The original documents are located in Box 28, folder "Presidential Meetings with Members of the House of Representatives, 8/17/74" of the Loen and Leppert Files at the Gerald R. Ford Presidential Library.

All material in this folder comprises a single case file.

WHM 4/16/84

THE WHITE HOUSE

WASHINGTON

August 17, 1974

VISIT TO THE CONGRESS; MEETING WITH REP. WILBUR MILLS (D-Ark)

2:30 - 4:00 p.m. (1-1/2 hrs)
Wednesday, August 21, 1974
The Capitol Building

From: William E. Timmons BT

I. PURPOSES

A. To pay courtesy calls on Senate and House of Representatives.

B. To discuss legislation with Ways and Means Chairman, Wilbur Mills.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background:

1. Senate and House will recess to greet the President (Albert, Rhodes, Mansfield and Scott have been alerted) who will briefly (3 minutes) address both bodies and then shake hands with the Membership.

2. The President will meet Rep. Mills in Member's Capitol office to discuss pending legislation. The President last week met with Senate Finance Chairman, Russell Long, on same issues.

B. Participants:

Mr. Timmons will accompany the President throughout his Capitol tour.

C. Press Plan:

At Wednesday morning's press briefing, the White House Press Office will announce the Capitol visit as a courtesy call and the Mills meeting as one to discuss pending legislation. No White House photographer.

III. AGENDA AND TALKING POINTS

A. The schedule and tour map are in Tab A.

B. Talking points for Senate is in Tab B, House in Tab C and Mills meeting in Tab D.

A

SCHEDULE

2:20 p.m.	Departs HEW building. (Mr. Timmons accompanies President.)
2:25 p.m.	Arrives Capitol building (center steps) and greeted by Secretary of Senate, Frank Valeo, and Sergeant at Arms, Bill Wannall. (Mr. Korologos accompanies President.)
2:30 p.m.	Arrives Senator Hugh Scott's office, S-230.
2:35 p.m.	Arrives Senator Mike Mansfield's office, S-208.
2:40 p.m. (15 mins)	Arrives Senate Floor for very brief remarks and shakes hands with Senators. (Mansfield and Scott accompany President.)
2:55 p.m.	Departs Senate Floor. Greeted in Great Rotunda by House Doorkeeper, Fishbait Miller, and Sergeant at Arms, Ken Harding.
3:00 p.m.	Arrives Rep. John Rhodes' office, H-232. (Mr. Friedersdorf accompanies President.)
3:05 p.m.	Arrives Speaker Carl Albert's office, H-210. (Rep. Thomas O'Neill meets party there.)
3:10 p.m. (20 mins)	Arrives House Floor for very brief remarks and shakes hands with Members. (NOTE: President will not have receiving line but greets Members on way out of Chamber.)
3:30 p.m.	Departs House Floor.
3:32 p.m. (23 mins)	Arrives Rep. Wilbur Mills' office, H-208. (Mr. Timmons accompanies President.)

3:55 p.m.	Departs Rep. Mills' office.
4:00 p.m.	Departs Capitol building (House steps).
4:15 p.m.	Arrives White House (South Grounds).

WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
Diagram	Annotated diagrams of Capitol building, 2 pages (attached to briefing memo for a visit to Conges and meeting with Representative Wilbur Mills, 6/18/1975)	8/17/1974	B

File Location:

Loen and Leppert Files, Box 28, Folder: "Presidential Meetings with House Members, 8/17/1974" SMD - 8/24/2015

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THE WHITE HOUSE

WASHINGTON

September 24, 1974

MF ✓

EF

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: WILLIAM E. TIMMONS

FROM: JERRY H. JONES

The attached was returned in the President's outbox and is forwarded for your information. The following notation was made:

-- I never returned this to you.
It was a long and friendly meeting.

Mainly worried about economy and Sindlinger forecasts.

Also, concerned about his G.O.P. opponent.

93d Congress
2d Session } COMMITTEE PRINT

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

A National Health Insurance Proposal

AUGUST 19, 1974

Prepared by the staff of the Committee on Ways and Means at the instruction of the chairman

U.S. GOVERNMENT PRINTING OFFICE
38-462 WASHINGTON : 1974

to Federal Reserve strengthen his hand

Budget Cut,

Loan preferences — 30 plus.

Get banks to

Sindlinger/meeting with Jt. Com.

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JOHN M. MARTIN, Jr., *Chief Counsel*
J. P. BAKER, *Assistant Chief Counsel*
JOHN K. MEAGHER, *Minority Counsel*

(II)

Opponent

H.E.W.

Mallin

FDIC guarantee.

Summit Meeting (Heads of State) Sept.

"world leadership"

Rush

Haig

Laird

A NATIONAL HEALTH INSURANCE PROPOSAL*

A. EMPLOYER HEALTH INSURANCE PLAN

Coverage

Employers with one or more eligible full-time employees—measured by a test of number of weeks and hours of work—would be required to cover (and contribute toward the premium for the health care plan) every eligible employee and his family. To qualify as an eligible full-time employee, the employee must work for (*a*) at least 25 hours per week for at least 10 weeks or (*b*) a total of 350 hours in the preceding 13-week period. Thus, for a new 40-hour-week worker, coverage with full employer contributions would start during the 9th week of employment (that is, after 350 hours of work).

The law would apply to all employers (as employer is defined by common law) and would include State and local governments, but not the Federal Government or agencies of foreign governments or international organizations.

Continuation of coverage

Coverage under an employee benefit plan, with full employer contributions, would continue for at least 180 days after termination of work, or until the employee became eligible under another employer plan, if earlier.

Benefit structure

The benefits under the plan include hospital, skilled nursing facility, physician, home health, and diagnostic services, and such additional benefits as prescription drugs, preventive care, blood and blood products, and special services for children, as shown on table 1. The maximum liability for insuring organizations would be limited to $6,000 per family, per year. (The catastrophic plan described below would pay for expenses in excess of that amount.)

The program would not exclude benefits for preexisting medical conditions, require any waiting period before benefits become payable, or impose any maximum limit on the total dollar amount of benefits payable on an annual, lifetime, or other time basis, other than the $6,000 annual limit.

Certain of these benefits would be phased in. Coverage of outpatient prescription drugs would be included in the medicare program beginning with the first year (fiscal year 1977); under the alternate health

*This proposal has been prepared by the staff, at the direction of the Chairman, to facilitate Committee consideration of this subject. It is *not* a specific proposal recommended by anyone, not the Chairman, nor the staff, nor the Department. (Neither the Chairman nor any individual Member has reviewed it.) Rather, it illustrates how a proposal along the line most recently discussed in the Committee might look, taking into account the various statements of the Members and of those representing the Administration. Since the document addresses these issues in somewhat specific form, it may be useful as a device to help the Committee with its decisions.

insurance plan (discussed below) beginning with fiscal year 1978; and under the employer plan beginning with fiscal year 1979. Drugs could be covered earlier under the employer plan at the option of the employer and his employees. Routine dental services for children under age 13 would be covered under the alternate plan beginning in fiscal year 1977, and under the employer plan beginning the following fiscal year.

TABLE 1.—*Covered services under the proposal*

Type of service	Limit on benefits	Other information
INSTITUTIONAL SERVICES		
Hospital inpatient	No limit	Special limitations for mental illness.
Skilled nursing facilities	100 days per year	Available after a hospital stay of 3 days or more.
PERSONAL SERVICES		
Physicians' services	No limit	Includes home, office, and hospita visits. Special limitations for mental illness.
Home health services	100 visits per year	
Laboratory and X-ray	do	
Outpatient physical therapy services	do	
Podiatrist services	do	Excludes routine foot care.
Preventive services:		
Family planning services	By regulation	Includes services and supplies.
Prenatal and maternity care	do	
Well-child care	do	For children under age 6.
Special services for children:		
Dental services (for children under age 13)	No limit	Routine services including examinations, fillings, extractions and replacements; excludes orthodontia.
Vision services (for children under age 13)	By regulation	Includes eye examinations and eyeglasses.
Hearing services (for children under age 13)	do	Includes examinations and hearing aids
OTHER SERVICES AND SUPPLIES		
Prescription drugs	No limit	
Blood and blood products	do	
Prosthetic devices	do	
Medical equipment and supplies	do	
Ambulance services	By regulation	Only when medically necessary.

Mental illness

Under special limitations applying to mental illness, inpatient care in a psychiatric hospital is limited to 30 days in a year. Partial hospitalization (such as day or night care) is specifically covered, limited to 60 days per year.

The annual maximum amount of benefits payable for outpatient mental illness services would be initially calculated by estimating the total charges for 30 visits to a private practitioner for the treatment of mental illness. (For example, 30 visits, at, say, $30 a visit, or $900.)

However, the amount determined by this calculation represents the maximum amount of benefits payable annually for care in an approved comprehensive community care center. For care by a private practitioner or in other settings, the annual benefits payable would be one-half that maximum amount. (In the illustration above, $450.)

Cost sharing

Generally, payment for all covered services would be subject to a common deductible of $150 annually per person (but with no further deductible after three members of a family have met the deductible

for the year). In addition, payment for all services would be subject to a coinsurance rate of 25 percent. Drugs would be subject to a separate deductible of $50, and the 25 percent coinsurance rate would apply. The maximum amount of deductibles and coinsurance which a family would have to pay in a year would be $1,000. (Special provisions for low-income families are described later.)

Additional benefits

An employee health care plan may offer additional services supplementing the required services, reduce or remove any limitation on the amount of these benefits, and reduce or eliminate the cost-sharing requirements. Any additional benefits provided would not be subject to the general requirements of the program (except the disclosure requirements, discussed later). The employee is not required to accept (or contribute toward) any additional benefits but could elect only the required benefits of the program.

Financing

The employer must contribute at least 75 percent of the premium cost of the required health care insurance plan, but 65 percent for the first 3 years of the program. Employees must contribute the balance of the premium for the required insurance coverage, unless the employer, under collective bargaining or otherwise, agrees to pay part, or all, of the employees' share.

An employer could meet his obligations to provide an employee health care insurance plan by purchasing a health insurance policy insured by a carrier or providing a self-insured health plan.

A recognized union or other bargaining agent could select, on behalf of the employees it represents, the options available on coverage (including choice of plan, decisions on additional coverage, and similar matters).

Also, under the employer plan, and the alternate and catastrophic plans discussed below, individuals would be given an option to enroll in a health maintenance organization.

The Federal Government may require an employer to provide information concerning his compliance with the law, and could bring suit in Federal court to enforce the coverage and other provisions. An employee could also bring suit against his employer to obtain compliance.

Premium rates would be set for an individual policy and for a family policy, with the individual rate being 40 percent of the family rate. No other variations in premium rates by family size or composition would be permitted. A family policy would include the husband and wife, and their dependent unmarried children (but not people eligible for medicare). Where both husband and wife work, either (but not both) could elect not to enroll. The employer would nonetheless pay his share of the premium. The total of such employers' shares could be used to soften the impact of the program on low-wage employers.

Amount of premium

The amount of the total premium would be negotiated between the insurance carrier and the employer. In general, the premium rate for large group insurance plans is based on the cost of benefits under the plan, a method of calculating called "experience rating." However, experience rating is usually not used for small groups, but rather a variety of other rating methods are used. For firms with very few employees, perhaps just one or two, group rates are often not available.

Under the proposal, all carriers who wish to sell approved coverage to employers with fewer than 100 employees must make coverage available to all such small employers in the State, and must charge them the same individual and family premium rates. That part of the premium not paid out in benefits could not exceed 10 percent.

Federal subsidy

If, as a result of the requirement to offer coverage, an employer's premium contributions increase his payroll by more than 3 percent, the Federal Government would pay a subsidy covering part of the excess over the 3 percent. The subsidy would be available for the first 5 years of the program, as follows:

Year of program:	Percent of excess covered by subsidy
First	75
Second	60
Third	45
Fourth	30
Fifth	15
Sixth	(1)

1 No subsidy.

The availability of the subsidy and its amount would be based on an employer's statewide payroll and premium costs.

B. Alternate Health Care Insurance Plan

The alternate plan would make health insurance coverage available to everyone not otherwise insured against the costs of health care. The plan would be administered by the States through a State-chartered Health Insurance Corporation, for example, and financed by premium contributions from those enrolled and from Federal and State general revenues. It would cover the same health services as the employee plan, but with cost sharing and premiums varied according to income for people at the lower income levels.

Coverage

All individuals and families except workers eligible under an employee plan would be required to enroll (and deemed to be enrolled) under the plan. Individuals receiving public assistance of any kind would be required to enroll as a condition of receiving such benefits. For all others, a decision not to enroll would mean that eligibility under the catastrophic plan (discussed below) is lost. Any individual who is not eligible for catastrophic benefits could enroll under the alternate plan. Any individual not eligible for premium reduction as a low-income person could meet his obligations by purchasing the basic benefits directly from an insurance company.

Benefits

The health services covered under the alternate plan would be the same as those under the employer plan (except for certain phased-in benefits as described earlier).

Coverage limitations

Under both the employee plan and the alternate plan, benefits would be limited to the first $6,000 of covered family health expenses in a year, with any expenses in excess of that amount covered under the catastrophic plan discussed below. The premium under the alternate plan would be equal to 125 percent of the average premium experienced in a State under the employee plan. Also discussed later are the special provisions for handling of premium contributions and cost-sharing provisions for low-income families.

C. The Catastrophic Health Insurance Plan

Coverage under the catastrophic health insurance program would be provided to the following groups during the period indicated:

1. People currently or fully insured under the social security program and their spouses and dependent children under age 18 (or full-time students under age 22) would be eligible for benefits during the period they continue to be insured.[1] In calculating credits for insured status for health insurance, specified unearned and other income as well as earnings now covered by social security would be included as described later.

2. People under age 65 eligible for cash benefits under social security would be covered for catastrophic health insurance while eligible for these cash benefits. This provision would also extend coverage to persons who, except for their age, would be eligible for social security cash benefits as an aged widow or widower.

3. People working at least 25 hours a week would be eligible from the beginning of the week they meet the 25-hour requirement until 3 weeks after they no longer meet this requirement.

4. People receiving self-employment income and/or unearned income totaling $400 for a year would be covered for that year. Eligibility could be established at the start of the year by notification of the expectation of receiving this income.

5. Individuals and families receiving payments under the programs of aid to families with dependent children (AFDC) or supplemental security income (SSI) would be covered while under those programs.

Financing

The program would be financed by new special taxes similar to the taxes imposed on earnings under the medicare program, but also imposed on unearned income and certain assistance payments.

The total amount of income subject to the special taxes would be limited to $20,000 annually for (1) the combined income of a husband and wife eligible to file a joint return, (2) the income of any other individual, and (3) the employer tax on the wages of any one worker. The income subject to the special tax would be taxable in a specified order at specified rates as indicated in table 2.

1 To be currently insured, a person needs social security credit for at least 1½ years within the past 3-year period. To be fully insured, he needs at least one quarter of coverage for each calendar year elapsing after 1950 or (if later) after the year in which he attained age 21, up to the year he becomes entitled to benefits. A person who has 10 years of work is fully insured for life.

TABLE 2.—*Special taxes, by type of income, order of payment, and tax rate*

	Recipient of income		Other payor		
Order and type of income	Payor	Tax rate (per cent)	Payor	Tax rate (per-cent)	Total tax rate (per-cent)
1. Wages	Employee	¼	Employer	¾	1
2. Self-employment income	Self-employed person	½			½
3. Unearned income	Recipient	½			½
4. AFDC	do	0	State government	¾	¾
SSI	do	0	Federal government	¾	¾

For example, a person (or husband and wife) with both wages and other income would pay only on wages, if the wage income was at least $20,000 for the year. Otherwise, he would pay on any self-employment and/or unearned income received, up to a $20,000 maximum.

The wages subject to tax would include all employment now compulsorily covered under medicare and, in addition, wages of employees of the Federal Government, State and local governments, and nonprofit organizations. Only pay of members of the Armed Forces would be excluded.

Unearned income

Unearned income subject to the special tax would include all income included in adjusted gross income under the Federal income tax law. In addition, any payment received as an annuity, pension, retirement or disability benefit—including veterans compensation, OASDI payments, railroad retirement annuities and pensions, and unemployment insurance payments would be included. People eligible under the medicare program and people under the age of 18 would be exempt from the unearned income tax.

D. SPECIAL PROVISIONS FOR LOWER INCOME FAMILIES

For families with incomes below the amounts as set forth in table 3 below (whether they have coverage under the employee plan or the alternate plan), the deductibles and coinsurance amounts would not be imposed. For families with incomes above the indicated levels, the maximum amount of the combination of deductibles and coinsurance which could be imposed would be equal to 25 percent of the income in excess of the indicated levels up to the $1,000 limit applicable to all families.

In addition, those who enroll under the alternate plan would be required to pay a premium not to exceed 8 percent of their income in excess of the amounts shown in table 3 up to the premium amount applicable to all enrollees.

Those families covered under the employee plan or under medicare would be eligible to receive a cash payment to the extent that their contributions under the employee plan for the basic coverage exceed the premiums which would be imposed for families with similar incomes enrolled under the alternate plan.

TABLE 3.—*Family size and income below which no deductibles or coinsurance are imposed*

Family size:	*Income*
1 person	$2,400
2 persons	2,800
3 persons	3,200
4 persons	3,600
5 persons	4,000
6 persons	4,400
7 persons plus	4,800

E. REVISED MEDICARE PROGRAM

The present medicare program would be revised as described under the headings below.

Coverage

The eligibility conditions for medicare would be the same as for the catastrophic plan except that only people over 65 would be eligible. The under-65 disabled and those requiring kidney dialysis would be transferred to the employer or alternate plan depending on their status.

Benefits

Medicare benefits would be expanded as follows: (1) No limit on hospital days; (2) coverage of outpatient drugs; and (3) no more than $1,000 worth of deductibles and coinsurance imposed.

Financing

Financing would be on same basis as catastrophic plan; $20,000 base and most forms of income subject to tax. (Tax rate reduced because disabled move to the alternate plan and tax base increased.)

Low-income provisions

Special provisions, similar to those in the alternate plan, would assure that lower income medicare eligibles would pay nothing, or little, toward any medicare premiums or deductibles and coinsurance. (Medicare deductibles and coinsurance provisions would not otherwise be changed.) The cost of this benefit would be financed from general revenues.

Administration

The program would continue to be administered by the existing Social Security Administration. The medicare reimbursement policies would be changed to conform to those used in the employer plan and the alternate plan.

SSA would also handle the health card system for medicare eligibles.

F. REIMBURSEMENT PROVISIONS

Institutional providers

Institutional providers of service—hospitals, skilled nursing facilities, home health agencies, neighborhood health centers, community mental health centers, rehabilitation centers, and HMO's—would be reimbursed on a prospective reimbursement basis.

Prospective reimbursement methods would be established by the States, provided the State was able and willing to do so, under Federal guidelines after consultation with interested groups. Various methods of reimbursement could be made available to all providers and additional methods at the option of the States.

Providers would select a reimbursement method for the coming year from the approved methods available to them. Their selection must be approved by the State. Once approved, the prospectively determined amount of payment under the agreed method may not be changed for the year, except in case of natural catastrophe or unexpected changes in demand or patient case mix not under control of the provider.

Criteria for prospective payment methods

Prospective payment methods used by the States would need to meet the following standards and criteria:

1. The method would be designed to (*a*) provide financial incentives for efficiency of operations equal to the potential difference between the prospective rate and actual costs, (*b*) assure providers that their total income will equal their financial requirements, (*c*) include the participation of the provider in implementing the method, (*d*) assure high quality services to patients, and (*e*) maintain independent management, discretion, and responsibility on the part of the provider.
2. The rate of payment would recognize the provider's total cost of operation, including costs attributable to approved capital expenditures, costs of approved working capital, and costs due to bad debts.
3. The payment rate would provide a reasonable return on invested equity capital, based on rates of return on investments of comparable risk, for for-profit providers. Nonprofit providers could also be paid a return on capital to recognize the risks assumed under prospective payment methods.

Providers could also receive a quality management payment of 50 percent of the difference between its rate of increase in costs in a year and the increase in the "class average rate." The class average rate represents the average increase in costs for the 3 previous years for all providers in the same class group (according to a method of grouping of similar providers). A provider receiving a quality management payment would be required to pay at least one-half of the payment to their employees and medical staff, under a plan approved by its governing board.

If the provider's increase in costs exceed the class average rate, 50 percent of the difference would be added to its increase in costs in the next year before computing any possible entitlement to a quality management payment for that year.

Physicians

Payments to physicians would be based on a fee schedule (for a geographic area) proposed by the medical society or equivalent organization in the area. The schedule must be approved by the State under guidelines. The State would be required to approve the schedule if it determined that the average fee for the year would be no higher than that for 1973, after adjustment to reflect economic changes over the years as indicated by an appropriate economic index.

An approved schedule would ordinarily be in effect for a 1-year period, but the medical society or organization could propose a new schedule at any time. The new proposal would be evaluated on the same basis as described above. If no schedule is proposed, or the proposed schedule is not approved, one would be established based on a previous schedule for the area or one for a similar area.

Physicians and other professionals could elect as participating or nonparticipating practitioners. Those participating would agree to accept the fee schedule amount as full payment for their services and be paid the scheduled amount for a service including the deductibles and coinsurance due from the patient under the health card reimbursement system described later. Further, they could file with the carrier a single consolidated bill for all covered services for a period and receive a single check (rather than billing separately for each patient, as under present medicare).

Services provided by nonparticipating practitioners could not be covered under any of the plans.

A fee schedule in effect in an area and the names of participating practitioners would be made available to the public.

Other medical services and supplies

The charges for other kinds of medical services, supplies, and equipment could not exceed the lowest charge levels at which they are widely and consistently available in the locality.

Reimbursement system

People covered by all the programs would be issued a health card, to identify them as enrolled, and a health card account would be established for each enrollee. These accounts, similar to accounts maintained by credit card organizations, would serve as the vehicle for payments for reimbursement to participating providers of service (including all institutional providers, participating pharmacies, and physicians and other professionals who have elected to participate as described earlier).

The health card account would pay the provider the full rate for their service, including the cost sharing due from the patient. The account would collect the cost sharing from the patient.

Insurance carriers would administer the health card under the employee plan, States under the alternate plan, and SSA under medicare.

G. Administration

Role of private insurance organizations

Blue Cross-Blue Shield and commercial insurance companies would underwrite and administer the benefits under the employer plan. (No more than 10 percent of the premium could be used for purposes other than payment of benefits.) These same private insurance organizations would make benefit payments under the catastrophic plan (and be reimbursed for benefit costs and incremental administrative expenses).

States, which are charged with establishing the alternate plan for nonemployed people and their families in their jurisdictions, may also provide an opportunity for private insurance organizations to participate in the operation of the alternate plan.

Role of States

States would play a major role in the conduct of all parts of the new program. In accordance with Federal guidelines, States would also be responsible for ongoing regulation of carriers under Federal guidelines.

States would be responsible for the establishment and operation of the alternate plan within their jurisdictions, but operation of the plan could be delegated or shared with one or more other organizations; for example, through the establishment of a State-chartered health insurance organization.

As discussed earlier, States, pursuant to Federal guidelines, would regulate payment rates for covered services under all parts of the plan.

Where a State is unable or unwilling to perform any or all of the above functions, the Federal Government would perform them either directly or through a contract with another organization. The State would be required to share in the cost of the alternate plan even if the plan was not operated by the State; if necessary, the State share would be withheld from any Federal funds otherwise due the State under any Federal statute.

A residual medicaid program would continue to be operated by the States, for long-term care and other services not covered by the basic, alternate, or catastrophic plans.

Role of Federal Government

Medicare for the aged would continue as a Federal responsibility, under its present administrative arrangements, but with reimbursement methods conformed to those of the rest of the plan. For medicare beneficiaries, income-related provisions of the plan would be federally administered and financed by Federal general revenues.

The Federal Government would collect the taxes for the catastrophic portion of the program. It would disburse these moneys to carriers (who would be administering both the basic and catastrophic benefits). Financial audit and oversight of the carriers' conduct of the catastrophic plan would be a Federal responsibility that could be delegated, in part, to States that are able and willing to assume this function.

Since the same carriers that underwrite basic benefits would also be administering catastrophic benefits, Federal (as well as State) approval of these carriers would be required.

The Federal Government would prepare and issue policy guidelines for all aspects of the program, including requirements for qualified private plans, the alternate plan, regulation of carriers, methods of reimbursement, and so forth.

H. Additional Cost Control Provisions

Professional standards review organizations

The provisions of Public Law 92-603 establishing professional standards review organizations (PSRO) to review the necessity and quality of inpatient services under medicare and medicaid would be extended to all inpatient and outpatient services covered under the proposed program. The Public Law 92-603 requirements for preadmission review for skilled nursing care and home health services would apply, as well as the general medicare requirements for certification of the necessity of services and utilization review by the staff of institutional providers.

Surgery and specialized procedures

Major surgery and other specialized services designated in regulations would be covered only when furnished on referral by a physician engaged in family practice (or other specialties which are entry points for physician services), and only when performed by a specialist.

Also, for specified types of surgery, also indicated in regulations, prior consultation and approval by another qualified specialist would be required. For these specified types of surgery, regulations could also require that a pathology report and clinical abstract or discharge report be submitted to the carrier with the claim for payment. If the surgery is not approved under these provisions, the cost of the hospital and other services incident to the surgery would also not be covered. The provisions described above would not apply in case of emergency services (except for the requirement for a clinical report).

For these requirements, a physician would be considered a specialist if he is (1) board certified or board eligible, (2) authorized on the basis that he has experience in the specialty, meets specified standards and, where appropriate, is recommended by a participating hospital, or (3) authorized because there is a shortage of these specialists in an area.

Physician services provided in a nonparticipating hospital would not be covered.

Control of services, facilities, and capital expenditures

The prospective payment method for institutional providers would not include payment for existing or proposed services or facilities of providers unless approved by the State and area planning agencies.

No additional substantial capital expenditures may be made by providers unless approved in writing by the State and area planning agencies. Facilities obtained under lease arrangements would be subject to the same provisions. (The definition of substantial capital expenditure is the same as under Public Law 92–603.)

I. Miscellaneous Provisions

Experiments and demonstration with long-term care provisions

A special organization would be created to administer experimental long-term care programs including proposals which have, to date, been introduced in the Congress. These demonstrations would be carried out on a large scale, some based on a statewide population. The results of these long-term care experiments would be thoroughly evaluated by independent organizations.

Advisory council on health care resources

Certain advisory responsibilities regarding the delivery of health services would be assigned to an existing advisory council within HEW. The council would be required to report to the Congress, not later than October 1, 1975, on the supply and availability of resources needed to provide the benefits required under the program.

The council could recommend that coverage of certain benefits be postponed if it concluded that the benefits could not be delivered. The council could also make recommendations for encouraging more efficient delivery of certain services, in particular routine dental and preventive services for children.

By no later than October 1, 1976, the council would report to the Congress regarding the coverage of preventive services for adults.

Health Insurance Benefits Advisory Council

The existing Health Insurance Benefits Advisory Council (HIBAC) made up of various interests in health care (including consumer interest) which advises the Secretary on policy in medicare would be given a similar role with respect to the proposed program.

Technical and other changes

The Secretary would be required to furnish the Congress with proposed technical amendments to the law by April 1, 1975, in order to perfect the language of the law designed to carry out the intent of the Congress, including the substitution of specific statutory language for specified areas in which the Secretary is delegated regulatory power.

Effective dates

The new programs established by the bill (and the changes in the existing medicare program) would generally be effective on July 1, 1976. (Certain benefits would be phased in later as described above.)

This date could be postponed up to a year if the President decided that such a step was required in order to administer an effective program.

PRELIMINARY COST ESTIMATES

TABLE A.—*Mandated plan—financed by employer and employee*

[Fiscal year 1975]

	Single person	Family	Composite
Average premium rate	$220	$540	$460
Employer's share	165	405	345
Employee's share	55	135	115

TABLE B.—*Catastrophic plan—financed by tax on payroll and unearned income*

[In percent]

	Castrophic plan	Medicare program	Net change
1st year payroll tax rate (combined rate)	0.8	−0.4	+0.4
Level-cost over 25 years	1.3	−.6	+.7

NOTE.—Net 1st year dollar cost (fiscal year 1975)—$7,000,000,000.

○

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SELECT ISSUES OF RECENT SINDLINGER CLIENT REPORTS

A. Latest figures --- new 20-year lows

B. Charts on Confidence Components

C. Latest Stock Market Reports

D. This special issue President's Summary #274 explains why we moved our forecast from Recession to the Making of a Depression

E. President's Summary #273

F. This Issue #272 outlines our ride to Washington in mid-July

G. First Signal for Real Trouble --- #271

H. How Consumers are Reporting Inflation --- #270

I. The Scenario for Keeping Our Recession from Going into a Depression.

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S M T W T F S

Issued: August 2, 1974

THE PRESIDENT'S SUMMARY
. . .Consumer Economics

The Current Status of Democracy in Action. . .
Issued When Events and Data are Significant to Report

PRESIDENT NIXON'S ECONOMIC TV TALK ERODES CONFIDENCE

From July 19th to the 24th. . .it appeared that our confidence fall, since mid-June had leveled off at a very low level.

However, since Nixon's July 25th TV talk on the U.S. economy. . . Confidence has further eroded to dangerous levels, as this comparison shows.

Comparisons By Weeks

	1 July 31	2 July 24	3 June 26	4 Jan. 16	5 Recession Level
Consumer Confidence	41.1%	46.8%	54.8%	37.0%	64.0%
A. Current Income index	106.1	113.5	124.0	132.0	134.0
B. Expected " "	78.9	87.0	108.4	98.4	118.1
C. " Job "	88.4	97.7	113.2	49.1	124.2
D. " Business "	103.9	122.3	136.9	93.2	138.3
E. Forecast Confidence Index (FCI)	90.4	102.4	119.5	80.2	126.9

1/ Week following President Nixon's economy talk.
2/ " prior to " " " "
3/ " prior to Herstatt Bank folding.
4/ " of energy crisis low.
5/ Recession level for July 1974.

. . . Consumer Confidence is now down to 41.1 percent. . . falling 5.7 points this last week.

This places Consumer Confidence at 22.9 points below the recession level and only about 5 points above the January energy crisis low.

This past week's impact on Consumer Confidence came from all components.

CURRENT INCOME INDEX NOW AT 20 YEAR LOW

Based upon current interviewing --- 8 in 10 now say the rate of inflation for the things they are now buying is over 20 percent.

This is reflected in our Current Income Index which is now down to 106.1 --- a one week decline of 7.4 points --- it's even 25.9 points below the energy crisis level reported in January and is now 27.9 points or 21 percent below the recession level.

When we probe on why current income is down --- consumers report the recent fast rise in price increases --- less take home pay --- and less work.

EXPECTED INCOME INDEX IS PANIC

Since the President's Economic talk --- our Expected Income Index has declined to 78.9 and that is a panic figure --- even during the darkest week of the energy crisis --- this index held at 98.4 which was then a 20-year low.

EXPECTED JOBS ARE NOW DOWN

Our Expected Job Index has always been the most volatile. During the energy crisis it fell to 49.1 and then made a sharp rebound.

EXPECTED BUSINESS TOOK A WHOPPING FALL

During the past seven days of interviewing --- following the President's Economic Talk --- our Expected Business Index fell to 103.9 --- only 10.7 points above the energy crisis low, and that low only lasted for a few weeks and then turned up.

FCI IS NOW SURELY SAYING DEPRESSION

Our Forecast Confidence Index is now back down to 90.4 --- just 10.2 points above the energy crisis low. With FCI now at 90.4 and when you consider that this index has 22.1 points built into it for population gain since 1957 --- this means that our FCI is now about 10 percent lower than during September of 1957 when that recession was on the verge of going into depression --- only to be arrested by Sputnik on October 6th.

THERE IS STILL TIME

There is still time for President Nixon to reverse his disastrous position on the economy --- but there is not now --- much time left.

America cannot survive on a rate of inflation for the things people buy to live on --- that is over 20 percent --- and that is what the inflation rate is right now. And that figure in coming months will be confirmed.

B

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CONSUMER CONFIDENCE
(Household Liquidity)

Tuesday --- July 30, 1974 **Part I T-287-290**

CONFIDENCE COMPONENTS TAKE NEW SLIDE

As the summary table at the bottom of this page shows, based upon nationwide interviewing for weeks ending through July 24th, it appeared that the recent sharp decline in all confidence components since early June (June 26th*, particularly) had leveled off at a low point for a new plateau.

It was during this period when the press was giving advance coverage of the up-coming President's economic talk.

If we could have held our Forecast Confidence Index to the 105.5 to 115.0 level --- going no lower than 105. . .our SFE model shows that we would have had six quarters of good recession --- we have had two of them.

Now --- since the President's July 25th TV talk on the economy --- which was a complete disaster. . .all confidence components have taken another sharp fall. . .this fall will be reported next week with figures available to consultation clients on Friday, August 2nd.

SUMMARY:

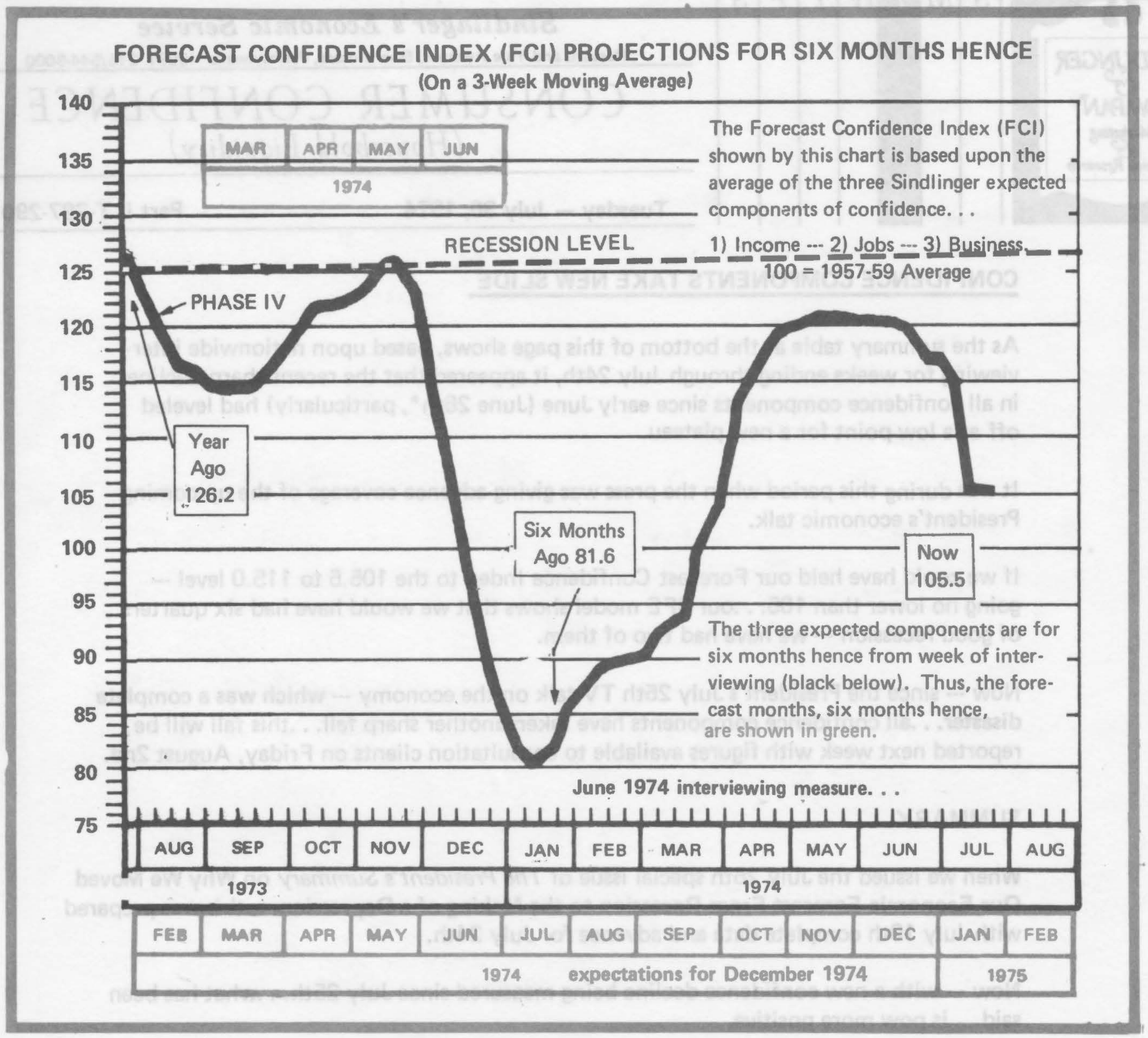
When we issued the July 26th special issue of *The President's Summary* on Why We Moved Our Economic Forecast From Recession to the Making of a Depression. . .this was prepared with July 19th complete data and advance for July 24th.

Now --- with a new confidence decline being measured since July 25th. . .what has been said. . .is now more positive.

As clients read the enclosed charts --- remember that another fall in all components will be added to the charts next Tuesday.

*June 26th was the date for the closing of the Herstatt Bank of Cologne, Germany --- and 2 of every 10 consumers connect this with 1929.

Data provided to Consultation Clients on July 26, 1974:	Latest Week July 24	CUMULATIVE 2 Weeks July 17/July 24	3 Weeks July 10/July 24	4 Weeks July 3/July 24
Percent With Consumer Confidence	46.8	46.8	47.3	47.3
Current Income Index	113.5	113.6	115.3	114.9
Expected " "	87.0	87.2	90.1	89.8
" Job "	97.7	98.1	101.1	100.6
" Business "	122.3	122.8	125.0	124.7
Forecast Confidence Index (FCI)........	102.4	102.7	105.5	105.1

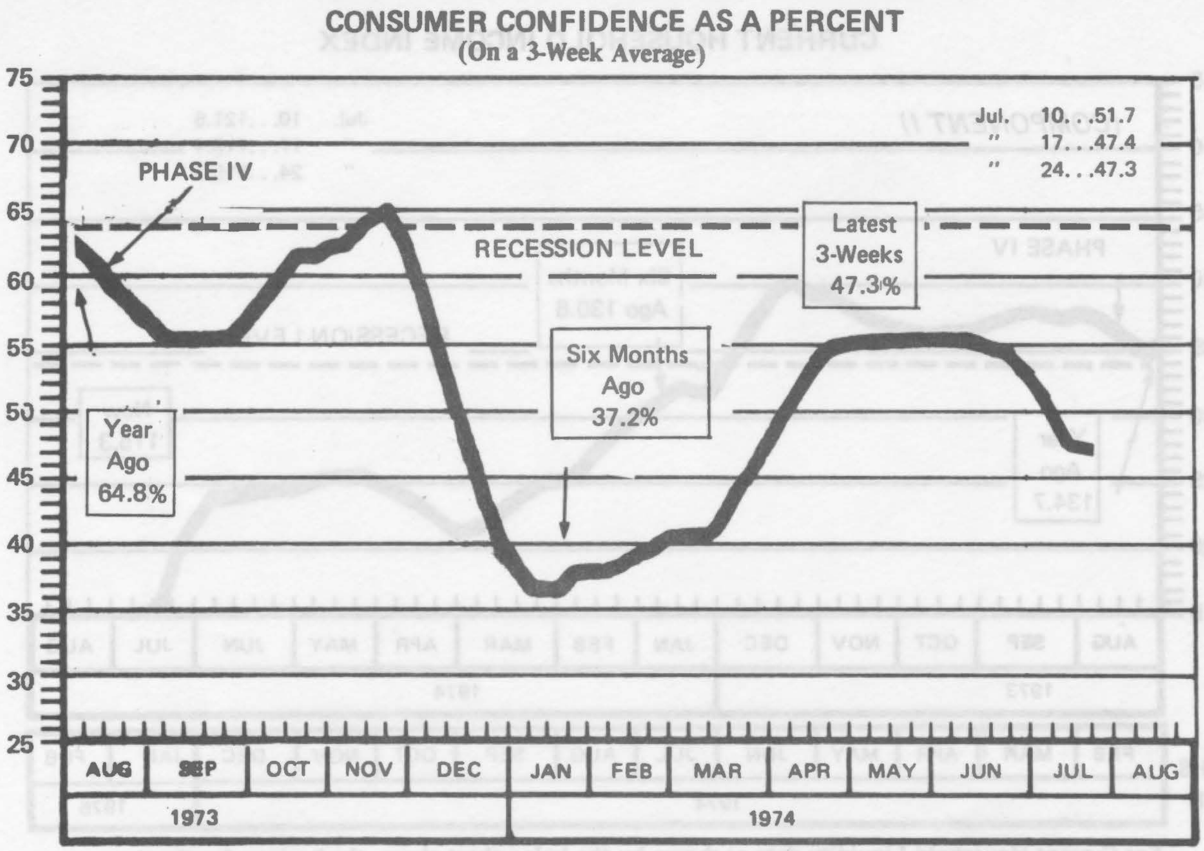


FORECAST CONFIDENCE CONTINUES TO FALL

A year ago, during July, FCI was riding at the recession level where it had been off and on since April 1973. . .it declined further last August/September, to rebound last November, to then collapse with the year-end energy crisis. By June 5th, FCI had moved up to 120.4. . .within sight of the recession level. . .to fall back again. . .to below 106 for July 17th and 24th.

For these two weeks, it appeared that a new bottom had been reached.

But, advance data since the President's TV Economic Talk shows that the collapse in FCI is continuing throughout this week and the FCI could approach the dangerous 100 level again.



Where FCI, left page is a forecast --- Consumer Confidence, shown here, is a current measurement because it includes current income liquidity.

CONSUMER CONFIDENCE CONTINUES DOWNWARD

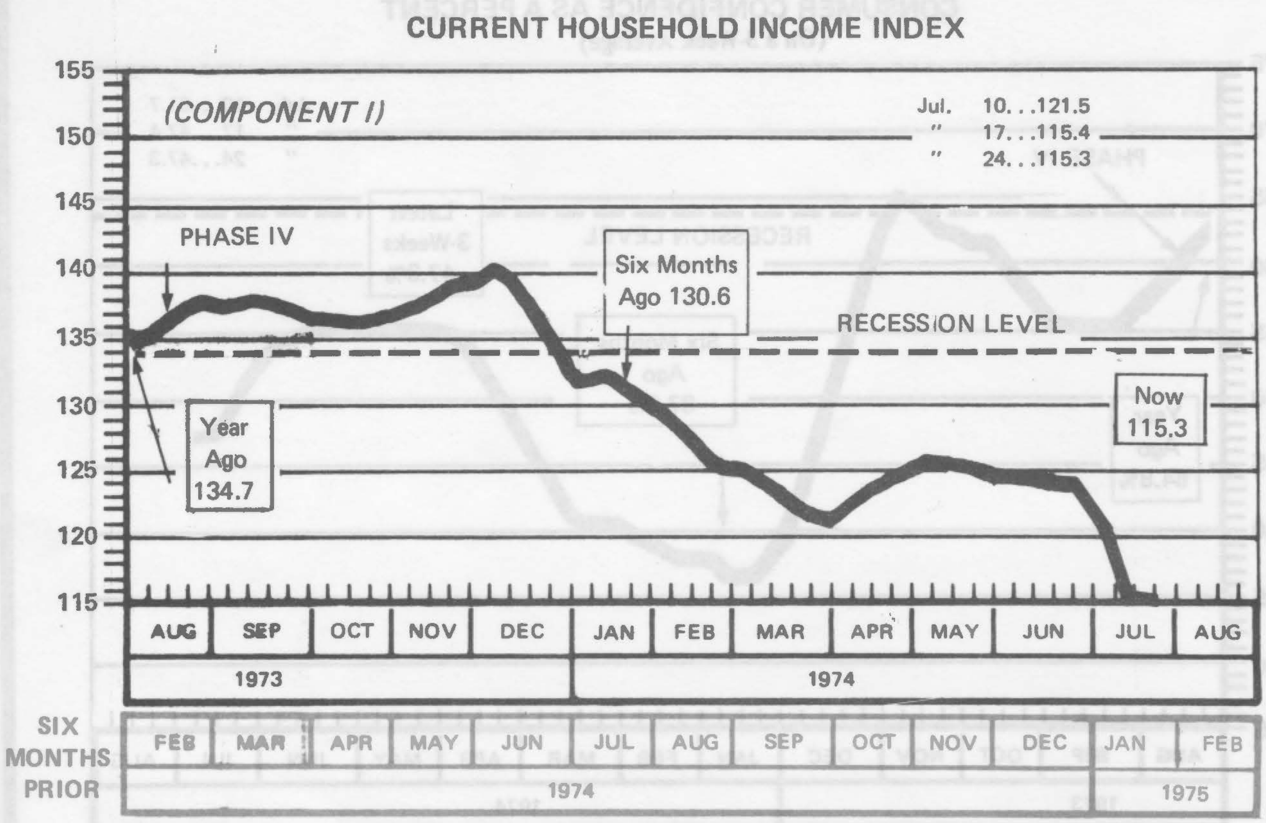
Consumer Confidence first fell below the recession level during April 1973. . .rebounded up to it during June and July. . .fell and rebounded again in November, to fall to its all-time 20-year low during the energy crisis.

From mid-April through July 10th, our Consumer Confidence level held near the 52 to 54 percent mark --- 10 points below the recession level.

By July 24th, it had fallen to 47.3 percent, and advance data show another sharp fall for the current interviewing week which started on July 25th.

INCOME COMPONENTS ARE NOW THE CULPRITS

Last week, in a special issue of *The President's Summary*, #174 dated July 26th --- where we documented why we have moved our economic forecast from recession to bordering on depression --- and in yesterday's *Stock Market & Money* Report where we said that WE NOW HAVE THE MAJOR CATASTROPHE --- the culprit for both our FCI and Consumer Confidence decline are in our two income components.



For Current Household Liquidity data as shown by the index chart above, the horizon for the time span of change is the past six months. That is, during July (in black) consumers are asked to compare their current income with the six months prior, the previous January, as shown in green.

CURRENT INCOME INDEX IS FALLING OFF CHART

The July recession level (adjusted for population growth) for our Current Income Index is 134.0.

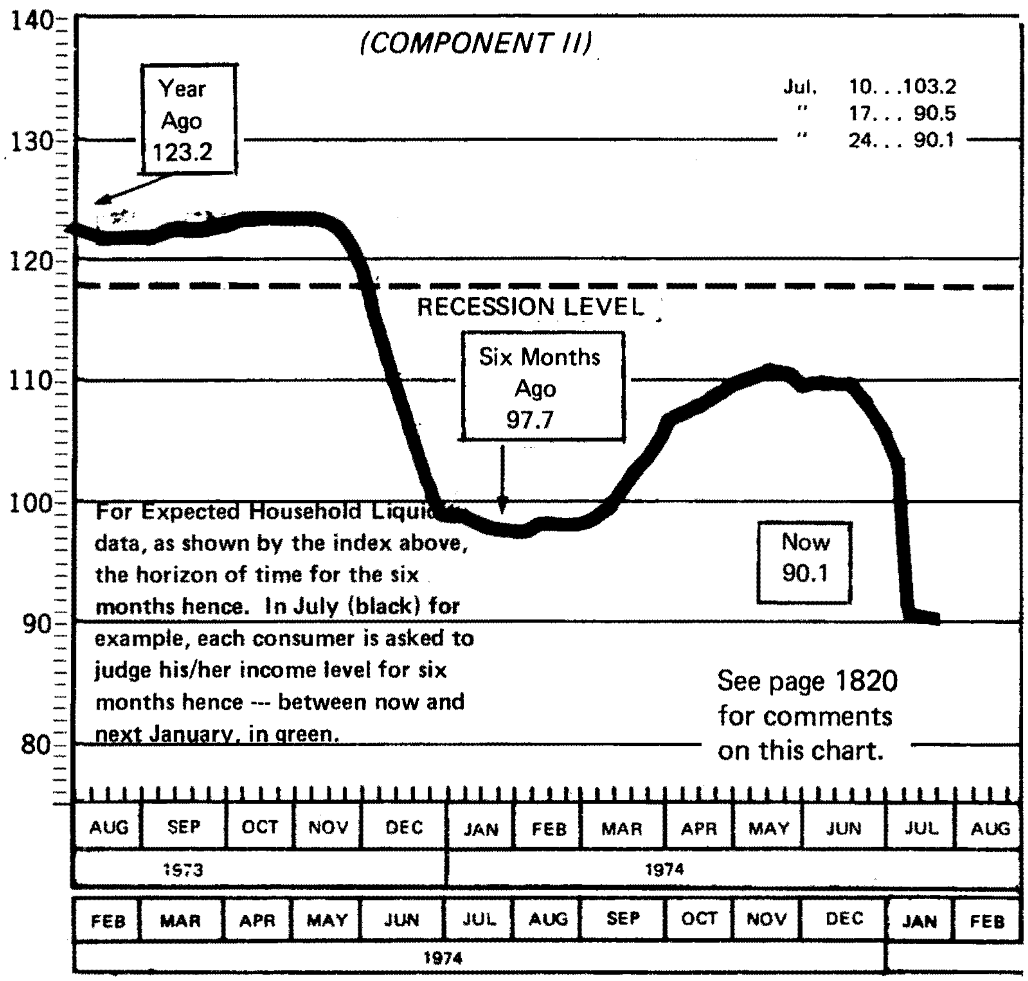
At this point we suggest that clients re-read page 1271 from your last issue of *The President's Summary* where our Current Income Index is shown on a monthly basis since 1965.

From the chart on page 1271 it will be observed that our Current Income Index reached its all-time 20-year high --- and if we had been in business since 1776 --- it would have been a 198 year record high of 143.9 for Current Income during the two weeks following President Nixon's landslide election in 1972.

As all our Political Confidence data were saying prior to the 1972 election --- voters (and we pre-counted them within three-tenths of one percent) would go to the voting booth to vote a landslide for President Nixon who had arrested and protected their highest income level in their life --- with 3½ percent inflation, due to the wage-price freeze.

We mention politics here, because from the consumers' point of view, politics is his/her economics. . .the winner of an election is the one who gets the most economic votes.

EXPECTED HOUSEHOLD INCOME INDEX



TO REPEAT TODAY'S DILEMMA

While our Current Income Index was at an all-time high just prior to the junking of Phase II ---

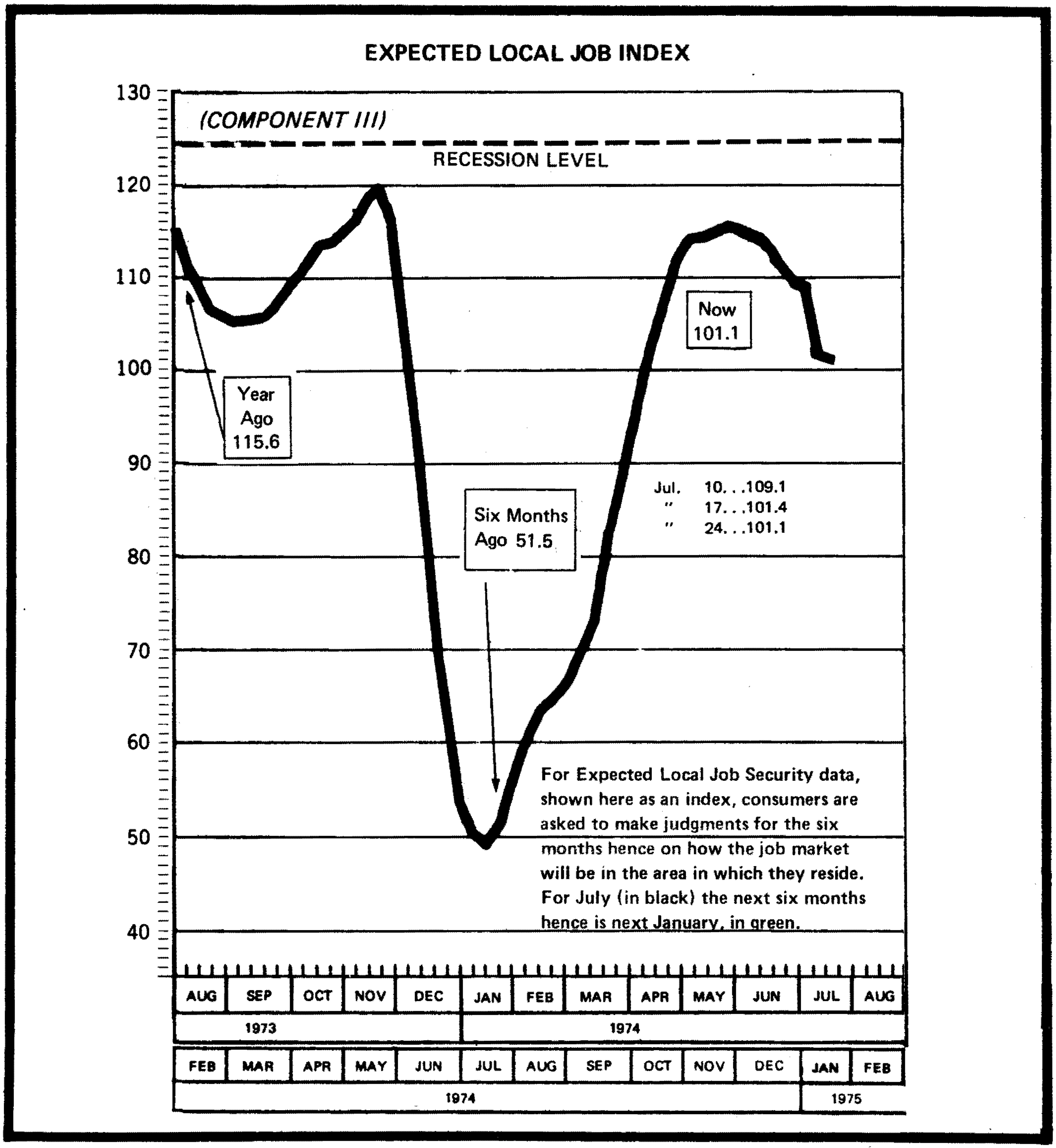
it was still down only 3.3 percent by April '73,

" " off and " " 2.3 " " August '73,

" " " " " " 2.0 " " November '73,
prior to the energy crisis.

And as we have said before --- the reason why our Current Income Index held so high up to November'73 was that one-third of the most affluent in the nation were doing hedge buying --- creating a false demand.

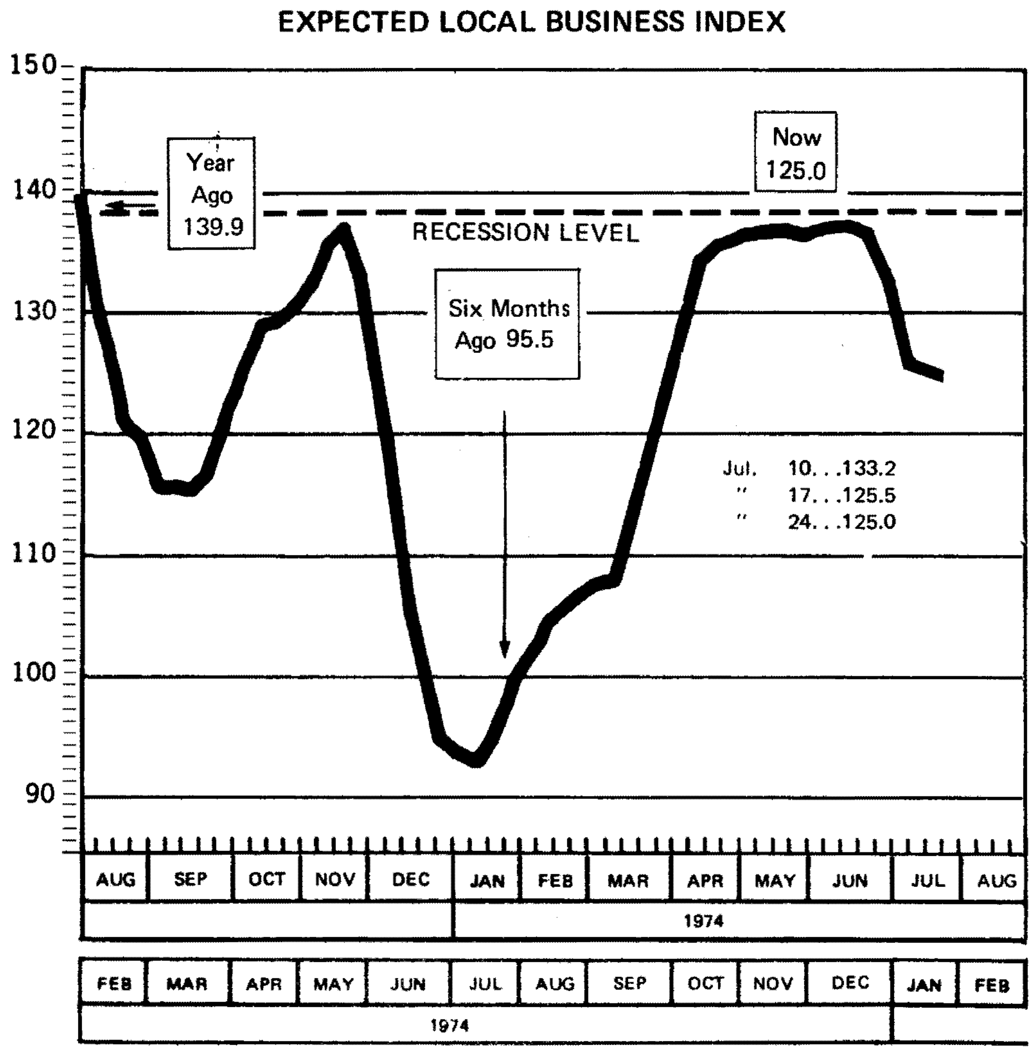
NOW --- as of July 17th, our Current Income Index is down to 113.8 --- off 25.8 percent from its record high --- and is forecast to fall further . (See chart, left page.)



THE EXPECTED JOB INDEX IS SLIDING AGAIN

The July recession level for our Expected Job Index is 124.2. At the end of 1972 and up to January 11, 1973, this index was moving up to 1968-69 levels. But, by February 1973, following the junking of Phase II, this, the most volatile index, was the first to fall and it has been below or near the recession level for the past 18 months.

During May/June this index almost recouped all of the energy crisis loss. . .but has now turned sharply down. . .below the 90.0 level. . .and is due for a further sharp drop when latest interviewing is tabulated.



The horizon for data on Expected Local Business Conditions is the same as for Expected Income and Jobs. . .i.e., during July (black) consumers are asked to judge the local business status in their area for next January, in green.

EXPECTED BUSINESS INDEX HIT HARD

Historically, our Expected Business Index has never stayed below the recession level for very long.

As the chart above shows --- while total FCI fell during all of 1973 and for 1974 --- the Business Index was only deep in the recession level for last September, and then turned up. . .fell to new lows during the energy crisis. . .to rebound almost out of the recession level during this April/June.

As of July 24th, this index (on a three-week moving average basis) fell to 125.0 and on a single week basis it fell to 122.3.

Advance data --- since the President's economic speech on July 25th will have this index down for its sharpest one-week slide in 20 years.

At no time has this index --- the most stable of all components for forecasting the stock market --- fallen as sharply as it has been doing since July 25th.

This is the first time in 20 years that the Expected Business Index has fallen in any week with greater velocity than the volatile Expected Job Index.

FORECASTING CURRENT INCOME

In order to get this report to clients, we did not have time to prepare our new forecast chart for our Current Income Index.

If clients refer to page 1789 in their Tuesday, *Consumer Confidence* Report #T-285 --- here is the last time we presented a forecast for our Current Income Index. . .which has been quite accurate in the past.

Based upon June 19th data, our forecasts (as the chart on page 1789 shows) were for a declining Current Income Index through September to a low of 120.0.

And this 120.0 level also held with data through June 26th.

However, with the new collapse of our FCI components --- we are now forecasting a disastrous future Current Income collapse for between now and next October --- just ahead of the 1974 congressional elections.

Your next issue will chart our new forecasts for Current Income, based upon July 31st data.

C

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STOCK MARKET & MONEY

July 29, 1974 **Part I M-253 - M-256**

Client Note: The report which was prepared for this date has been scrapped. By July 24th it appeared that the sharp confidence decline which started on June 26th was slowing down and was leveling off.

However ---

. . . Since President Nixon's disastrous economic talk to the nation on Thursday (July 25th) ---

. . . counted with the impact of the "Roman Arena on The Tube"

. . . we are now in another confidence crisis ... worse than during the energy crisis.*

AN ABC SUMMARY:

A. In our *Stock Market & Money* Report for June 10th we outlined why we had a 17 week countdown for the stock market from Bear to Bull.

And, we said --- ONLY A MAJOR CATASTROPHE CAN STOP IT.

➤ **WE NOW HAVE THE MAJOR CATASTROPHE!**

Make no mistake about it!

B. In today's Monday Report which we junked. . .we were documenting, that if our confidence components were to hold at the July 24th low level --- and ,

as we said in our last issue of the *President's Summary*. . . this would make six quarters of "no growth" recession (we already have two of them) bordering on depression ---

then our S & P 425 Industrial Stock Index low for the next 15 weeks, was:

. . .9 to 1 odds for a 425 Index low at 85.0.
. . .8 to 2 " " " " " " " 80.0.
. . .no odds under 80.0.

Had this forecast held --- the 9 to 1 odds would have been for a decline of 18 percent from the 104.0 Index which held throughout the energy crisis. . .and, the 85.0 Index forecast with 9 to 1 odds, would have been 13 percent below the 98.0 lowest odds prior to June 26th.

*See tomorrow's Tuesday, *Consumer Confidence* Report.

- OVER -

C. With the confidence fall since last Wednesday, July 24th. . we junk the above bad news.

Assuming that our confidence since July 24th stays where it was yesterday (Sunday) a preliminary forecast made as this is written. . .now has the 9 to 1 odds for the next fifteen weeks at near 80.0 for the S & P 425 Index.

That would be down nearly 14 percent from Friday's S & P 425 Index close of 92.8.

NOTE: This does not provide a full report for this week, since we junked the one that was prepared.

A full report will be resumed next Monday.

Issue # 274

Sindlinger & Company
Marketing & Opinion Research

S | M | T | W | T | F | S

Issued: July 26, 1974

THE PRESIDENT'S SUMMARY

. . .Consumer Economics

The Current Status of Democracy in Action. . .
Issued When Events and Data are Significant to Report

Since Wednesday, July 10th, we have spent 90 percent of our time away from Swarthmore. . .for the rest of this week we are at our desk so that we can get back to our regular daily on-time report schedule starting with your July 29th Monday, Stock Market & Money Report. For this week, this is our client communication.

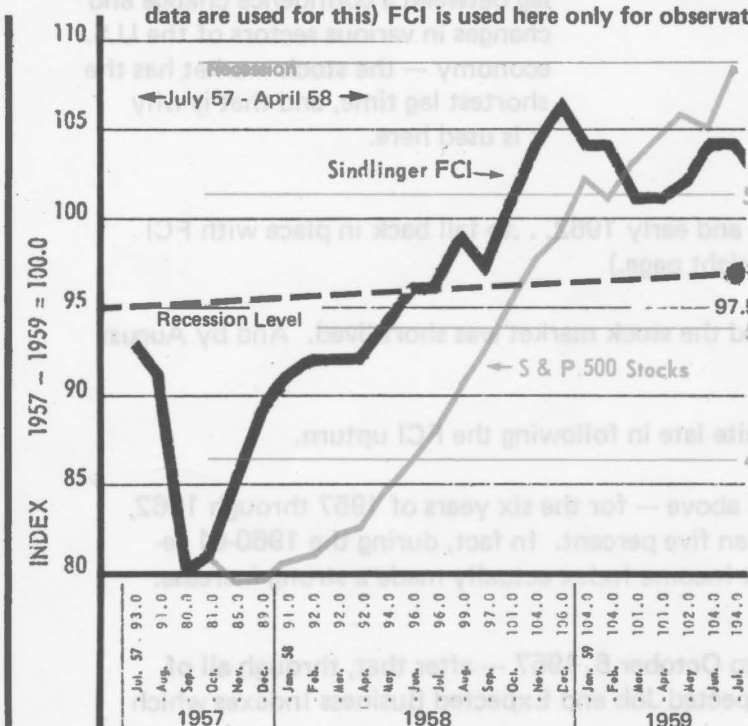
Why We Moved Our Economic Forecast From Recession to the Making of a Depression

We will use a series of charts. . .with commentary to present the facts upon which we make the above statement. . .based upon nationwide daily and continuous data gathering.

For the following. . .the reference to FCI is our Forecast Confidence Index which is the average of our three expected components for the next six months hence. . .i.e., income, jobs and business. Our Current Income Index, comparing Current Income now with six months ago, is a separate index and not included in FCI.

Our computer model, with 20 years of past data,* says (on a generalized basis) that it takes over 9 months and sometimes longer for an up/down turn in FCI to work its way through the economic system. . .and, that the lead time in a change in FCI is quite accurate in forecasting the Current Income Index by 13 weeks.

Thus, in reading the following. . .keep FCI and Current Income separated in your mind. . .and, we use the S & P 500 Stock Index for a comparison with FCI to show how the market lags FCI. . .with the rest of the economic sectors lagging from nine months and longer. For this comparison the FCI is not our stock market forecast --- (additional data are used for this) FCI is used here only for observation of the lag.



For a summary, turn to the last page. . . however, this entire documentation should be read. . .on why we move our forecast from recession to bordering on depression.

1957: SPUTNIK PULLS US OUT

Since July 1957, FCI has been reported weekly. . .first FCI data gathering started exactly 1,000 weeks ago on July 24, 1974.

- The 1957-58 recession was created by a sharp six-month FCI decline from April through October 5th, 1957. . .and there was nothing on the horizon on the evening of October 5th to stop this recession. . . which was the aftermath of World War II. . . postponed by the Korean War.

- On October 6, 1957, there was Sputnik.

* These 20 years of data represent current and expected judgments of U.S. consumers in reference to their own household liquidity — when taken collectively, have and are forecasting every major sector of the U.S. economy. . .for it is consumer liquidity which makes or breaks the total economy and all its parts.

IMPACT OF SPUTNIK

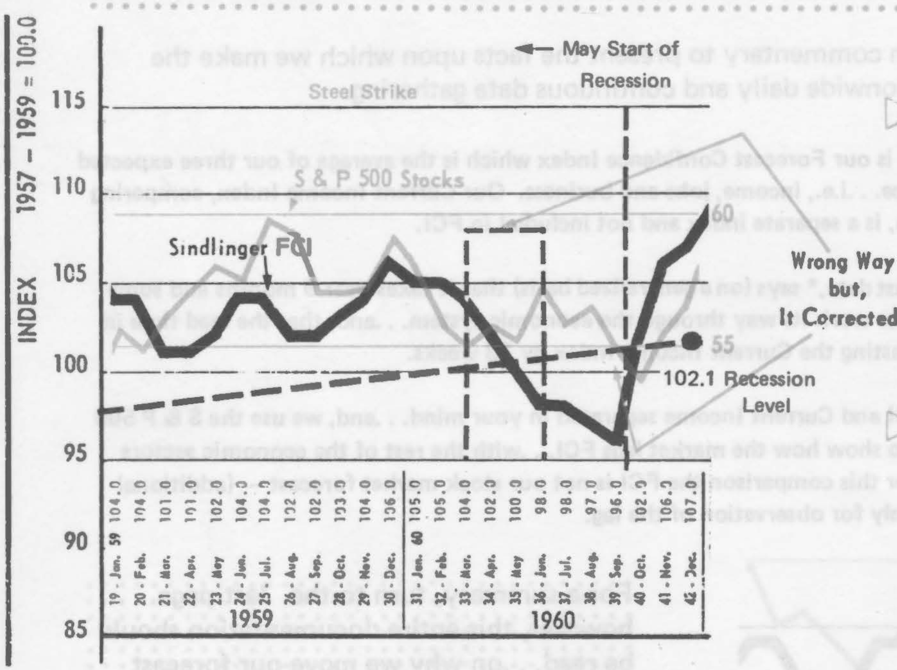
Washington and the stock market responded with fear. . .but the U.S. consumer was quick to see more jobs and better income as a result that we had to catch-up to Russia. The low level of FCI turned up the next day. . .and by January 1958 the stock market caught on for a 19-month Bull market. . .and the Space Age got under way. . .that was the start of economic go-go for U.S. consumers.

STEEL STRIKE SETS UP 2ND RECESSION

The impact of the 116 day, 1959 steel strike is shown by the fall in FCI followed by the stock market.

The 1960-61 official recession was 10 months. . .from May through February. The setup for this recession was a 9-month FCI decline --- during which 350,000 new cars were removed from the market as a result of the steel strike. That is all it took to create this mild recession.

The dash line on each chart represents the recession level for FCI. . .adjusted to growth in population. The recession FCI level of July '57 was 95.0. . .for July '59 it was 97.5. . .and, 102.1 for December '60.



As the chart shows, the FCI bottom for this recession came in September. . . and then shot up for the rest of 1960.

During the 1960-61 recession --- like the 1958-59 recession --- FCI remained on a low level for a short period and then turned up for strong gains.

As clients read this, remember --- that as FCI turns up or down there is a long lag between a confidence change and changes in various sectors of the U.S. economy --- the stock market has the shortest lag time, and that is why it is used here.

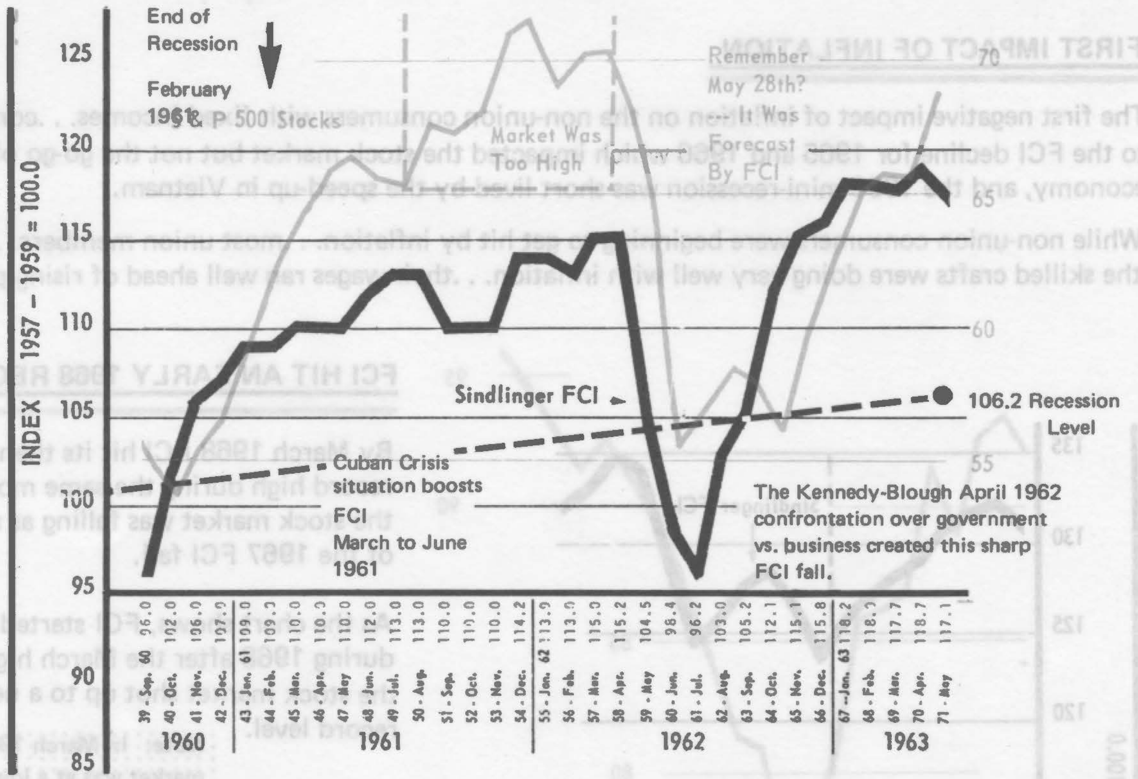
Note how the stock market overran FCI in late 1961 and early 1962. . .to fall back in place with FCI as it always does when it overshoots. (See charts on right page.)

The April to July 1962 FCI decline --- which impacted the stock market was short lived. And by August 1962 the FCI was on its way to new record highs.

The upturn for the summer 1962 Bull market was quite late in following the FCI upturn.

Significant Note: For the three major FCI falls cited above --- for the six years of 1957 through 1962, the Current Income Index never declined by more than five percent. In fact, during the 1960-61 recession and the 1962 stock market fall --- the Current Income Index actually made a strong increase.

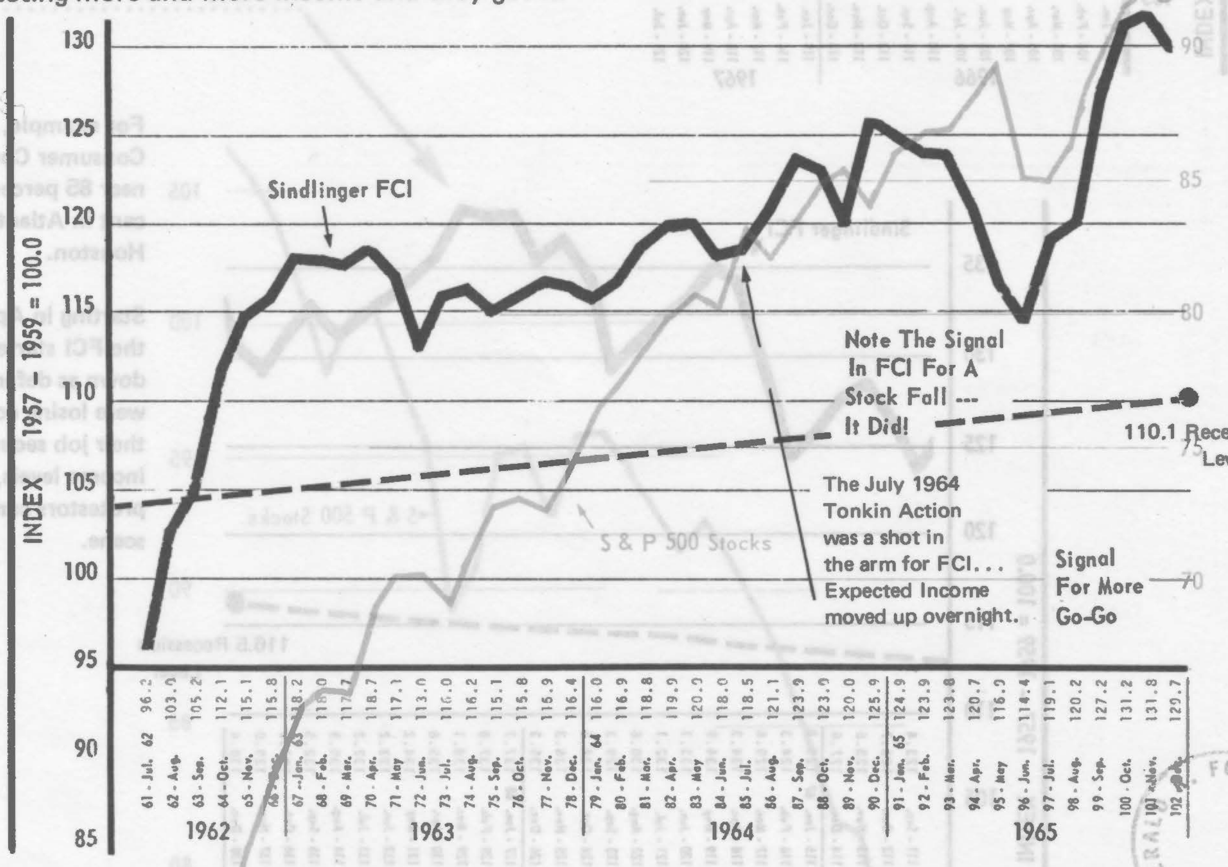
While our Expected Income Index fell sharply prior to October 6, 1957 --- after that, through all of 1962, this index made sharp gains --- as it was the Expected Job and Expected Business Indexes which were impacting FCI when it fell.



THE START OF GOOD NEWS

For 1962 through 1964. . .the chart tells the story of mostly good news, as the Cold War heated up to make more jobs and higher incomes. . .and the 1965 FCI caught the pause in the go-go.

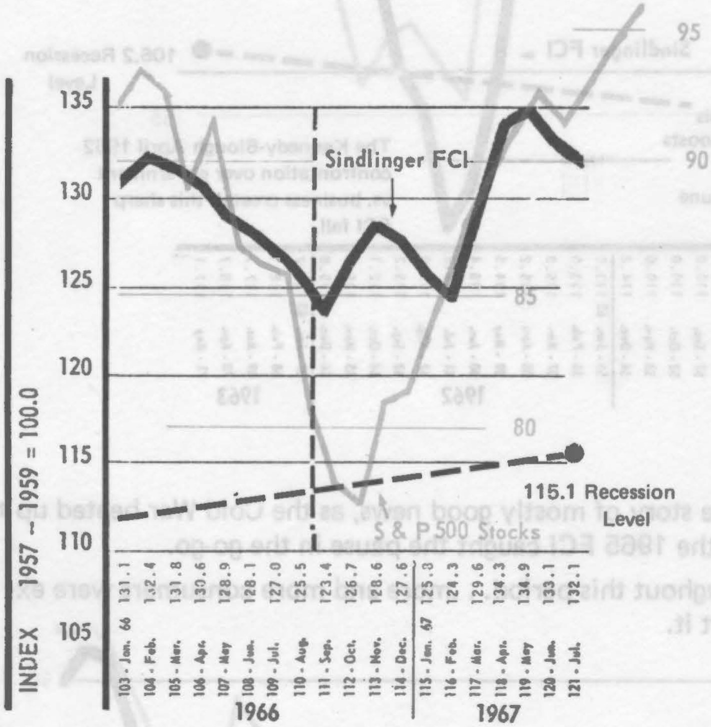
Both income indexes remained strong throughout this period. . .more and more consumers were expecting more and more income and they got it.



FIRST IMPACT OF INFLATION

The first negative impact of inflation on the non-union consumers with fixed incomes. . .contributed to the FCI decline for 1965 and 1966 which impacted the stock market but not the go-go of the general economy, and the 1966 mini-recession was short lived by the speed-up in Vietnam.

While non-union consumers were beginning to get hit by inflation. . .most union members. . .especially the skilled crafts were doing very well with inflation. . .their wages ran well ahead of rising prices.

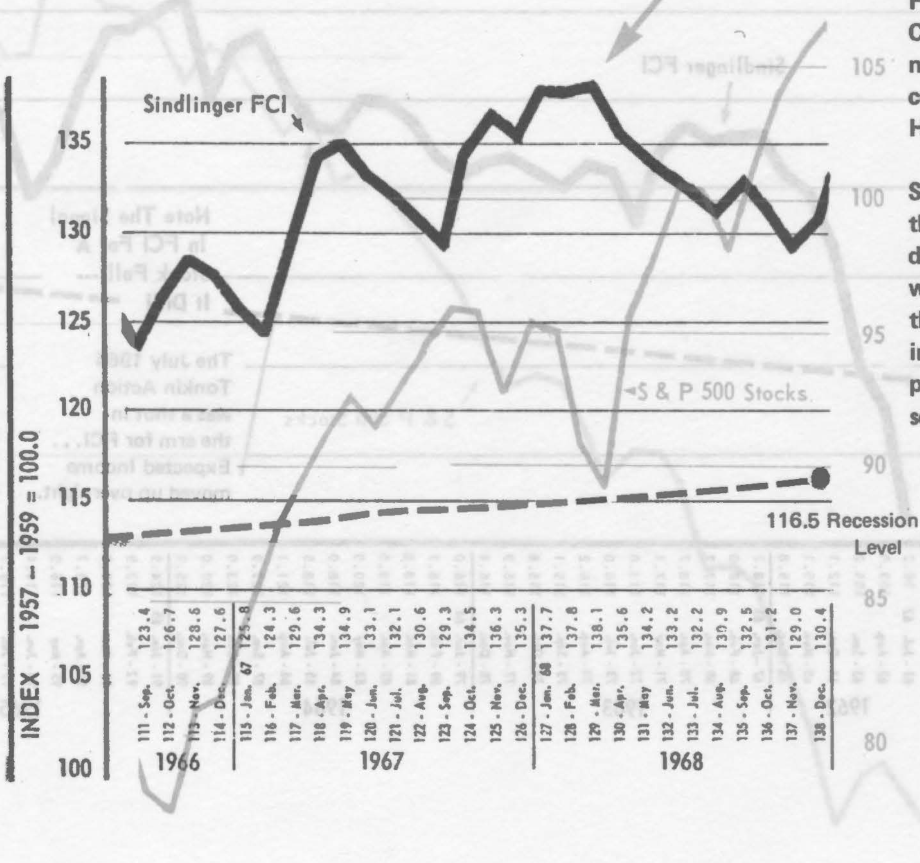


FCI HIT AN EARLY 1968 RECORD HIGH

By March 1968 FCI hit its then, all-time record high during the same month that the stock market was falling as a result of the 1967 FCI fall.

As the chart shows, FCI started to fall during 1968 after the March high. . .and the stock market shot up to a new, year end record level.

Note: In March 1968, while the stock market was at a low underpriced level — President Johnson had included himself out as a candidate. . .the bombing curb was on and the Sindlinger level of both Consumer Confidence and Forecast Confidence was at its record high — one step above heaven.

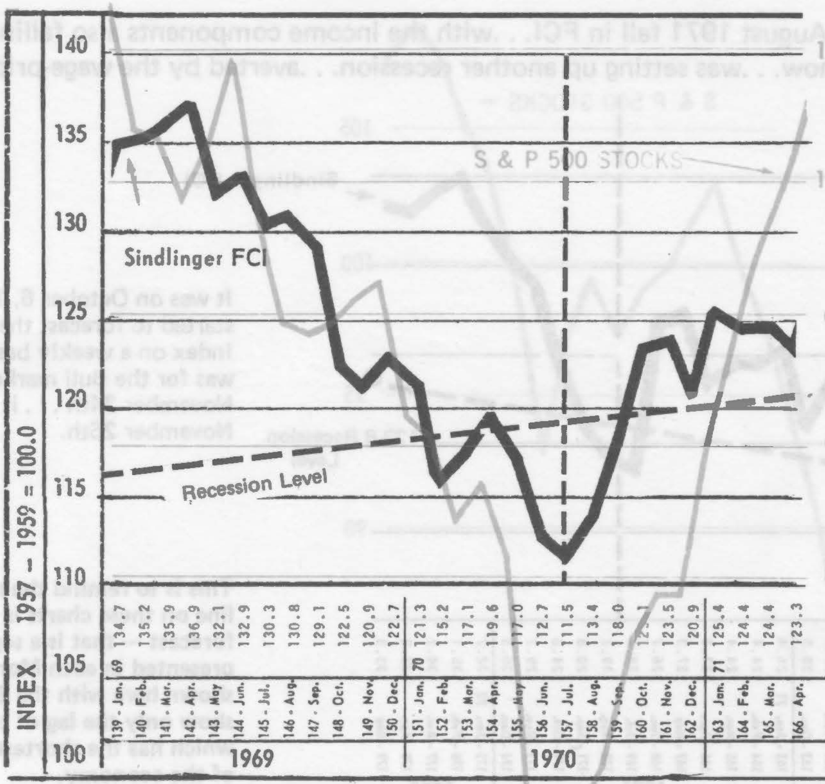


For example, nationwide Consumer Confidence was near 85 percent. ...94 percent in Atlanta and in Houston.

Starting in April 1968, the FCI started to move down as defense workers were losing confidence in their job security at high income levels, as war protestors came upon the scene.

The April 1969 rise in FCI was created by a sharp one-month rise in our Expected Income Component.

As the chart shows, the stage for the 1970 recession was set in mid-1969. . .the FCI fall was sharp — and the low level of FCI was for a short duration and turned up sharply after a one-month bottom.



SIGNIFICANT POINTS

. . . **The April, 1970 Cambodian Action . . . which did not last long . . .**

almost short-lived the 1970 recession.

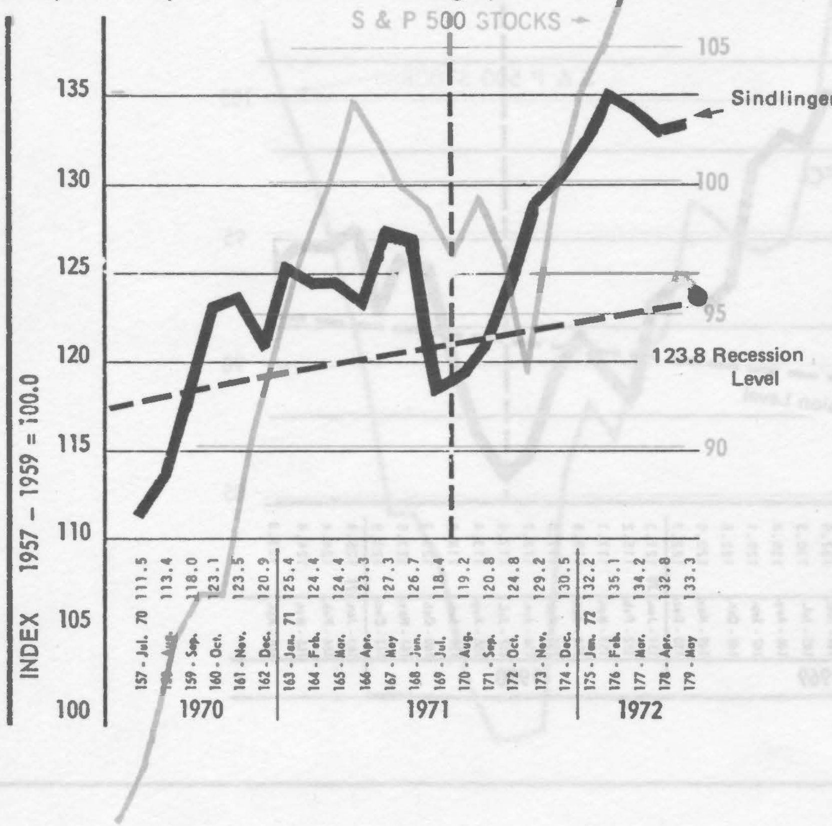
. . . **Note how sharp the 1969 fall was for FCI impacted by fear of**

job security.

THE 1971 INFLATION PANIC

Much has been written in past reports about the 1971 inflation panic which lead to the wage-price freeze. And the chart shows how Nixon's August 15th Action turned the FCI up --- followed by a strong Bull market.

The July and early August 1971 fall in FCI. . .with the income components also falling at the same time, like they are now. . .was setting up another recession. . .averted by the wage-price freeze.



It was on October 6, 1971, that Sindlinger started to forecast the stock market 425 Index on a weekly basis and the forecast was for the Bull market to start on November 24th . . . it started on November 26th.

This is to remind the reader that the FCI line on these charts is not the stock market forecast --- that is a separate forecast presented in each Monday Report. The FCI shown here with the S & P 500 Index is to show only the lag of the stock market --- which has the shortest lag of all segments of the economy.

- The 1971 decline in FCI was created by the Expected Job and Business Indexes. . .and the Expected Income Index turned up by mid-September. . .and by January 1972, the Current Income Index was out of the 4 points under the recession level.

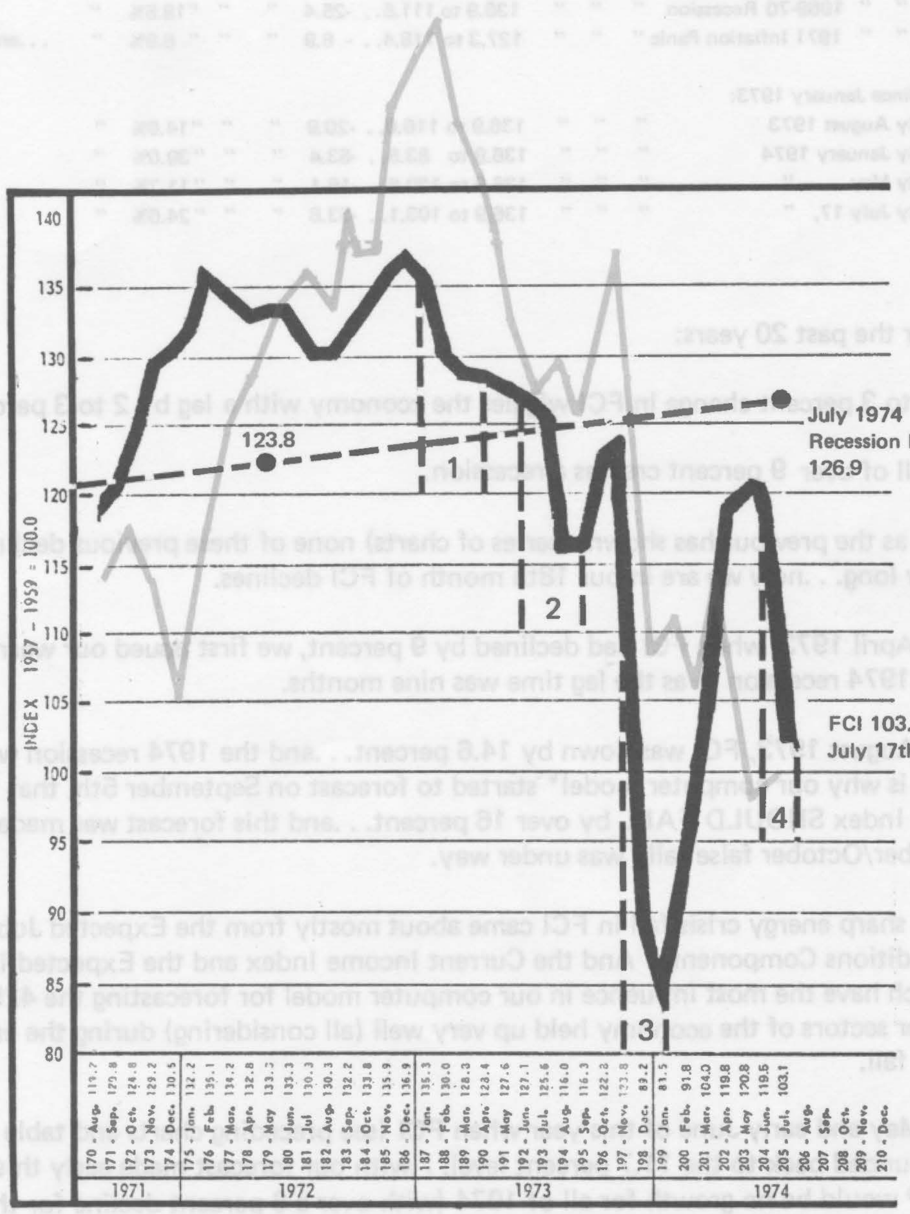
- This was the first time that the Current Income Index was so deep below the recession level since 1957. . .and it was only below the recession level for eleven weeks.

- Client Note: The accuracy of our new SFE computer model, which we started to use on October 6, 1971, (and has since been refined) includes our Current Income Index data as well as the individual components of FCI as a parameter of consumer judgment behavior for the various forecasts of economic sectors.

- Remember, for all the years of data on Current Income, from 1957 through December 1973. . .this index was never very deep in the recession level and when it was, it was for short durations, and FCI rebounds were always forecasting that it would soon turn up. . .which it did.

THE IMPACT OF THE JUNKING OF PHASE II

By December 1972, FCI was back up to 136.9 . . . almost at its record 1968-69 high . . . and the stock market had its record levels . . . to the point that the all-time high was reached on the day Phase II was junked . . . in fact the market high was at 12:15 p.m. . . 15 minutes after the junking of Phase II.



As the chart shows, FCI started to fall in January 1973, within hours after January 11, 1973.

The September/October, 1973 rise in FCI, which appeared that the recession level was in sight . . . collapsed with the energy crisis . . . to rebound up to June 26th and has now collapsed again.

On a monthly basis . . . for the 18 months since January 1973 . . . FCI has taken on four tiers of sharp declines.

- 1 . . . First tier fall was from January through April.
- 2 . . . Second tier fall was from June through September.
- 3 . . . Third tier fall was from November through January.
- 4 . . . Fourth tier started on June 26th with the closing of the Herstatt Bank of Cologne.

This summary --- of previous FCI falls, with the 1973- 74 fall --- tells why the current recession now borders on depression:

COMPARISON FOR FCI DECLINES SINCE 1957

For the 1957-'58 Recession FCI fell from	107.0 to 80.0. .	-27.0	points for a	25.2%	decline. . .arrested by Sputnik.
" " 1960-'61 " " " "	106.0 to 96.0. .	-10.0	" "	" 9.4%	"
" " 1962 stock fall " " "	115.2 to 96.2. .	-19.0	" "	"16.4%	"
" " 1969-70 Recession " " "	136.9 to 111.5. .	-25.4	" "	"18.5%	"
" " 1971 Inflation Panic " " "	127.3 to 118.4. .	- 8.9	" "	" 6.9%	" . . .arrested by wage-price freeze.
Since January 1973:					
By August 1973 " " "	136.9 to 116.0. .	-20.9	" "	"14.6%	"
By January 1974 " " "	136.9 to 83.5. .	-53.4	" "	"39.0%	"
By May " " " "	136.9 to 120.8. .	-16.1	" "	"11.7%	"
By July 17, " " " "	136.9 to 103.1. .	-33.8	" "	"24.6%	"

Historically, over the past 20 years:

. . . a 2 to 3 percent change in FCI wiggles the economy with a lag by 2 to 3 percent.

. . . a fall of over 9 percent creates a recession.

. . . but as the previous has shown, (series of charts) none of these previous declines lasted very long. . .now we are in our 18th month of FCI declines.

. . . By April 1973, when FCI had declined by 9 percent, we first issued our warning for the 1974 recession --- as the lag time was nine months.

. . . By August 1973, FCI was down by 14.6 percent. . .and the 1974 recession was assured. . . this is why our computer model* started to forecast on September 5th, that the S & P 425 Index SHOULD FALL by over 16 percent. . .and this forecast was made as the September/October false rally was under way.

. . . The sharp energy crisis fall in FCI came about mostly from the Expected Job and Business Conditions Components. And the Current Income Index and the Expected Income Index, which have the most influence in our computer model for forecasting the 425 Index and other sectors of the economy held up very well (all considering) during the energy crisis FCI fall.

. . . By May and early June of this year when FCI (see preceding charts and table above) had rebounded back to the 11.7 percent level. . .with our forecast made early this year that GNP would be no growth for all of 1974 (with over a 6 percent decline for the first quarter, which is now revised to a 7 percent decline) we were set for a good recession. . . and the recession floor for the 425 Index was between 98 to 104. . .and, the stock market was due. . .for what always happens. . .to go up in the early stages of a recession.

But. . . Since June 26th, FCI started its fourth tier decline since January 1973. . .and this FCI decline includes an Expected Income fall of greater magnitude than for any time in 20 years. . .the Expected Income fall is now greater than during the year-end energy crisis.

*The SFE forecast.

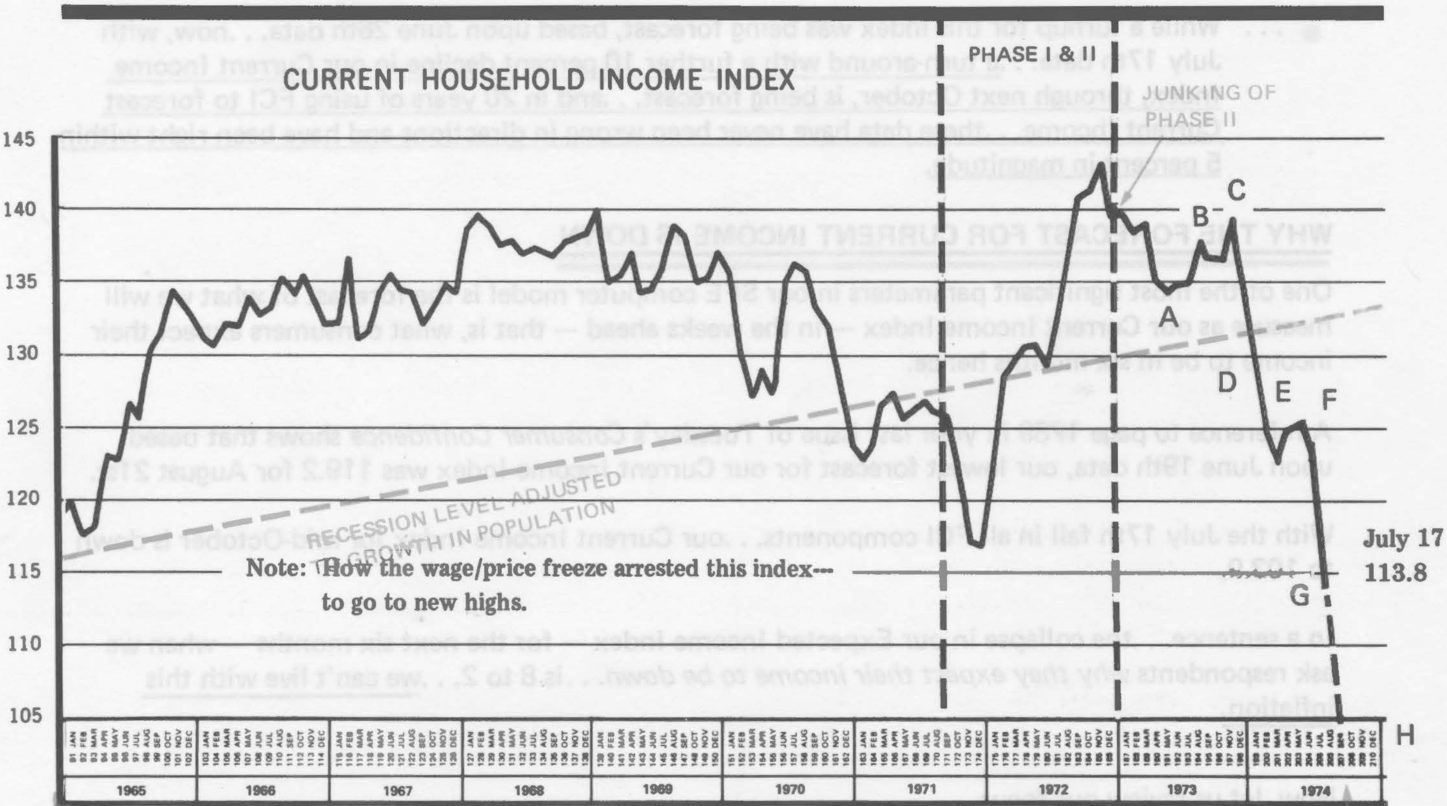
THE COLLAPSE NOW IS HOUSEHOLD INCOME --- DUE TO INFLATION

Background: In all previous recessions. . .most of the FCI declines came from *fear of loss of job*. . .and *fear of worse business*. . .and these recessions were connected with unemployment.

► In past reports we have pointed out that in every recession --- until now --- only slightly more than a majority of all consumers ever thought we were in a recession at the point of the lowest FCI.

► And, as we have pointed out in every recession --- (except prior to Sputnik) our Current Income and Expected Income Components of confidence held up with very small declines. In fact, there was a gain in Expected Income during the steel strike imposed recession of 1960-61.

► BUT, here is what has happened since the junking of Phase II. . .to one of our two income components of confidence. . .showing the monthly trend of Current Income since 1965.



ON CURRENT INCOME:

From January 1973 when our Current Income Index was at its near record high of 140.1 (the record high was 143.9 two weeks following the election of Nixon) the change is as follows:

A . . . By April 1973 it was at 135.4. . .off 4.7 points for 3.3 percent.
B . . . " August " " was up to 137.8. . .off 2.3 points for 1.6 percent.
C . . . " Nov. 28, " " " " 139.9. . . " 2.0 " " 1.4 "
D . . . " Jan. 16, 1974 " off at 132.0. . . " 8.1 " " 5.7 "
E . . . " May 1974 it held to 125.2. . . " 14.9 " "10.6 "
F . . . " June 26," " was 124.0. . . " 16.1 " 11.4 "
G . . . " July 17, " " " 113.8. . . " 26.3 " " 18.7 "

H and our computer forecast*
for 13 weeks from now is. . . . . .103.9. . . " 36.2 " " 25.8 "

* The above presents our alarm. . .as simply as we can make it.

Remember at the start we said. . .keep our Current Income Index separated from our FCI.

. . . It has been shown (page 1270) that a 9 + percent decline in FCI can create a recession.

. . . Historically, a percent change in FCI works throughout the economic system with its lag. . .with an almost equal percent change. . .up or down, in economic activity.

. . . For our Current Income Index, an 8 percent decline usually followed, in the later stages of a recession, after the FCI bottom outs and turnups. . .but, the Current Income Index has never been below the recession level for any sustained period of weeks. . .during past recessions.

. . . The next issue of our *Consumer Confidence* Report will show that our Current Income Index has now been below the recession level for seven straight months. . .and, 13 weeks is the previous record).

. . . While a turnup for this index was being forecast, based upon June 26th data. . .now, with July 17th data. . .a turn-around with a further 10 percent decline in our Current Income Index, through next October, is being forecast. . .and in 20 years of using FCI to forecast Current Income. . .these data have never been wrong in directions and have been right within 5 percent in magnitude.

WHY THE FORECAST FOR CURRENT INCOME IS DOWN

One of the most significant parameters in our SFE computer model is the forecast of what we will measure as our Current Income Index --- in the weeks ahead --- that is, what consumers expect their income to be in six months hence.

A reference to page 1789 in your last issue of Tuesday's *Consumer Confidence* shows that based upon June 19th data, our lowest forecast for our Current Income Index was 119.2 for August 21st.

With the July 17th fall in all FCI components. . .our Current Income Index for mid-October is down to 103.9.

In a sentence. . .the collapse in our Expected Income Index --- for the next six months --- when we ask respondents *why they expect their income to be down. . .*is 8 to 2. . .we can't live with this inflation.

Now, let us review our focus.

Focus #1. . . From the table on page 1270 and the chart on page 1269, we show that FCI from January 1973 to July 17, 1974, has declined by 24.6 percent.

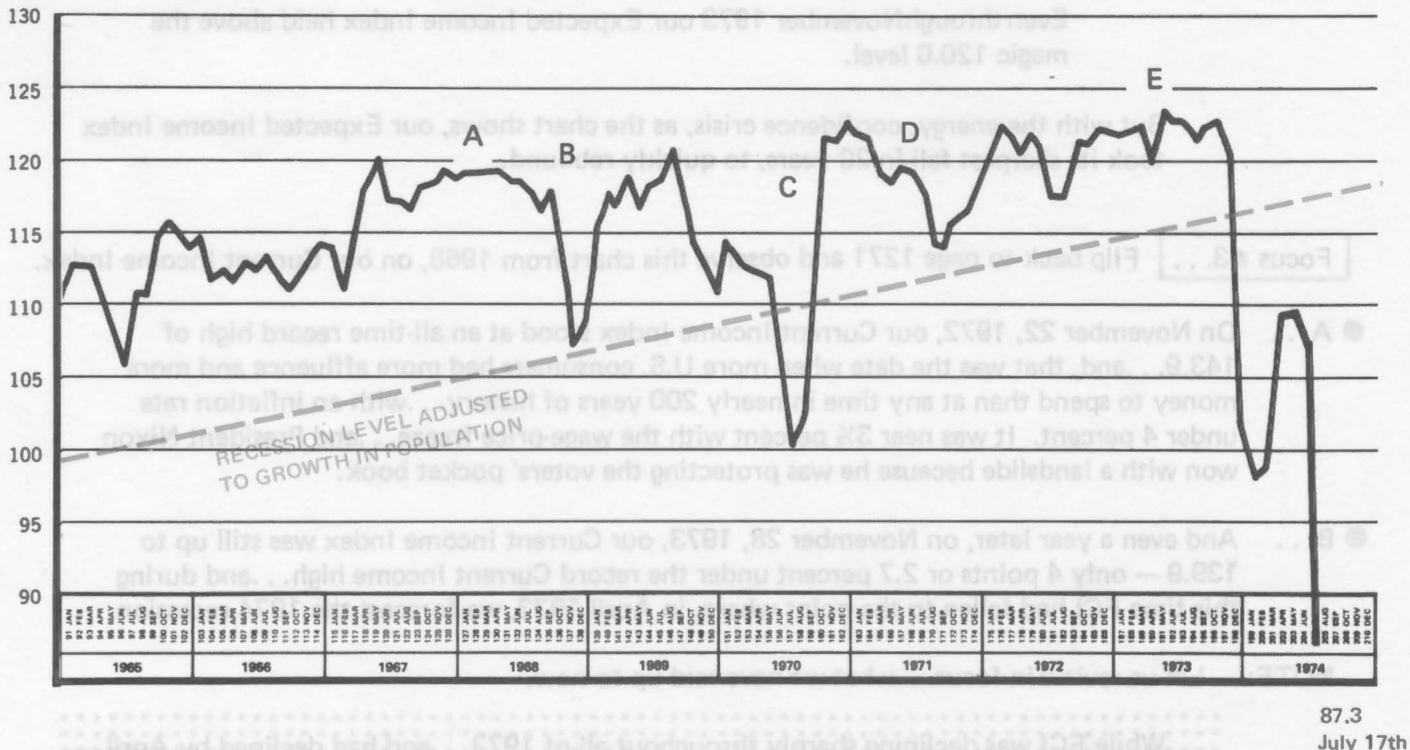
Remember, the 1957-58 recession was created by a 25.2 percent FCI decline. . . and what pulled us out of this was Sputnik.

The 1960-61 recession was created by a 9.4 percent FCI decline.

The 1969-70 recession was created by 18.5 percent FCI decline.

Now, we have a 24.6 percent FCI decline and it is still falling.

EXPECTED HOUSEHOLD INCOME INDEX



Focus #2. . . From the chart on our Expected Income Index since 1965. . .note that during January through October of 1973, this index was riding at its highest level in 20 years. . .and Expected Income is one of the three components of FCI. This means that the impact of fear-of-job loss and worse business. . .the other two components of FCI. . .were the total drag for our FCI 1973 decline.

- A. . . Early in 1968, our Expected Income Index was riding at its highest level since 1957 — at just under 120.0 — and that was super-prosperity.

- B. . . From July through November 1968, this index fell from 118.9 to 107.0 — a decline of 11.9 points for a drop of 10 percent.

  This decline came from defense workers, but as the chart shows, following the Nixon election it shot up to a new then record high of 121.1 during August 1969. . .and the stock market followed it up.

- C. . . For the 1970 recession, our Expected Income Index, in 13 months, fell from 121.1 for August 8, 1969, to 99.6 for August 7, 1970. . .this was a fall of 21.5 points or 17.7 percent. . .but note on the chart, the fast upturn to a new record high within four months to the end of 1970.

- D. . . The consumer inflation panic of 1971 shows how our Expected Income Index was falling again. . .to be corrected by an upturn within a month after the wage-price freeze of August 15, 1971.

- E. . . And here is 1973. . .while total FCI was falling throughout the year. . . and remember, our Expected Income Index is one-third of the Forecast Confidence Index. . .the Expected Income Index made a new all-time record high in May 1973, as the "hedge buying" was at full steam.

ON EXPECTED INCOME --- continued

Even through November 1973 our Expected Income Index held above the magic 120.0 level.

But with the energy, confidence crisis, as the chart shows, our Expected Income Index took its sharpest fall in 20 years, to quickly rebound.

Focus #3. . . Flip back to page 1271 and observe this chart from 1968, on our Current Income Index.

- A. . . On November 22, 1972, our Current Income Index stood at an all-time record high of 143.9. . .and, that was the date when more U.S. consumers had more affluence and more money to spend than at any time in nearly 200 years of history. . .with an inflation rate under 4 percent. It was near 3½ percent with the wage-price freeze. . .and President Nixon won with a landslide because he was protecting the voters' pocket book.

- B. . . And even a year later, on November 28, 1973, our Current Income Index was still up to 139.9 --- only 4 points or 2.7 percent under the record Current Income high. . .and during this time FCI had fallen to the point where, in April 1973, we forecast the 1974 recession.

NOTE: Let us review in focus. . .what we have said up to now.

. . .While FCI was declining sharply throughout all of 1973. . .and had declined by April to the point where we were forecasting a 4 quarter 1974 recession;

during this time. . .from January through November 28, 1973, our Current Income Index, which reports current household *liquidity*, or the current household *money supply*, now (on day of interview with a day six months prior) --- was for the entire nation. . .only 2.7 percent below a 198 year record high for American consumer affluency.

Keep this 2.7 percent in mind as we proceed with our logic.

Focus #4. . . is a question:

How could we forecast a recession in April 1973, based upon the FCI decline --- when both our Current Income Index and our Expected Income Index remained at near record 20-year levels?

Answer: **Very simple!** In past reports. . .

as we have repeated over and over to the point of redundancy. . .one-third of the affluent population following the junking of Phase II, had the savings and the high income to participate in "hedge buying" to beat further rising prices.

And, this "hedge buying" created a false demand (3 million new cars for example) and this false demand kept our Current and Expected Income Components high. . . for those who were producing goods for this false demand. . .through November 1973.

Through November of 1973. . .while U.S. consumers were worrying about their job and business security. . .in aggregate, they had only been hit with a 2.7 percent income loss. . .from the highest affluence in 198 years.

Focus #5. . . Remember, that since April 1973 --- even while our Current and Expected Income Indicators were holding rather strong --- due to the one-third who could afford to "hedge buy". . ..the other two-thirds of U.S. consumers --- due to inflation --- curbed their spending --- as forecast --- to the point where the first two quarters of 1974 GNP came in as "no growth," which is official for a recession. . .and we were forecasting based upon this, four quarters of no growth for 1974. . .we now have had two.

Now, let us put the significance of the above statement in focus with past reporting.

1. If clients re-read *The President's Summary* Issue # 247, dated February 22, 1974 . . . on page 1169 they will read (based upon January 10, 1974 data):

   NO GROWTH FOR 1974

   When the above data (referring to GNP) as a parameter, along with other parameter data are fed into our SFE computer model. . .the result is --- NEGATIVE GROWTH FOR THE U.S. ECONOMY IN 1974.

2. If clients re-read our May 9, 1974, *Consumer Spending & Demand* Report, where we forecast GNP. . .on page 16. . .(based upon March 22, 1974, data) we presented the following forecast for GNP for 1974 in constant dollars. . .as follows:

	Average Quarter In Billions	Actual In Billions	
January, 1974 forecast was $822.9 billion			
February " " 823.3 "	$823.3	$830.5	within 0.8% of forecast
March " " 823.8 "			
April " " 827.5 "			
May " " 837.1 "	$832.8	$828.0	within 0.5% of forecast
June " " 833.9 "			
July " " 832.1 "			
August " " 823.8 "	$827.6 *		
September " " 827.0 "			
October " " 828.4 "			
November " " 835.7 "	$833.9 *		
December " " 837.6 "			

***For new forecasts see next week's reports.**

Remember the above GNP forecasts were based upon our March 22nd data as we were coming out of the energy crisis low of January 16, 1974.

- . . . The first actual preliminary figure for the first quarter 1974 GNP was published on April 18th and was estimated to have been $832.0 billion . . . which would make it 1.8 percent higher than we forecast.

  Later, the first quarter GNP was revised downward to $830.5 billion, which would make it within 0.8 percent of our forecast based upon consumer judgments from our confidence data of March 22nd.

- . . . The preliminary figures for the second quarter 1974 GNP were released on July 18th and set at $828.0 billion. This means that this preliminary figure of negative growth for the 2nd Quarter GNP is $4.8 billion below or down by 0.5 percent from our forecast.

WE DID NOT MAKE THESE FORECASTS --- THE CONSUMERS DID

Thus, for the first and second quarter GNP. . .the U.S. consumer was right on two fronts. . .with his/her consumer judgments on *their* household spending behavior:

FIRST. . . the consumer was right within a percent. . .in forecasting the actual dollar amount for GNP.

SECOND. . . the dollar amount being forecast for GNP for the first quarter was negative growth of 6½ percent. . .the official figure is now 7 percent.

The dollar amount being forecast for the second quarter was also for negative growth.

And remember, the first two quarters for GNP were forecast on March data . . . now, our new forecasts for GNP with July 17th data (see your next Thursday Report) will show new downward revisions for the next four quarters with negative growth exceeding 10 percent.

As we have said, our forecasts for GNP and all other economic sectors, are based --- not on our judgments --- but on the consumers' judgments --- all we do is measure these judgments, report them and forecast upon them.

ANOTHER AREA FOR CONSUMER ACCURACY

If clients will re-read their June 6, 1974, Thursday *Consumer Spending & Demand* report, where we outlined how the consumer forecasts the FRB M2 Money Supply . . . they will find on page 56, our forecast for M2 through August 14th. These forecasts were based upon April 24th data ... and here is how the actual M2 has been checking out with the forecasts . . . for the past 12 weeks since the forecast was published.

(Not Seasonally Adjusted)

Date for each Wednesday		36 week lead M2 Forecast Made April 24, 1974	Actual M2 Reported	Difference In Dollars	Difference In Percent
May	1	$594.9 Billion	$590.8 Billion	$4.1 Billion	+0.68%
	8	597.2 "	590.3 "	6.9 "	+1.15
	15	597.7 "	592.3 "	5.4 "	+0.90
	22	599.0 "	590.4 "	8.6 "	+1.43
	29	599.5 "	589.2 "	10.3 "	+1.71
June	5	599.5 "	596.4 "	3.1 "	+0.51
	12	599.5 "	598.0 "	1.5 "	+0.25
	19	599.5 "	598.8 "	0.7 "	- 0.11
	26	600.4 "	594.0 "	6.4 "	- 1.06
July	3	601.3 "	599.8 "	1.5 "	- 0.24
	10	601.8 "	600.8 "	1.0 "	- 0.16
	17	601.8 "	600.9 "	0.9 "	- 0.14
	24	602.2* "	--	--	--
	31	603.6* "	--	--	--
August	7	605.5* "	--	--	--
	14	608.1* "	--	--	--

Note:

As clients follow this series in the future . . . it will be observed that the M2 figure for the last week in each month tends to be lower than forecast and comes back the first week each month.

* New forecast to be reported next week revises the forecasts downward.

In reference to the preceding M2 forecasts:

- ... The lead time between a change in our confidence levels and a change in M2 is 36 weeks . . i.e., M2 lags consumer judgments by 36 weeks.

- ... It was forecast with 36 weeks earlier data that the growth rate of M2 should top out and start to decline about May 22nd . . . and that was the actual week when M2 topped out . . . and its annual rate of growth started to slow down . . . just as the consumers forecast that it should.

WHY GNP AND M2 HERE?

To develop our logic:

... if consumer changes in judgment over their current and expected household status — coupled with their appraisal of future job security and expected business conditions . . . can forecast the up/down movement of the stock market from 8 to 15 weeks in advance --- as they have been doing for twenty years.

and ... if consumers can forecast, a year in advance, the total GNP, of which they control about 65 percent --- with better accuracy than any single human.

and ... if consumers can forecast the FRB M2 Money Supply (a most complicated aspect of monetary policy) within a few percent --- each week --- week after week ---

and ... if consumers can forecast changes in interest rates --- as they are now saying that interest rates are a week or so away from topping out ---

and ... if consumers can forecast all of the other sectors of the economy --- more accurately than any single human --- or more accurately than a consensus of single humans ---

then ... what they are saying now --- ought to be listened to.

Editorial Comment:

Since our July 10 "ride" to Washington and to many other places . . . we have experienced many frustrations ... but the biggest of all, are these:

1. The consumer is not sophisticated enough to forecast the economy.
   Response: Then how come they have been doing it every week for 20 years (see above)?

2. Political statesmen and business leaders say --- we have got to educate the public to the problem.
   Response: Who needs the education, the public?

3. Almost everybody asked --- should I sell my stock now?
   Response: I sold mine.

Editorial Comment (Continued)

4. You are over concerned --- some how we will "muddle" through --- the government will not let us have an economic collapse !!!

   Response: We will "muddle" through by telling the consumer
   (a) *inflation is his/her fault . . .*
   (b) *you have got to save more!*
   The consumer(who has to be educated) . . . says . . save more? . . hell I'm worried about what I have saved, if anything.

5. We need a good recession to straighten us out!!!

   Response: Agreed, but we do not have to turn that *good recession . . . to a depression* with that aftermath.

Focus #6 . . . For this focus, we present this table on our Expected Income Index.

Here are the comparative figures on the recent fall in our Expected Income Index compared to its January 3, 1973, level at 122.2.

. . .	By	Mar. 14,	1973	Expected	Income	was	up to	123.5. . .	up	1.3	points	for	+ 1.0%
. . .	"	Apr. 4,	"	"	"	"	at	120.7. . .	down	1.5	"	"	- 1.2%
. . .	"	May 16,	"	"	"	"	up "	124.4. . .	up	2.2	"	"	+ 1.8%
. . .	"	Aug. 1,	"	"	"	"	" "	123.0. . .	"	0.8	"	"	+ 0.6%
. . .	"	Oct. 24,	"	"	"	"	" "	123.2. . .	"	1.0	"	"	+ 0.8%
. . .	"	Feb. 20,	1974	"	"	"	down	97.9. . .	down	24.3	"	"	- 19.8%
. . .	"	May 8,	"	"	"		rebounded	110.9. . .	"	11.3	"	"	- 9.2%
. . .	"	Jul. 17,	"	"	"	is	down	87.3. . .	"	34.9	"	"	- 28.5%

To repeat, remember that Expected Income is one of the three components of FCI. ...and while the other two components of FCI (Jobs and Business) were saying recession since April 1973, our Expected Income Index held up strong throughout October. . .again, based upon "hedge buying."

But. . .while our Expected Income Index fell to -19.8 percent during the energy crisis. . .then rebounded to -9.2 percent in May. . .the decline is now down to a twenty-year all-time low of -28.5 percent. . .and is still falling.

WHY HAVE THE TWO INCOME INDEXES FALLEN SO FAST

To answer this, we have two sources of data:

FIRST: - Where a respondent reports an income loss. . .we ask for the reason. . .70 percent say it is inflation.

SECOND: We have been running a special question sequence on inflation --- see your *News & Issues* Report W-197 --- and recent issues of *The President's Summaries.*

For the past three months, U.S. consumers through our studies say the rate of inflation is much higher for the things they buy than for official rate as stated by the Consumer Price Index.

For example:

. . .During May --- 6 in every 10 consumers said inflation was nearly 15 percent.

. . .During mid-June --- 4 in every 5 said it was over 15 percent.

. . .During early July --- 8 in every 10 say it is near 20 percent.

Final Conclusion On Why Our Current Recession Is Now Bordering On Depression Can Be Summarized In Five Points

- 1. . . . This special issue has documented that our past recessions of 1957-58 and 1960-61 . . . mini-1966 . . . and 1970-71 involved economic slowdown due to high unemployment . . . and that only half of the population recognized that we were in a recession at its depth. This was because half of the population was not really affected by past recessions --- they rode right through them.

- 2. . . . During past recessions our two components of confidence . . . the measurements of the consumers' "money supply", when it eroded . . . soon snapped back to pull us out of each recession . . . with the help of "cold" and "hot" wars.

- 3. . . . Now, America's goal is peace and prosperity at the same time . . . yet, we have the "war" of inflation ... which consumers say is now taking 20 percent of everybody's income. Thus, instead of an unemployment recession --- we have an everybody's inflation and recession at the same time.

- 4. . . . To allude that the first two quarters of GNP negative growth for 1974 was "merely a spasm" . . . is a misreading of "chest pains."

- 5. . . . All consumer data reported here, with other data to follow --- says the U.S. economy for the next year or longer is due for a further 20 percent or more decline.

  IF . . . a 10 percent decline makes a recession . . . we end our logic with . . . what will a 20 percent or more decline make the economy?

Sindlinger & Company
Marketing & Opinion Research

S M T W T F S

Issued: July 19, 1974

THE PRESIDENT'S SUMMARY

. . .Consumer Economics

The Current Status of Democracy in Action. . .
Issued When Events and Data Are Significant to Report

Later next week we hope to get back to our regular report schedules. . .and will utilize this series for all client communications in the meantime.

CLIENT SURVEY: Returns are coming in on our client survey concerning our reporting. Early returns show that about 65 percent want capsulized fast-reading reporting. . .with 25 percent desiring all the details. . .and 10 percent in between.

Here is the capsule for the 65 percent:

▷ . . . **By July 17th all confidence data are down to the point where we change our April 1973 recession forecast to depression.**

▷ . . . **If Nixon's Economic Advisers would take off their rose colored glasses and read their own data the way it is, and not the way he wants to hear it. . .he would take the proper actions.**

▷ . . . **To reverse the further 20 percent decline for the S & P 425 Index Forecast. . .from where it is now, based upon July 17th data. . . he would act on the suggestions offered.**

▷ . . . **The stock market moves up on any hair of good news. . .because it wants to go up. . .it's afraid to go down.**

▷ . . . **We hope the President acts before the stock market does.**

▷ . . . **What has turned the recession to depression is the current sharp fall in our two income components --- both falling to 20 year lows together. Never have these two components fallen together with such speed.**

THE LOGIC FOR CHANGING OUR FORECASTS FROM --- RECESSION TO DEPRESSION

On Wednesday, July 17th. . .Sindlinger & Company completed its 999th week of daily and continuous interviewing of U.S. consumers for our various confidence components and indexes.

Since April of 1973, our Indexes on consumer behavior have been saying recession. . .following is the logic on why we now move this to depression.

LATEST KEY COMPARATIVE DATA

	A	B	C	D	E
	7 Days Latest Week July 17th	28 Days Prior To Latest Confidence Slide Jun.26,'74	Low Point Of Energy Crisis Jan.16,'74	Prior To Junking Of Wage-Price Freeze On Jan.11,'73	Recession Level
● Percent With Consumer Confidence	46.9	54.8	37.0	74.7	64.0
▷ Current Income Index	113.8	124.0	132.0	140.0	134.0
■ Expected Income Index	87.3	108.4	98.4	122.2	118.1
Expected Job Index	98.5	113.2	49.1	130.2	124.2
Expected Business Index	123.3	136.9	93.2	158.9	138.3
▶ Forecast Confidence Index (FCI)	103.1	119.5	80.2	137.0	126.9

● . . . On Consumer Confidence. . .it is now down to 46.9 percent (A). Only 9.9 points above the January Energy Crisis low (C). . .17.1 points below or 26.7 percent under our recession (E) level.

Prior to the January 11th, 1973, blunder of junking the wage-price controls when they were working. . .when the rate of inflation was just over 3½ percent. . .and consumers knew it. . .Consumer Confidence was at 74.7 percent (D) and this means that the decline of Consumer Confidence from then (D) to now (A) is for a 27.8 point fall which represents a decline of 37 percent.

To put this figure in focus:

Prior to January 11, 1973 --- following Nixon's landslide election because he stopped the 1971 panic over inflation. . .84 million U.S. consumer household heads (74.7 percent) had Consumer Confidence.

Now (July 17th) only 55 million have Consumer Confidence and it is still falling. . .which means that 29 million U.S. consumers have lost confidence during the past eighteen months.

THE FORECAST CONFIDENCE FALL IS JUST AS BAD

Prior to January 11, 1973, our Forecast Confidence Index (FCI) was up to 137.0. ...this was within two points of the 1968 all-time high. An index of 137.0 at that time represented 80.2 percent or 96,562,000 U.S. consumers. . .and peace and prosperity --- something the world has never known --- *was at hand.*

▶ Now (July 17th) our FCI is down to 103.1 (A). . .and still falling. . . which is:

. . . down 33.9 points or by nearly 25 percent from the junking of Phase II (D),

. . . down 23.8 points below the recession level (E),

. . . down 16.4 points from June 26 on the day the Herstatt Bank of Cologne fell, and it is. . .

. . . only 22.9 points above the energy crisis low (C).

In terms of number of consumers. . .this FCI fall means that now (July 17th) only 75,231,000 (64.3 percent) have Forecast Confidence for the six months ahead.

That says that in 18 months, 21,331,000 U. S. consumers have lost Forecast Confidence for a decline of 22 percent.

BUT HERE IS WHERE THE DEPRESSION NOW COMES IN

▷ . . . Now (July 17th) our Current Income Index is down to 113.8 (A). . .

. . .down by 10.2 points or 8.2 percent from June 26th (B).

. . . " " 18.2 " " 13.7 " " the energy crisis low (C).

. . . " " 20.2 " " 15.0 " below the recession level (E).

. . . " " 26.2 " " 18.7 " from when Phase II was holding the rate of inflation to 3½ percent.

At no time in 20 years has our Current Income Index fallen with this magnitude. . .so fast. . .especially since June 26th.

In fact, during the 1960-61 recession --- and during the 1966 mini-recession --- our Current Income Index hardly fell at all. . .for the 1970 recession it declined only 12.6 points from 139.1 in January to 126.5 in May. . .and then shot up within a month.

THE DEPRESSION IS COMING FROM AN EXPECTED INCOME COLLAPSE

■ Our Expected Income Index. . .the most telltale and the smoothest curve of all our confidence components over the past 20 years. . .has collapsed now to an all-time dangerous low.

. . . Now (July 17th) our Expected Income Index is 87.3, to fall off the chart (see your next Tuesday report). Referring to the left page table.

EXPECTED INCOME (continued)

■ . . . Our July 17th Expected Income Index. . .now measuring consumers' judgments of what their income status will be between now and next January --- tells this depression story:

. . .Since (B) June 26th, Expected Income Index has declined by 21.1 points for 19.4 percent.

. . .Since (C) January 16th, Expected Income Index has declined by 11.1 points for 11.2 percent.

. . .Since (D) January 11, 1973 Expected Income Index has declined by 34.9 points for 28.5 percent.

and . . .our Expected Income Index is now down 30.8 points or 26.0 percent BELOW THE RECESSION LEVEL.

WE ARE NOT SAYING DEPRESSION --- THE CONSUMER IS

During the 1970 recession the low point for our Expected Income Index was 99.6 during August 17, 1970, and rebounded within a month.

Thus, then this index was only 18.5 points under the recession level. . . NOW IT IS 30.8 points under THE RECESSION LEVEL.

CONCLUSION: For all recessions including the 20 previous confidence declines over the past 20 years . . . the two Income Components have never moved down together so low, so fast . . . as they are now.

With the current FCI decline, our SFE Forecasts for our Current Income Index is now giving over 9 to 1 odds that the Current Income Index for the next 13 weeks is due for a further 10 to 15 percent fall.

Corollary data show that 68 percent of all consumers now say inflation for the things they buy is over 20 percent.

Remember that it takes from four to nine months for the confidence decline to work its way through the economic system.

Remember also, that when we forecast back in March that GNP would be "no growth" for all of 1974 . . . both of our Income Components were not as deep in the recession level as they are now. Thus, there are now three more quarters of "no growth" GNP coming up.

F

Issue #272

SINDLINGER & COMPANY
Marketing & Opinion Research

S | M | T | W | T | F | S

Issued: July 17, 1974

THE PRESIDENT'S SUMMARY

. . .Consumer Economics

The Current Status of Democracy in Action. .
Issued When Events and Data are Significant to Report

Again, your Friday Report in this series is prepared and mailed on Wednesday, July 17th. The following diary will explain why this and other client reports are late. All Consultation Clients had personal coverage last Friday. . .and we use this report to update all clients until we can get back to regular daily reporting.

CHRONOLOGY OF RECENT EVENTS

Remember it was in April 1973 that we forecast the 1974 recession because we were the first to pick up "hedge buying".

In our July 8th issue of *The President's Summary* we presented consumer data, tabulated through Sunday, July 7th, which included the July 4th holiday --- when we found more people at home on a holiday than at anytime in twenty years --- that is why traffic deaths were off by several hundred. So many were home because they did not want to spend the money to go out.

In last week's *Summary* with latest July 7th data --- a confidence collapse since June 26th* was developing --- and we stated that 12 more days like the consumer depression of the past 12 days --- would turn the word depression to its true economic meaning. We are now close to this.

STEIN STARTS THE TIME BOMB TICKING

As a consumer: . . .how do you react when you are told in these times of no confidence in anything . . .that the problem IS YOUR FAULT!

While our data were most depressing prior to Sunday, July 7th --- when our consumer sample on Monday digested what Herbert Stein had said on Sunday --- and, following the network evening news on Tuesday --- when the President's new economic counselor, Kenneth Rush, was interpreted by our respondents as saying that there was "no plan". . .to solve the inflation problem. . .our Consumer Confidence components took another sharp nose-dive OVER THIS PAST WEEK. . .see page 1254.

As confidential background: On Tuesday, July 2nd, I invited Kenneth Clawson of the White House to come to Swarthmore to hear consumer response to the special question sequence we added on July 1st. . .to hear for himself how consumers were lauding the President on international affairs and tearing him apart on inflation. . .to hear how uptight a small segment of the population is on the safety of their money in the bank (among which were those who connected the Cologne Bank closing with 1929).

And, I understand that Clawson did a good reporter's job in reporting what he heard. . .within the White House. . .it set up last Thursday's meeting.

But, what Clawson heard on July 2nd was nothing like what I heard on Monday/Tuesday following the TV/press coverage of Stein and Rush.

***Date of the closing of the Herstatt Bank of Cologne, Germany.**

(OVER)

The timing of the Stein and Rush statements. . .with the consumers' interpretation of what they said. . . which should have been confined to private meetings and not over national television. . .produced this response. . .excerpted from these two divergent newspaper columnists.

James Reston:

MEANWHILE, there is confusion here over who is in charge of the economy — Kenneth Rush, the President's new economic counsellor, William E. Simon, his new secretary of the treasury, or Roy L. Ash, director of the Office of Management and Budget — but Dr. Herbert Stein, the chairman of the Council of Economic Advisers, at least claims to have found the real culprit for the inflation. The American people are to blame, he said, because they didn't want the tax increases over the last 10 years that the nation needed.

Carl Rowan:

MAYBE there is no feasible solution short of a worldwide depression, with this country and others then trying to rebuild economies out of the wrekage.

On the other hand, it may simply be that this administration never has had the foggiest notion of what it was doing —and that most of its time has been devoted to flam-floozling the public.

Perhaps the most sickening example of this occured last Sunday when Dr. Herbert Stein, chairman of Mr. Nixon's Council of Econimic Advisers, told a nationwide TV audience that the public is to blame for inflation because it would not accept necessary tax increases.

The Nixon administration has resolutely opposed tax increases. In fact it cut taxes in 1969 and 1971, bringing on huge budget deficits. A grand part of Nixon's re-election strategy in 1972 was to oppose a tax increase—and to promise that he would not raise taxes in his nixt four years.

Stein has been one of the most pathetic personalities in a disgustingly botched up, hokumed up, wishy-washy effort to deal with the U.S. economy. But that Sunday performance was incredible, even for Stein.

When the stock market plummets while prices soar, we might expect the people who are to blame to look for scapegoats. But to try to blame "the American people" for the mess our economy is in is to add crass cynicism to stupidity.

What James Reston and Carl Rowan did not know when they referred to the above in their columns last week, was, what consumers were saying to our interviewers, like: *What kind of clowns do we have in Washington. . . we have got to vote the bastards out, including Congress. . .*(space limits the other comments). . .you know what you think.

When we observed how far all confidence components had fallen on Monday and Tuesday, and made a new forecast for the S & P 425 Industrial Stock Index on Wednesday AM. . .we had a further 20 to 25 percent decline for the stock market. . .we decided to act, as the time bomb was ticking.

As clients know from our weekly reporting --- for the past seventeen weeks prior to June 26th. . .all data were saying that an S & P 425 Index under 104 was a time to buy. . .as that was the level for the stock market for the recession we were in*. . .and we had no odds for the stock market to fall below 98.0 for the 425 Index. Such a level below 98.0 would be <u>a depression</u>.

*And our calculations were for a good 4 quarter recession.

THE 1974 RIDE OF PAUL REVERE

At 10 AM on Wednesday we decided to "ride" to Washington. The White House made an appointment with Mr. Rush. . .and my friend Eliot Janeway contacted Burns and Simon, to say we were coming.

Here is a schedule of our meetings:

Almost everyone on this list knew what I was talking about. . . especially Simon and Burns.

Wednesday, July 10	2:00 PM	Kenneth Rush and Sidney Jones, formerly of the Department of Commerce and now with Mr. Rush.
	2:30 "	Sidney Jones and Kenneth Clawson to get a report on Clawson's visit to Swarthmore.
	3:00 "	Meeting at White House executive office.
	4:00 "	Meeting with FRB staff members.
	6:15 "	Meeting with William E. Simon.
	7:30 "	Dinner with Dr. Paul McCracken.
	10:45 "	Meeting at White House
Thursday, July 11	9:00 AM	Meeting with Wilbur Mills.
	10:45 "	Meeting with Carl Albert.
	12:00noon	Meeting with Dr. Arthur Burns.
	12:30 PM	Meeting with Joseph S. Zeisel, FRB.
	1:30 "	Meeting with Vice President Gerald Ford.
	2:30 " to 5:30	with Mills' staff
	5:45 "	Meeting with Dr. Norman B. Ture.
	7:30 "	Meeting with Senator "Scoop" Jackson.
Friday, July 12		From 9:00 AM to 7 PM met with various staff at White House—FRB and congressional committees.
		Returned to Swarthmore, midnight.
Saturday, July 13		6:00 PM arrived at Camp David for dinner with the Under-Secretaries and wives, of the President's Cabinet.
		Meeting ran from 8:00 PM to 1:30 AM. . .resumed on Sunday.
		Relaxed by the Aspen Cottage Pool in the President's beach chair from 3 to 4:30 PM next to the President's Hot Line telephone and had a good needed sleep and returned to Swarthmore Sunday night.
Tuesday, July 16		Luncheon with a Senator Carl Curtis group.

In summary: The purpose of these meetings was to alert that:

a) another 20 to 25 percent fall in the stock market. . .
with. . . b) another bank failure with consumers jumpy about the safety of their money in their bank. . .
with. . . c) the majority saying impeach Nixon now — today — not later — or get off his back. . .
would... d) be more than the consumers could take in any day or week. . .
and. . . e) consumers were demanding "a plan on inflation". . .and they would cooperate. . .and
if. . . f) nothing is done quick to arrest this part "psychological" and part "real" collapse in confidence. . . we are ripe for a new form of government. . .to follow the depression and riots that are now in the making.

THE SEED FOR A NEW FAR RIGHT GOVERNMENT

We are so close to violence over inflation --- there will not be enough reporters available to cover it.

You will soon start to see it on your tube.

Our nationwide daily and continuous interviewing technique is so extensive and sensitive that about a year and a half ago. . .in one week. . . three bank officials fell into our random sample. . .two were clients. . . the other knew of our firm. . .and that we also had Washington clients.

Each asked our interviewer that I contact "him" --- which I did and each expressed "his" concern that "his" bank was loaning money at high interest rates to speculators who were making money on "devaluating the dollar" with American savings.

Wilbur Mills on Thursday reminded me that I had reported this to him then, as we did to the White House and the Treasury. In fact, during the past year and a half. . .many more in our sample made such mentions.

From June 20-25, prior to the closing of the Herstatt Bank of Cologne. . . sample respondents in Seattle, Minneapolis, Atlanta, Houston, Philadelphia, St. Louis, Dallas, Nashville, Westchester, New York, Long Island, Boston, Chicago, Detroit and in about 20 other areas raised the subject of their banks being involved in some over seas losses and this was the first time there was more than the isolated response which we had picked up over the last year and a half.

By the evening of June 26th and following the TV and press announcement of the Herstatt Bank failure --- too many in our sample (about 20 percent) are reporting "history" to our interviewers to make the situation "uncomfortable and alarming."

Note: Remember this is a confidential copyrighted client report. . .for our clients only. . .and what we report above is not for press release.

THE EXTENT OF OUR LATEST CONFIDENCE COLLAPSE

This fall is sharper than the energy crisis fall!

For today's *Summary*, key consumer data for the past 7 days through the weekend of Sunday, July 14. . .have been tabulated for the following comparisons:

	7 Days July 8-14	7 Days July 4-10	4 Days July 4-7
Percent With Consumer Confidence	**47.2**	**47.9**	**48.4**
Current Income Index	**113.8**	**117.8**	**120.6**
Expected Income Index	**88.2**	**94.1**	**101.0**
Expected Job Index	**95.1**	**105.0**	**100.2**
Expected Business Index	**123.9**	**128.1**	**131.6**
Forecast Confidence Index (FCI)	**103.8**	**109.1**	**111.0**

And, to show what has happened with latest data on an accumulative basis, this is the situation:

	7 Days July 8-14	14 Days June 30- July 14	21 Days June 23- July 14	28 Days June 16- July 14	28 Days Ending June 26
Percent With Consumer Confidence	47.2	50.6	52.0	52.7	54.8
Current Income Index	113.8	119.7	121.0	121.5	124.0
Exoected Income Index	88.2	99.2	102.9	104.7	108.4
Expected Job Index	95.1	105.4	108.0	108.7	113.2
Expected Business Index	123.9	130.7	132.7	133.4	136.9
Forecast Confidence Index (FCI)	103.8	111.8	114.6	115.7	119.5

Since June 26th. . .in less than a month

. . . Consumer Confidence has declined by 7.6 points for a decline of 13 percent.

. . . The Current Income Index has declined from 124.0 to 113.8. . . down 10.2 points for a drop of 8.2 percent. This is the sharpest 3-week decline for this index in 20 years --- even sharper than during the December/January energy crisis. Remember, our Current Income Index is not based upon anticipations --- it's real. . .now.

Remember the June 26th figures were for a deep recession --- the new figures say depression.

. . . The Expected Income Index has plummeted from 108.4 to 88.2. . . a decline of 20.2 points for a decline of over 18 percent.

With the Expected Income Index at 88.2. . .this is almost 10 points below the energy crisis low --- which was the 20-year low.

. . . The Expected Job Index fell from 113.2 to 95.1. . .for a fall of 18.1 points.

. . . The Expected Business Index fell from 119.5 to 103.8. . .a drop of 15.2 points for a decline of 12.7 percent. In 20 years, this is the sharpest 3-week plus fall ever.

THE FULL IMPACT

The following comparison table presents confidence components data for the last seven days --- July 8-14. . .with the seven days June 20-26 prior to the Herstatt Bank failure.

The period of time between this comparison is less than three weeks.

	FOLLOWING STEIN STATEMENT 7 DAYS JULY 8-14		PRIOR TO THE CLOSING OF THE COLOGNE, HERSTATT BANK 7 DAYS JUNE 20-26		CHANGE	
	Percent	Number (000)	Percent	Number (000)	Percent Points	Number (000)
UNIVERSE OF TOTAL SAMPLE PROJECTED TO ALL HOUSEHOLD HEADS --- 18 YEARS & OLDER...	100.0	117,754	100.0	116,913	100.0	+ 841
WITH CONSUMER CONFIDENCE.....	47.2	55,582	52.9	61,860	- 5.7	-6,278
A. CURRENT INCOME STATUS						
1. INCOME IS UP...........	28.7	33,836	32.6	38,166	- 3.9	-4,330
2. INCOME IS DOWN.........	26.0	30,581	22.2	26,002	+ 3.8	+4,579
3. INCOME IS SAME.........	44.4	52,264	44.8	52,393	- 0.4	- 129
4. DON' KNOW/REF.	0.9	1,073	0.4	352	+ 0.5	+ 721
UP/DOWN BALANCE	+ 2.7	3,255	+10.4	12,164	- 7.7	-8,909
B. HOUSEHOLD INCOME FORECAST						
1. EXPECT UP..............	32.3	38,052	37.6	43,996	- 5.3	-5,944
2. EXPECT DOWN	19.8	23,295	12.7	14,855	+ 7.1	+8,430
3. EXPECT SAME	44.2	52,071	46.5	54,524	- 2.3	-2,453
4. DON'T KNOW/REF.	3.7	4,346	3.1	3,538	+ 0.6	+ 808
▶ UP/DOWN BALANCE	+12.5	14,767	+24.9	29,141	- 12.4	-14,374
C. EMPLOYMENT FORECAST						
1. WILL BE MORE JOBS	24.3	28,565	28.3	33,135	- 4.0	-4,570
2. WILL BE FEWER JOBS	27.7	32,571	23.3	27,202	+ 4.4	+5,369
3. SAME AS NOW	44.7	52,611	44.7	52,276	--	+ 335
4. NO OPINION	3.3	4,007	3.7	4,300	- 0.4	- 293
▶ MORE/FEWER BALANCE	- 3.4	4,006	+ 5.0	5,933	- 8.4	-9,939
D. BUSINESS FORECAST						
1. WILL BE BETTER	27.7	32,663	31.3	36,564	- 3.6	-3,901
2. WILL BE WORSE	23.0	27,117	18.6	21,783	+ 4.4	+5,334
3. SAME AS NOW	45.3	53,299	46.6	54,502	- 1.3	-1,203
4. NO OPINION	4.0	4,675	3.5	4,064	+ 0.5	+ 611
▶ BETTER/WORSE BALANCE	+ 4.7	5,546	+12.7	14,781	- 8.0	-9,235

Each quarter, our universe base is corrected for population change. . . and 841,000 household heads are added to the 3rd quarter of 1974, as shown above.

The significant figures to observe from the preceding table is the balance. . . i.e., the net difference between the gain and the loss as indicated by ▶.

A. . .ON CURRENT INCOME

. . . Three weeks ago 12 million more consumers were reporting their income up over those reporting it down.

. . . Now, only 3 million are in this category. . .i.e., the shift to lower Current Income in three weeks involves nearly 9 million consumers.

B. . .ON EXPECTED INCOME

. . . Three weeks ago 29 million more consumers expected an income gain than expected an income loss.

. . . Now, this figure has been cut nearly in half --- only about 15 million more expect a gain in six months hence over those who expect a loss.

C. . .ON EXPECTED JOBS

. . . Three weeks ago the Expected Job Balance was on the plus side by nearly 6 million.

. . . Now, the Expected Job Balance has turned negative where 4 million more expect fewer jobs than more jobs --- this switch involves almost 10 million in 3 weeks.

D. . .ON EXPECTED BUSINESS

. . . Three weeks ago nearly 15 million more expected improved business over those who expected worse business.

. . . Now, this figure is cut by nearly two-thirds. . .as only 5.5 million have a positive balance on Expected Business.

SUMMARY

The confidence fall for the Job and Business Indexes is mostly psychological --- but the fall for the two Income Indexes is not.

The President has announced he will soon address the nation. Saying the right thing. . .may save much trouble. . .the wrong thing. . .might change our entire way of life. . .we are working on this.

G

Issue # 271

SINDLINGER & COMPANY
Marketing & Opinion Research

S M T W T F S
Issued: July 8, 1974

THE PRESIDENT'S SUMMARY

. . .Consumer Economics

The Current Status of Democracy in Action. . .
Issued When Events and Data Are Significant to Report

This week's Friday President's Summary is prepared for Monday, July 8th client mailing . . . to include updated nationwide interviewing through Sunday. . .July 7th.

Because of what is being reported . . . this is to re-emphasize that this is a copyrighted and confidential report . . . for client use only . . . not to be released to or by the press.

MOUNTING CONSUMER FEARS OVER INFLATION DURING PAST TWELVE DAYS (SINCE JUNE 26TH) ARE DEPRESSING OUR RECESSION FORECASTS — TO DEPRESSION*

*The use of the word *depression* here . . . refers to the mood of the U.S. Consumers for the past 12 days.

. . . Another few weeks more like the past 12 days . . . will revert the word to its true economic meaning.

. . . For the first time in twenty years of surveying — we are starting to hear how —

CONSUMERS ARE NOW WORRYING ABOUT THEIR BANKS — SOME HAVE ALREADY MADE WITHDRAWALS — GROWING NUMBERS ARE THINKING AND NOW TALKING ABOUT IT.

NIXON'S RETURN FROM MOSCOW ON EVE OF INDEPENDENCE DAY DRAWS A NEW FOCUS ON *ECONOMIC/POLITICAL* THINKING AMONG GROWING NUMBERS OF U.S. CONSUMERS WHO WANT TO HEAR NO MORE ON WATERGATE . . . AND DEMAND THAT CONGRESS ACT ON INFLATION

IT WOULD TAKE ONLY 15 MINUTES TO STOP THE PANIC IF ACTION IS SOON

In writing this special issue of *The President's Summary* we have exercised much self-discipline. . .for what we are reporting is horrendous.

This issue updates your regular Tuesday *Consumer Confidence* Report which accompanies this mailing.

Sindlinger & Company, Inc., Harvard & Yale Avenues, Swarthmore, Pennsylvania, 19081 215/544-8260

THE JUNE/JULY TREND — FOR SIX PERIODS IN TIME

	4 Days Ending July 7	1 Week Ending July 3	1 Week Ending June 26	2 Weeks Ending June 19-26	3 Weeks Ending June 12-26	4 Weeks Ending June 5-26
Percent With Consumer Confidence	48.4	51.2	52.9	53.8	54.4	54.8
Current Income Index	120.6	123.1	123.4	123.1	123.8	124.0
Expected Income Index	101.0	104.3	106.5	107.8	108.1	108.1
Expected Job Index	100.2	108.5	109.5	109.9	111.8	113.2
Expected Business Index	131.6	135.2	135.2	135.4	135.4	136.9
Forecast Confidence Index (FCI)	111.0	116.0	117.2	117.7	118.9	119.5

THIS IS WHAT THE FIGURES SAY

■ . . . Consumer Confidence is now down 6.4 points for a loss of 11 percent . . . and we need a 64 percent Consumer Confidence just to get out of the recession level.*

■ . . . To get back to a recession level*, our Current Income Index should be at 134.0 . . . it has now fallen 13.4 points or 10 percent below the recession level.

■ . . . Our Expected Income Index . . . to get back to a recession level should be 118.1 . . . now it is 17 points or 14.3 percent below the recession level.

■ . . . On Expected Jobs, the recession level is 124.2 and by April and May, this Index was moving up fast from the low 50.0 on January 16th to 115.3 by June 5th. Now the Expected Job Index has fallen back to 100.2 . . . 24 points or 19 percent below the recession level.

■ . . . For our Expected Business Index, the recession level is 138.3. From the January low for this Index at 93.2 to the June 12th, 137.5, the Expected Business Index was within eight tenths of a point to break the recession level. Since this Expected Business component is the most important parameter in our SFE forecasts for the stock market . . . it was the up movement of this Index, along with the Job Index that said the recession low Time To Buy Stock was when the 425 Index was under 104.0 and we had no odds for the S & P 425 Index to go under 98 . . . with 8 to 2 odds to go to 98.0.

This confidence collapse is now producing 9 to 1 odds for the S & P 425 Index to go below 90.0. There are 8 to 2 odds now for as low as 85.0.

Now, the Expected Business Index has turned down and is 6.7 points or nearly 5 percent below the recession level.*

* The recession level is based upon the average for the 1957-58 . . . 1960-61 . . . 1966 . . . and 1969/70 recessions.

TO HEAR IS TO BELIEVE

Since July 1st (6 p.m.) we have been conducting a costly special question sequence ... to determine **why** our confidence component figures have reversed so **downward.**

If it were possible to hold an Economic Summit here in Swarthmore, Pennsylvania so that Statesmen could hear what U.S. Consumers are now saying and thinking not only on economics but politics . . . the idea of "old-time religion" and *laissez faire* would go out the window as fast as the time it takes to dial another consumer to hear more of the same.

They would hear ---

- ■. . . how 98 percent say **inflation** is their **number one problem.**
- ■. . . how well the consumer is informed and how a majority laud Nixon on International Affairs --- and then tear him apart on **inflation.**
- ■. . . how mad a strong majority of consumers are at Congress . . . and for those in Congress who went home over the Fourth of July . . . they are hearing this too.
- ■. . . how up-tight consumers are on inflation --- how they say **inflation** is over 20 percent now -- they were saying over 15 percent in June.
- ■. . . how 9 in 10 expect further price rises --- by November election time. . . and how there will be so many new faces in the next Congress.
- ■. . . how hedge buying to beat further rising prices moved up from May's 20 percent near 38 percent now.
- ■. . . how the recent Democratic telethon thrilled about 30 percent and turned off 60 percent.
- ■. . . the rumors going on for further job layoffs --- where people work . . .23 percent now fear their own job.
- ■. . . how 1 in every 5 consumers are naming a big company or bank --- that they think is in financial trouble.
- ■. . . how growing numbers of consumers are fed up on politics and Watergate.

And, they would hear ■. . . something we have never heard in the past 20 years . . . how consumers are reporting bank withdrawals . . . and, how more and more are worrying about their money in their banks and savings accounts . . . and talking about withdrawals.

A NOTE

From Page 29 of Saturday's *New York Times*. . .this was reported:

The weekly banking data showed a decline in M1 --- currency plus demand deposits --- to $280.4 billion in the week ended June 26, from $281.5-billion in the preceding week.

M2, in turn, which is M1 plus time deposits at commercial banks other than large time Certificates of Deposits, was $597.4 billion, down from $598.6-billion in the preceding week.

Thus, during the latest available data week, M1 has fallen by $1.1 billion and M2 by $1.2 billion on a seasonally adjusted basis.

If clients review our original M2 forecast made on April 24th . . . see your *Consumer Spending & Demand Report* #5 . . . it was forecast . . . based upon consumers'behavior plans to slow down their spending . . . it was forecast that the growth rate for M2 should peak out May 22nd and then decline --- and, this is exactly what happened.

Since our SFE forecasts for M2 have been more accurate on the non-seasonally adjusted figure --- let us review what has happened for the past 9 weeks --- in comparing the actual M2 with the forecast --- and remember the SFE lead time for M2 forecasts are made 36 weeks in advance . . . for that is the lead time for M2.

Number of Weeks From The April 24 Forecast on M2	Wednesday Week Date		SFE Forecast for M2 In Billions Of Dollars	Annual* Rate Of Growth	Actual M2 As Reported In Billions Of Dollars	Annual* Rate Of Growth
1	May	1, 1974	$ 594.9	10.0%	$ 590.8	9.0
2	"	8	597.2	10.3	590.3	9.1
3	"	15	597.7	10.2	592.3	9.0
4	"	22	599.0	10.4 High	590.4	9.1 High
5	"	29	599.5	10.3	589.2	8.7
6	June	5	Flat 599.5	10.0	596.4	8.9
7	"	12	599.5	9.7	598.0	8.8
8	"	19	599.5	9.4	598.6	8.8
9	"	26	600.4	9.4	594.2	8.7
10	July	3	601.3	9.4		
11	"	10	601.8	9.4		
12	"	17	611.8	9.3		
13	"	24	602.2	9.2		
14	"	31	603.6	9.3		

***Annual rates are calculated on the basis of this year's week with last year's comparable week.**

The above reports a nine-week test for the forecasts.

■ . . . The peak out for the growth rate in M2 was forecast for May 22 (36 weeks prior) . . . and, that was the week for the actual peak out.

■ . . . For the past nine weeks the actual M2 figures have come in with accuracy greater than the 1.8 percent margin of error allowed.

■ . . . But note that the June 26th M2 figure came in with a fall of $4.4 billion from the previous week which was right on target with the forecast that was made on April 24th data.

■ . . . Where the previous eight weeks were right on target with a declining growth rate . . . the week of June 26th was $6.2-billion below the forecast and $4.4 billion below the previous week.

This one-week decline in M2 may be or may not be significant --- but, if this decline continues for a few more weeks --- then, what we fear we are measuring --- is a new phenomena.

FURTHER NOTE

■ . . . Prior to June 19th there were no clues from any of our data that consumers were making bank withdrawals based upon fear alone.

Our first clue that consumers were making withdrawals based upon "fear" started to develop about the 20th of June . . . which prompted the starting of this special study on July 1st.

THE SOURCE OF THE CLUE AND CONCERN

Here is the question (since July 1st) that is the source of our clue and concern: *And, one last question --- and I do so much want to thank you for your time --- have you read or heard anything about any big companies or banks --- that are in financial trouble?*

■ . . . During July 1 and 2 only about 2 in every 10 said "yes" to this question.

■ . . . By the 3rd and 4th. . .the "yes" was up to more than 4 in 10.

■ . . . On Friday and Saturday the "yes" response was up to more than 6 in 10. . .that represents over 60 percent of all adults in the nation.

When we probe the "yes" on what they have read/or heard --- about half --- pass it off --- with no concern --- just that they know about it. . .and they all have incomes under $7,500.

■ . . . From the other half. . .which represents 30 percent of the adult population. . .we do not have the words to describe the fear and panic that this open end question is delivering.

On Saturday, a farmer in Minnesota told us how on Friday he drove 250 miles --- when he said he should have been in his fields --- to Minneapolis to draw his money out of the Franklin National Bank there. . .he said he heard it was going to go busted.

- . . . It is utterly amazing how sophisticated this 30 percent of the population is on interest rates . . . and, how they are damming the banks for speculating *with their money.*
- . . . The futility of listening to the building fear on what the stock market will do this week . . . is simply panic.

Back to the open-end questions: Since July 1st --- not only one respondent --- but a significant number --- cite their knowledge of history on the French Revolution --- they say --- *how rising prices for food by those who cornered the market created riots in Paris over the price of bread.*

On July Fourth --- not only one respondent --- but many in various parts of the nation cracked how *today we are celebrating American independence from the revolution which is only two years away from a bi-centenial. . .and if they don't solve inflation soon --- in 1976 we will be celebrating the second American revolution.*

NOBODY HANGS UP

This special question sequence adds twenty minutes to our interviewing time. . .and, nobody hangs up. . .consumers talk and talk and talk about their frustrations. . .their fears over their financial future. . .how their savings are being lost by inflation. . .people are just afraid. . .they are crying. . .and some women actually do. . .FOR LEADERSHIP --- FOR SOMEBODY JUST TO DO SOMETHING **--- and the wrath is now moving to Congress.**

We are endeavoring to use self-restrain and self-discipline as we write to report what we have been hearing since July 1st. . . and, if anyone questions our concerns --- please come to Swarthmore and listen for yourself.

The right thing --- said soon --- and we have some ideas --- could turn this panic around --- or at least check it. . .in 15 minutes.

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Issue #270

SINDLINGER & COMPANY
Marketing & Opinion Research

S | M | T | W | T | F | S

Issued: July 1, 1974

THE PRESIDENT'S SUMMARY

. . .Consumer Economics

The Current Status of Democracy in Action. . .
Issued When Events and Data are Significant to Report

HOW THE CONSUMER IS ACCURATELY FORECASTING INFLATION

The American consumer is fast becoming an expert forecaster of the nation's true rate of inflation.

This finding by Sindlinger comes at a time when large numbers of recognized economic authorities are saying they guessed wrong on inflationary patterns.

The consumers' common sense-derived ability to call the shots on price rises was demonstrated by a new continuous survey --- the first results for which were published in this week's *News & Issues* Report, June 26th.

- . . . In May, while the official inflationary rate was near 11½ percent annually, American consumers said it was nearer 15 percent.

CONSUMERS BELIEVE OFFICIAL RATE TOO LOW

- . . . Better than three of every four American consumers said in mid-June the inflationary rate was higher than the official, advertised 10 to 11 percent.

- . . . Four of five insisted that the rate of price acceleration was actually 15 percent or higher.

INFLATION RATE OVER 15 PERCENT

- . . . In excess of four out of five said prices are still going up.

- . . . Based on consumer accuracy, we are now experiencing an inflationary rate of over 15 percent for June . . . when it becomes official in July.

CONSUMER BEHAVIOR: THE ECONOMIC PIVOT

Consumer behavior, which Sindlinger has been measuring for 20 years, is finally receiving long overdue attention from economic scientists. Sindlinger's June 27th *Consumer Spending & Demand* Report makes these key observations from its far advanced studies of consumer behavior.

- ... Consumer behavior is the consumers' reactions to prevailing economic environment and stimuli.

MONEY SUPPLY IS KEY

- ... More precisely, the behavioral reaction stems from the influence of the environment and stimuli on the consumers' present and future money supply.
- ... The principal manifestation of consumer behavior is consumer spending, which takes its cue from changes in consumer money supplies.
- ... Spending decisions are made independently in each of the nation's 67 million households, but millions of households usually reach the same decisions at the same times, because they are influenced by the same environment and stimuli.

COLLECTIVE CLOUT

- ... Therefore, these simultaneous spending decisions become a collective force which is most powerful in an economy that traces two-thirds of its Gross National Product to the consumer.
- ... Consumer behavior and projected consumer behavior are measurables and are offered by Sindlinger to clients as trends and movements in Consumer Confidence.

HOW CONSUMERS ARE DOING IN FORECASTING M2

June 19th is the ninth week for testing our April 24th SFE Forecasts for M2 --- for 36 weeks, from May 1st to the end of 1974.

If you turn to page 1882 in your *Stock Market & Money* Report, it will be noted that the top out for the past gain in M2, Money Supply, was forecast for May. The actual rate of gain for M2 did top out on May 8th, at a 9.2 percent annual rate.

For three weeks in June our SFE Forecasts for M2 were flat.

...	**Forecast M2 for June**	**5**	**was**	**$599.5**	**billion ...**	**actual was**	**$596.4**	**billion ...**	**off 0.50%**
...	" " " "	12 "		599.5	"	" "	598.0	"	" 0.20
...	" " " "	19 "		599.5	"	" "	598.6	"	" 0.18

Soon, forecasts on M1 will be made in addition to M2.

SEEKING THE MISSING LINK

When read together, our June 26th *News & Issues,* on The Rate of Inflation, and our June 27th *Consumer Spending & Demand,* on Consumer Behavior, present an interesting perspective on the present and near future American economy from the consumers' viewpoints:

- . . . Inflation is clearly the dominant environment and stimulus in the American economy.

- . . . Therefore, inflation is without doubt the most important influence on changes in the consumers' money supply and in consumer behavior.

INFLATION REDUCES MONEY SUPPLY

- . . . Inflation sharply cuts into the consumers' money supply, requiring them to stretch their incomes further for just necessities.

- . . . A few with savings or a somewhat better money supply are now reporting hedge buying of discretionary items, but are not offsetting the losses from consumers who are hard pressed to meet necessity bills, as they were doing a year ago at this time.

CONSUMERS TIGHTEN UP

- . . . With the consumer thinking -- and accurately at that --- that inflation is higher than the official figures say and projecting even higher prices for the next few months . . . he is becoming more conservative, husbanding cash when he can, eschewing any discretionary purchases and even cutting back necessities when possible.

- . . . The combination produces the unprecedented twinning of inflation and recession, with each seemingly exacerbating the other.

THE MISSING LINK IS FOUND

The foregoing makes interesting reading at a time when there has been a considerable volume of material in the press on the deficiencies in standard economic forecasting and theory. We recommend the Business Week cover story of June 29th; the New York Times article in the June 26th Business Section, by Leonard Silk; and the Ben Weberman column in the June 17th American Banker.

Each article indicates that there is something missing in economic theory, an ingredient that is needed to tie existing doctrine to the present and explain the relationships. That MISSING LINK --- is the consumer --- that is why we publish our *Consumer Economic Series* of reports each day of the week.

425 INDEX ODDS MOVE TO 100.0 LEVEL

As page 1870 in your *Stock Market & Money* Report shows, the SFE Forecast for this week's Wednesday, 425 Index close (June 26th) was 104.8, with down/pull at 100.1. The actual Wednesday, 425 Index close was 99.3 . . . and the 425 Index fell below 98.0 on Thursday and also on Friday.

While our Confidence Components utilized as the SFE parameters, to forecast the 425 Index have remained soft for the past two months, there are still no real odds for the 425 Index to stay under 98.0.

However, advance data are revealing further confidence softness --- and your next issue of *Stock Market & Money* will show that the 9 to 1 regression odds have moved down from the 104.0 level to the 100.0 level --- with the 104.0 level now having the 8 to 2 regression odds.

SINDLINGER & COMPANY
Marketing & Opinion Research

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The Scenario For Keeping Our Recession From Going Into A Depression

INFLATION HAS LONG BEEN THE NUMBER ONE PROBLEM

Sindlinger & Company have studied consumer inflation fears on a continuous basis since 1959, see chart.

... Volumes could be and will be written on its cause --- which now is completely academic.

... The problem of inflation, however, will be solved and resolved in one of two ways:

One ... by the U.S. economy moving from the current recession level --- to a depression --- and this is fast on its way.

Two... by political/economic action --- right away.

In tackling the problem of inflation --- forget its cause for that is now too late ---

... the economists view inflation as an economic problem alone.

... the statesmen or politicians --- utterly frustrated about the whole thing --- ask --- *what can we do?*

The one thing that Sindlinger & Company have proved over the past twenty years by talking to U.S. consumers every day of every week --- now, for more than 1,000 weeks --- is that from the consumers' point of view --- there is *no single political/economic problem.*

To the consumer --- economics and politics are one and the same thing --- and economics/politics are tied directly to the security of the consumers' pocket book --- that is how he/she vote on election day and how he/she think between elections.

Our scenario for keeping our recession from going into a depression --- is written upon this fundamental fact.

The Scenario For Keeping Our Recession
From Going Into A Depression (Continued)

As background for this scenario --- one has to keep in mind that all past recessions (not including 1929) were unemployment recessions. The process was . . . a) demand declined . . . b) inventories built up . . . c) to cut inventories, people were laid off . . . d) as inventories were worked off, people were rehired . . . and the recession was over after a year or so.

During these recessions --- only half the population ever knew we were in one --- as they were not affected.

As further background one must understand the wage-price freeze of 1971 --- which has been covered in past reports.

In summary, junking of the wage-price controls on January 11, 1973, was the greatest political/economic blunder in U. S. history.

We recognize that this is a highly controversial statement --- from a selfish point of view. But the crux is: 8 in every 10 U.S. consumers liked the 3½ percent annual inflation rate under Phase II . . . and are up in arms over the 20 percent rate consumers are now telling us it costs them to buy what they need.

THE SCENARIO

Soon after the junking of wage-price controls --- Sindlinger sampling started to turn up concerns that U. S. banks were making bad investments --- and we measured and reported the phenomenon of hedge buying to beat inflation on the part of 1/3 of all consumers.

By April 1973, confidence falls were forecasting the 1974 recession --- by July/September the forecast was for four quarters of 1974 negative GNP growth.

By June 20, 1974, Sindlinger interviewing turned up rumors in more than 20 different places, where local banks were in trouble with overseas and other speculative investments.

By July 1st, Sindlinger added a special question sequence --- that turned up a potential panic in the making.

On July 2, Sindlinger invited a White House representative to come to Swarthmore to hear this "potential panic" --- and the following scenario was outlined for transmittal to the President.

1. With the "credibility problem" the President should talk to the nation by television --- with a group --- to include Dr. Kissinger, Vice-President Ford, Dr. Burns, Secretary Simon, Congressman Mills and other leaders of both parties --- including Chairman Rodino, as well as business and labor representatives.

   The talk would be staged to show that the problem of inflation was recognized as the number one problem and on a non-partisan basis.

2. What they should talk about --- each taking a phase --- would be the following --- some controversial --- but these aspects would have to be worked out in advance.

   (a) Raise FDIC levels --- not slightly, but greatly to prevent a run on banks --- should some more American banks fold.

   (b) Call for an International Summit meeting on inflation and monetary policy --- Kissinger who is still believed could explain the world problem of inflation.

   (c) Revive the Cost of Living Council on a voluntary basis --- consumers would not take a new freeze at these prices.

   (d) Freeze interest rates from going any higher to protect the stock market, which is due for a further 20 to 25 percent fall.

   (e) Announce that since the consumers have had an income cut due to inflation --- the President would reduce his salary by 10% and ask Congress and other high officials to do the same thing.

   (f) Not talk about balancing the budget --- but order a 5/10 percent cut --- like a business does when it is in trouble --- and across the board.

   (g) Set up new regulations for bank speculation with consumers' savings.

   (h) Set up new regulations, tax incentives --- and new methods for low cost financing to producers of goods and energy. Direct our money to production instead of speculation.

   (i) Give consumers tax exemption on interest for the first $25,000 of personal savings.

   (j) Make credit harder to get --- increase down payments --- shorten the number of monthly payments.

   (k) Protect Savings & Loan Companies with a better system for home mortgages.

   (l) Work out an indexing system --- so that prices and wages each month could go up only one third or one half the rate of inflation.

   This would have to be voluntary as a function of the proposed new Cost of Living Council.

   (m) Take a new look at the revaluation of gold.

The above were suggestions for a scenario to prove to the U.S. Consumers --- that somebody is doing something.

THE 1974 PERFORMANCE OF THE 425 INDEX

As this weekly Wednesday close table*shows, the S & P 425 Industrial Stock Index had its 1974 high of 109.5 on March 6th.

With last Wednesday's close at 86.2 --- the 425 Index is now down 23.3 points or by over 21 percent.

The highest 425 Index level forecast by SFE for 1974 was 109.9 for late September when the Bear Market was in the making prior to the major catastrophe.

Now with SFE forecasts below the 80.0 level --- our forecast decline is also over 20 percent --- with more to go.

Should the 425 Index go as low as is now being forecast. . . that it SHOULD hit 77.0 -- the 1974 market fall would be in the range of a decline of 30 percent.

S & P 425 INDUSTRIAL STOCK INDEX

1974			
Jan.	9	...104.0	
"	16	...106.6	
"	23	...108.3	
"	30	...108.4	
Feb.	6	...104.0	
"	13	...101.2	
"	20	...104.1	
"	27	...107.5	
Mar.	6	...109.5	H
"	13	...111.6	
"	20	...109.2	
"	27	...108.1	
Apr.	3	...105.6	
"	10	...103.4	
"	17	...105.8	
"	24	...101.4	
May	1	...104.0	
"	8	...103.3	
"	15	...102.2	
"	22	... 98.3	
"	29	... 98.1	
Jun.	5	...102.0	
"	12	...104.2	
"	19	...100.6	
"	26	... 99.3	
Jul.	3	... 95.3	
"	10	... 90.3	
"	17	... 94.6	
"	24	... 95.9	
"	31	... 89.3	
Aug.	7	... 93.2	
"	14	... 86.2	

To evaulate the difference between recession and depression --- here are some historical facts to remember.

... for the 1957/58 recession --- SFE said the 425 Index SHOULD fall by 19.9 percent. Its actual fall was 19.7 percent.

... for the 1960/61 recession -- SFE said the 425 Index SHOULD fall by 29.1 percent. Its actual fall was 28.7 percent.

... for the 1969/70 recession --- SFE said that the 425 Index SHOULD fall by 28.3 percent. Its actual fall was 28.7 percent.

And, here are recent comparisons --- see page 1923 in Report #M257:

		Actual 425 Index		Sindlinger's Forecast* for 425 Index	
A.	January 11, 1973 record high	136.3 =	100.0%	137.1 =	100.0%
B.	June 26, 1974 with the making of a Bull Market	99.0	-27.4%	100.1	-27.0%
C.	July 31, 1974 with recessions to bordering on depression	89.3	-34.5%	89.1	-35.0%
D.	Today, August 19, 1974	83.8	-38.5%	85.1	-38.0%
E.	August 14th lowest forecast for next 15 weeks	--	--	77.0	-44.0%

Thus, if our past three major recession produced at 20 to 30 percent fall for the 425 Index --- what does the forecast*for a 44.0 percent fall make it? And, there is no evidence yet that 77.0 or the -44 percent is the low.

*Forecast of where the 425 Index SHOULD be to be in tune with future consumer spending.

PUBLIC INTEREST IN STOCK MARKET

As the year 1974 started --- public interest in the stock market, a) on an average daily basis --- and,b) over a past seven-day average --- was very high.

During March and again during May and June, both measurements showed a decline, but ended the seventh month of the year at new, all time record highs.

Daily Talk-About the Stock Market started the year 1974 at 61.0 million. The year low for daily talk-about came at the end of March with 45.4 million.

During the month of June, the daily talk-about level was up to nearly 50 million and for each week during July, as the stock market was falling --- daily talk-about was on the rise and the all time record high of 68.3 million for daily talk-about the stock market was reached.

The pattern for average weekly talk-about the stock market followed the daily volume, to reach its record at 88.1 million at the end of July.

1 DAILY AVERAGE

1974		
Jan.	9...61.0	million
"	16...51.6	"
"	23...52.3	"
"	30...50.4	"
Feb.	6...50.6	"
"	13...50.9	"
"	20...51.3	"
"	27...52.2	"
Mar.	6...46.6	"
"	13...47.0	"
"	20...46.9	"
"	27...45.4	"
Apr.	3...45.6	"
"	10...51.0	"
"	17...51.3	"
"	24...51.7	"
May	1...52.5	"
"	8...52.7	"
"	15...51.1	"
"	22...52.1	"
"	29...52.5	"
Jun.	5...49.0	"
"	12...49.4	"
"	19...49.7	"
"	26...50.1	"
Jul.	3...54.0	"
"	10...58.1	"
"	17...63.8	"
"	24...65.2	"
"	31...68.3	"

1 SEVEN DAY AVERAGE

1974		
Jan.	9...80.0	million
"	16...71.7	"
"	23...69.7	"
"	30...69.7	"
Feb.	6...68.2	"
"	13...69.4	"
"	20...70.2	"
"	27...71.7	"
Mar.	6...62.7	"
"	13...63.0	"
"	20...63.5	"
"	27...61.6	"
Apr.	3...62.2	"
"	10...66.5	"
"	17...67.2	"
"	24...67.5	"
May	1...68.7	"
"	8...69.0	"
"	15...66.1	"
"	22...67.3	"
"	29...67.7	"
Jun.	5...64.7	"
"	12...65.1	"
"	19...65.4	"
"	26...66.1	"
Jul.	3...70.9	"
"	10...76.5	"
"	17...81.1	"
"	24...85.6	"
"	31...88.1	"

2 TRADING ACTIVITY DURING PAST WEEK

1974		
Jan.	9...1,125	million
"	16... 768	"
"	23... 660	"
"	30... 807	"
Feb.	6... 748	"
"	13... 795	"
"	20... 865	"
"	27... 973	"
Mar.	6... 979	"
"	13...1,063	"
"	20...1,016	"
"	27... 922	"
Apr.	3... 976	"
"	10...1,100	"
"	17...1,149	"
"	24...1,251	"
May	1...1,200	"
"	8...1,334	"
"	15...1,049	"
"	22... 842	"
"	29... 781	"
Jun.	5... 836	"
"	12...1,052	"
"	19... 985	"
"	26... 917	"
Jul.	3... 776	"
"	10... 707	"
"	17... 531	"
"	24... 522	"
"	31... 310	"

2 TRADING ACTIVITY DURING PAST MONTH

1974		
Jan.	9...5,548	million
"	16...6,177	"
"	23...6,286	"
"	30...5,580	"
Feb.	6...5,873	"
"	13...6,073	"
"	20...6,243	"
"	27...6,719	"
Mar.	6...5,519	"
"	13...5,836	"
"	20...5,814	"
"	27...5,247	"
Apr.	3...5,566	"
"	10...6,739	"
"	17...7,112	"
"	24...7,620	"
May	1...7,759	"
"	8...8,135	"
"	15...7,207	"
"	22...7,153	"
"	29...7,568	"
Jun.	5...6,241	"
"	12...6,953	"
"	19...6,824	"
"	26...6,554	"
Jul.	3...6,132	"
"	10...5,495	"
"	17...6,241	"
"	24...5,613	"
"	31...4,855	"

2 TRADING ACTIVITY DURING PAST SIX MONTHS

1974		
Jan.	9...14,327	million
"	16...14,321	"
"	23...14,896	"
"	30...13,538	"
Feb.	6...13,207	"
"	13...13,724	"
"	20...14,139	"
"	27...15,033	"
Mar.	6...13,931	"
"	13...14,431	"
"	20...14,512	"
"	27...14,415	"
Apr.	3...14,938	"
"	10...16,519	"
"	17...17,119	
"	24...18,127	"
May	1...18,808	"
"	8...19,378	"
"	15...16,989	"
"	22...15,666	"
"	29...16,230	"
Jun.	5...15,453	"
"	12...16,685	"
"	19...16,428	"
"	26...16,238	"
Jul.	3...16,052	"
"	10...15,346	"
"	17...15,053	"
"	24...13,911	"
"	31...11,777	"

WHEN LAST BOUGHT/SOLD STOCK

Section number two in your Part II Appendix of each week's issue, by six of stock owners report when last bought or sold any stock.

The column on the left presents the projected number of stock owners who reported each week, trading activity during the past seven days prior to the day of interview. During the first 30 weeks of 1974, there were only 10 weeks when weekly trading activity was over 1-million.

Note the recent low figures with the record low for July 31st at 310,000.

The column in the center presents the projected number of stock owners who reported trading activity during the past month prior to each day of interviewing.

Highest past month trading activity for 1974 was reported for May 8th with over 8 million. . .

The lowest year's activity was the under 5 million for the first time at the end of July.

These data show how much of total stock trading comes from the public stock owner.

3 WHERE STOCK OWNERS THINK THE MARKET WILL BE A MONTH FROM NOW

A key question asked each day among stock owners is their appraisal of where the stock market will be in a month hence from the day of interviewing --- i.e., up - down - or, the same.

As the weekly figures at right show --- during the energy crisis --- from 60 to over 70 percent were quite pessimistic --- and as the market turned up during ~~Fevruary~~, by March 6th --- the pessimism to optimism turned around in one week.

As the market turned up --- optimism increased, but has been waning in recent weeks.

August data, however, is reverting to the energy crisis pattern, as less than 1 in every 5 stock owners expect the market to be up.

3 WHERE STOCK OWNERS THINK MARKET WILL BE A MONTH FROM NOW

1974	Up	Down
Jan. 9	24.8	57.0
" 16	27.1	67.3
" 23	27.7	67.6
" 30	26.4	71.1
Feb. 6	23.6	71.3
" 13	23.9	71.3
" 20	24.1	71.0
" 27	24.2	71.1
Mar. 6	33.2	23.9
" 13	33.6	24.0
" 20	33.5	24.3
" 27	33.9	22.7
Apr. 3	34.1	22.2
" 10	30.9	20.0
" 17	31.1	20.0
" 24	31.6	19.5
May 1	32.0	19.4
" 8	32.1	19.4
" 15	29.1	21.0
" 22	24.2	25.6
" 29	24.2	25.6
Jun. 5	30.1	21.7
" 12	30.4	22.1
" 19	30.1	22.2
" 26	30.1	21.9
Jul. 3	29.6	22.7
" 10	29.6	22.9
" 17	25.5	25.2
" 24	25.5	26.2
" 31	22.8	29.1

4 THE MARKET IN SIX MONTHS HENCE

Stock owners, as a part of Investor Confidence are asked their opinion on where the market will be in six months hence. These data are reported in section 4 of your Appendix, Part II. See right page for recent comparisons.

5 INVESTOR CONFIDENCE AMONG STOCK OWNERS

1974	
Jan. 9	47.8%
" 16	55.4
" 23	55.3
" 30	42.6
Feb. 6	51.3
" 13	57.4
" 20	57.5
" 27	57.6
Mar. 6	67.1
" 13	66.8
" 20	68.4
" 27	68.2
Apr. 3	68.3
" 10	71.2
" 17	71.6
" 24	72.0
May 1	71.9
" 8	72.0
" 15	70.2
" 22	66.4
" 29	66.8
Jun. 5	68.2
" 12	68.5
" 19	68.0
" 26	67.2
Jul. 3	66.3
" 10	65.9
" 17	63.1
" 24	61.7
" 31	46.6

5 INVESTOR CONFIDENCE AMONG ALL STOCK OWNERS

Section five of each week's Appendix, Part II, presents the detailed response to the four questions which produce the Sindlinger Investor Confidence figures, shown at left.

During the first thirty weeks of 1974, Investor Confidence ranged from a low of 42.6 percent, during the energy crisis. . .with the high at over 72 percent in late April and early May.

During June, when all data ~~was~~ were signaling a Bear Market in the making, Investor Confidence was still holding above 68 percent; but by the end of July it had fallen to 46.6 percent from above 60 percent.

Advance data for the first two weeks in August, ~~has~~ have Investor Confidence down even lower than during the January energy crisis lows.

The following table presents Investor Confidence response for three comparative periods in time.

Investor Confidence Among Stock Owners

	CURRENT July 31, 1974		MONTH AGO July 3, 1974		SIX MONTHS AGO January 30, 1974	
	Number (000)	Share	Number (000)	Share	Number (000)	Share
Base: Stock Owning Household Heads	37,269	100.0	39,086	100.0	34,707	100.0
With Investor Confidence	17,371	46.6	25,911	66.3	14,790	42.6
Unduplicated Negatives — Do Not Have Investor Confidence	19,898	53.4	13,175	33.7	19,907	57.4
A. Opinion on Overall Stock Market in Month from Now						
1. Market Up Next Month	8,511	22.8	11,550	29.6	9,176	26.4
2. Market Down Next Month	10,848	29.1	8,871	22.7	10,027	28.9
3. Market Same as Now	15,313	41.1	14,146	36.2	10,971	31.6
4. Don't Know/No Opinion	2,595	7.0	4,519	11.6	4,533	13.1
Up/Down Balance		- 6.2		+ 6.9		- 2.4
B. Opinion on Own Stock in Month from Now						
1. Our Stock Up	8,191	22.0	11,543	29.5	8,820	25.4
2. Our Stock Down	7,382	19.8	5,323	13.6	6,258	18.0
3. Our Stock Same	20,517	55.1	19,711	50.4	17,282	49.8
4. Don't Know/No Opinion	1,178	3.2	2,509	6.4	2,347	6.8
Up/Down Balance		+ 2.2		+15.9		+ 7.4
C. Opinion on Overall Market in Six Months from Now						
1. Market Up Six Months from Now	14,226	38.2	18,513	47.4	13,396	38.6
2. Market Down Six Months from Now	9,560	25.7	5,903	15.1	8,713	25.1
3. Market Same as Now	10,807	29.0	9,632	24.6	7,783	22.4
4. Don't Know/No Opinion	2,677	7.2	5,038	12.9	4,815	13.9
Up/Down Balance		+12.5		+32.3		+13.5
D. Opinion on Own Stock in Six Months from Now						
1. Our Stock Up	15,044	40.4	19,289	49.3	13,594	39.2
2. Our Stock Down	6,643	17.8	4,803	12.3	5,907	17.0
3. Our Stock Same	10,597	28.4	11,932	30.5	12,202	35.2
4. Don't Know/No Opinion	4,985	13.4	3,062	7.8	3,005	8.7
Up/Down Balance		+22.5		+37.1		+22.1

As the above comparison shows --- opinions on where the August stock market will be in comparison to where stock owners thought the February market would be --- is now much more negative.

In just four weeks, short term opinions on the stock market moved from +6.9 to -6.2. . .much lower than the January -2.4.

On the loger six month horizon --- opinions at the end of July were almost identical to last January.

CHART

PLANS TO BUY

6 YES PLANS TO BUY STOCK AMONG
STOCK OWNERS AND NON-STOCK OWNERS

1974	Stock Owners	Non-Stock Owners	Total yes Plans
Jan. 9	7.8 million	2.5 million	10.3 million
" 16	6.6 "	3.1 "	9.7
" 23	6.7 "	3.3 "	10.0
" 30	7.0 "	2.8 "	9.8
Feb. 6	7.2 "	3.3 "	10.5
" 13	7.1 "	3.5 "	10.6
" 20	7.3 "	3.3 "	10.6
" 27	7.3 "	3.3 "	10.6
Mar. 6	5.9 "	2.5 "	8.4
" 13	6.1 "	2.7 "	8.8
" 20	6.0 "	2.7 "	8.7
" 27	5.9 "	2.8 "	8.7
Apr. 3	6.1 "	3.0 "	9.1
" 10	7.6 "	3.2 "	10.8
" 17	7.6 "	3.5 "	11.1
" 24	7.9 "	3.7 "	11.6
May 1	8.1 "	3.9 "	12.0
" 8	8.3 "	3.9 "	12.2
" 15	8.2 "	2.6 "	10.8
" 22	8.8 "	2.8 "	11.6
" 29	8.9 "	2.7 "	11.6
Jun. 5	7.5 "	3.0 "	10.5
" 12	7.6 "	3.2 "	10.8
" 19	7.7 "	3.3 "	11.0
" 26	7.8 "	3.5 "	11.3
Jul. 3	7.4 "	3.5 "	10.9
" 10	7.4 "	3.7 "	11.1
" 17	3.3 "	2.7 "	6.0
" 24	3.4 "	2.2 "	5.6
" 31	3.0 "	1.9 "	4.9

In recent years, to have a sustained Bull Market, total yes plans to buy stock must be near or exceeding 12 million --- with at least 8 million plans from stock owners. Such a plan level in the past has produced high daily trading volume.

By May/June, plans to buy stock were near that magic level, but as the chart and table show --- they have now collapsed.

CONSUMER CONFIDENCE BY GROUPS

Over the past 20 years the level and changes in Consumer Confidence from week to week are significant in relation to the stock market. However, early in the 1960s, we began to observe that total confidence alone could fool you. It was the composition of confidence by groups which provided the key factor in forecasting the stock market's stability.

For example, if Consumer Confidence would rise among stock owners and would fall among non-stock owners --- the market would have a short rally --- and peter out.

To have a Bull Market, Consumer Confidence among non-stock owners had to precede it and had to be sustained during it. A fall in non-stock owners confidence during a Bull Market was always the signal for Bull to Bear.

As the left table shows --- from April through June 19th the pattern for a Consumer Confidence balance between owners and non-owners was in the making. An important parameter in our SFE model for forecasting where the 425 Index should be, is Consumer Confidence among non-stock owners.

8 STOCK OWNER VERSUS NON-STOCK OWNER CONSUMER CONFIDENCE

1974		Stock	Non-Stock
Jan.	9	34.0	39.0
"	16	37.2	36.6
"	23	37.4	37.4
"	30	36.8	38.2
Feb.	6	37.5	38.7
"	13	37.9	39.9
"	20	38.3	40.7
"	27	39.0	40.6
Mar.	6	52.7	35.7
"	13	52.6	37.2
"	20	52.9	46.2
"	27	51.6	48.7
Apr.	3	51.9	51.1
"	10	56.8	52.4
"	17	56.8	54.8
"	24	57.2	55.1
May	1	57.7	55.0
"	8	58.0	55.0
"	15	55.9	55.8
"	22	57.8	54.4
"	29	57.5	55.0
Jun.	5	55.3	55.7
"	12	55.5	54.2
"	19	55.0	54.0
"	26	54.7	52.0
Jul.	3	54.3	49.6
"	10	53.6	45.1
"	17	49.8	45.5
"	24	48.4	46.1
"	31	46.2	38.8

MALE EXECUTIVE MANAGERS, PROPRIETORS, AND OFFICIALS STOCK OWNERS WITH CONSUMER CONFIDENCE

1974		
Jan.	9	37.2%
"	16	31.6
"	23	31.9
"	30	37.0
Feb.	6	31.6
"	13	33.0
"	20	33.1
"	27	33.2
Mar.	6	54.2
"	13	58.5
"	20	61.5
"	27	61.2
Apr.	3	61.3
"	10	58.1
"	17	58.7
"	24	59.6
May	1	60.1
"	8	60.3
"	15	57.8
"	22	56.0
"	29	56.2
Jun.	5	57.8
"	12	58.6
"	19	58.5
"	26	57.5
Jul.	3	56.6
"	10	55.8
"	17	54.6
"	24	53.2
"	31	49.6

By June 26th Consumer Confidence among non-stock owners started to fall --- and by the end of July and into early August, the non-owners' confidence levels are down sharply --- and this is an important impact.

Another Consumer Confidence group of importance to the stock market are defined as Male Executive MPO's.

Up until 1969, this group was most accurate in forecasting stock market peaks and valleys.

In recent years, this group is more wrong than right. Rather than lead the market as they did in the 1960s, this group now have a tendency to follow the market with their confidence levels and changes.

Since the Energy Crisis, this executive group of stock owners tend to be over optimistic --- however, their Consumer Confidence has fallen sharply the past three weeks.

RECESSION TO BORDERING ON DEPRESSION FORECASTS CONTINUE FOR STOCK MARKET

President Ford's first week in office finds a continued alarming deterioration in our two Income Components of confidence --- see special issue of *The President's Summary* #278, dated Friday, August 16th.

Since these two collapsing Income Components are important parameters in our SFE model, August 14th data now has the S & P 425 Index to the point where it SHOULD decline further for the next 15 weeks. . .there is no signal at this time for any upturn.

As was explained in last Monday's special issue of the *Stock Market* Report series. . . the Bull Market which was in the making as late as June 10th --- is off because of the major catastrophe in our two Income Components, which are adding fuel to our forecast that the U. S. economy is moving from recession to bordering on depression. As has been stated --- the major catastrophe started during the week of June 20 - 26 --- and continues to adversely build.

HOW U.S. CONSUMERS VIA SFE FORECAST

The S&P 425 Industrial Stock Index

SINDLINGER FORECAST ESTIMATE (SFE)
For S & P 425 Index --- 15 Weeks Cut

1. Reg. R sq = .96994 SE=1.9
2. " " = .74532 SE=2.4
3. none

		1 Down/Pull	2 SFE Forecast	3 Up/Push	Gyro Index	Actual 425 Index	Points From Gyro Index
995	Jun. 19, 1974 ...	99.2	103.2	104.1	99.2	100.6	+ 1.4
996	" 26, " ...	100.1	100.4	--	100.1	99.3	- 0.7
997	Jul. 3, " ...	97.0	98.8	--	97.0	95.3	- 1.7
998	" 10, " ...	96.2	98.6	--	95.2	90.3	- 4.9
999	" 17, " ...	98.8	98.2	--	96.0	94.6	- 1.4
1000	" 24, " ...	96.1	97.3	--	96.2	95.9	- 0.3
1001	" 31, " ...	89.1	91.1	--	89.2	89.3	+ 0.1
1002	Aug. 7, " ...	89.1	92.4	--	89.0	93.2*	+ 4.2
LATEST							
1003	Aug. 14, " ...	86.2	88.7	--	86.3	86.2	- 0.1
1004	" 21, " ...	85.1	88.4	--			
1005	" 28, " ...	83.1	88.2	--			
1006	Sep. 4, " ...	81.1	86.3	--			
1007	" 11, " ...	80.4	85.2	--			
1008	" 18, " ...	79.4	84.3	--			
1009	" 25, " ...	79.1	83.9	--			
1010	Oct. 2, " ...	79.0	82.2	--			
1011	" 9, " ...	78.2	80.6	--			
1012	" 16, " ...	78.0	79.9				
1013	" 23, " ...	77.1	77.6	--			
1014	" 30, " ...	77.0	78.5	--			
1015	Nov. 6, " ...	77.3	79.2	--			
1016	" 13, " ...	78.2	79.6	--			
1017	" 20, " ...	78.3	79.8	--			

Average weekly points difference 1.8

*Nixon to Ford Rumor

As the table above shows, all SFE 9 to 1 odds are highest on the down-pull side. . . and the Actual 425 Index has been following the forecasts as follows:

. . . **June 19th was the last time for any up-push, as the table shows. . .and the Actual 425 Index came in within 1.4 points above the Gyro Index.**

. . . For the weeks ending June 26th through July 24th, the **Actual 425 Index** followed on the low side of the forecasts of the Gyro Index.

. . . For August 7th, the Actual 425 Index was 4.2 points above the Gyro Index, but this upturn was based upon the rumors of Nixon to Ford.

. . . For week ending August 14th . . . President Ford's first full week in office . . . the Actual 425 Index was right on target with the down-pull forecast for this data.

SUMMARY 15-WEEK FORECAST --- WHERE ODDS ARE 9 TO 1

THE JUNE 19TH --- AUGUST 14TH PERIOD

Trouble Started Here

Week #		June 19	June 26	July 3	July 10	July 17	July 24	July 31	Aug. 7	Aug. 14	Actual
995	Jun. 19, '74	99.2	--	--	--	--	--	--	--		100.6
996	" 26	100.1	100.1	--	--	--	--	--	--		99.3
997	Jul. 3	102.2	97.0	97.0	--	--	--	--	--		95.3
998	" 10	102.6	96.2	96.2	95.2	--	--	--	--		90.3
999	" 17	104.4	98.5	98.8	96.6	96.0	-	--	--		94.6
1000	" 24	101.1	98.2	100.0	99.9	98.1	96.2	--	--		95.9
1001	" 31	101.5	97.2	100.1	99.3	98.2	96.1	89.2	--		89.3
1002	Aug. 7	101.2	98.8	100.4	99.5	97.8	95.6	89.1	89.0		93.2
1003	" 14	103.8	100.0	100.9	99.9	97.1	95.1	88.9	88.6	86.3	86.2
1004	" 21	104.6	101.7	102.3	100.1	97.6	94.7	88.6	88.4	85.1	--
1005	" 28	105.2	103.0	103.1	102.6	98.2	97.4	88.8	88.1	83.1	--
1006	Sept. 4	107.9	101.9	103.2	102.1	98.7	96.7	87.9	86.2	81.1	--
1007	" 11	108.1	105.2	104.5	103.4	98.8	96.3	86.8	85.4	80.4	--
1008	" 18	109.2	102.9	104.9	103.6	98.7	95.3	85.2	84.3	79.4	--
1009	" 25	109.9	102.8	105.2	104.1	99.9	96.6	84.9	83.2	79.1	--
1010	Oct. 2	--	103.3	107.3	104.4	99.8	89.9	82.4	82.1	79.0	--
1011	" 9	--	--	107.3	103.2	99.7	89.9	81.7	80.6	78.2	--
1012	" 16	--	--	--	--	--	68.4	80.6	79.7	78.0	--
1013	" 23	--	--	--	--	--	38.2	80.1	77.8	77.1	--
1014	" 30	--	--	--	--	--	85.1	79.7	78.4	77.0	--
1015	Nov. 6	--	--	--	--	--	--	79.3	79.2	77.3	--
1016	" 13	--	--	--	--	--	--	--	80.1	78.2	--
1017	" 20	--	--	--	--	--	--	--	--	78.3	--

MARKET IS NOW IN TUNE FOR A RECESSION

From the June 20th start of our major catastrophe, when our SFE forecasts for the 425 Index were all revised down --- through last Wednesday, August 14th --- is a period of eight weeks.

. . . The Gyro Index average for the past eight weeks was 94.9 --- with a high 100.1 and a low of 86.3 --- showing an eight-week decline for the Gyro Index of 13.7 percent.

. . . During this same eight weeks, the actual S & P 425 Index averaged 93.1 --- with a high of 99.3 and a low of 86.2 --- for a decline of 13.2 percent.

Historically over the past 1,003 weeks --- whenever:

> The Gyro Index and the Actual Index are close together and moving in the same direction --- the 425 Index is where it SHOULD BE TO BE IN TUNE WITH FUTURE ECONOMIC ACTIVITY --- which governs stock prices.

THE LEVEL AND DIRECTION ARE IN HARMONY IN DECLINING

For the past eight weeks:

(a) With the Gyro Index averaging 94.9 and the actual 425 Index averaging 93.1 --- they are only 1.8 points off in *level.*

(b) With the Gyro Index falling 13.7 percent and the actual 425 Index falling 13.2 percent --- they are almost exactly together in their down direction.

Thus, these key data are falling in almost perfect harmony.

WHERE DOES IT GO FROM HERE?

SFE forecasts made early in the year said that the first two quarters of 1974 would be *no growth* for GNP --- and that makes a recession.

A soon to be released new forecast for GNP now adds four more quarters of recession --- for all of 1974 and into mid-1975.

Based upon the past eight-week performance of the 425 Index --- the stock market is right in tune with this forecast.

But, each week our confidence data continues to go down. Thus, further 425 Index forecast will be down --- and the actual 425 Index SHOULD follow down --- as it has the past eight weeks, with a fifteen-week lag.

TO TURN THE STOCK MARKET UP --- WILL REQUIRE A SHARP UPTURN IN THE CONFIDENCE COMPONENTS AS MEASURED AND REPORTED EACH WEEK BY SINDLINGER & COMPANY

WHAT IS THE POINT --- BETWEEN RECESSION AND DEPRESSION

Historically, based upon the past 20 years --- we have no reference for the distinction between a recession and a depression.

What all correlations suggest is that for the 425 Index --- it is right now in-tune with the deep recession level we are measuring and forecasting.

As of August 14th --- our lowest 9 to 1 odds for the 425 Index is 77.0 --- and our best judgment is that this level would border on depression. But, whether we have a recession and depression depends upon --- a) how low our forecast for the 425 Index will go --- and, b) how long they stay low before they turn up.

A turnaround from our current low confidence level would obviously turn our 425 Index forecasts up --- a sustained low plateau could be dangerous.

Issue #278

SINDLINGER & COMPANY
Marketing & Opinion Research

S M T W T F S

August 16, 1974

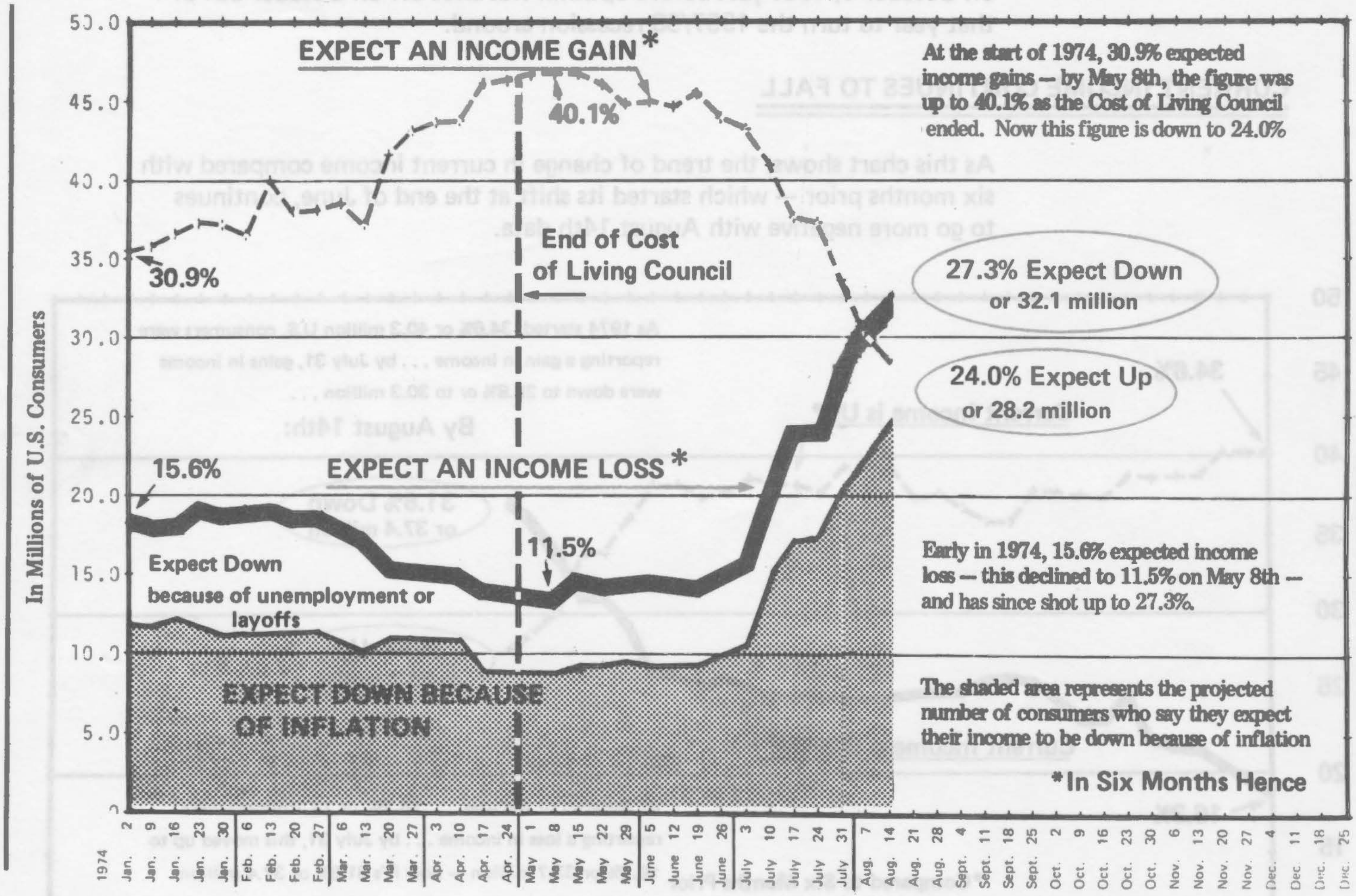
THE PRESIDENT'S SUMMARY

Consumer Economics

The Current Status of Democracy in Action. . .
Issued When Events and Data are Significant to Report

PRESIDENT FORD'S NUMBER ONE PROBLEM GAINS MOMENTUM

No one disputes the fact that President Ford's number one problem is inflation --- but as this chart shows --- the problem during his first full week in office gained momentum --- and did not subside --- as we and everyone else had hoped for.



As the chart shows and as we have been saying in past reports --- the major reason why we changed our recession forecasts to bordering upon depression is the fact that never in twenty years have we had such a rapid collapse of both of our income components in such a short time and both collapsing for the same reason --- inflation.

When you take our expected income data for the 997 weeks prior to July 3, 1974, and correlate it with scores of other data as we have been doing, the accuracy and the long lead time of expected income over almost all other data are uncanny.

(Over)

For example, in past recessions, as consumers were reporting a decline in current income as the recession wore on --- our expected income data were always rising --- forecasting when we would come out of the recession --- and it always worked out that way --- almost to the week.

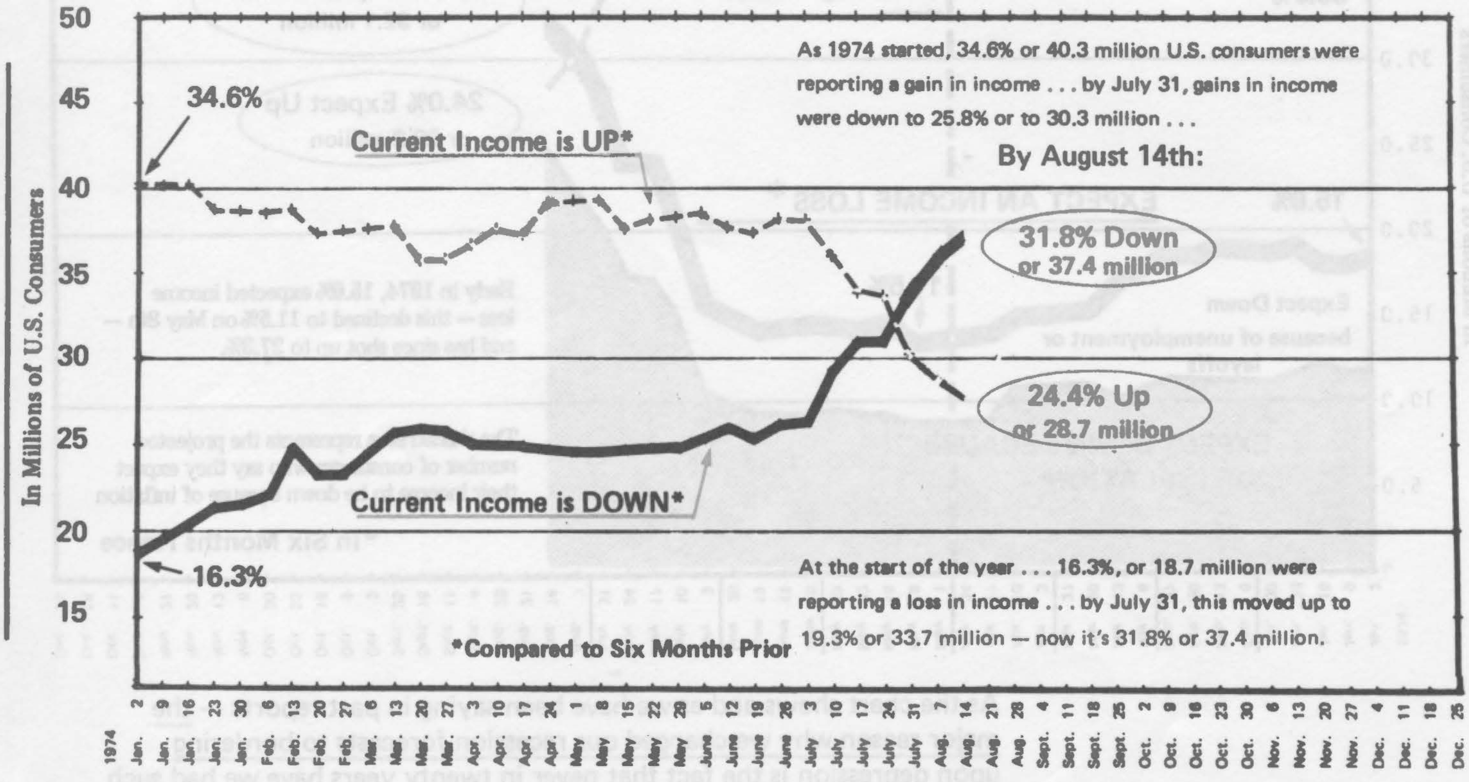
Never, did expected income fall so badly --- while current income was also falling --- as it has been doing for the past eight weeks since June 19th.

As our Expected Income Index chart shows, we now have as of August 14th --- 27.3 percent of all U.S. consumers expecting an income decline by next February. Only 24.0 percent expect an income gain for this period.

The maximum income decline ever measured before was 18.1 percent on October 5, 1957 just before Sputnik was shot off on October 6th of that year to turn the 1957/58 recession around.

CURRENT INCOME CONTINUES TO FALL

As this chart shows, the trend of change in current income compared with six months prior --- which started its shift at the end of June, continues to go more negative with August 14th data.



● . . . By July 31st --- 29.3 percent of all consumers were reporting that their current income was down --- now August 14th, the figure is up to 31.8 percent.

● . . . By July 31st --- 25.8 percent were reporting current income as up --- this figure has now moved down to 24.4 percent.

BOTH INCOME COMPONENTS ARE NOW NEGATIVE

As of August 14th:

. . . 7.3 percent or 8,682,000 more are reporting income as down than reporting it as up.

. . . 3.2 percent or 3,904,000 more are expecting their income to be down than expect it to be up.

As stated:

(a) Never in 20 years has either income balance been negative.

(b) And, never have both income components fallen at the same time with such magnitude --- in such a short period of time --- as since June 19th.

To repeat: As our Expected Income Index chart shows, we now have --- as of August 14th --- 27.3 percent of all U. S. consumers expecting an income decline by next February. Only 24.0 percent expect an income gain for this period.

M2 CONTINUES TO FOLLOW CONSUMER FORECASTS

Our first published SFE forecast for M2 was made on May 18th, based upon April 24th data --- forecasting the M2 (nation's money supply) out for 36 weeks from then to the end of 1974.

The reason why we published this chart when we did was because consumer judgment data via SFE were saying that the annual growth rate of M2 money supply should top out about mid-May and then start to decline in growth rate.

In financial circles M2 is considered as an important figure and is defined as the *nation's money supply.* The FRB each week on Wednesday compiles the figures from their bank sources and M2 represents the total of current in circulation, demand deposits and time deposits at commercial banks, with the exception of CD's over $100,000.

Thus, the FRB M2 figures are the measurement of a defined *money supply.*

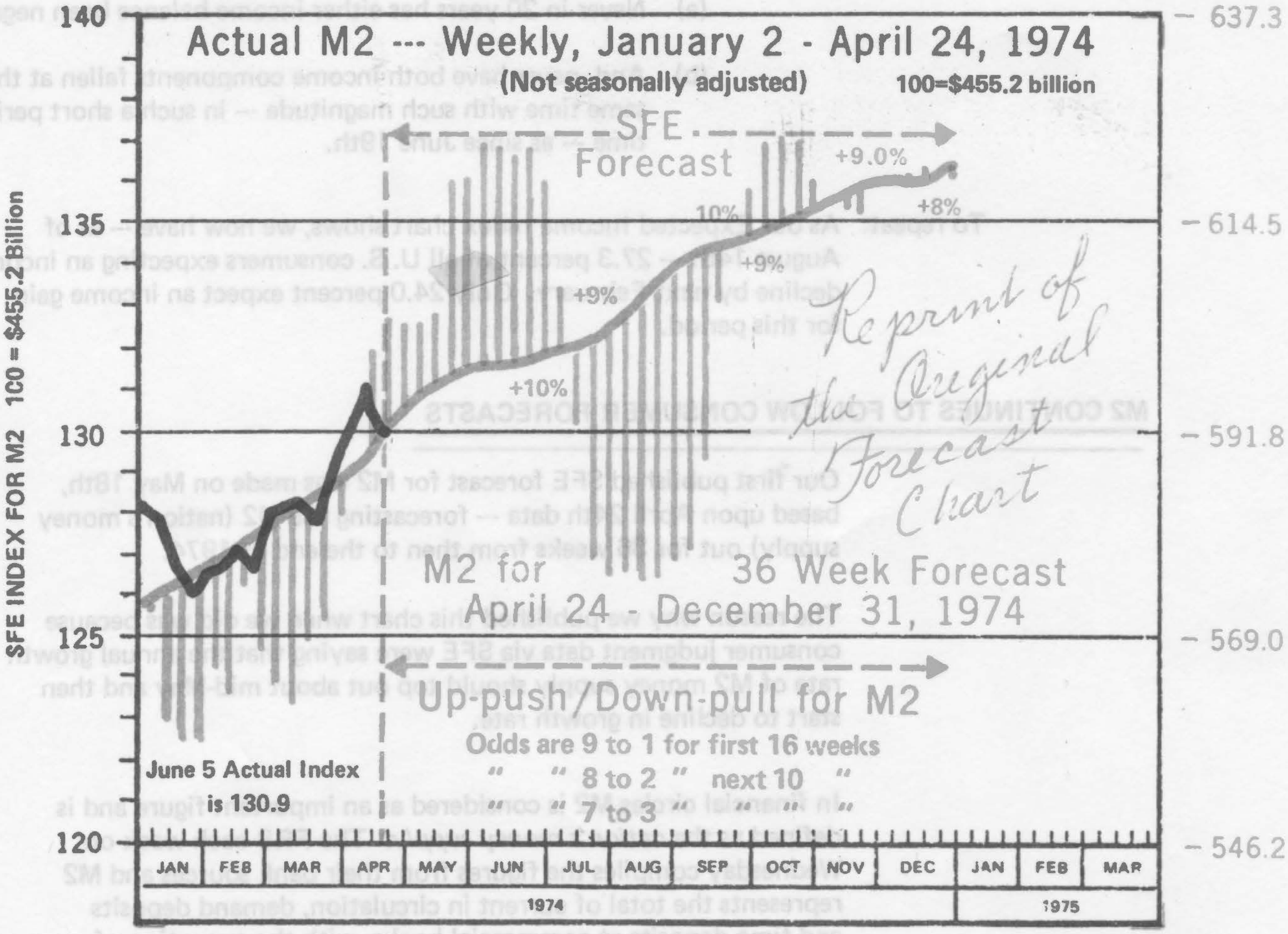
There is much controversy over the control of *the money supply.* But, what we are discussing here, is something different --- a new dimension --- we are talking about *The Money Demand.*

SINDLINGER CONFIDENCE DATA ADDS A NEW DIMENSION TO M2

While the FRB each week reports with M2, the nation's money supply --- what Sindlinger's forecast on M2 is doing is adding a new dimension to M2 --- in forecasting the *nation's money demand.*

It is suggested that clients go back and re-read our *Consumer Spending & Demand Reports Issues #4 and #5* --- where the history of the correlation of actual M2 was forecast by 36 weeks in advance for each week from 1971 through April 1974.

Here we reproduce this chart as it was first published from Report #5 of our *Consumer Spending & Demand Series.*



In summary, the SFE computer model for 137 weeks from September 15, 1971 through April 24, 1974 determined that as the parameters of consumer judgments from our confidence components changed from week to week --- up or down 36 weeks later M2 would change up or down --- with R-squared = .98428 with a standard error of 0.8.

In other words, as Sindlinger confidence components moved up or down --- with each parameter of confidence properly weighted to the trend of M2 --- the *demand for the money supply as represented by actual M2* --- could be forecast for 36 weeks in advance.

... For the first 16 weeks of each 36 week forecast period --- the odds should be better than 9 to 1 that the actual M2 figures should come in within + of 2 percent of the forecast.

Today (August 16th) the latest M2 figures for August 7th were published --- so we now have fifteen weeks of actual data to compare with the consumers' forecast on what the M2 figure should be for each of these past fifteen weeks.

M2 IN BILLIONS OF DOLLARS

Wednesday Week Date	Sindlinger M2 SFE Forecast For Week	Annual Rate*	Actual M2	Annual Rate	Sindlinger Percent Difference In Dollars
May 1	$594.9	10.0%	$590.8	9.0%	+0.69%
8	597.2	10.3	590.3	9.1	+1.16
15	597.7	10.2	592.3	9.0	+0.91
22	599.0	10.4	590.4	9.1	+1.45
29	599.5	10.3	589.2	8.7	+1.71
Jun. 5	599.6	10.0	596.4	8.9	+0.51
12	599.5	9.7	598.0	8.8	+0.02
19	599.5	9.4	598.6	8.8	+0.01
26	600.4	9.9	594.0	8.7	+1.06
Jul. 3	601.3	9.4	599.8	8.6	+0.24
10	601.8	9.4	600.4	8.7	+o.14
17	* 601.8	9.3	600.5	8.7	+0.21
24	* 602.2	9.2	596.2	8.7	+0.99
31	* 603.6	9.3	597.9	8.7	+0.94
Aug. 7	* 605.9	9.5	599.3	8.8	+1.08

Average Weekly Error 0.74

As clients observe the chart on the left page, it will be noted that from May Ist through July 17th --- there was no down-pull (the gold vertical bars). *The down-pull first showed up for July 17th.

As stated --- one of the reasons for publishing our M2 *money demand forecasts* when we did --- was because our recession levels for our confidence components which are used as parameters in the SFE computer model --- were saying that the annual growth rate of M2 should top out about May 22, 1974 and then slow down --- and, this was based upon consumer judgments 36 weeks prior to this date.

It is interesting to note from the table above that the actual growth rate for M2 peaked out exactly on that week of forecast.

The margin of error, according to SFE is that the actual M2 figures as measured by the FRB each Wednesday --- should be within plus or minus 2 percent of the 36 weeks earlier forecast of demand, about 98 percent of the time.

MONEY SUPPLY AND DEMAND

There is an old saying, that to be an economist --- all one needs to know is "supply and demand" --- and here is a new insight.

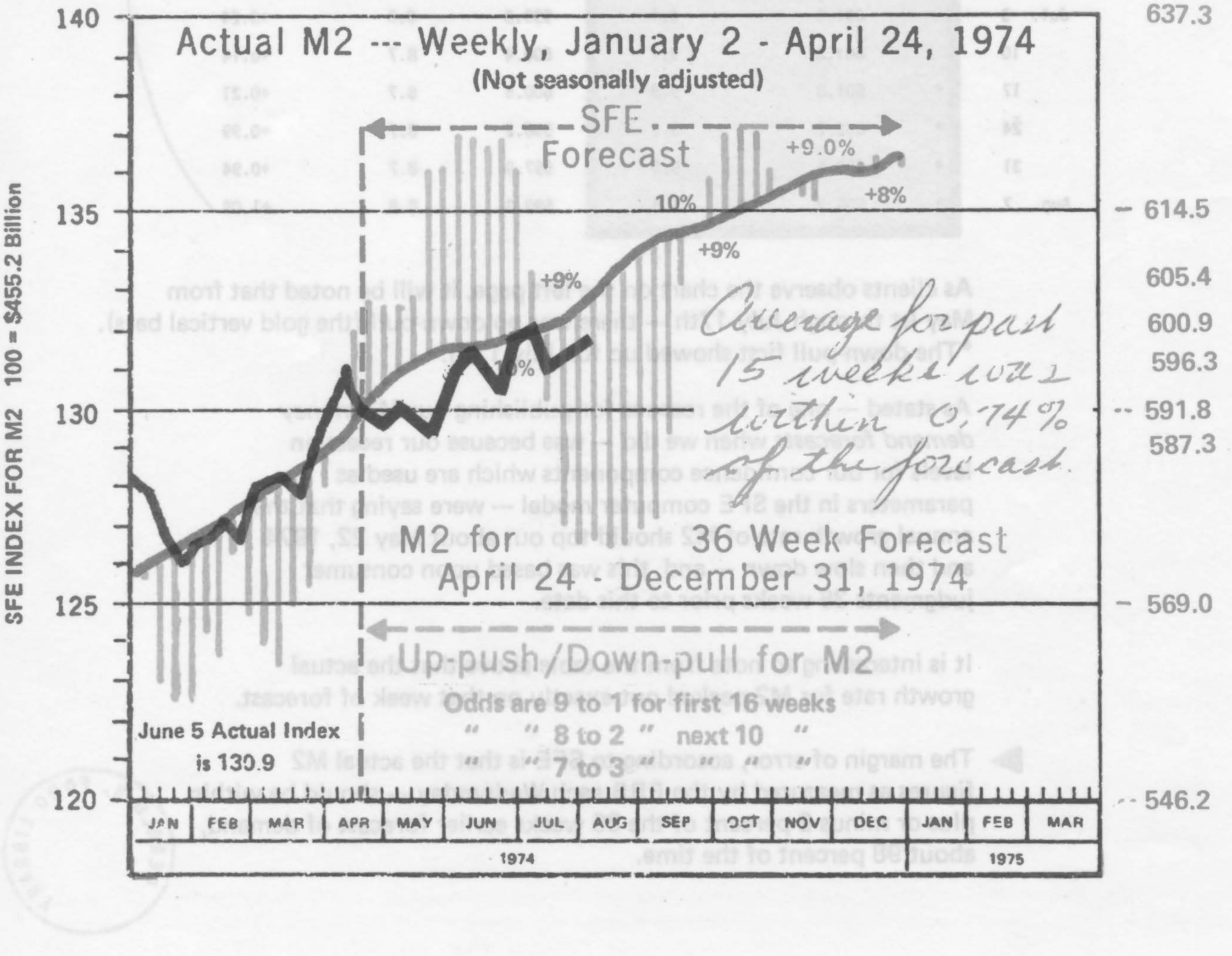
As clients follow our M2 data --- (soon we will report on M1 and M3) these are the three steps they will observe:

First — Our continuous and daily confidence components, which become the parameters for our SFE computer model --- are measuring the changes in the money supply of U.S. households --- the changes in current and expected income along with job and business security.

Second — As the money supply of U.S. households change --- up or down --- the demand for money in the U.S. economy changes --- up or down.

Third — As the demand for money from U.S. households change--- then the supply of money in the nation's banks change.

HOW THE PAST 15 WEEK ACTUAL M2 CAME IN WITH THE THE FORECAST OF MONEY DEMAND



THE LAG TIME BETWEEN M2 DEMAND AND M2 SUPPLY

The time lag between a change in the household demand for money versus a change in the bank's supply of money --- during the 1960s was about 30 weeks.

Since 1971, the time lag has moved to 36 weeks --- and as the table and chart shows --- for the past fifteen weeks --- the *supply of money* came in within weekly averages of 0.74 percent --- of the demand for money.

In a soon to be released new forecast on M2 --- to include our latest confidence declines --- the demand for money in late 1974 and for most of 1975 will be very much down --- and the lead time of demand over supply will move to much longer than 36 weeks.

Thus, since the *money supply* is so important to decisions on fiscal policy, we hope that this new measurement for the money supply demand --- will add new dimensions to important decision making.

AN AREA OF GOOD NEWS

With all the bad news we have been reporting --- here is some temporary good news.

Watch for a surge in 10-day new car sales for the 1974 model cars --- as, for some time now, we have been measuring and reporting more new car plans to buy 1974 model cars --- than there are cars to sell --- except for the small cars which remain hard to sell.

HEDGE BUYING ABOUT OVER

All Sindlinger data shows that most "hedge buying" is now over (except for 1974 new cars) and this is why inventories are building faster than most want to admit.

A soon to be released SFE forecast on inventory build up --- which leads to the unemployment build up --- shows that July was the peak out for inventories under control.