

CONFIDENTIAL (FR)

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

**By the Staff
Board of Governors
of the Federal Reserve System**

February 13, 1974

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)	
	1/16/74	2/13/74	1/16/74	2/13/74	1/16/74	2/13/74	1/16/74	2/13/74
1971 ^{1/}	78.3	78.3	3.2	3.2	4.6	4.6	5.9	5.9
1972 ^{1/}	99.7	99.7	6.1	6.1	3.2	3.2	5.6	5.6
1973 ^{2/}	132.7	133.0	5.9	5.9	5.9	5.9	4.9	4.9
1974	101.1	97.2	.6	.3	7.1	7.3	5.6	5.8
1973: I	43.3	43.3	8.7	8.7	7.0	7.0	5.0	5.0
II	29.5	29.5	2.4	2.4	7.9	7.9	4.9	4.9
III	32.5	32.5	3.4	3.4	7.6	7.0	4.8	4.7
IV	28.0	29.5	1.0	1.3	7.0	7.6	4.7	4.7
1974: I	22.0	16.0	-1.3	-3.0	8.0	8.0	5.2	5.4
II	20.5	20.5	- .7	- .7	6.9	7.0	5.5	5.8
III	23.0	24.0	1.3	1.3	5.5	5.8	5.8	6.0
IV	30.5	32.0	2.8	3.0	5.5	5.7	6.0	6.2
Change: 72-IV to 73-IV	133.3	134.8	3.8	3.9	7.4	7.5	- .6	- .6
73-IV to 74-IV	96.0	92.5	.5	.1	6.5	6.6	1.3	1.5

^{1/} Actual.^{2/} Commerce preliminary estimates.

CONFIDENTIAL - FR

February 13, 1974

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.)

	1973	1974 Proj.	1973		1974 Projection			
			III	IVp	I	II	III	IV
Gross National Product	1288.2	1385.4	1304.5	1334.0	1350.0	1370.5	1394.5	1426.5
Final purchases	1280.8	1375.8	1299.8	1318.1 ^{1/}	1335.0	1360.0	1387.0	1421.0
Private	1003.6	1068.7	1020.8	1032.3 ^{1/}	1040.6	1057.0	1076.5	1100.5
Excluding net exports	999.0	1072.2	1013.2	1024.3	1039.9	1058.5	1081.9	1108.3
Personal consumption expenditures	805.0	875.7	816.0	829.0	847.4	865.7	884.7	904.9
Durable goods	131.1	126.9	132.8	126.8	125.0	125.0	127.0	130.5
Nondurable goods	336.3	376.8	341.6	351.1	362.9	372.7	381.4	390.1
Services	337.6	372.0	341.6	351.2	359.5	368.0	376.3	384.3
Gross private domestic investment	201.5	206.1	202.0	211.2	207.5	203.3	204.7	208.9
Residential construction	58.0	48.4	59.2	54.2	48.5	45.8	47.7	51.4
Business fixed investment	136.0	148.1	138.0	141.1	144.0	147.0	149.5	152.0
Change in business inventories	7.4	9.6	4.7	15.9	15.0	10.5	7.5	5.5
Nonfarm	6.7	9.6	3.2	14.9	16.0	11.0	7.0	4.5
Net exports of goods and services ^{2/}	4.6	-3.5	7.6	8.0 ^{1/}	.7	-1.5	-5.4	-7.8
Exports	101.3	121.6	104.5	113.5 ^{1/}	116.2	121.4	123.1	125.7
Imports	96.7	125.1	97.0	105.6	115.5	122.9	128.5	133.5
Gov't. purchases of goods and services	277.2	307.1	279.0	285.8 ^{1/}	294.4	303.0	310.5	320.5
Federal	106.9	115.6	106.8	107.8 ^{1/}	110.9	114.4	116.5	120.5
Defense	74.2	78.2	74.2	74.0 ^{1/}	75.4	77.4	78.5	81.5
Other	32.7	37.4	32.7	33.8	35.5	37.0	38.0	39.0
State & local	170.3	191.5	172.2	178.0	183.5	188.6	194.0	200.0
Gross national product in constant (1958) dollars	837.3	839.5	841.3	844.1	837.7	836.1	838.9	845.2
GNP implicit deflator (1958 = 100)	153.9	165.0	155.1	158.0	161.2	163.9	166.2	168.8
Personal income	1035.5	1132.2	1047.1	1079.2	1095.4	1119.5	1144.5	1169.2
Wage and salary disbursements	691.5	745.9	699.3	717.6	725.2	736.0	751.8	770.5
Disposable income	882.6	961.9	891.1	918.0	930.5	951.9	972.6	992.7
Personal saving	53.8	59.5	51.1	63.4	57.5	59.9	60.8	59.9
Saving rate (per cent)	6.1	6.2	5.7	6.9	6.2	6.3	6.3	6.0
Corporate profits before tax	126.4	121.9	129.0	128.0	123.0	121.5	120.5	122.5
Corp. cash flow, net of div. (domestic)	109.0	110.3	110.6	110.2	109.3	109.6	110.0	112.2
Federal government receipts and expenditures, (N.I.A. basis)								
Receipts	265.2	288.9	269.5	275.5	281.7	285.9 ^{3/}	290.7	297.1
Expenditures	264.7	300.5	265.6	272.4	282.6	303.8 ^{3/}	304.3	311.1
Surplus or deficit (-)	.5	-11.6	4.0	3.1	-.9	-17.9 ^{3/}	-13.6	-14.0
High employment surplus or deficit (-)	-2.0	-.8	-2.1	-1.7	1.7	-9.1	.3	3.9
State and local government surplus or deficit (-), (N.I.A. basis)	11.0	3.9	10.4	8.4	7.6	4.9	2.9	.1
Total labor force (millions)	91.0	93.4	91.3	92.2	92.9	93.3	93.6	93.8
Armed forces "	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Civilian labor force "	88.7	91.1	89.0	89.9	90.6	91.0	91.3	91.5
Unemployment rate (per cent)	4.9	5.9	4.7	4.7	5.4	5.8	6.0	6.2
Nonfarm payroll employment (millions)	75.6	76.3	75.7	76.6	76.3	76.2	76.2	76.4
Manufacturing	19.8	19.7	19.8	20.1	19.9	19.7	19.6	19.6
Industrial production (1967 = 100)	125.6	125.5	126.7	127.1	125.7	125.0	125.2	126.1
Capacity utilization, mfg. (per cent)	83.0	79.9	83.3	82.8	81.2	79.9	79.3	79.1
Major materials (per cent)	95.1	93.1	96.0	96.0	94.5	93.0	92.5	92.4
Housing starts, private (millions, A.R.)	2.04	1.60	2.03	1.57	1.48	1.50	1.65	1.75
Sales new autos (millions, A.R.)	11.44	9.25	11.74	10.08	9.00	8.75	9.25	10.00
Domestic models	9.67	7.50	10.11	8.44	7.25	7.00	7.50	8.25
Foreign models	1.77	1.75	1.63	1.65	1.75	1.75	1.75	1.75

^{1/} Includes effects of shipments of military equipment and supplies to Israel; these are now estimated at \$2.8 billion annual rate and considered as a sale, with \$2.4 billion coming from U.S. military stocks and thus reducing defense purchases by that amount.

^{2/} Net exports of g. & s. (bal. of paymts.) 6.1 1.2 8.6 12.6 5.4 3.2 -.7 -3.1
 Exports 101.9 122.9 104.8 114.8 117.5 122.7 124.4 127.0
 Imports 95.8 121.7 96.2 102.2 112.1 119.5 125.1 130.1

^{3/} Includes a one-time payment of a grant to India of \$2.2 billion (\$8.8 billion annual rate) worth of rupees as part of an overall rupee debt settlement.

CONFIDENTIAL - FR

February 13, 1974

CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1973p	1974 Proj.	1973		1974 Projection			
			III	IVp	I	II	III	IV
-----Billions of Dollars-----								
Gross National Product	133.0	97.2	32.5	29.5	16.0	20.5	24.0	32.0
Inventory change	1.4	2.2	.2	11.2	-.9	-4.5	-3.0	-2.0
Final purchases	131.7	95.0	32.3	18.3	16.9	25.0	27.0	34.0
Private	109.5	65.1	28.6	11.5	8.3	16.4	19.5	24.0
Net exports	9.2	-8.1	4.8	.4	-7.3	-2.2	-3.9	-2.4
Excluding net exports	100.3	73.2	23.8	11.1	15.6	18.6	23.4	26.4
Personal consumption expenditures	78.5	70.7	20.4	13.0	18.4	18.3	19.0	20.2
Durable goods	13.7	-4.2	.0	-6.0	-1.8	.0	2.0	3.5
Nondurable goods	36.4	40.5	11.3	9.5	11.8	9.8	8.7	8.7
Services	28.4	34.4	9.0	9.6	8.3	8.5	8.3	8.0
Residential fixed investment	4.0	-9.6	-.4	-5.0	-5.7	-2.7	1.9	3.7
Business fixed investment	17.8	12.1	3.9	3.1	2.9	3.0	2.5	2.5
Government	22.2	29.9	3.7	6.8	8.6	8.6	7.5	10.0
Federal	2.5	8.7	-.5	1.0	3.1	3.5	2.1	4.0
State and local	19.8	21.2	4.2	5.8	5.5	5.1	5.4	6.0
GNP in constant (1958) dollars	46.6	2.2	7.0	2.8	-6.4	-1.6	6.3	2.8
Final purchases	46.0	.6	7.3	-5.1	-6.2	2.1	4.3	7.9
Private	44.2	-2.7	7.5	-4.9	-7.2	.2	3.1	6.5
-----Per Cent Per Year ^{1/} -----								
Gross National Product	11.5	7.5	10.6	9.4	4.9	6.2	7.2	9.5
Final purchases	11.5	7.4	10.6	5.8	5.2	7.7	8.2	10.2
Private	12.2	6.5	12.0	4.6	3.3	6.5	7.6	9.2
Personal consumption expenditures	10.8	8.8	10.7	6.5	9.2	8.9	9.1	9.5
Durable goods	11.7	-3.2	.0	-16.9	-5.6	.0	6.6	11.5
Nondurable goods	12.1	12.0	14.4	11.6	14.1	11.2	9.7	9.4
Services	9.2	10.2	11.3	11.7	9.8	9.8	9.3	8.8
Gross private domestic investment	13.0	2.3	7.9	19.5	-6.8	-7.9	2.8	8.5
Residential structures	7.4	-16.6	-2.7	-29.7	-35.9	-20.5	17.7	34.8
Business fixed investment	15.1	8.9	12.2	9.3	8.5	8.6	7.0	6.9
Gov't. purchases of goods & services	8.7	10.8	5.5	10.1	12.6	12.2	10.3	13.5
Federal	2.4	8.1	-1.9	3.8	12.0	13.2	7.5	14.5
Defense	-.3	5.4	.0	-1.1	7.8	11.0	5.8	16.2
Other	8.6	14.4	-4.7	14.1	21.7	18.0	11.3	10.9
State and local	13.2	12.4	10.4	14.2	12.9	11.6	12.0	13.0
GNP in constant (1958) dollars	5.9	.3	3.4	1.3	-3.0	-.7	1.3	3.0
Final purchases	5.9	.1	3.6	-2.4	-2.9	1.0	2.1	3.9
Private	6.9	-.4	4.4	-2.8 ^{2/}	-4.1 ^{2/}	.1	1.8	3.8 ^{2/}
GNP implicit deflator	5.3	7.2	7.0	7.9 ^{2/}	8.1 ^{2/}	7.0	5.8	6.2 ^{2/}
Private GNP fixed weighted index ^{3/}	6.0	7.3	7.6	7.6	8.0	7.0	5.8	5.7
Personal income	10.3	9.3	11.5	12.8	6.1	9.1	9.2	8.9
Wage and salary disbursements	10.1	7.9	10.2	10.9	4.3	6.1	8.9	10.3
Disposable income	10.7	9.0	10.2	12.6	5.6	9.5	9.0	8.5
Corporate profits before tax	29.0	-3.6	.3	-3.0	-14.7	-4.8	-3.3	6.8
Federal government receipts and expenditures (N.I.A. basis)								
Receipts	16.0	8.9	11.3	9.2	9.3	6.1	6.9	9.1
Expenditures	8.2	13.5	5.3	10.6	15.8	33.6	.7	9.2
Nonfarm payroll employment	3.9	1.0	2.2	4.8	-1.6	-.5	.0	1.1
Manufacturing	4.7	-.6	1.2	6.2	-3.9	-4.0	-2.0	.0
Industrial production	9.0	-.1	6.0	1.3	-4.4	-2.1	.8	2.8
Housing starts, private	-13.0	-21.6	-30.2	-64.6	-20.2	5.5	46.4	26.5
Sales new autos	4.6	-19.2	.2	-45.5	-36.6	-10.7	24.9	36.6
Domestic models	3.7	-22.4	10.1	-51.5	-45.5	-13.1	31.8	46.4
Foreign models	9.8	-1.2	-41.7	5.8	26.8	.0	.0	.0

^{1/} Percentage rates are annual rates compounded quarterly.^{2/} Excluding Federal pay increases rates of change are: 1973-IV 7.3 per cent; 1974-I 8.0 per cent; 1974-IV 5.7 per cent.^{3/} Using expenditures in 1967 as weights.

Stock prices have declined, on balance, since the last FOMC meeting, and the average level of stock issues is expected to show a considerable drop in the first quarter, although February and March will be higher than January because of an expected build-up in utility issues. Prices on utility shares tend to be more interest sensitive than those of other companies and, with the recent drop in market yields, have risen despite the decline in the rest of the stock market.

CORPORATE AND MUNICIPAL LONG-TERM SECURITY OFFERINGS
(Monthly or monthly averages, in millions of dollars)

	1973		1974			
	Year	QIV ^{e/}	QI ^{f/}	Jan. ^{e/}	Feb. ^{f/}	Mar. ^{f/}
Corporate securities - total	2,779	3,385	3,650	3,450	3,800	3,850
Public bonds	1,125	1,625	2,200	2,200	2,200	2,300
Privately placed bonds	725	715	800	800	800	850
Stock	929	1,045	650	450	800	700
State and local government securities	1,942	2,200	2,100	2,100	2,100	2,100

^{e/} Estimated.
^{f/} Forecast.

The monthly volume of municipal financing in the first quarter is projected to average about 10 per cent higher than in the first quarter of 1973. Demand for these issues is being sustained by banks, particularly in the intermediate maturity ranges, while the supply is being kept up by special revenue issues and industrial pollution control bonds.

PROJECTION OF TREASURY CASH OUTLOOK
(In billions of dollars)

	Jan.	Feb.	March	April
<u>Total net borrowing</u>	- .7	- .5	2.3	0.1
Weekly and monthly bills	--	--	--	--
Tax bills	--	--	--	-3.0
Coupon issues, net	--	- .5	--	--
As yet unspecified new borrowing	--	--	2.0	3.0
Special foreign series	- .7	--	--	--
Agency transactions, debt repayment, etc.	--	--	.3	.1
Plus: <u>Other net financial sources</u> a/	1.0	-1.1	2.0	.5
Plus: <u>Budget surplus or deficit</u> (-)	- .2	-3.1	-4.0	4.5
Equals: <u>Change in cash balance</u>	0.1 ^{b/}	-4.7	.3	5.1
Memoranda: Level of cash balance, end of period	10.5 ^{b/}	5.8	6.1	11.2
Derivation of budget surplus or deficit:				
Budget receipts	23.4	19.8	19.1	28.3
Budget outlays	23.6	22.9	23.1	23.8
Maturing coupon issues held by public	--	4.5	--	--
Sales of financial assets	0.2	0.2	0.7	0.2
Budget agency borrowing	--	0.3	--	0.1
Net borrowing by government-sponsored agencies	-0.4	-0.3	0.7	0.7

a/ Checks issued less checks paid and other accrual items.

b/ Actual.

FEDERAL BUDGET AND FEDERAL SECTOR IN NATIONAL INCOME ACCOUNTS
(In billions of dollars)

							F.R.B. Staff Estimates			
	Fiscal 1974 e/			FY 1975 e/	Calendar Years		Calendar Quarters			
	Budget	F.R.	Budget	1973	1974	1973	1974			
	Doc.	Board	Doc.	Actual	F.R.B. e/	IV*	I	II	III	IV
Federal Budget										
Surplus/deficit	-4.7	-4.9	-9.4	-7.9	-12.1	-5.0	-7.3	8.4	-4.3	-8.9
Receipts	270.0	267.1	295.0	250.4	278.7	59.9	62.3	80.5	70.3	65.6
Outlays	274.7	272.0	304.4	258.3	290.8	64.9	69.6	72.1	74.6	74.5
Means of financing:										
Net borrowing from the public	3.5	1.3	12.5	7.9	7.3	6.7	1.1	-5.8	4.1	7.9
Decrease in cash operating balance	n.a.	3.9	n.a.	.7	2.9	-2.1	4.3	-2.6	1.2	--
Other <u>1/</u>	n.a.	-.2	n.a.	-.7	1.9	0.4	1.9	--	-1.0	1.0
Cash operating balance, end of period	n.a.	8.7	n.a.	10.4	7.5	10.4	6.1	8.7	7.5	7.5
Memo <u>2/</u> : Sales of financial assets <u>3/</u>	3.7	3.0	4.5	3.6 <u>e/</u>	n.e.	1.0 <u>e/</u>	1.1	1.1	n.e.	n.e.
Budget agency borrowing <u>4/</u>	1.7	1.1	1.8	0.1	n.e.	0.3	0.3	0.1	n.e.	n.e.
Sponsored agency borrowing <u>5/</u>	13.6	10.1	1.3	16.3	n.e.	3.2	--	0.9	n.e.	n.e.
National Income Sector							Seasonally adjusted, annual rates			
Surplus/deficit	-4.7	-3.8 <u>6/</u>	-8.6	0.7	-11.6	3.1	-.9	-17.9	-13.6	-14.0
Receipts	280.5	276.5 <u>7/</u>	304.8	265.4	288.9	275.5	281.7	285.9	290.7	297.1
Expenditures	285.2	282.0 <u>7/</u>	313.4	264.8	300.5	272.4	282.6	303.8	304.3	311.1
High Employment surplus/deficit (NIA basis) <u>7/</u>	n.a.	-2.8	n.a.	-2.0	-0.8	-1.7	1.7	-9.1	0.5	3.9
* Actual e--projected n.e.--not estimated n.a.--not available										

II - 30

Footnotes continued

- 1/ Includes such items as deposit fund accounts and clearing accounts.
- 2/ The sum of sponsored and budget agency debt issues and financial asset sales does not necessarily reflect the volume of debt absorbed by the public, since both the sponsored and budget agencies acquire a portion of these issues.
- 3/ Includes net sales of loans held by the Commodity Credit Corporation, Farmers Home Adm., Government National Mortgage Assn., Federal Housing Adm., and Veterans Adm. Receipts from these sales are netted against Federal Budget Outlays shown above.
- 4/ Includes, for example, debt issued by the U.S. Postal Service, Export-Import Bank, and Tennessee Valley Authority, which is included in the Net Treasury Borrowing from the Public shown above.
- 5/ Federally-sponsored credit agencies, i.e., Federal Home Loan Banks, Federal National Mortgage Assn., Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.
- 6/ Quarterly average exceeds fiscal year total by \$1.7 billion for fiscal 1974 due to spreading of wage base effect over calendar year.
- 7/ Fiscal year exceeds quarterly average of \$.9 billion due to seasonal adjustment.
- 8/ Estimated by F.R. Board Staff.

CURRENT ACCOUNT BALANCES FOR MAJOR INDUSTRIAL COUNTRIES^{1/}
(billions of dollars, seasonally adjusted annual rates)

	1965-70 average	1972		1973		1974 OECD forecasts ^{2/}	
		Jan.-June	July-Dec.	Jan.-June	July-Dec.	excl. oil effects	incl. oil effects
France ^{3/}	-0.3	0.2	0.3	0.3	0.1(e)	1	-3-1/2
Germany	0.8	-0.1	0.8	2.2	5.1	4	-1
Italy ^{3/}	1.9	3.7	1.4	-1.7	-2.0(e)	-2	-5-1/2
United Kingdom ^{4/}	0.2	1.1	-0.5	-2.1	-5.3	-3-3/4	-8
Japan ^{5/}	1.2	4.3	8.9	0.2	-0.2	3/4	-7-1/2
Canada	-0.4	-0.7	-0.6	-0.2	-0.7(e)	0	0
United States ^{6/}	1.2	-9.4	-7.3	-1.9	3.9(e)	5	-2-1/2
Total OECD	4.6	3.8	4.7	6.0	1.1(e)	4-1/2	-38-1/2

^{1/} Data for 1972 and 1973 were converted from local currencies using average quarterly exchange rates (from FRB Bulletin), and for 1965-70 using average annual exchange rates; unless indicated otherwise, current account figures are from national sources; all current account figures include government transfers; (e) indicates estimate.

^{2/} 1974 forecasts are those of OECD; they are based on exchange rates of January 7-11 [see CPE(74)1, Table 7]; the forecasts excluding oil are the forecast balances adjusted by the OECD to eliminate the following three effects of the oil-price increases: 1) the adverse net effect on trade balances; 2) higher interest payments to oil exporting countries; and 3) smaller net transportation balances as demand for the volume of imports reacts to higher prices.

^{3/} Data are from OECD; 1965-70 average for France is balance with non-franc area and thereafter, with world.

(footnotes continued on next page)

Footnotes continued:

4/ 1974 forecasts for the United Kingdom do not take account of the coal miners' strike.

5/ Not seasonally adjusted; Japanese authorities forecast a much smaller 1974 deficit.

6/ 1974 forecasts for United States are those of FRB staff; they assume a decline in the volume of imports because of a continued embargo; second half 1973 is adjusted for military grant to Israel of \$2.8 billion, officially recorded as export sale without offsetting grant entry.

TABLE I
MAJOR FISCAL INDICATORS
(Fiscal years)

	1972	1973	1974e	1975e
Billions of Dollars				
<u>Unified budget</u>				
Receipts	208.6	232.2	270.0	295.0
Outlays	231.9	246.5	274.7	304.4
Deficit (-)	-23.2	-14.3	-4.7	-9.4
Full employment receipts ^{2/}	224 ^{1/}	243	278	311
Full employment outlays ^{2/}	229	245	274	303
Surplus/deficit (-)	-5	-2	4	8
<u>NIA budget</u>				
Receipts	213.7	243.3	280.5	304.8
Expenditures	233.2	255.1	285.2	313.4
Surplus/deficit (-)	-19.5	-11.8	-4.7	-8.6
Per cent				
<u>Per cent increase in</u>				
Receipts:				
Budget receipts	10.8	11.3	16.3	9.3
Full employment receipts ^{2/}	5.2	8.5	14.4	11.9
NIA receipts	11.0	13.9	15.3	8.7
Spending:				
Budget outlays	9.7	6.3	11.4	10.8
Full employment outlays ^{2/}	9.6	7.0	11.8	10.6
NIA expenditures	9.7	9.4	11.8	9.9
<u>Per cent of full employment GNP</u>				
NIA receipts	18.4	19.4	20.0	19.6
NIA expenditures	20.1	20.3	20.3	20.2

e: Administration estimate

^{1/} Administration calculations of full employment receipts exclude impact of overwithholding of personal income taxes beginning January 1972.

^{2/} Unified budget basis.

The Council estimate of the full employment budget on an NIA basis, shown in Table II, shows stability in the full employment surplus between calendar year 1973 and 1974. All estimates in the Table probably overstate the extent of discretionary fiscal restraint in the current period because, (1) the recent acceleration in prices tends to increase full employment receipts much sooner than expenditures; and (2) the calculation of full employment receipts is based upon estimates of potential GNP which may be significantly overstated in this period of energy shortage. ^{1/} On the other hand, the staff estimates, discussed below, assume less spending in the first half of this calendar year than the budget document. This may be evidence that the discretionary restriction suggested by the official full employment budget (budget basis) is not greatly exaggerated this fiscal year. The lower staff expenditure estimate also explains why our projection of the full employment budget for calendar 1974 shows more of a change toward restriction than does the Council estimate.

TABLE II
COMPARISON OF FULL EMPLOYMENT
BUDGET BALANCE ESTIMATES
(In billions of dollars)

	Calendar years		
	1972	1973	1974e
NIA budget			
Council	-7.7	5.8	6.0
Staff ^{2/}	-1.1	3.7	6.6
Staff, inflation adjusted ^{3/}	-1.4	-2.0	-0.8

^{1/} Recently, quarterly estimates of the growth in potential GNP have been revised downward from 4.3 to 4.0 per cent (annual rates) back to the first quarter of 1970, but no adjustment has been made in the current period for the reduction in potential GNP due to the energy shortage.

^{2/} The major difference in 1972 between the staff and Administration calculation is that staff estimates of full employment receipts do not exclude receipts derived from unintended overwithholding of personal income taxes beginning January 1972. For 1974, especially during the first half of the year, the difference is largely attributable to lower staff estimates of expenditures.

^{3/} This estimate phases in effect of inflation on receipts with a lag of approximately one year.

In summary, the current budget plan, as evaluated by the full-employment figures, can be described either as slightly restrictive--especially if the large targeted near-term spending increases are not achieved--or as essentially unchanged and neutral--a position which is taken in the Council's Economic Report.

Expenditure Projections

Our analysis gives us no reason to question the Administration's estimates of outlays for fiscal year 1975. However, the outlays estimate for the current fiscal year appears to be on the high side given the rate of spending so far this year and the spending programs now in train. Overestimation of outlays in the ongoing fiscal year has been a characteristic of the budget document in recent years. Normally close to 50 per cent of actual expenditures occur in the first half of the fiscal year, but in the first half of this year outlays have totalled only 47.5 per cent of the Administration's projected total. This low ratio cannot be explained by special factors. The low ratios for other recent fiscal years, shown in Table III, are explained by special factors such as the deliberate speed-up in military spending in the second half of fiscal 1972 (offset by greatly reduced spending in the first half of fiscal 1973) and the institution of new spending programs, such as revenue sharing, in fiscal 1973. The pace of outlays this year suggests that spending will be \$2-5 billion below the budget estimate given the spending programs explicitly in the budget. Of course, spending could be significantly accelerated in the remaining months to achieve greater stimulus or new programs could be introduced. However, since there is no evidence of a speed-up, the staff's current estimate of spending for this fiscal year is still \$272 billion, \$2.7 billion below the Administration's figure.

TABLE III

OUTLAYS IN THE JULY-DECEMBER PERIOD AS A PERCENT OF FISCAL YEAR SPENDING

	1968	1969	1970	1971	1972	1973	1974e
Total outlays	48.4	50.5	50.3	49.3	48.1	48.1	47.5
Military	48.1	49.0	50.6	50.1	46.0	46.8	43.8

e: Assuming totals shown in budget.

An analysis of the NIA spending pattern on a half-yearly basis also shows that the budget document implies a huge increase in the rate of Federal expenditures during the first half of 1974, and much more moderate growth thereafter. Based on an examination of the various components, staff estimates have been adjusted to take out a considerable portion of this near term bulge (see Table IV). During fiscal 1975, the staff estimates move to the budget path. Even after these adjustments, however, our estimates of spending growth during the first half of 1974 are still quite large--almost 15 per cent per annum.

TABLE IV

GROWTH IN FEDERAL SPENDING--NIA BASIS

<u>Half Years</u>		<u>Per cent Change (Annual Rates)</u>	
		<u>Administration</u>	<u>Board Staff</u>
Calendar 1973	I	9.5	9.5
	II	6.5	6.5
1974	Ie ^{1/}	19.4	14.8
	IIe	9.4	13.0
1975	Ie	5.8	7.5

^{1/} Excludes special transaction in Indian Rupees.

e: estimated. Allocation of Administration projection by half-years is estimated by Board staff.

The budget for fiscal 1975 contains little in the way of new expenditure programs. The major health and welfare reform measures discussed in the State of the Union message do not significantly affect spending in fiscal 1975. The requested appropriation for public service jobs is \$350 million--the minimum provided under the recently enacted Comprehensive Employment and Training Act. It has been estimated that this appropriation will support approximately 40,000 public service jobs. The announced \$10 billion energy research program also has a relatively small effect in fiscal 1975. Outlays for energy research are scheduled to increase by \$200 million this year and by \$600 million in fiscal 1975 to a level of \$1.5 billion. It is possible that the full \$600 million increment will not be achieved as the research programs for more than 3/4ths of this increment have not been designated.

On a functional basis the largest increase in expenditures is expected in "income security"--a category that includes retirement and disability programs such as social security, unemployment insurance and public assistance (Table V). The recently enacted social security benefit hike--a two-stage increase in payments scheduled for April and July--accounts for nearly half of the change in income security. About \$2.0 billion of the \$7.3 billion increase in defense represents expected pay raises while the remainder mainly reflects strengthening airlift capabilities and increased research and development on strategic weapons.

TABLE V

SUMMARY OF BUDGET OUTLAYS BY FUNCTION
(Fiscal years, billions of dollars)

	1973	1974e	1975e	Increase 1974-1975
National security and international affairs	\$79.0	84.5	91.8	7.3
National defense	76.0	80.6	87.7	7.1
International affairs	3.0	3.9	4.1	.2
Human resources	113.7	132.4	151.5	19.1
Income security	73.1	85.0	100.1	15.1
Health	18.4	23.3	26.3	3.0
Education and manpower	10.2	10.8	11.5	.7
Veterans benefits	12.0	13.3	13.6	.3
Physical resources	24.0	23.5	24.9	1.4
Agriculture and rural development	6.2	4.0	2.7	-1.3
Natural resources and environment	.6	.6	3.1	2.5
Commerce and transportation	13.1	13.5	13.4	-.1
Community development and housing	4.1	5.4	5.7	.3
Revenue sharing	6.6	6.1	6.2	.1
Other	23.2	28.2	30.1	1.8
Total budget outlays	246.5	274.7	304.4	29.7

Receipts Projections

The few tax law proposals contained in the new budget would increase receipts by only \$1.3 billion in fiscal year 1975. The major proposals are the emergency windfall profits tax, which adds \$3.0 billion to receipts estimates, and the previously proposed tax reform measures and liberalized pension deductions which together reduce receipts by less than \$2 billion.

The Administration estimates of budget receipts, \$270 billion this year and \$295 billion in fiscal year 1975, appear to be reasonable given previously enacted tax increases and the current economic outlook. These estimates are based on assumed levels of GNP and personal income in calendar 1974 that are somewhat higher--\$4.6 billion and \$2.8 billion, respectively--than the staff estimates. The assumed level of corporate profits before tax is about \$2.0 billion more than our latest estimate and would be, perhaps, \$6.0 billion more if we included the windfall profits tax in our projections. In addition to the difference in income assumptions, our estimate of personal tax receipts is lower because we expect a higher level of refunds in the Spring of 1974 and because of our lower estimate of tax rates. Table VI, below, shows the difference between staff and Administration estimates of personal income taxes, NIA basis.

TABLE VI

COMPARISON OF PERSONAL TAX RECEIPTS ESTIMATES
FOR CALENDAR 1974, NIA BASIS
(In billions of dollars)

	Administration	Staff	Difference
1. Personal tax and nontax receipts	132.3	127.5	4.8
2. Personal tax refunds, first half of 1974 ^{1/}	21.9	23.9	-2.0
3. Gross receipts (1 + 2)	154.2	151.4	2.8

^{1/} The corresponding amount in the first half of 1973 was \$21.2 billion.