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THE PRESIDENT HAS SEEN. *1.6*

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

November 26, 1974



MEMORANDUM FOR THE PRESIDENT

Subject: Current State of the Economy

Although recent developments have not altered our basic outlook for the economy during 1975 they have caused our estimates of economic conditions during the first half of next year to slip toward the bottom end of the range of possibilities that appeared plausible earlier.

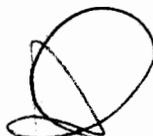
The economy is now in the midst of a marked contraction in production, employment and incomes. Recent developments have centered in the automobile industry, where the drop in sales has been more sudden and more substantial than expected. The decline in sales is causing layoffs and cutbacks in production, which must be expected to continue through the first quarter of next year. The contraction is not restricted to automobiles. The easing of the shortage situation has caused a slippage in the demand for inventories since August and more recently the coal strike is also having an impact, but one which cannot yet be easily evaluated.

Real GNP should be expected to decline in both the current quarter and in the first quarter of next year. We must expect this to be reflected in pronounced increases in unemployment over the next few months. The evidence points to a significant increase for November (This will be announced during the first week of December.) The employment reductions now being announced in the automobile industry will not be fully reflected until early in January when the December rate is published. The weakness that we anticipate in the economy during the first half of next year is consistent with rates of unemployment in the 7 to 7 1/2 percent area.



The decline in output is expected to end during the first half of next year -- although this will depend upon the speed and extent of the recovery in automobile sales from the present abnormally depressed levels of October and November. Prospects are reasonably good for a turnaround in housing reflecting the further improvement in mortgage financing that we anticipate. Capital goods are holding up quite well, but business investment has been subjected to a number of adverse forces that make developments in this sector questionable for late 1975 and 1976.

While we expect a bottoming during the first half of next year, we cannot rule out the possibility of a more extended slide. In any event, it is difficult to envision an economy that would be strong enough in the second half of 1975 to reduce the rate of unemployment.

A handwritten signature in black ink, consisting of a large, stylized loop that crosses itself, followed by a smaller loop below it.

Alan Greenspan
Chairman