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May 14, 1980

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. Evidence continues to mount that a substantial and broad contraction in economic activity is underway. Further declines in the housing and auto sectors, as well as a more general weakening of other final demands, have occasioned sizable downward adjustments in employment and production. Inflation remains intense; the rise in the producer price index for finished goods slowed in April due to falling food prices and a more moderate increase in energy prices, but many other prices continued to advance rapidly.

Industrial production is estimated to have declined by nearly 2 percent last month, the largest monthly drop since early 1975. The auto- and construction-related industries dominated the decline in the index, but output in a number of other areas also weakened. Capacity utilization rates for manufacturing and industrial materials fell significantly further in April to levels around 6 percentage points below their recent cyclical highs.

Labor markets weakened considerably in April; the loss of one-half million jobs was the major factor in pushing the unemployment rate up sharply to 7 percent. The largest curtailments in payrolls were at construction sites and in motor vehicle-related industries; however, retail trade employment also fell for the second consecutive month. Altogether, almost three-quarters of a total of 172 nonagricultural industries showed declines in employment. Average hours of work also were reduced; since January, the average factory workweek has been shortened by three-quarters of an hour, with cutbacks widespread among industries.

Consumer demand has continued to soften in response to declining real incomes, restrictive credit conditions, and apparently much greater caution by households in using credit following the actions of March 14. The dollar value of total retail sales fell 1.2 percent in April--the third consecutive monthly decline of considerable magnitude. Auto sales in particular weakened since the tighter credit standards were announced in mid-March; in addition, rebate programs expired at about the same time. Car sales during April were at an annual rate of 8.2 million units, the slowest sales pace since the spring of 1975. Even sales of smaller cars were down from the first-quarter pace, with imports off almost 20 percent, while sales of full-size domestic units were off by 30 percent. In April, sales of furniture, appliances and general merchandise continued to drop in real terms, but by less than the steep declines during the preceding two months.

The housing market weakened appreciably further in March. Home sales fell for the sixth consecutive month, and new single-family starts declined to about 600,000 units (annual rate) close to the lowest monthly rate in 20 years. Builders appear to have adjusted production quickly in response to sagging home sales and high financing costs, but the ratio of unsold houses to the rate of sales still moved sharply upward. While multifamily construction also has been held down by adverse financial conditions, historically low rental vacancy rates and strong demand for condominiums seems to be cushioning the decline in this sector.

Business fixed investment was fairly well maintained through March, due to large shipments of capital equipment. However, nonresidential construction put-in-place and truck sales declined as the first

quarter progressed. New orders and survey indicators of capital spending plans so far have remained relatively high. In recent weeks, however, there appears to have been a pickup in announced cutbacks, postponements and cancellations of capital spending plans.

Book-value inventory accumulation moderated in March (latest data available), and for the first quarter as a whole, stocks probably changed little after inventory valuation adjustment. The accumulation that did occur in the first quarter was concentrated at manufacturers. Inventory-sales ratios for both manufacturing and retail trade increased late in the first quarter, however, when sales fell rapidly. For automobile dealers, April data are already available and they show a considerable increase in the number of days' supply of all major categories of cars.

Inflation generally remained intense during the first quarter of 1980. In April, however, a sharp drop in food prices held the increase in producer prices of finished goods to one-half percent in April. In addition, the advance in energy goods prices--though still large at 3.8 percent--moderated to about one-half the explosive rates of increase recorded in February and March. Prices for items other than food and energy on average continued to rise at a rapid rate in April, owing largely to big price increases for autos and for many types of capital equipment.

Outlook. In view of the sharp decline in activity reported for April, the staff is projecting a deeper second-quarter economic contraction than for the last Greenbook. Real GNP is now expected to fall around 6 percent at an annual rate. The projected decline in output is

concentrated in purchases of consumer durables and in homebuilding activity; smaller reductions are estimated for consumption of nondurable goods and for business fixed investment. Only a small amount of involuntary accumulation is expected in the second quarter, as manufacturing production already has been curtailed considerably.

The assumptions for the monetary aggregates underlying the staff GNP projection are similar to those of a month ago; growth in M-1A is assumed to pick up in the months ahead and to return to the 4-3/4 percent long-run path for 1980 and to continue growing at that rate in 1981. Short-term market interest rates may back up somewhat from their most recent levels and remain within a narrow range over the rest of the projection period. Mortgage rates, however, are estimated to continue declining until early 1981. The fiscal policy assumptions also are changed little from a month ago, when the President's budget revisions and the oil import fee were incorporated. Budget deficits projected by the staff, \$43 billion in FY 1980 and \$20 billion in FY 1981, differ from the administration's outlook mainly due to economic assumptions but also to some other differences regarding spending and taxes.

Economic activity is projected to continue declining into early 1981. Over the four quarters of contraction, the drop in real GNP is expected to be about 4 percent, less than in 1973-75 but more than in the other recessions since World War II. Although housing starts are expected to bottom out in the near term, other major categories of activity are expected to decline into early 1981. In contrast to previous downturns, however, businesses are expected to gear production fairly closely to sales, so that inventory movements contribute only moderately both to the recession and to the subsequent recovery.

The projected rate of recovery during the second half of 1981 is only a little over 1 percent at an annual rate. The speed of recovery is limited significantly by the restraining influence of the assumed stance of monetary and fiscal policies. On the basis of our projection of economic growth, the unemployment rate would keep rising throughout 1981. Unemployment is projected to average about 8-1/4 percent of the labor force in the fourth quarter of this year, and to move into the 9 percent area late in 1981.

The staff outlook for inflation over the next year and a half also is little changed from a month ago. Inflation is expected to remain intense during the next few months, and then to taper off sometime after midyear. Near-term pressures on prices reflect the impact of the oil import fee, assumed to be effective in mid-May and lagged effects on the CPI of the very high recent mortgage rates. Food prices are expected to accelerate in the next few months; on average they are projected to increase at around a 9 percent rate during both 1980 and 1981. Despite increasingly slack labor markets, compensation per hour is likely to continue to impart a fairly steady upward cost push to prices, reflecting responses to recent cost of living increases as well as a large hike in social security costs in early 1981. Overall, gross business product prices are projected to advance at nearly a 12 percent annual rate during the current quarter, at close to 10 percent by late 1980, and at a more moderate 8-1/2 percent rate in late 1981.

Detailed data for these projections are shown in the following tables.

STAFF GNP PROJECTIONS

Percent changes, annual rate										
Nominal GNP		Real GNP		Gross domestic business product fixed-weighted price index				Unemployment rate (percent)		
4/16/80	5/14/80	4/16/80	5/14/80	Total		Excluding food and energy		4/16/80	5/14/80	
4/16/80	5/14/80	4/16/80	5/14/80	4/16/80	5/14/80	4/16/80	5/14/80	4/16/80	5/14/80	
Annual changes:										
1978 ^{1/}	12.0	12.0	4.4	4.4	7.6	7.6	7.2	7.2	6.0	6.0
1979 ^{1/}	11.3	11.3	2.3	2.3	9.6	9.5	8.1	8.1	5.8	5.8
1980	8.9	8.3	-4	-1.1	10.7	10.6	8.1	8.2	7.0	7.4
1981	7.4	7.7	-2.1	-1.8	9.6	9.7	8.2	8.3	8.6	8.9
Quarterly changes:										
1979-Q1 ^{1/}	10.6	10.6	1.1	1.1	10.0	10.0	7.7	7.7	5.7	5.7
1979-Q2 ^{1/}	6.7	6.7	-2.3	-2.3	10.1	10.1	7.9	7.9	5.8	5.8
1979-Q3 ^{1/}	11.9	11.9	3.1	3.1	10.4	10.4	7.6	7.6	5.8	5.8
1979-Q4 ^{1/}	10.5	10.5	2.0	2.0	8.4	8.4	6.6	6.6	5.9	5.9
1980-Q1 ^{1/}	10.3	10.7	2.0	1.1	11.9	11.8	8.8	8.8	6.1	6.1
1980-Q2	8.3	4.4	-2.9	-5.9	12.3	11.7	9.0	9.5	6.6	7.3
1980-Q3	4.6	4.6	-4.9	-4.7	10.2	10.6	8.4	8.4	7.3	7.9
1980-Q4	5.3	6.3	-4.5	-3.7	9.7	9.8	8.2	8.3	7.9	8.3
1981-Q1	7.6	8.4	-2.3	-1.5	9.9	10.0	8.7	8.7	8.3	8.7
1981-Q2	9.0	9.3	.0	.4	9.2	9.2	8.1	8.1	8.5	8.9
1981-Q3	9.0	9.2	.9	.9	8.5	8.5	7.5	7.5	8.7	9.0
1981-Q4	9.9	10.2	1.2	1.2	8.5	8.5	7.4	7.4	8.8	9.1
Two-quarter changes: ^{2/}										
1979-Q4 ^{1/}	11.2	11.2	2.5	2.5	9.3	9.3	7.1	7.1	.1	.1
1980-Q2	9.3	7.5	-5	-2.5	12.1	11.7	8.9	9.2	.7	1.4
1980-Q4	4.9	5.5	-4.7	-4.2	10.0	10.2	8.3	8.3	1.3	1.0
1981-Q2	8.3	8.8	-1.2	-.6	9.5	9.7	8.4	8.4	.6	.6
1981-Q4	9.5	9.7	1.0	1.1	8.5	8.5	7.5	7.4	.3	.2
Four-quarter changes: ^{3/}										
1978-Q4 ^{1/}	13.4	13.4	4.8	4.8	8.6	8.6	8.1	8.1	-.7	-.7
1979-Q4 ^{1/}	9.9	9.9	1.0	1.0	9.7	9.7	7.5	7.5	.1	.1
1980-Q4	7.1	6.5	-2.6	-3.3	11.0	11.0	8.6	8.7	2.0	2.4
1981-Q4	8.9	9.3	-.1	.2	9.0	9.0	7.9	7.9	.9	.8

^{1/} Actual.^{2/} Percent change from two quarters earlier.^{3/} Percent change from four quarters earlier.

May 14, 1980

CONFIDENTIAL - FR
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of current dollars at annual rates.)

	1980				1981			
	Q1	Q2	Q3	Q4	Projection Q1	Q2	Q3	Q4
Gross national product	2520.3	2547.6	2576.7	2616.2	2669.4	2729.4	2790.3	2859.1
Final purchases	2515.8	2539.4	2574.7	2623.1	2672.6	2728.3	2786.5	2854.9
Private	1997.5	2011.1	2036.6	2071.3	2111.6	2158.1	2206.4	2260.2
Excluding net exports	2018.5	2023.9	2043.3	2070.9	2105.1	2150.3	2198.0	2251.8
Personal consumption expenditures	1634.1	1656.2	1682.1	1707.7	1739.1	1777.8	1817.0	1857.9
Goods	874.8	874.0	879.9	885.5	895.0	910.0	925.4	942.1
Services	759.4	782.2	802.2	822.2	844.1	867.8	891.6	915.8
Gross private domestic investment	388.8	375.9	363.2	356.3	362.8	373.6	384.8	398.1
Residential construction	112.7	93.7	87.2	90.7	95.2	102.2	110.2	120.2
Business fixed investment	271.6	274.0	274.0	272.5	270.8	270.3	270.8	273.7
Change in business inventories	4.5	8.2	2.0	-6.9	-3.2	1.1	3.8	4.2
Nonfarm	4.1	8.2	2.0	-6.9	-3.2	1.1	3.8	4.2
Net exports of goods and services ^{1/}	-21.0	-12.8	-6.7	.4	6.5	7.8	8.4	8.4
Exports	299.4	304.2	307.7	313.0	321.2	328.8	337.2	346.8
Imports	320.4	317.0	314.4	312.7	314.8	321.0	328.8	338.4
Gov't. purchases of goods and services	518.3	528.3	538.1	551.8	561.0	570.2	580.1	594.7
Federal ^{2/}	187.3	191.2	194.4	201.9	205.6	209.1	212.4	220.4
State and local	331.0	337.1	343.7	349.9	355.4	361.1	367.7	374.3
Gross national product in constant (1972) dollars	1444.2	1422.5	1405.6	1392.3	1387.0	1388.3	1391.3	1395.6
Personal income	2056.6	2084.3	2140.6	2185.3	2220.5	2265.4	2324.4	2376.5
Wage and salary disbursements	1301.1	1302.8	1318.0	1340.6	1363.2	1388.7	1414.5	1445.9
Disposable personal income	1736.5	1760.8	1808.4	1844.5	1871.7	1906.7	1955.9	1996.8
Saving rate (percent)	3.4	3.4	4.4	4.8	4.4	4.1	4.4	4.3
Corporate profits with I.V.A. and C.C. Adj.	186.6	170.4	154.4	141.2	133.5	135.6	139.5	147.7
Corporate profits before tax	272.5	251.1	227.6	209.9	201.3	203.9	208.3	217.0
Federal government surplus or deficit (-) (N.I.A. basis)	-20.3	-18.3	-44.9	-52.3	-37.7	-29.8	-36.3	-34.3
High employment surplus or deficit (-)	7.0	35.2	33.1	43.8	74.3	91.4	93.0	102.8
State and local government surplus or deficit (-) (N.I.A. basis)	25.7	19.5	20.0	17.2	17.1	18.7	19.3	20.6
Excluding social insurance funds	-2.6	-9.4	-9.4	-12.8	-13.5	-12.5	-12.5	-11.8
Civilian labor force (millions)	104.2	104.5	104.8	105.2	105.5	105.8	106.2	106.5
Unemployment rate (percent)	6.1	7.3	7.9	8.3	8.7	8.9	9.0	9.1
Nonfarm payroll employment (millions)	90.8	89.8	89.3	88.9	88.8	88.8	88.9	89.0
Manufacturing	20.9	20.5	20.1	19.8	19.7	19.5	19.5	19.5
Industrial production (1967=100)	152.1	146.0	143.0	141.2	140.1	139.2	138.9	138.7
Capacity utilization: all mfg. (percent)	83.7	80.0	77.8	76.0	75.7	73.8	73.2	72.8
Materials (percent)	85.2	81.8	79.3	77.1	75.4	74.2	73.5	72.9
Housing starts, private (million units, A.R.)	1.26	.90	.95	1.10	1.15	1.25	1.35	1.45
New autos sales, (millions, A.R.)	10.64	8.60	8.70	8.75	8.85	8.95	9.10	9.40
Domestic models	7.87	6.30	6.35	6.40	6.45	6.50	6.60	6.90
Foreign models	2.77	2.30	2.35	2.35	2.40	2.45	2.50	2.50

^{1/} Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

^{2/} Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

May 14, 1980

CONFIDENTIAL - FR
CLASS II FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS
(Annual rates compounded quarterly)

	1980				1981			
	Q1	Q2	Q3	Q4	Projection Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	1.1	-5.9	-4.7	-3.7	-1.5	.4	.9	1.2
Final purchases	1.5	-6.5	-4.2	-2.6	-2.0	-.3	.5	1.2
Private	.6	-7.8	-5.1	-3.1	-2.3	-.2	.6	1.4
Excluding net exports	.3	-9.2	-5.8	-4.1	-2.9	-.4	.5	1.4
Personal consumption expenditures	1.6	-6.3	-4.1	-3.6	-2.3	-.1	.7	.9
Goods	-.8	-12.6	-8.2	-7.1	-5.2	-2.0	-1.3	-.9
Services	4.2	1.2	.6	.3	.8	2.0	2.7	2.7
Gross private domestic investment	-7.5	-17.5	-16.8	-14.8	-2.0	2.8	2.9	4.7
Residential structures	-20.1	-56.0	-31.2	7.4	11.3	21.9	23.5	29.3
Business fixed investment	1.1	-6.0	-8.2	-10.0	-10.4	-8.4	-7.0	-3.4
Gov't. purchases of goods and services	5.4	-1.4	-.5	-.3	-1.0	-.4	.1	.3
Federal	16.2	.1	.2	.6	.1	.7	.6	1.3
State and local	-.5	-2.2	-.9	-.9	-1.6	-1.1	-.3	-.4
Disposable personal income	.7	-6.2	.3	-1.8	-3.7	-1.5	2.2	.2
<u>Current dollars</u>								
Gross national product	10.7	4.4	4.6	6.3	8.4	9.3	9.2	10.2
Final purchases	10.9	3.8	5.7	7.7	7.8	8.6	8.8	10.2
Private	10.1	2.8	5.2	7.0	8.0	9.1	9.3	10.1
Excluding net exports	12.0	1.1	3.9	5.5	6.8	8.9	9.2	10.2
Personal consumption expenditures	14.3	5.5	6.4	6.2	7.6	9.2	9.1	9.3
Goods	13.8	-.4	2.7	2.6	4.4	6.9	6.9	7.4
Services	14.9	12.6	10.6	10.4	11.1	11.7	11.4	11.3
Gross private domestic investment	1.6	-12.7	-12.8	-7.4	7.5	12.4	12.5	14.6
Residential structures	-12.3	-52.2	-25.0	17.0	21.4	32.8	35.2	41.5
Business fixed investment	9.9	3.5	.0	-2.2	-2.5	-.7	.7	4.4
Gov't. purchases of goods and services	14.4	7.9	7.6	10.6	6.8	6.7	7.1	10.5
Federal	21.5	8.6	6.9	16.3	7.5	7.0	6.5	15.9
State and local	10.6	7.6	8.1	7.4	6.4	6.6	7.5	7.4
Disposable personal income	13.3	5.7	11.3	8.2	6.0	7.7	10.7	8.6
Personal income	10.7	5.5	11.3	8.6	6.6	8.3	10.8	9.3
Wage and salary disbursements	10.0	.5	4.7	7.0	6.9	7.7	7.6	9.2
Corporate profits with IVA & C.C. Adj.	25.2	-30.5	-32.6	-30.1	-20.1	6.4	12.0	25.7
Corporate profits before tax	58.1	-27.9	-32.5	-27.8	-15.4	5.3	8.9	17.8
Nonfarm payroll employment	2.9	-4.0	-2.2	-1.7	-.7	.1	.2	.5
Manufacturing	.1	-8.0	-6.8	-6.3	-1.8	-3.3	-1.1	-.1
Nonfarm business sector								
Output per hour	-.2	.2	-2.5	-2.0	-.5	.4	.9	1.0
Compensation per hour	9.7	8.7	9.2	9.4	11.9	8.6	8.4	8.5
Unit labor costs	9.9	8.5	12.0	11.6	12.5	8.2	7.4	7.4
GNP implicit deflator ^{1/}	9.5	10.9	9.8	10.4	10.1	8.9	8.3	8.9
Gross domestic business product fixed-weighted price index ^{2/}	11.8	11.7	10.6	9.8	10.0	9.2	8.5	8.5
Excluding food and energy	8.8	9.5	8.4	8.3	8.7	8.1	7.5	7.4
Consumer price index (all urban)	17.2	16.1	13.1	8.2	8.6	9.8	9.5	9.1
Industrial production	-.3	-15.1	-8.0	-4.9	-3.1	-2.5	-.9	-.6

^{1/} Excluding Federal pay increases, the rates of change are: 1980-Q1, 9.5 percent; 1980-Q4, 9.7 percent; 1981-Q1, 10.0 percent; 1981-Q4, 8.3 percent.

^{2/} Uses expenditures in 1972 as weights.

May 14, 1980

CONFIDENTIAL - FR
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of current dollars at annual rates.)

	1978				1979			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2011.3	2104.2	2159.6	2235.2	2292.1	2329.8	2396.5	2456.9
Final purchases	1988.5	2078.4	2139.5	2214.5	2272.9	2296.4	2381.9	2451.4
Private	1569.1	1650.1	1698.6	1760.7	1812.8	1829.8	1904.1	1950.2
Excluding net exports	1591.3	1657.7	1705.4	1765.2	1808.8	1837.9	1906.4	1962.1
Personal consumption expenditures	1287.2	1331.2	1369.3	1415.4	1454.2	1475.9	1528.6	1580.4
Goods	691.2	722.1	740.2	770.2	784.9	789.9	818.1	846.9
Services	596.0	609.1	629.1	645.1	669.3	686.0	710.6	733.5
Gross private domestic investment	327.0	352.3	356.2	370.5	373.8	395.4	392.3	387.2
Residential construction	100.5	107.7	110.2	113.7	111.2	112.9	116.0	116.4
Business fixed investment	203.7	218.8	225.9	236.1	243.4	249.1	261.8	265.2
Change in business inventories	22.8	25.8	20.0	20.6	19.1	33.4	14.5	5.6
Nonfarm	22.0	25.3	18.5	19.3	18.8	32.6	12.6	2.1
Net exports of goods and services ^{1/}	-22.2	-7.6	-6.8	-4.5	4.0	-8.1	-2.3	-11.9
Exports	184.4	205.7	213.8	224.9	238.5	243.7	267.3	280.4
Imports	206.6	213.3	220.6	229.4	234.4	251.9	269.5	292.4
Gov't. purchases of goods and services	419.4	428.3	440.9	453.8	460.1	466.6	477.8	501.2
Federal ^{2/}	150.9	148.2	152.3	159.0	163.6	161.7	162.9	178.4
State and local	268.5	280.1	288.6	294.8	296.5	304.9	314.9	322.8
Gross national product in constant (1972) dollar	1367.8	1395.2	1407.3	1426.6	1430.6	1422.3	1433.3	1440.3
Personal income	1634.8	1689.3	1742.5	1803.1	1852.6	1892.5	1946.6	2005.0
Wage and salary disbursements	1052.0	1090.0	1116.8	1154.3	1189.3	1212.4	1238.1	1270.5
Disposable personal income	1395.0	1437.3	1476.5	1524.8	1572.2	1601.7	1640.0	1683.1
Saving rate (percent)	5.3	5.0	4.8	4.7	5.0	5.4	4.3	3.5
Corporate profits with I.V.A. and C.C. Adj.	141.2	169.4	175.2	184.8	178.9	176.6	180.8	176.4
Corporate profits before tax	177.5	207.2	212.0	227.4	233.3	227.9	242.3	243.0
Federal government surplus or deficit (-) (N.I.A. basis)	-49.4	-24.6	-20.4	-16.3	-11.7	-7.0	-11.3	-15.7
High employment surplus or deficit (-)	-24.9	-8.0	-6.8	-6.6	-9	13.8	10.8	7.2
State and local government surplus or deficit (-) (N.I.A. basis)	30.2	29.6	22.7	27.1	27.6	19.7	25.3	25.8
Excluding social insurance funds	7.9	6.5	-9	3.3	2.6	-6.3	-1.8	-2.2
Civilian labor force (millions)	99.1	100.2	100.8	101.5	102.3	102.4	103.2	103.7
Unemployment rate (percent)	6.2	6.0	6.0	5.8	5.7	5.8	5.8	5.9
Nonfarm payroll employment (millions)	84.8	86.3	86.9	87.8	88.7	89.4	89.8	90.1
Manufacturing	20.2	20.4	20.5	20.8	21.0	21.1	21.0	20.9
Industrial production (1967=100)	140.8	145.1	147.9	150.7	152.2	151.9	152.3	152.2
Capacity utilization: all mfg. (percent)	82.0	83.9	85.2	86.4	86.7	85.9	85.4	84.6
Materials (percent)	82.6	85.0	86.4	88.2	88.0	87.3	87.2	86.3
Housing starts, private (million units, A.R.)	1.86	2.10	2.03	2.06	1.67	1.82	1.81	1.59
New autos sales, (millions, A.R.)	10.80	12.09	11.16	11.06	11.56	10.65	10.79	9.80
Domestic models	8.80	10.01	9.21	9.14	9.30	8.16	8.63	7.43
Foreign models	2.00	2.09	1.96	1.92	2.25	2.49	2.16	2.37

^{1/} Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

^{2/} Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

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CLASS II FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS
(Annual rates compounded quarterly)

	1978				1979			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	1.9	8.3	3.5	5.6	1.1	-2.3	3.1	2.0
Final purchases	.4	8.7	4.6	5.7	1.1	-3.9	6.4	3.6
Private	.8	10.7	4.4	6.7	1.8	-4.1	7.8	3.1
Excluding net exports	1.0	7.9	4.1	6.9	.4	-2.9	5.3	3.1
Personal consumption expenditures	.8	5.6	4.8	6.8	.6	-2.9	4.9	4.1
Goods	-4.7	9.2	4.2	9.9	-4.4	-7.3	6.0	4.7
Services	7.9	1.4	5.5	3.2	7.1	2.5	3.6	3.5
Gross private domestic investment	12.3	15.7	-5.0	6.6	-5	8.5	-12.8	-11.6
Residential structures	-4.7	11.0	-4.9	-1.1	-14.3	-7.2	-1.5	-4.5
Business fixed investment	4.6	23.2	3.9	11.3	4.8	-.8	10.7	-.3
Gov't. purchases of goods and services	-1.2	.9	5.0	1.8	-1.8	-3.3	1.0	6.0
Federal	-7.4	-12.3	8.2	3.2	7.2	-11.3	-2.6	16.0
State and local	2.7	9.3	3.3	1.0	-6.6	1.6	3.1	.8
Disposable personal income	2.0	4.0	4.2	6.4	2.1	-1.4	.2	1.1
<u>Current dollars</u>								
Gross national product	8.4	19.8	10.9	14.8	10.6	6.7	11.9	10.5
Final purchases	7.5	19.3	12.3	14.8	11.0	4.2	15.8	12.2
Private	7.7	22.3	12.3	15.4	12.4	3.8	17.3	10.0
Excluding net exports	8.8	17.8	12.0	14.8	10.3	6.6	15.8	12.2
Personal consumption expenditures	9.0	14.4	11.9	14.2	11.4	6.1	15.0	14.3
Goods	3.3	19.1	10.4	17.2	7.9	2.6	15.1	14.8
Services	16.1	9.1	13.8	10.6	15.8	10.4	15.1	13.5
Gross private domestic investment	13.3	34.8	4.5	17.1	3.6	25.2	-3.0	-5.1
Residential structures	2.4	32.0	9.5	13.5	-8.5	6.1	11.7	1.4
Business fixed investment	10.6	33.3	-13.7	19.3	12.9	9.6	22.0	5.4
Gov't. purchases of goods and services	6.5	8.8	12.3	12.2	5.6	5.8	10.0	21.1
Federal	-.9	-7.0	11.7	18.7	12.1	-4.6	3.1	43.8
State and local	11.1	18.5	12.6	8.9	2.3	11.9	13.8	10.4
Disposable personal income	10.3	12.7	11.4	13.8	13.0	7.7	9.9	10.9
Personal income	10.0	14.0	13.2	14.7	11.4	8.9	11.9	12.6
Wage and salary disbursements	11.7	15.3	10.2	14.1	12.7	8.0	8.8	10.9
Corporate profits with IVA & C.C. Adj.	-27.5	107.2	14.4	23.8	-12.2	-5.0	9.9	-9.4
Corporate profits before tax	-11.5	85.7	9.6	32.4	10.8	-8.9	27.8	1.2
Nonfarm payroll employment	4.6	7.1	2.8	4.4	4.3	2.9	1.8	1.6
Manufacturing	5.8	3.8	1.3	5.5	5.0	.8	-1.3	-2.3
Nonfarm business sector								
Output per hour	-.9	1.9	2.7	.8	-3.2	-4.1	-1.4	.7
Compensation per hour	11.4	7.5	8.8	8.8	10.4	7.9	8.5	9.4
Unit labor costs	12.4	5.4	6.0	8.0	14.0	12.5	10.1	8.6
GNP implicit deflator ^{1/}	6.3	10.6	7.2	8.7	9.3	9.3	8.5	8.4
Gross domestic business product								
fixed-weighted price index ^{2/}								
Excluding food and energy	6.6	10.5	8.8	8.7	10.0	10.1	10.4	8.4
Consumer price index (all urban)	5.5	9.4	8.9	8.7	7.7	7.9	7.6	7.7
Consumer price index (all urban)	7.8	10.2	8.8	9.1	11.1	13.6	12.9	13.2
Industrial production	1.4	12.8	7.9	7.8	4.0	-.8	1.1	-.3

^{1/} Excluding Federal pay increases, rates of change were: 1978-Q1, 6.3 percent; 1978-Q4, 8.1 percent; 1979-Q1, 9.3 percent; 1979-Q4, 8.0 percent.

^{2/} Uses expenditures in 1972 as weights.

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CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS
(Expenditures and income figures are billions of current dollars.)

	1974	1975	1976	1977	1978	1979	Projected	
							1980	1981
Gross national product	1412.9	1528.8	1702.2	1899.5	2127.6	2368.8	2565.2	2762.0
Final purchases	1404.0	1539.6	1692.1	1877.6	2105.2	2350.6	2563.2	2760.6
Private	1101.3	1201.2	1330.8	1481.4	1669.6	1874.2	2029.1	2184.1
Excluding net exports	1095.3	1180.8	1322.8	1491.3	1679.9	1878.8	2039.1	2176.3
Personal consumption expenditures	889.6	979.1	1089.9	1210.0	1350.8	1509.8	1670.0	1797.9
Goods	498.3	541.5	601.3	660.1	730.9	809.9	878.5	918.1
Services	391.3	437.5	488.5	549.8	619.8	699.8	791.5	879.8
Gross private domestic investment	214.6	190.9	243.0	303.3	351.5	387.2	371.1	379.8
Residential construction	55.1	51.5	68.1	91.9	108.0	114.1	96.1	106.9
Business fixed investment	150.6	150.2	164.9	189.4	221.1	254.9	273.0	271.4
Change in business inventories	8.9	-10.7	10.0	21.9	22.3	18.2	1.9	1.5
Nonfarm	10.8	-14.3	12.1	20.7	21.3	16.5	1.8	1.5
Net exports of goods and services ^{1/}	6.0	20.4	8.0	-9.9	-10.3	-4.6	-10.0	7.8
Exports	137.9	147.3	163.3	175.9	207.2	257.5	306.1	333.5
Imports	131.9	126.9	155.4	185.8	217.5	262.1	316.1	325.7
Gov't. purchases of goods and services	302.7	338.4	361.3	396.2	435.6	476.4	534.1	576.5
Federal ^{2/}	111.1	123.1	129.7	144.4	152.6	166.6	193.7	211.9
State and local	191.5	215.4	231.6	251.8	283.0	309.8	340.4	364.6
Gross national product in constant (1972) dollars	1217.8	1202.3	1273.0	1340.5	1399.2	1431.6	1416.2	1390.6
Personal income	1154.9	1255.5	1381.6	1531.6	1717.4	1924.2	2116.7	2296.7
Wage and salary disbursements	764.6	805.9	890.0	984.0	1103.3	1227.6	1315.6	1403.1
Disposable personal income	984.6	1086.7	1184.5	1305.1	1458.4	1624.3	1787.6	1932.8
Saving rate (percent)	7.3	7.7	5.8	5.0	4.9	4.5	4.0	4.3
Corporate profits with I.V.A. and C.C. Adj.	83.6	95.9	126.8	150.0	167.7	178.2	163.1	139.1
Corporate profits before tax	126.9	120.4	156.0	177.1	206.0	236.6	240.3	207.6
Federal government surplus or deficit (N.I.A. basis)	-10.7	-70.6	-53.6	-46.3	-27.7	-11.4	-34.0	-34.5
High employment surplus or deficit (-)	9.0	-19.2	-14.3	-19.3	-11.5	7.7	29.8	90.4
State and local government surplus or deficit (-) (N.I.A. basis)	7.6	6.2	17.9	26.8	27.4	24.6	20.6	18.9
Excluding social insurance funds	-2.9	-6.2	2.3	7.3	4.2	-1.9	-8.6	-12.6
Civilian labor force (millions)	91.0	92.6	94.8	97.4	100.4	102.9	104.7	106.0
Unemployment rate (percent)	5.6	8.5	7.7	7.0	6.0	5.8	7.4	8.9
Nonfarm payroll employment (millions)	78.3	77.0	79.4	82.4	86.4	89.5	89.7	88.9
Manufacturing	20.1	18.3	19.0	19.7	20.5	21.0	20.3	19.5
Industrial production (1967=100)	129.3	117.8	130.5	138.2	146.1	152.2	145.6	139.2
Capacity utilization: all manufacturing (percent)	83.8	72.9	79.5	81.9	84.4	85.7	79.4	73.9
Materials (percent)	87.1	73.4	81.1	82.7	85.6	87.2	80.9	74.0
Housing starts, private (million units, A.R.)	1.34	1.16	1.54	1.99	2.02	1.75	1.05	1.30
New auto sales, (millions, A.R.)	8.91	8.66	10.12	11.13	11.28	10.70	9.17	9.07
Domestic models	7.49	7.08	8.63	9.07	9.29	8.38	6.73	6.61
Foreign models	1.42	1.58	1.50	2.06	1.99	2.32	2.44	2.46

^{1/} Balance of payments data underlying these estimates are shown in the International Developments section of this part of the Greenbook.

^{2/} Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

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CLASS II FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1974	1975	1976	1977	1978	1979	Projected	
							1980	1981
<u>Constant (1972) dollars</u>								
Gross national product	-1.4	-1.3	5.9	5.3	4.4	2.3	-1.1	-1.8
Final purchases	-.7	.2	4.5	4.8	4.4	2.7	-.4	-1.9
Private	-1.4	-.3	5.6	5.6	5.0	3.2	-1.0	-2.2
Excluding net exports	-2.3	-1.0	6.5	6.2	5.0	2.6	-1.7	-2.8
Personal consumption expenditures	-.9	1.8	5.9	5.0	4.5	2.6	-.4	-2.1
Goods	-3.4	.7	6.9	5.1	4.1	1.3	-3.0	-5.2
Services	2.3	3.2	4.8	4.9	5.1	4.3	2.6	1.3
Gross private domestic investment	-11.4	-22.3	21.6	15.4	7.1	.4	-11.5	-5.8
Residential structures	-24.6	-13.9	23.3	20.7	4.2	-5.7	-22.9	1.6
Business fixed investment	-.3	-13.0	4.8	8.6	8.4	6.2	-1.4	-8.6
Gov't. purchases of goods and services	2.1	1.9	.2	2.0	1.8	.4	2.0	-.5
Federal	-.8	.7	-.2	4.4	-2.0	.9	5.7	.5
State and local	3.8	2.6	.5	.6	4.0	.2	-.1	-1.1
Disposable personal income	-1.5	2.1	3.7	4.2	4.6	2.3	-1.0	-1.6
<u>Current dollars</u>								
Gross national product	8.1	8.2	11.3	11.6	12.0	11.3	8.3	7.7
Final purchases	8.9	9.7	9.9	11.0	12.1	11.7	9.0	7.7
Private	8.1	9.1	10.8	11.3	12.7	12.3	8.3	7.6
Excluding net exports	8.2	7.8	12.0	12.7	12.6	11.8	8.5	6.7
Personal consumption expenditures	9.8	10.1	11.3	11.0	11.6	11.8	10.6	7.7
Goods	8.9	8.7	11.0	9.8	10.7	10.8	8.5	4.5
Services	11.1	11.8	11.7	12.5	12.7	12.9	13.1	11.2
Gross private domestic investment	-2.5	-11.0	27.3	24.8	15.9	10.2	-4.2	2.4
Residential structures	-16.7	-6.5	32.3	35.0	17.5	5.7	-15.8	11.3
Business fixed investment	10.8	-.3	9.8	14.9	16.7	15.2	7.1	-.6
Gov't. purchases of goods and services	12.3	11.8	6.8	9.7	9.9	9.4	12.1	7.9
Federal	8.7	10.7	5.4	11.3	5.7	9.2	16.3	9.4
State and local	14.5	12.5	7.5	8.7	12.4	9.5	9.9	7.1
Disposable personal income	9.2	10.4	9.0	10.2	11.7	11.4	10.1	8.1
Personal income	9.7	8.7	10.0	10.9	12.1	12.0	10.0	8.5
Wage and salary disbursements	9.0	5.4	10.4	10.6	12.1	11.3	7.2	6.6
Corporate profits with IVA & C.C. Adj.	-15.6	14.7	32.2	18.3	11.8	6.3	-8.5	-14.7
Corporate profits before tax	9.6	-5.1	29.6	13.5	16.3	14.9	1.6	-13.6
Nonfarm payroll employment	2.0	-1.7	3.1	3.8	4.9	3.5	.3	-1.0
Manufacturing	-.4	-8.7	3.7	3.6	4.0	2.5	-3.2	-3.8
Nonfarm business sector								
Output per hour	-2.9	1.9	3.5	1.8	.5	-1.1	-.7	-.6
Compensation per hour	9.4	9.9	8.3	8.0	8.6	9.0	9.1	9.6
Unit labor costs	12.7	7.8	4.7	6.3	8.0	10.2	10.0	10.2
GNP implicit deflator	9.7	9.6	5.2	6.0	7.3	8.8	9.5	9.6
Gross domestic business product								
fixed-weighted price index ^{1/}	10.4	9.4	5.3	6.2	7.6	9.5	10.5	9.6
Excluding food and energy	8.1	9.5	5.8	6.3	7.2	8.1	8.2	8.3
Consumer price index (all urban)	11.0	9.1	5.8	6.5	7.7	11.3	14.4	9.9
Industrial production	-.4	-8.9	10.8	5.9	5.7	4.2	-4.3	-4.4

^{1/} Uses expenditures in 1972 weights.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Interest rates have fallen sharply further since the April FOMC meeting, as demands for money and credit have continued to slacken in response to contracting economic activity. Rates on private short-term market instruments dropped about 4-3/4 to 7 percentage points to pace the reductions over the intermeeting period, while Treasury bill rates, which had fallen more sharply than other rates earlier in April, posted declines about half as large. Short-term market rates are now generally about 8 to 9 percentage points below record high levels reached in the first quarter. Lending rates at banks also have moved lower in recent weeks but at a slower pace.

In longer-term markets, bond yields continued to decline in recent weeks and are now about 2-1/2 to 3-1/2 percentage points below the record high levels of the first quarter. Primary mortgage rates have declined on average about 1-1/2 percentage points since mid-April, and in some cases have been reduced by as much as 3 to 4-1/2 percentage points.

M-1A and M-1B declined at annual rates of 18-1/2 percent and 14-3/4 percent, respectively, in April, as growth in currency came virtually to a halt and demand deposits dropped sharply. These reductions, which follow slight declines in March, are apparently mainly attributable to contracting economic activity and to a lagged response to the first quarter's high interest rates. Moreover, some of the April weakness in demand deposits probably is due to successful IRS efforts to process incoming checks more rapidly following the April tax payment

date. A marked pickup in growth of ATS and NOW accounts moderated the decline in M-1B.

Growth of nontransaction accounts also slowed further in April, and M-2 fell at a 2-1/2 percent annual rate. Overnight RPs and Euro-dollars dropped sharply again, and, reflecting the impact of the special deposit requirements imposed by the System, money market mutual funds showed little growth. While small time deposits with variable-ceiling rates continued to expand rapidly at commercial banks, savings deposits and fixed-ceiling time deposits declined again. Growth of large CDs at commercial banks remained relatively rapid but was more than offset by a substantial fall in nondeposit funds. At thrift institutions, growth in savings and small time deposits remained quite weak and issuance of CDs dropped off perceptibly. These generally weak developments on the liability side were paralleled by a decline in commercial bank credit and by an apparent growth in mortgage lending at a rate near the reduced March pace.

Total credit demands of businesses appear to have moderated a bit in April, as firms apparently drew on accumulated liquid assets to finance a portion of their investment spending and tax liability payments. This drop-off in borrowing was focused on shorter-term sources of credit, reflecting both bank efforts to restrain loan growth and firms' decisions to take advantage of the improved conditions in the bond market to fund part of their short-term debt. At banks, business loans declined at about a 7 percent annual rate and issuance of commercial paper dropped off somewhat from the exceptionally strong first quarter pace. Corporate bond offerings to the public, on the other

hand, exceeded the average volume of monthly offerings over the last year by more than \$1 billion.

The recent decline in mortgage rates appears attributable, in part, to borrower resistance to exceptionally high rate levels. In addition, downward pressures were generated by the recent decline in costs of deposit funds and to an apparent shift toward the view that availability and cost of deposit funds will remain improved in coming months. Prior to these developments, conditions in the real estate market had been extremely taut. Real estate loans at commercial banks rose at only a 2 percent annual rate in April. And it seems likely that mortgage growth at S&Ls in April continued very weak, as new commitments dropped sharply further in March to reduce outstanding commitments to a level one-fourth below last fall's high.

Growth in consumer installment credit is also likely to have slowed further in April. Although data for April are not yet available, there are widespread reports indicating that the Board's March 14 credit restraint program has encouraged lenders to introduce measures to tighten the availability of consumer credit supplies. Consumers also appear to have restrained their demands for credit in response to the announced tightening in lending terms.

State and local government offerings of new bonds expanded sharply in April, an increase that, in part, represented offerings of issues that had been postponed during the first quarter because of tight market conditions. In addition to the increase in general obligation issues, the April strength was bolstered by a step-up in offerings of housing revenue bonds. Also, the Treasury has been a relatively heavy borrower

in recent weeks as it raised about \$3.5 billion of new money in its quarterly refunding, a comparatively large volume for a May refunding. Despite its sizable surplus in this quarter, the Treasury needed funds to meet a runoff of nonmarketable debt and to help finance a buildup in its cash balance over the quarter. Borrowing by federal agencies continued at a record pace in April, as FNMA and the Federal Home Loan Banks sought funds in substantial volume. With the slackening in mortgage lending activity, however, most of the funds raised were used to build up liquid asset positions.

Outlook. The recent declines in market interest rates appear to have been greater than can be sustained in light of an underlying inflation that will bolster transactions demands for money and credit requirements even in the face of declining real activity. Thus, rates may tend to back up somewhat in coming months. Upward pressures on bond yields, moreover, may be reinforced by a large volume of new issues.

Business credit demands are expected to be fairly substantial over the current quarter and into the summer, as corporate profits decline. Firms are expected to rely less on banks to satisfy these borrowing needs than in the first quarter, as banks will likely maintain relatively tight lending terms, especially while the credit restraint program remains in place. The commercial paper market likely will remain attractive to highly rated firms that desire short-term credit. In addition, given the deterioration of balance sheet positions that has occurred, long-term bonds should continue to be issued in volume.

Credit demands by states and localities are expected to be robust in coming months, and it is anticipated that these units will maintain a high level of bond financing to take advantage of the reduced level of tax-exempt yields and to provide continued support for the housing sector. The Treasury plans to raise a sizable volume of new money through mid-June, before making sharp paydowns of cash management bills in the latter half of that month. Treasury borrowing over the third quarter after allowance for seasonal differences, is expected to be in line with that of the second quarter.

The flow of funds to households appears likely to remain weak in coming months. Household purchases of goods and services are projected to decline over the rest of the year, and thus consumer demands for credit will be quite weak. At the same time, lending institutions will probably continue to enforce taut lending standards on consumer credit--given still poor profitability where usury ceilings are binding as well as the influence of the credit restraint program. Credit availability in the mortgage markets may improve slightly in coming months, as flows to lending institutions pick up a bit in response to the recent lowering of market interest rates. Moreover, the availability of funds is likely to be supported by continued lending assistance provided by sponsored federal agencies and by municipalities through sales of housing revenue bonds. Nonetheless, mortgage rates are likely to remain high by historical standards and the resulting large monthly payments will thus tend to discourage household borrowing at a time of economic uncertainty.

INTERNATIONAL DEVELOPMENTS

Summary. The downward pressure on the dollar that emerged in the second week of April continued over the past four weeks. Movements in the dollar's weighted average foreign exchange value in recent months have been heavily influenced by trends in U.S. interest rates. The dollar's sharp rise from early February to early April appears to have been in response to the rise in dollar interest rates relative to interest rates on non-dollar assets. The dollar's subsequent decline coincided with a reversal of the interest-rate rise. While dollar interest rates have eased, interest rates in Germany and Japan have continued to firm during this period.

Since mid-April, the average value of the dollar has declined about 5 percent, and is only about 2 percent higher than the level prevailing at the beginning of the year. Over this four-week period, the yen has been particularly strong, appreciating against the dollar by nearly 11 percent. Exchange market demand for yen has been strengthened in part by the relative rise in Japanese interest rates.

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Desk provided net intervention support for the dollar amounting to \$500 million over the past four weeks.

The U.S. merchandise trade deficit in March was substantially smaller than in the preceding two months. Nevertheless, the first

quarter 1980 trade deficit was \$49 billion at an annual rate (international accounts basis), nearly \$15 billion larger than the deficit rate recorded in the preceding quarter. Imports in the first quarter increased nearly twice as much as exports. Both petroleum and non-petroleum imports recorded substantial increases over the quarter. Despite a two percent decline in the volume of oil imports from the fourth quarter rate, the increase in oil import prices from an average of \$23.67/barrel in the fourth quarter to \$28.05/barrel in the first quarter resulted in an oil import bill of \$86.5 billion (a.r.). The rapid oil import price increases, however, mask considerable strength in the performance of nonagricultural exports over the past several quarters. This strength reflects continuing expansion of foreign economic activity and the lagged response of exports to the "real" depreciation of the dollar in 1977-78. Although exports of wheat, corn and soybeans to the Soviet Union in the first quarter were half as large as in the preceding quarter as a result of the U.S. export embargo to Russia, total agricultural exports were well sustained in the first quarter.

Over the February-March period, there were small net private capital inflows through banks. Partial data for April suggest a sizable net outflow of bank-reported capital flows reflecting a reduction in weekend reserve avoidance activities and a reduction in borrowing to finance credit extensions in the United States.

Foreign official assets in the United States declined by \$3 billion in March, and partial data for April and early May indicate a further decline of \$3-to-\$4 billion. G-10 countries' holdings

were reduced by nearly \$7 billion in March and were further reduced in April in connection with German, Swiss, and Japanese support for their currencies during the period of the dollar's strength. Partially offsetting the decline in G-10 countries' holdings in the United States in March was a rise in OPEC holdings of nearly \$3 billion; OPEC holdings in the United States rose further in April.

Economic activity in Japan and Germany continued to show strength in the first quarter, but signs of some levelling in economic activity in Canada, the United Kingdom and France have begun to appear in recent months. Consumer price inflation abroad intensified in the first quarter of this year, reaching an annual rate in excess of 14 percent for a weighted average of 10 foreign industrial countries compared with about an 8 percent rate in the previous quarter. Interest rates abroad have remained high in the face of this inflation. The German and Dutch central banks announced further increases in their discount rates at the end of April.

Outlook. The staff now is projecting somewhat smaller U.S. trade and current-account deficits for 1980 than were foreseen last month, in part because of the sharper U.S. recession this year that is now expected. The trade deficit for this year is projected to be about \$37 billion, declining steadily throughout the year from the peak deficit rate recorded in the first quarter. The current account is projected to be in deficit by some \$8 billion this year. The mild recovery in U.S. economic activity projected for next year, combined with a projected more rapid expansion of economic activity abroad, is expected to lead to a further reduction in the U.S. trade deficit

to about \$22 billion next year and the emergence of a current-account surplus of about \$10 billion. The more favorable U.S. trade and current-account outlook over the projection period, at a time when U.S. major trading partners are projected to incur large external deficits, is expected to contribute to some strengthening of the weighted average foreign exchange value of the dollar by the end of the projection period from current levels. In the interval, however, exchange markets probably will remain sensitive to changes in relative market interest rates and political developments.

OUTLOOK FOR U.S. NET EXPORTS AND RELATED ITEMS
(BILLIONS OF DOLLARS, SEASONALLY ADJUSTED ANNUAL RATES)

May 14, 1980

	1979 ANN.	1980 ANN.	1981 ANN.	1980 Q I	1980 Q II	1980 Q III	1980 Q IV	1981 Q I	1981 Q II	1981 Q III	1981 Q IV
1. GNP NET EXPORTS											
CURRENT \$, NET	-4.6	-10.0	7.8	-21.0	-12.8	-6.7	0.4	6.5	7.8	8.4	8.4
EXPORTS OF G&S	257.5	306.1	333.5	299.4	304.2	307.7	313.0	321.2	328.8	337.2	346.8
IMPORTS OF G&S	262.1	316.1	325.7	320.4	317.0	314.4	312.7	314.8	321.0	328.8	338.4
CONSTANT 72 \$, NET	17.6	25.4	31.2	20.8	24.9	26.7	29.3	30.7	31.2	31.5	31.6
EXPORTS OF G&S	119.9	126.1	125.5	128.3	126.2	125.1	124.7	124.7	125.0	125.6	126.5
IMPORTS OF G&S	102.3	100.7	94.2	107.5	101.3	98.5	95.4	94.0	93.9	94.2	94.9
TERMS OF TRADE (1972=100) 1/	83.8	77.3	76.9	78.3	77.1	77.0	76.6	76.9	76.9	76.9	76.9
2. U.S. MERCHANDISE TRADE BALANCE 2/											
	-29.5	-36.7	-22.3	-48.9	-37.9	-32.6	-27.3	-22.3	-21.8	-22.1	-22.9
EXPORTS (EXCL. MILITARY)	182.1	219.0	236.4	215.7	218.0	219.6	222.5	227.9	233.2	239.0	245.4
AGRICULTURAL	35.4	39.1	41.6	41.1	39.0	38.1	38.0	39.9	41.0	42.1	43.4
NONAGRICULTURAL	146.7	179.9	194.8	174.6	179.0	181.5	184.5	188.1	192.2	196.9	202.0
IMPORTS	211.5	255.7	258.7	264.6	256.0	252.2	249.8	250.2	255.0	261.0	268.3
PETROLEUM AND PRODUCTS	60.0	85.2	91.2	86.5	83.0	85.6	85.7	87.3	89.6	92.4	95.4
NONPETROLEUM	151.5	170.5	167.5	178.1	173.0	166.6	164.1	162.9	165.4	168.6	172.9
3. U.S. CURRENT ACCOUNT BALANCE											
	-0.3	-7.7	10.4	-21.3	-10.2	-3.2	3.8	9.6	10.7	10.9	10.3
OF WHICH: NET INVESTMENT INCOME	32.3	33.2	36.4	32.3	32.2	33.4	34.8	35.5	36.2	36.7	37.0
4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/											
REAL GNP, % CHANGE, ANNUAL RATES	3.7	2.0	1.4	1.7	0.6	0.2	0.7	1.5	1.8	2.4	2.5
CONSUMER PRICES, 4/, % CHANGE, ANNUAL RATES	7.8	11.4	8.3	14.5	11.5	9.3	8.7	8.3	7.8	7.1	7.0

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1/ GNP EXPORT IMPLICIT DEFLATOR DIVIDED BY GNP IMPORT IMPLICIT DEFLATOR.

2/ INTERNATIONAL ACCOUNTS BASIS.

3/ GEOMETRIC WEIGHTS USED TO AGGREGATE FOREIGN REAL GNP AND CONSUMER PRICES -- PER CENT SHARE IN TEN-COUNTRY TOTAL MULTILATERAL TRADE. CANADA (9.1%), JAPAN (13.6%), UNITED KINGDOM (11.9%), GERMANY (20.8%), FRANCE (13.1%), ITALY (9.0%), BELGIUM (6.4%), THE NETHERLANDS (8.3%), SWITZERLAND (3.6%), SWEDEN (4.2%).

4/ WHOLESALE PRICES FOR JAPAN.

P/ PROJECTED.