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THE PRESIDENT HAS SEEN *RF*

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 28, 1975

MEMORANDUM FOR THE PRESIDENT

Subject: CEA Forecasts

RF

In the Annual Report of the Council of Economic Advisers (released 2/4/75), we are projecting that real GNP will decline sharply in the first quarter, stabilize in the second quarter, and rise at an annual rate of 7 percent during the second half of this year. Despite the implied rapid comeback in the second half, the average level for the year as a whole is still estimated to fall 3.3 percent below that of 1974. We are saying that unemployment should peak in the third quarter and will start to gradually decline from something slightly in excess of an 8 percent rate. Implicit in our forecast is a continued improvement into 1976 but no explicit forecast will be made in the Annual Report.

Aside from the fact that the CEA does not conventionally project for more than one year in its Annual Report, the outlook is so extraordinarily cloudy that to put specific numbers down for 1976 is pressing the art of forecasting beyond its capabilities. I will avoid in testimony being too specific about 1976 on the grounds that our knowledge is quite deficient.

However, we do have a problem in that the Budget document to be released February 3 will show a table with forecasts for 1975 through 1980. The purpose of the table is to indicate the assumptions underlying the long-term budget forecast. The specific forecasts for 1976 were constructed by the Troika staff (CEA, OMB, Treasury) and while showing a near 5 percent rise in real GNP for next year exhibits very little reduction in the unemployment rate. This is the type of forecast a rigid computer model will generate with our program. The reason for the high (7.9%) 1976 unemployment rate is, as I indicated to you previously, the ending of the one-year tax cut and hence an effective rise of \$16 billion starting in January 1976.



I do not have any particular confidence in the above 1976 forecast. There are so many imponderables that could occur between now and 1976 that I believe that this type of forecast should be discussed as merely a pro forma statistic required for budget assumption purposes but not something in which anyone has great confidence.



Alan Greenspan