uses the four sets of alternative assumptions shown in Table I.

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\* Prepared by Wayne Ayers and James Fralick, Economists, Government Finance Section, Division of Research and Statistics

TABLE I  
Alternative Economic Assumptions  
(billions of dollars, calendar years)

	<u>ASSUMPTIONS</u>	
	1976	1977
<b>Path I - High inflation, high unemployment</b>		
Nominal GNP <sup>1/</sup>	\$1,679	\$1,893
GNP deflator <sup>1/</sup>	8.0	7.0
Real GNP growth rate <sup>2/</sup>	6.0	5.0
Unemployment rate	7.9	7.4
<b>Path II -High inflation, lower unemployment</b>		
Nominal GNP <sup>1/</sup>	\$1,699	\$1,934
GNP deflator <sup>1/</sup>	8.0	7.0
Real GNP growth rate <sup>2/</sup>	7.3	6.0
Unemployment rate	7.4	6.8
<b>Path III-Lower inflation, high unemployment</b>		
Nominal GNP <sup>1/</sup>	\$1,660	\$1,835
GNP deflator <sup>1/</sup>	6.0	5.0
Real GNP growth rate <sup>2/</sup>	6.0	5.0
Unemployment rate	7.9	7.4
<b>Path IV -Lower inflation, lower unemployment</b>		
Nominal GNP <sup>1/</sup>	\$1,680	\$1,874
GNP deflator <sup>1/</sup>	6.0	5.0
Real GNP growth rate <sup>2/</sup>	7.3	6.0
Unemployment rate	7.4	6.8

1/ Per cent change, fourth quarter over fourth quarter.

2/ Per cent change, year over year.

On the basis of these economic assumptions, current service outlays for fiscal year 1977 are projected to range between \$411 and \$415 billion, as shown in Table II. Receipts however are projected to show a wider degree of variation--ranging between \$361 and \$381 billion--due to the greater sensitivity of revenues to alternative economic conditions.

Thus, the rather wide range of deficit estimates shown in the table--from \$31 to \$51 billion--is primarily a function of differences in receipts projections.

TABLE II

Fiscal Year 1977 Fiscal Aggregates - Current Services Basis  
(billions of dollars)

		<u>Receipts</u>	<u>Outlays</u>	<u>Deficit</u>
Path I	(high inflation, high unemployment)	372.6	414.5	41.9
Path II	(high inflation, lower unemployment)	380.9	412.3	31.4
Path III	(lower inflation, high unemployment)	361.5	412.9	51.4
Path IV	(lower inflation, lower unemployment)	369.7	410.7	41.0

Budget Receipts

The Current Service estimate of receipts assumes (a) extension of most of the 1975 tax reductions, together with an extension of current withholding tax rates through 1976, (b) an increase in the maximum social security tax base from \$15,300 in calendar year 1976 to \$16,500 in calendar year 1977, (c) an increase in unemployment tax receipts in 1977 as states increase their contributions to the Treasury in order to rebuild the unemployment trust fund to pre-recession levels, and (d) continuation of the \$2 per barrel import fee which adds \$3.6 billion to receipts in 1977. The staff believes that this last assumption is particularly tenuous, given recent court challenges to the fee's legality and the fact that the energy package now under consideration in Congress provides explicitly for discontinuation of this levy.

Budget Outlays

Table III presents the major components of the increase in current service outlays from fiscal year 1976 to fiscal year 1977, as presented by the Administration. These projections are based on Path I economic assumptions, which were selected for illustrative purposes, and do not necessarily reflect the Administration's official forecast of economic activity.

TABLE III

Change in Current Service Outlays, 1976 to 1977  
(Based on Path I economic assumptions, billion of dollars)

Total Current Service Outlays estimated for FY'76	\$368.5
(Plus) Changes Projected for Fiscal 1977	
Non defense payment to individuals	20.4
Social security and railroad retirement	(12.1)
Unemployment assistance	(-0.4)
Veterans benefits	(-0.8)
Medicare-Medicaid	( 5.1)
All other	( 4.4)
Net interest	6.5
Department of defense military	11.7
Pay raises	( 4.9)
Retired pay	( 1.3)
Purchases	( 5.5)
Major non defense construction programs	3.4
All other	4.0
(Equals) Total Current Service outlays estimated for fiscal 1977	<u>\$414.5</u>

September 1, 1975. Consequently, the budget ignores all pending Administration and Congressional proposals as of that date, regardless of the probabilities of enactment. Moreover, the impact of inflation on the budget is built into only those programs that increase automatically with the cost of living or where the effects of inflation can be completely anticipated--as in certain defense weapons procurement programs. No similar inflation adjustment is made for other programs such as veterans pensions, and non-indexed grants to State and local governments. OMB estimates that if Congress were to make an inflation adjustment for these additional programs Path I outlays would increase by an additional \$7.5 billion in fiscal 1977, as detailed in Table IV.

TABLE IV

Outlay Impact of Alternative Budget Approaches  
(billion of dollars, FY 1977)

	<u>Outlays</u>
<u>Additional adjustments for inflation: Total</u> <sup>1/</sup>	<u>\$7.5</u>
Veterans compensation, pensions and readjustment benefits	(1.3)
Non indexed grants	(2.4)
Other programs not adjusted for inflation:	
Defense	(1.2)
Non Defense	(2.6)
<u>Non-renewal of certain programs that expire under existing law: Total</u> <sup>2/</sup>	<u>-8.0</u>
General revenue sharing	(-3.2)
Temporary unemployment assistance	(-2.2)
Special and supplemental unemployment benefits	(-1.4)
Earned income credit	(-1.2)

1/ Based on Path I inflation assumptions. Includes only those programs not adjusted for inflation under current law.

2/ Based on Path I unemployment rate assumptions.