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BES-4

THE PRESIDENT HAS SEEN *d.f.*

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
WILLIAM J. FELLNER
GARY L. SEEVERS

December 18, 1974

MR.

MEMORANDUM FOR THE PRESIDENT

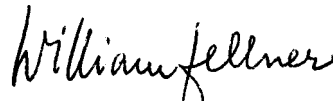
Subject: Preliminary Estimates of Fourth Quarter GNP

Summary

Real GNP declined at a seasonally adjusted annual rate of 8 percent according to preliminary unpublished estimates of the Commerce Department. The conventional price index for GNP - the so-called implicit deflator - continued at its high third quarter rate of almost 12 percent. Other measures of price change suggest that the rate of inflation has eased to roughly 10 percent. This easing is shown by indexes that hold the weights of the individual components of the GNP (the composition of the output) constant from quarter to quarter, thus avoiding a confusing property of period-to-period comparisons based on the conventional price deflator.



Alan Greenspan
Chairman



William J. Fellner
Member



Additional detail

The fourth quarter GNP decline is especially disturbing because of its composition. There was a very large buildup in inventories in the fourth quarter as stocks accumulated in the hands of automobile dealers and other firms failed to make headway in reducing burdensome inventories. As business attempts to bring stocks into line with sales there will be a substantial further reduction in production in the early months of 1975.

These estimates are very tentative. The Commerce Department had to make its own estimate of consumer prices, inventories, and net exports for both November and December. Estimates for publication based on more complete data will be available in a month.