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Central File

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
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October 16, 1974

WJF

MEMORANDUM FOR THE PRESIDENT

Subject: Third Quarter GNP -- First Published Report

Summary

Real GNP declined in the third quarter of 1974 for the third quarter in a row. At the same time the rate of inflation worsened as compared to the second quarter of 1974. These are the main features of the third quarter GNP statistics that the Commerce Department will publish for the first time on Thursday.

It is questionable whether the economy has been quite as weak as suggested by the real GNP, which it is exceedingly difficult to estimate in the present inflationary circumstances and which according to the estimates is now 2.9 percent below the peak level reached in the fourth quarter of 1974. At an annual rate the decline is 2.9 percent also as compared to the second quarter of this year. The differently computed less comprehensive Industrial Production index of the Fed which, however, is usually very sensitive to changes in the business cycle shows practically no change from the second to the third quarter of this year and merely a 1.2 percent decline from the peak reached in the last quarter of 1973.

The more important question concerns developments in the near future. At best we see a flat real economy over the next few quarters and we might well see some further decreases, particularly during this fall and winter. We do not expect a sharp decline but do expect the unemployment rate to rise in this phase.

[Handwritten mark]

William J. Fellner

William J. Fellner
Member

Alan Greenspan
Chairman



Supplementary Material

The Commerce release presents a worse picture than was apparent in the unpublished third quarter projection made by Commerce about a month ago. Last month's projection estimated that real GNP (GNP adjusted for inflation) had declined from the second to the third quarter by 1.1 percent (annual rate), while the present estimate puts this decline at 2.9 percent (annual rate). Last month's projection estimated that prices (as measured by the comprehensive GNP price index) rose at an annual rate of 10.6 percent in the third quarter. This month's estimate puts the rise at 11.5 percent.

These figures are for release Thursday, October 17 at 2:00 p.m.

