

CONFIDENTIAL (FR)

February 11, 1976

SUMMARY AND OUTLOOK

By the Staff
Board of Governors
of the Federal Reserve System

STAFF GNP PROJECTIONS

Changes in nominal GNP (\$ billions)	Per cent change, annual rate							
			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 1/	107.7	107.7	5.7	5.7	3.3	3.3	5.6	5.6
1973 1/	135.2	135.2	5.3	5.3	6.3	6.3	4.9	4.9
1974 1/	100.6	100.6	-1.8	-1.8	11.4	11.4	5.6	5.6
1975 1/	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 1/	-7.7	-7.7	-9.2	-9.2	7.7	7.7	8.3	8.1
II 1/	27.0	27.0	3.3	3.3	5.5	5.5	8.9	8.7
III 1/	67.9	67.9	11.9	11.9	7.3	7.3	8.4	8.6
IV 1/	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 1/	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.

CONFIDENTIAL - FR

February 11, 1976

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	I	II	Projected III	IV	I	II
Gross National Product								
Final purchases	1528.5	1573.2	1618.1	1662.4	1707.0	1754.0	1800.8	1848.1
Private	1530.6	1573.4	1611.8	1653.4	1696.0	1740.0	1782.8	1826.1
Excluding net exports	1196.5	1229.6	1262.2	1296.6	1331.6	1365.9	1401.5	1438.4
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 ^{1/}	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_{3/} 16.5_{3/} 11.8 10.2 8.7 7.6 5.5 3.4

Exports 148.7_{3/} 152.6_{3/} 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.

February 11, 1976

	1975		1976				1977	
	III	IV	Projected		IV	I	II	
			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----- ^{1/}								
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 ^{2/}	7.2	6.4	5.0	5.6	5.9	6.1	5.5	5.3
Private GNP fixed weighted index ^{3/}	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

^{1/} Percentage rates are annual rates compounded quarterly.^{2/} 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.^{3/} Using expenditures in 1967 as weights.

February 11, 1976

CONFIDENTIAL - FR
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.)

	1969	1970	1971	1972	1973	1974	1975	Projected 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 ^{1/}	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 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	884.9
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 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 expenditures, (N.I.A. basis)								
Receipts ^{2/}	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 (-) ^{2/}	-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 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

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

2/ 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.

3/ 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 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	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 ^{1/}	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 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

1/ 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 ^{e/}	QIV ^{e/}	Dec. ^{e/}	Jan. ^{e/}	Feb. ^{f/}	Mar. ^{f/}
<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 ^{1/}	1,422	776	525	1,275	--	--
Less than Aa ^{1/}	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 ^{2/}	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 ^{2/}	7,576	8,097	9,850	6,159	7,898	8,000
Sponsored Federal Agencies	197	374	472	789	-734	388

^{e/} Estimated.

^{f/} Forecast.

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

^{2/} 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.

* 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

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.^{2/} 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

^{2/} 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 ^{e/}	To ^{e/}	1977 ^{e/}
<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 ^{1/}</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	378.7	97.2	404.5
Deficit (-)	-47.2	-71.3	-10.7	-39.8
<u>Per cent increase in ^{1/}</u>				
Receipts	3.6	9.2	--	13.6
Expenditures	17.9	15.2	--	6.3
<u>Full-employment Budget</u> ^{2/}				
Receipts	323	347	--	339
Expenditures	317	363	--	336
Surplus/Deficit (-)	+6.0	-16	--	+3

^{1/} Calculations ignore the time gap created by the Transition Quarter.

^{2/} Unified Budget basis.

TABLE II

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

<u>Tax Provisions</u>	<u>Revenue Adjustment Act</u>	<u>Administration</u>
	(\$ billions)	
<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 and surtax exemption	-1.9	-1.9
3) Corporate rate reductions: 48 to 46 per cent	--	-2.5
4) Other <u>2/</u>	--	-.6
<u>Grand Total</u>	<u>-19.7</u>	<u>-29.6</u>
<hr/>		
Memo:		
<u>Other Income Tax Proposals:</u> <u>3/</u>	<u>--</u>	<u>-.9</u>
Financial Institutions Act	--	-.3
Stock ownership incentives	--	-.3
Accelerated depreciation on invest- ment in high unemployment areas	--	-.3
<u>Other Tax Proposals</u> <u>4/</u>	<u>--</u>	<u>+7.8</u>
Social security tax rate increase	--	+4.7
Unemployment tax rate and wage base increase	--	+3.1

1/ Annual rate; projected 1976 income level.

2/ Electric utility tax relief.

3/ 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 Budget	Current * Services	Difference
Defense	<u>191.1</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 ^{1/}	205.3	220.2	-14.9
Physical Resources ^{2/}	37.5	40.6	-3.1
Interest	32.9	33.2	.3
All Other ^{3/}	17.3	17.4	.1
Total	<u>394.2</u>	<u>414.5</u>	<u>-20.3</u>

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

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

3/ 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)

<u>Functional Category</u>	<u>Projected for Fiscal 1977</u>	<u>Change from Fiscal 1976</u>
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	13.9	2.0
Allowances	2.3	2.1
International Affairs ^{1/}	6.8	1.1
3 Other Categories ^{2/}	<u>11.9</u>	<u>.4</u>
Total	340.3	31.3
<u>Categories Declining</u>		
Education, Training, Employment and Social Services	16.6	-2.3
Veterans Benefits and Services	17.2	-1.3
Agriculture	1.7	-1.2
Commerce and Transportation	16.5	-1.3
2 Other Categories ^{3/}	<u>12.3</u>	<u>-.4</u>
Total	64.3	-7.0
Undistributed Offsetting Receipts ^{4/}	-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
<u>p. I-9 LEVELS</u>			
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
<u>p. I-10 CHANGES</u>			
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	
<u>p. I-11 LEVELS</u>			
1976	1,673.8	1,312.6	1,296.0
<u>p. I-12 CHANGES</u>			
1976	160.6	(Bill \$) 130.3	135.2
1976	10.6	(Per cent) 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)".