

# **Part 1**

## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

---

### **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 14, 1977

SUMMARY AND OUTLOOK

By the Staff  
Board of Governors  
of the Federal Reserve System

## STAFF GNP PROJECTIONS

	Per cent changes, annual rate				Gross business product fixed-weighted price index		Unemployment rate (per cent)	
	Nominal GNP		Real GNP					
	11/9/77	12/14/77	11/9/77	12/14/77	11/9/77	12/14/77	11/9/77	12/14/77
1974 <sup>1/</sup>	8.1	8.1	-1.4	-1.4	10.4	10.4	5.6	5.6
1975 <sup>1/</sup>	8.2	8.2	-1.3	-1.3	9.5	9.5	8.5	8.5
1976 <sup>1/</sup>	11.6	11.6	6.0	6.0	5.4	5.4	7.7	7.7
1977	10.7	10.9	4.8	5.0	6.0	6.1	7.1	7.1
1978	11.2	11.3	4.6	4.7	6.3	6.4	6.6	6.6
1977-I <sup>1/</sup>	13.2	13.2	7.5	7.5	6.8	6.8	7.4	7.4
1977-II <sup>1/</sup>	13.7	13.7	6.2	6.2	7.5	7.5	7.0	7.0
1977-III <sup>1/</sup>	9.2	10.0	3.8	4.7	5.2	5.1	7.0	7.0
1977-IV	12.1	12.4	5.0	5.1	6.0	6.2	6.9	6.9
1978-I	11.4	11.2	4.7	4.6	6.8	6.7	6.7	6.7
1978-II	10.9	11.0	4.5	4.4	6.5	6.7	6.7	6.7
1978-III	10.5	10.4	4.2	4.1	6.2	6.2	6.6	6.6
1978-IV	11.3	11.3	4.1	4.1	6.3	6.3	6.6	6.6
Change:								
76-II to 77-II <sup>1/</sup>	10.5	10.5	4.7	4.7	6.1	6.1	-.4	-.4
76-IV to 77-IV	12.0	12.3	5.6	5.9	6.4	6.4	-1.0	-1.0
77-II to 78-II	10.9	11.1	4.5	4.7	6.1	6.2	-.3	-.3
77-IV to 78-IV	11.0	11.0	4.4	4.3	6.4	6.4	-.3	-.3
<sup>1/</sup> Actual.								

CONFIDENTIAL - FR  
 ASS 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.)

	1977				1978			
	I	II	III	IV	Projected I	II	III	IV
Gross National Product	1810.8	1869.9	1914.9	1971.6	2024.7	2078.2	2130.1	2188.0
Final purchases	1797.0	1848.2	1891.7	1952.0	2006.8	2056.9	2106.6	2162.3
Private	1422.1	1457.6	1488.4	1535.3	1579.7	1619.0	1658.0	1699.7
Excluding net exports	1430.3	1467.3	1496.0	1544.4	1587.8	1629.0	1669.9	1711.6
Personal consumption expenditures	1172.4	1194.0	1216.9	1253.7	1285.9	1317.2	1348.5	1380.8
Goods	643.6	653.0	656.6	677.4	694.8	711.9	728.6	746.3
Services	528.8	541.1	560.3	576.3	591.1	605.3	619.9	634.5
Gross private domestic investment	271.8	294.9	302.3	310.3	319.8	333.1	344.9	356.5
Residential construction	81.0	90.8	92.5	98.5	103.5	107.0	110.0	112.5
Business fixed investment	177.0	182.4	186.7	192.2	198.4	204.8	211.4	218.3
Change in business inventories	13.8	21.7	23.1	19.6	17.9	21.3	23.5	25.7
Nonfarm	14.1	22.4	22.6	19.3	17.9	21.3	23.5	25.7
Net exports of goods and services <sup>1/</sup>	-8.2	-9.7	-7.6	-9.1	-8.1	-10.0	-11.9	-11.9
Exports	170.4	178.1	180.4	180.5	190.8	197.7	203.9	210.0
Imports	178.6	187.7	188.1	189.7	199.0	207.8	215.9	222.0
Gov't. purchases of goods and services	374.9	390.6	403.3	416.7	427.1	437.9	448.6	462.6
Federal <sup>2/</sup>	136.3	143.6	149.3	154.9	157.6	160.9	164.1	170.8
State and local	238.5	247.0	254.0	261.8	269.5	277.0	284.5	291.8
Gross national product in constant (1972) dollars	1311.0	1330.7	1346.1	1363.1	1378.5	1393.3	1407.4	1421.5
Personal income	1476.8	1517.2	1549.3	1601.4	1642.0	1681.6	1731.3	1778.6
Wage and salary disbursements	951.3	980.9	998.4	1029.3	1058.3	1081.8	1108.3	1136.7
Disposable income	1252.4	1292.5	1321.7	1366.1	1404.9	1438.2	1473.2	1510.6
Saving rate (per cent)	4.1	5.3	5.6	5.9	6.1	6.1	6.1	6.2
Corporate profits with I.V.A. and C.C. Adj.	125.4	140.2	147.8	155.2	152.1	155.7	159.4	166.3
Corporate profits before tax	161.7	174.0	171.6	187.2	184.4	188.2	191.9	198.8
Federal government surplus or deficit (-) (N.I.A. basis)	-38.8	-40.3	-59.4	-57.1	-53.7	-47.1	-42.6	-43.8
High employment surplus or deficit (-)	7.5	-1.1	-19.9	-19.5	-14.3	-6.9	-3.3	-5.2
State and local government surplus or deficit (-) (N.I.A. basis)	27.3	25.4	30.5	29.2	27.4	26.4	24.3	22.6
Excluding social insurance funds	11.9	10.0	14.9	12.1	9.9	8.4	5.8	3.6
Civilian labor force (millions)	96.1	97.2	97.6	98.6	99.1	99.7	100.3	100.8
Unemployment rate (per cent)	7.4	7.0	7.0	6.9	6.7	6.7	6.6	6.6
Nonfarm payroll employment (millions)	80.9	81.9	82.5	83.2	83.8	84.4	85.0	85.5
Manufacturing	19.3	19.6	19.6	19.7	19.9	20.1	20.3	20.4
Industrial production (1967=100)	133.6	137.0	138.5	140.0	142.4	145.7	146.9	149.0
Capacity utilization: all manufacturing (per cent)	81.2	82.7	83.0	83.0	83.6	84.2	84.6	85.0
Materials (per cent)	80.4	82.6	82.5	82.8	83.6	84.3	84.7	85.3
Housing starts, private (millions, A.R.)	1.76	1.91	2.06	2.10	2.15	2.10	2.05	2.00
Sales new autos, (millions, A.R.)	11.12	11.70	10.92	10.80	11.15	11.15	11.15	11.15
Domestic models	9.28	9.34	8.88	8.90	9.25	9.25	9.25	9.25
Foreign models	1.84	2.36	2.04	1.90	1.90	1.90	1.90	1.90

<sup>1/</sup> Balance of payments data and projection underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<sup>2/</sup> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

December 14, 1977

CONFIDENTIAL - FR  
CLASS II FORMCHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1977				1978			
	I	II	III	IV	Projected			
					I	II	III	IV
	----- Billions of dollars -----							
Gross National Product	55.4	59.1	45.0	56.7	53.1	53.5	51.9	57.9
Inventory change	14.7	7.9	1.4	-3.5	-1.7	3.4	2.2	2.2
Final purchases	40.7	51.2	43.5	60.3	54.8	50.1	49.7	55.7
Private	35.8	35.5	30.8	46.9	44.4	39.3	39.0	41.7
Net exports	-11.2	-1.5	2.1	-1.5	1.0	-1.9	-1.9	.0
Excluding net exports	47.0	37.0	28.7	48.4	43.4	41.2	40.9	41.7
Personal consumption expenditures	33.4	21.6	22.9	36.8	32.2	31.3	31.3	32.3
Goods	18.5	9.4	3.6	20.8	17.4	17.1	16.7	17.7
Services	14.9	12.3	19.2	16.0	14.8	14.2	14.6	14.6
Residential fixed investment	4.3	9.8	1.7	6.0	5.0	3.5	3.0	2.5
Business fixed investment	9.4	5.4	4.3	5.5	6.2	6.4	6.6	6.9
Government	4.9	15.7	12.7	13.4	10.4	10.8	10.7	14.0
Federal	2.1	7.3	5.7	5.6	2.7	3.3	3.2	6.7
State and local	2.7	8.5	7.0	7.8	7.7	7.5	7.5	7.3
GNP in constant (1972) dollars	23.6	19.7	15.4	17.0	15.4	14.8	14.1	14.1
Final purchases	12.0	16.3	13.3	19.2	16.0	12.6	12.9	12.6
Private	13.3	9.6	7.7	16.5	13.2	9.7	10.0	10.6
	----- In Per Cent Per Year <sup>1/</sup> -----							
Gross National Product	13.2	13.7	10.0	12.4	11.2	11.0	10.4	11.3
Final purchases	9.6	11.9	9.8	13.4	11.7	10.4	10.0	11.0
Private	10.7	10.4	8.7	13.2	12.1	10.3	10.0	10.4
Personal consumption expenditures	12.2	7.6	7.9	12.7	10.7	10.1	9.8	9.9
Goods	12.4	6.0	2.2	13.3	10.7	10.2	9.7	10.1
Services	12.0	9.6	15.0	11.9	10.7	10.0	10.0	9.8
Gross private domestic investment	55.5	38.6	10.5	11.0	12.8	17.7	14.9	14.1
Residential structures	24.2	57.9	7.7	28.6	21.9	14.2	11.7	9.4
Business fixed investment	24.5	12.8	9.7	12.3	13.5	13.5	13.5	13.7
Gov't. purchases of goods and services	5.4	17.9	13.7	14.0	10.4	10.5	10.1	13.1
Federal	6.6	23.3	16.7	15.9	7.2	8.6	8.2	17.4
State and local	4.7	14.9	12.0	12.9	12.3	11.6	11.3	10.7
GNP in constant (1972) dollars	7.5	6.2	4.7	5.1	4.6	4.4	4.1	4.1
Final purchases	3.8	5.1	4.1	5.9	4.8	3.7	3.8	3.7
Private	5.3	3.8	3.0	6.4	5.0	3.6	3.7	3.9
GNP implicit deflator <sup>2/</sup>	5.3	7.1	5.0	6.9	6.3	6.4	6.0	7.0
Gross business product fixed-weighted price index <sup>3/</sup>	6.8	7.5	5.1	6.2	6.7	6.7	6.2	6.3
Personal income	13.1	11.4	8.7	14.2	10.5	10.0	12.4	11.4
Wage and salary disbursements	12.7	13.0	7.3	13.0	11.8	9.2	10.2	10.7
Disposable income	10.1	13.4	9.3	14.1	11.9	9.8	10.1	10.5
Corporate profits before tax	19.1	34.1	-5.4	41.7	-5.9	8.6	8.1	15.1
Nonfarm payroll employment	4.1	4.8	3.3	3.2	3.1	2.8	2.9	2.5
Manufacturing	5.4	5.4	1.3	2.1	3.9	4.0	3.1	3.5
Nonfarm business sector								
Output per hour	4.8	.7	2.9	2.2	2.2	2.2	2.0	2.0
Compensation per hour	11.4	7.5	7.6	7.9	11.5	7.8	8.0	8.0
Unit labor costs	6.3	6.8	4.5	5.7	9.3	5.6	6.0	6.0
Industrial production	6.2	10.6	4.5	4.4	7.0	9.8	3.1	6.0
Housing starts, private	-2.6	37.7	36.4	8.4	9.9	-9.0	-9.2	-9.4
Sales new autos	53.4	22.5	-24.1	-4.5	13.6	.0	.0	.0
Domestic models	55.1	2.6	-18.4	.9	16.7	.0	.0	.0
Foreign models	45.2	170.5	-43.9	-25.2	.0	.0	.0	.0

<sup>1/</sup> Percentage rates are annual rates compounded quarterly.<sup>2/</sup> Excluding Federal pay increases rates of change are: 1977-I, 5.3 per cent; 1977-IV, 6.1 per cent; 1978-I, 6.3 per cent; 1978-IV, 6.3 per cent.<sup>3/</sup> Using expenditures in 1972 as weights.

CONFIDENTIAL - FR  
ASS II FOMC

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

	1971	1972	1973	1974	1975	1976	Projected	
							1977	1978
Gross National Product	1063.4	1171.1	1306.6	1412.9	1528.8	1706.5	1891.8	2105.2
Final purchases	1057.1	1161.7	1288.6	1404.0	1540.3	1693.1	1872.2	2083.1
Private	823.4	908.6	1019.1	1101.3	1201.4	1331.7	1475.9	1639.1
Excluding net exports	821.8	911.9	1012.0	1095.3	1181.0	1323.9	1484.5	1649.6
Personal consumption expenditures	668.2	733.0	809.9	889.6	980.4	1093.9	1209.2	1333.1
Goods	374.8	410.5	457.5	498.3	542.2	601.6	657.7	720.4
Services	293.4	322.4	352.3	391.3	438.2	492.3	551.6	612.7
Gross private domestic investment	160.0	188.3	220.0	214.6	189.1	243.3	294.8	338.6
Residential construction	49.6	62.0	66.1	55.1	51.5	68.0	90.7	108.2
Business fixed investment	104.1	116.8	136.0	150.6	149.1	161.9	184.6	208.2
Change in business inventories	6.4	9.4	17.9	8.9	-11.5	13.3	19.5	22.1
Nonfarm	5.1	8.8	14.7	10.8	-15.1	14.9	19.6	22.1
Net exports of goods and services	1.6	-3.3	7.1	6.0	20.4	7.8	-8.7	-10.5
Exports	65.6	72.7	101.6	137.9	147.3	162.9	177.3	200.6
Imports	64.0	75.9	94.4	131.9	126.9	155.1	186.0	211.1
Gov't. purchases of goods and services	233.7	253.1	269.5	302.7	338.9	361.4	396.4	444.0
Federal	96.2	102.1	102.2	111.1	123.3	130.1	146.0	163.3
State and local	137.5	151.0	167.3	191.5	215.6	231.2	250.3	280.7
Gross national product in constant (1972) dollars	1107.5	1171.1	1235.0	1217.8	1202.1	1274.7	1337.7	1400.1
Personal income	859.1	942.5	1052.4	1154.9	1253.4	1382.7	1536.2	1708.4
Wage and salary disbursements	579.4	633.8	701.3	764.6	805.7	891.8	990.0	1096.3
Disposable income	742.8	801.3	901.7	984.6	1084.4	1185.8	1308.2	1456.7
Saving rate (per cent)	7.7	6.2	7.8	7.3	7.4	5.6	5.2	6.1
Corporate profits with I.V.A. and C.C. Adj.	77.2	92.1	99.1	83.6	99.3	128.1	142.2	158.4
Corporate profits before tax	82.0	96.2	115.8	126.9	123.5	156.9	173.6	190.8
Federal government surplus or deficit (-) (N.I.A. basis)	-22.0	-17.3	-6.7	-10.7	-70.2	-54.0	-48.9	-46.8
High employment surplus or deficit (-)	-5.3	-5.9	-7	17.1	-20.3	-10.4	-8.0	-7.4
State and local government surplus or deficit (-) (N.I.A. basis)	3.7	13.7	13.0	7.5	5.9	18.4	28.1	25.2
Excluding social insurance funds	-3.8	5.6	4.1	-2.9	-6.2	3.9	12.2	6.9
Civilian labor force (millions)	84.1	86.5	88.7	91.0	92.6	94.8	97.4	100.0
Unemployment rate (per cent)	6.0	5.6	4.9	5.6	8.5	7.7	7.1	6.6
Nonfarm payroll employment (millions)	71.2	73.7	76.9	78.4	77.1	79.4	82.1	84.7
Manufacturing	18.6	19.1	20.1	20.0	18.3	19.0	19.6	20.2
Industrial production (1967=100)	109.6	119.7	129.8	129.3	117.8	129.8	137.3	146.0
Capacity utilization: all manufacturing (per cent)	78.0	83.1	87.5	84.2	73.6	80.2	82.5	84.3
Materials (per cent)	83.1	88.0	92.4	87.7	73.6	80.4	82.1	84.5
Housing starts, private (millions, A.R.)	2.05	2.36	2.05	1.34	1.16	1.54	1.96	2.07
Sales new autos (millions, A.R.)	10.24	10.93	11.42	8.91	8.66	10.12	11.14	11.15
Domestic models	8.68	9.32	9.65	7.49	7.08	8.63	9.10	9.25
Foreign models	1.56	1.61	1.77	1.42	1.58	1.50	2.04	1.90

CONFIDENTIAL - FR  
CLASS II FOMC

CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1971	1972	1973	1974	1975	1976	Projected	
							1977	1978
-----Billions of Dollars-----								
Gross National Product	81.0	107.7	135.5	106.3	115.9	177.7	185.3	213.4
Inventory change	2.6	3.0	8.5	-9.0	-20.4	24.8	6.2	2.6
Final purchases	78.5	104.6	126.9	115.4	136.3	152.8	179.1	210.9
Private	63.7	85.2	110.5	82.2	100.1	130.3	144.2	163.2
Net exports	-2.3	-4.9	10.4	-1.1	14.4	-12.6	-16.5	-1.9
Excluding net exports	66.0	90.1	100.1	83.3	85.7	142.9	160.6	165.1
Personal consumption expenditures	49.4	64.8	76.9	79.7	90.8	113.5	115.3	123.9
Goods	25.2	35.7	47.0	40.8	43.9	59.4	56.1	62.7
Services	24.3	29.0	29.9	39.0	46.9	54.1	59.3	61.1
Residential fixed investment	13.0	12.4	4.1	-11.0	-3.6	16.5	22.7	17.5
Business fixed investment	3.6	12.7	19.2	14.6	-1.5	12.8	22.7	23.6
Government	14.8	19.4	16.4	33.2	36.2	22.5	35.0	47.6
Federal	.6	5.9	.1	8.9	12.2	6.8	15.9	17.3
State and local	14.3	13.5	16.3	24.2	24.1	15.6	19.1	30.4
GNP in constant (1972) dollars	32.2	63.6	63.9	-17.2	-15.7	72.6	63.0	62.4
Final purchases	29.9	60.8	56.8	-8.6	2.1	54.2	58.7	60.2
Private	30.7	57.1	57.4	-13.8	-3.2	52.8	51.3	46.8
-----In Per Cent Per Year-----								
Gross National Product	8.2	10.1	11.6	8.1	8.2	11.6	10.9	11.3
Final purchases	8.0	9.9	10.9	8.9	9.7	9.9	10.6	11.3
Private	8.4	10.3	12.2	8.1	9.1	10.8	10.8	11.1
Personal consumption expenditures	8.0	9.7	10.5	9.8	10.2	11.6	10.5	10.2
Goods	7.2	9.5	11.4	8.9	8.8	11.0	9.3	9.5
Services	9.0	9.9	9.3	11.1	12.0	12.4	12.0	11.1
Gross private domestic investment	13.6	17.7	16.8	-2.5	-11.9	28.7	21.2	14.8
Residential structures	35.5	25.1	6.6	-16.7	-6.5	32.2	33.4	19.3
Business fixed investment	3.6	12.3	16.4	10.8	-1.0	8.6	14.0	12.8
Gov't. purchases of goods and services	6.8	8.3	6.5	12.3	12.0	6.6	9.7	12.0
Federal	.6	6.1	.1	8.7	11.0	5.5	12.2	11.9
State and local	11.6	9.8	10.8	14.5	12.6	7.2	8.3	12.1
GNP in constant (1972) dollars	3.0	5.7	5.5	-1.4	-1.3	6.0	5.0	4.7
Final purchases	2.8	5.5	4.9	-.7	.2	4.5	4.6	4.5
Private	3.7	6.7	6.3	-1.4	-.3	5.6	5.1	4.4
GNP implicit deflator	5.1	4.1	5.8	9.7	9.6	5.3	5.6	6.3
Gross business product fixed-weighted price index <sup>1/</sup>	4.4	3.3	5.7	10.4	9.5	5.4	6.1	6.4
Personal income	7.2	9.7	11.7	9.7	8.5	10.3	11.1	11.2
Wage and salary disbursements	6.0	9.4	10.7	9.0	5.4	10.7	11.0	10.7
Disposable income	8.3	7.9	12.5	9.2	10.1	9.4	10.3	11.4
Corporate profits before tax	14.7	17.3	20.4	9.6	-2.7	27.0	10.6	9.9
Nonfarm payroll employment	.4	3.5	4.3	2.0	-1.7	3.1	3.4	3.1
Manufacturing	-4.0	2.8	5.1	-.1	-8.5	3.3	3.2	3.2
Nonfarm business sector								
Output per hour	2.9	3.0	1.7	-2.9	1.6	4.1	2.2	2.2
Compensation per hour	6.6	5.8	7.8	9.4	9.6	8.7	8.7	8.7
Unit labor costs	3.5	2.7	6.0	12.7	7.9	4.5	6.5	6.6
Industrial production	1.7	9.2	8.4	-.4	-8.9	10.2	5.8	6.4
Housing starts	43.1	14.9	-13.2	-34.6	-13.3	32.6	27.1	5.9
Sales new autos	21.9	6.8	-4.7	-14.5	-2.8	16.9	10.0	.1
Domestic models	21.9	7.4	3.5	-22.4	-5.5	21.9	5.5	1.6
Foreign models	21.8	3.1	9.7	-19.9	11.4	-5.1	35.9	-6.7

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

FEDERAL SECTOR ACCOUNTS  
(billions of dollars)

December 14, 1977

	F.R.B. staff estimates												
	Calendar quarters; unadjusted data												
	1978												
Fiscal Year	Admin. 1977*	F.R. est. 1/	Cong. Board est. 2/	CY 1976 *	CY '77 e/ F.R. Board	1977 I*	II*	III*	IV	1978 I	II	III	
Unified budget receipts	356.9	401.4	395.3	397.0	317.6	365.9	79.0	110.5	91.3	85.2	85.8	119.6	104.7
Unified budget outlays	401.9	459.8	456.6	458.3	374.2	414.9	97.6	101.8	103.4	112.1	110.6	116.0	118.0
Surplus(+)/Deficit(-), unified budget	-45.0	-58.5	-61.3	-61.3	-56.6	-49.2	-18.7	8.6	-12.2	-26.9	-24.8	3.6	-13.3
Surplus(+)/Deficit(-), off-budget agencies 3/	-8.7	n.a.	-10.6	n.a.	-5.7	-10.8	-4.3	.1	-4.9	-1.7	-3.1	-0.8	-5.1
Means of financing combined deficits:													
Net borrowing from public	53.5	n.a.	63.5	n.a.	69.0	55.7	17.6	-1.1	19.6 <sup>8/</sup>	19.6 <sup>8/</sup>	26.1	-1.3	19.1
Decrease in cash operating balance	-1.7	n.a.	7.1	n.a.	-3.2	0.4	2.6	-7.2	-2.8 <sup>8/</sup>	7.8 <sup>8/</sup>	-0.7	0	0
Other 4/	1.9	n.a.	1.5	n.a.	-3.5	3.9	2.7	-4	0.4	1.2	2.5	-1.5	-0.7
Cash operating balance, end of period	19.1	n.a.	12.0	n.a.	11.7	11.3	9.0	16.3	19.1 <sup>8/</sup>	11.3	12.0	12.0	12.0
Memo: Sponsored agency borrowing 5/	6.1	n.a.	n.e.	n.a.	2.9	7.5	.7	3.0	2.0	1.8	3.6	2.8	n.e.
<b>NIA Budget</b>	<b>Seasonally adjusted annual rates</b>												
Receipts	361.7 <sup>6/</sup>	n.a.	410.4 <sup>6/</sup>	n.a.	332.3	375.1	364.9	371.2	373.3	390.8	405.2	417.1	435.8
Outlays	412.1	465.6	462.3	n.a.	386.3	424.0	403.7	411.5	432.8	447.9	458.9	464.2	478.4
Purchases (total)	140.9	160.1	159.4	n.a.	130.1	146.0	136.3	143.6	149.3	154.9	157.6	160.9	164.1
Defense	91.9	102.4	102.5	n.a.	86.8	94.8	89.7	93.4	96.0	100.0	101.7	103.4	105.0
Non-defense	49.0	57.7	56.8	n.a.	43.3	51.3	46.7	50.2	53.3	54.9	55.9	57.5	59.1
All other outlays	271.2	305.5	302.9 <sup>6/</sup>	n.a.	256.2	277.9	267.4	267.9	283.5	293.0	301.3	303.3	314.3
Surplus(+)/Deficit(-)	-50.4 <sup>6/</sup>	n.a.	-51.9 <sup>6/</sup>	n.a.	-54.0	-49.0	-38.8	-40.3	-59.4	-57.1	-53.7	-47.1	-42.6
High Employment Surplus(+)/Deficit(-) (NIA basis) 7/	-5.0	n.a.	-11.0	n.a.	-10.4	-8.0	7.5	-0.1	-19.9	-19.5	-14.3	-6.9	-3.3
	*--actual	e--estimated	r--revised	n.e.--not estimated	n.a.--not available	p--preliminary							

1/ OMB Revised 1978 Budget Outlay Estimates, (November 11, 1977).

2/ Congress' Second Concurrent Resolution on the Budget (September 15, 1977).

3/ Includes Federal Financing Bank, Postal Service, U.S. Railway Association, Rural Electrification and Telephone Revolving fund, Housing for the Elderly or Handicapped Fund (until October 1977), and Pension Benefit Guaranty Corporation.

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

5/ Includes Federal Home Loan Banks, FNMA, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

6/ Quarterly average exceeds fiscal year total by \$1.8 billion for FY 1977 and FY 1978 due to spreading of wage base effect over calendar year.

7/ Estimated by F.R.B. staff.

8/ Includes \$2.5 billion of borrowing from the Federal Reserve on September 30 which was repaid October 4.



	1976	1977 <sup>P</sup>	1978 <sup>P</sup>	1976		1 9 7 7				1 9 7 8 <sup>P</sup>			
				III	IV	I	II	III <sup>P</sup>	IV <sup>P</sup>	I	II	III	IV
1. <u>GNP NET EXPORTS</u> - Intl Acct. data	7.7	-8.1	-10.1	7.8	2.9	-7.4	-8.7	-7.2	-8.8	-7.8	-9.8	-11.6	-11.6
2. (GNP net exports - GNP Acct. data) <u>1/</u>	(7.8)	(-8.7)	(-10.5)	(7.9)	(3.0)	(-8.2)	(-9.7)	(-7.6)	(-9.1)	(-8.1)	(-10.0)	(-11.9)	(-11.9)
3. a) Merchandise Trade Balance	-9.3	-30.3	-34.9	-11.2	-14.4	-28.4	-31.4	-29.9*	-31.3	-31.4	-34.1	-37.0	-37.3
4. Exports (excl. military)	114.7	121.4	137.3	118.4	118.8	117.8	122.0	123.4*	122.3	129.6	134.9	139.7	144.9
5. Agricultural	23.4	24.3	23.4	25.0	23.5	24.5	26.8	23.9*	22.1	22.6	23.2	23.6	24.2
6. Nonagricultural	91.3	97.1	113.9	93.5	95.3	93.4	95.2	99.5*	100.2	107.0	111.7	116.1	120.7
7. Imports	124.0	151.7	172.2	129.6	133.2	146.2	153.4	153.4*	153.6	161.0	169.0	176.7	182.2
8. Petroleum and petrol. products	34.6	45.8	48.5	37.6	37.4	44.1	47.7	45.8*	45.7	45.2	48.0	50.5	50.4
9. Nonpetroleum	89.4	105.8	123.7	92.0	95.9	102.1	105.7	107.5*	107.9	115.8	121.0	126.2	131.8
10. b) Military transactions, net <u>2/</u>	--	1.6	1.6	.6	.5	1.7	1.5	1.6	1.5	1.6	1.6	1.6	1.6
11. c) Investment income, net <u>3/</u>	14.3	18.8	21.2	15.3	14.4	17.9	18.7	19.3	19.3	20.2	20.9	21.8	21.9
12. d) Other services, net <u>4/</u>	2.7	1.8	2.0	3.1	2.4	1.4	2.5	1.8	1.7	1.8	1.8	2.0	2.2
13. <u>U.S. CURRENT ACCOUNT BALANCE</u> <u>2/</u>	-1.0	-17.7	-22.6	-1.6	-6.0	-16.5	-17.8	-16.9	-19.2	-19.8	-22.2	-24.2	-24.2
14. a) GNP net exports (line 1.)	7.7	-8.1	-10.1	7.8	2.9	-7.4	-8.7	-7.2	-8.8	-7.8	-9.8	-11.6	-11.6
15. b) U.S. Govt & private transfers <u>5/</u>	-8.7	-9.6	-12.5	-9.3	-8.9	-9.0	-9.1	-9.7	-10.4	-12.0	-12.4	-12.6	-12.6
<u>Constant (1972) dollars</u>													
16. Merchandise exports (excl. military)	66.7	67.5	72.9	68.4	67.3	66.1	67.4	68.6	68.0	71.0	72.3	73.4	74.7
17. (% change, annual rates)	(3.4)	(1.2)	(8.0)	(13.0)	(-6.6)	(-7.4)	(8.2)	(7.4)	(-3.8)	(18.8)	(7.4)	(6.1)	(7.4)
18. Merchandise imports	62.8	71.0	75.8	64.9	66.1	70.2	72.0	71.0	70.7	72.7	74.7	77.1	78.3
19. (% change, annual rates)	(22.5)	(13.1)	(6.8)	(29.1)	(7.4)	(27.2)	(10.4)	(-5.7)	(-1.6)	(11.7)	(11.7)	(13.4)	(7.0)
<u>Foreign Outlook - Major Industrial Countries</u> <u>6/</u>													
20. Real GNP, % change, annual rates	5.2	3.0	4.1	1.6	2.9	5.3	.9	1.6	4.9	5.1	4.6	4.2	4.0
21. Wholesale Prices, % change, A.R. <u>7/</u>	9.5	8.9	5.9	11.7	8.7	10.6	7.4	3.4	5.7	6.1	6.3	6.4	6.3

1/ Lags Intl. Acct. data (line 1) in the inclusion of revisions and new data.

2/ Excludes grants to Israel under military assistance acts and exports financed by those grants.

3/ Excludes U.S. Govt. interest payments to foreigners, which are included in line 15.

4/ Includes travel, transportation, fees and royalties, and miscellaneous other service transactions.

5/ Includes U.S. Govt. grants, U.S. Govt. interest payments to foreigners, and remittances and pensions.

6/ Weighted by the shares of Canada, France, Germany, Italy, Japan and the United Kingdom in the sum of the real GNP of the six countries in dollar terms.

7/ Data are largely manufactured goods prices.

p/ Projected

e/ Estimated

\*/ Published data.

## **Part 2**

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

---

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

CONFIDENTIAL (FR)

December 14, 1977

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

By the Staff  
Board of Governors  
of the Federal Reserve System

II - 14  
Commerce Surveys of Anticipated Plant  
and Equipment Expenditures for 1977  
(Per cent increase from 1976)

	Dec. 1976	Feb. 1977	May 1977	Aug. 1977	Nov. 1977
All Business <sup>1/</sup>	11.3	11.7	12.5	13.3	13.7
Manufacturing	12.5	12.7	14.2	15.5	16.3
Durables	12.2	13.5	15.9	17.9	19.3
Nondurables	12.7	12.1	12.7	13.5	13.8
Nonmanufacturing	10.4	10.9	10.9	11.6	11.7
Mining	11.0	7.2	10.3	11.3	11.1
Transportation	-5.9	-12.8	-8.3	-6.8	-6.2
Utilities	14.1	17.9	17.2	18.0	17.3
Communications	14.4	13.2	15.3	14.2	15.5
Commercial and Other	9.5	11.0	8.4	9.7	9.8

<sup>1/</sup> Commerce results are corrected for systematic bias. On an unadjusted basis the survey showed an 11.7 per cent increase in December, a 14.2 per cent increase in February, a 13.7 per cent increase in May, a 15.3 per cent increase in August, and a 14.1 per cent increase in November.

Business Expenditures for New Plant and Equipment  
(Annual rate percentage change from previous quarter)

	1977				1978	
	I	II	III	IV	I	II
	---Anticipated <sup>1/</sup> ---					
All Industry	16.7	13.1	19.6	5.8	11.4	10.2
Manufacturing	15.4	23.3	26.2	9.2	-1.7	24.3
Durables	13.1	15.4	32.2	9.2	8.0	19.1
Nondurables	17.7	30.3	21.4	9.2	-9.6	29.2
Nonmanufacturing	17.8	5.8	14.5	3.1	23.1	.0

<sup>1/</sup> Expenditure plans from November Commerce survey.

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

	<u>1976</u>	<u>1977</u>						<u>1978</u>
	<u>Year</u>	<u>H1</u>	<u>QIIIe/</u>	<u>QIVf/</u>	<u>Oct.e/</u>	<u>Nov.e/</u>	<u>Dec.f/</u>	<u>Jan.f/</u>
<u>Gross offerings</u>								
Corporate securities--total	4,445	4,148	3,565	4,267	3,800	4,800	4,200	3,200
Publicly offered bonds	2,204	2,018	2,036	2,000	2,200	2,100	1,700	1,800
By quality <u>1/</u>								
Aaa and Aa	1,040	1,152	1,025	--	1,075	1,258	--	--
Less than Aa <u>2/</u>	1,154	866	1,011	--	1,125	842	--	--
By type of borrower								
Utility	675	753	588	--	825	780		
Industrial <u>3/</u>	984	678	864	--	342	805	--	--
Financial	545	587	584	--	1,033	515	--	--
Privately placed bonds	1,317	1,215	912	1,267	1,000	1,000	1,800	800
Stocks	924	915	617	1,000	600	1,700	700	600
Foreign securities---total	852	581	740	--	433	589	--	--
Publicly offered <u>4/</u>	520	443	520	352	300	425	330	300
Privately placed	332	138	220	--	133	164	--	--
State and local govt. securities--total	4,756	6,421	5,403	4,567	5,000	4,800	3,900	5,000
Long-term	2,932	4,128	3,667	3,267	3,800	3,300	2,700	3,300
Short-term	1,824	2,293	1,736	1,300	1,200	1,500	1,200	1,700
<u>Net offerings</u>								
U.S. Treasury	4,967	1,400	3,833	7,641	6,612	11,382	4,930	3,700
Sponsored Federal agencies	452	626	531	648	516	614	815	720

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

2/ Includes issues not rated by Moody's.

3/ Includes equipment trust certificates.

4/ Classified by original offering date.

e/ Estimated.

f/ Forecast.

Table I

Activity in Major Foreign Industrial Countries  
(S.A.; GNP, Industrial Production, Employment,  
percentage change from the previous period)

	1976	1977			1977 <sup>e</sup>
		QI	QII	QIII	
Canada					
GNP	4.9	1.9	-0.3	1.3	2.2
Industrial Production	5.0	2.1	0.3	-0.3	3.4
Employment	2.2	0.8	0.6	0.8	
Unemployment rate	7.2	7.8	8.1	8.2	
France					
GDP	5.2	n.a.	n.a.	n.a.	2.3
Industrial Production	10.1	2.4	-2.1	-1.1	2.6
Employment (NSA) <sup>1/</sup>	-0.4	-0.2	-0.2	-0.6	
Unemployment rate	4.5	4.7	5.3	5.7	
Germany					
GNP	5.7	0.9	-0.2	n.a.	2.7
Industrial Production	7.8	1.4	-1.1	0.3	3.1
Employment	-0.5	0.0	-0.3	n.a.	
Unemployment rate	4.6	4.4	4.6	4.6	
Italy					
GDP	5.6	1.5	-2.3	n.a.	1.7
Industrial Production	11.8	2.2	-7.2	-3.2	0.5
Employment (NSA)	0.7	4.0	1.4	1.1	
Unemployment rate <sup>2/</sup>	3.7 //	6.5	6.9	7.9	
Japan					
GNP	6.3	2.5	1.7	0.5	5.4
Industrial Production	13.7	0.6	0.9	-1.1	4.4
Employment	0.9	0.3	0.7	n.a.	
Unemployment rate	2.0	1.9	2.1	2.1	
United Kingdom					
GDP	2.1	-1.3	0.5	n.a.	0.2
Industrial Production	0.6	0.3	-1.3	0.2	0.7
Employment <sup>1/</sup> , <sup>3/</sup>	-2.6	0.7	0.5	n.a.	
Unemployment rate <sup>3/</sup>	5.3	5.5	5.5	5.9	
GNP Weighted Average of above six					
GNP/GDP	5.1	n.a.	n.a.	n.a.	2.8
Industrial Production	8.2	n.a.	n.a.	n.a.	2.8

<sup>1/</sup> Manufacturing Industry.

<sup>2/</sup> New series in 1977 invalidates historical comparison of unemployment rates.

<sup>3/</sup> Great Britain only.

e = staff estimates.

National sources.