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October 15, 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. Recent data suggest that economic activity turned up in the third quarter. Both payroll employment and industrial production advanced in September for the second consecutive month, following earlier upturns in consumer spending and in housing activity. On the negative side, business fixed investment has continued to decline. In addition, there have been reports recently that the recovery in housing may be faltering in response to tightening financial conditions. Although increases in various wage and price indexes have moderated in recent months, considerable upward cost pressures persist.

Nonfarm employment rose about 200,000 in both August and September, following a cumulative decline of about 1-1/4 million over the preceding five months. Nearly two-thirds of the September gain occurred at retail trade and service establishments, but employment at construction sites also rose and manufacturers of metals reported rehiring for the second consecutive month. The jobless rate--at 7.5 percent in September--remained in the 7-1/2 to 7-3/4 percent range that has prevailed since May. The average workweek in manufacturing lengthened slightly in September; at 39.5 hours it stood one-half hour above the July trough. In August, the increases in total hours worked and in hourly earnings produced the first substantial rise in wage and salary income since March; a further increase apparently occurred in September.

These recent gains in income, as well as a decline in the saving rate, have facilitated a continuation of the upward trend in consumer spending that began early this summer. September marked the fourth consecutive monthly increase in retail sales, following the precipitous

decline that occurred earlier this year. However, at the GAF (general merchandise, apparel, and furniture and appliances) category of stores, outlays--which often are financed by credit--was unchanged. Unit sales of domestic autos were at a 6.6 million unit annual rate--up 200,000 from the pace in July and August. In early October, when most new models were introduced, automakers reported a seasonally adjusted selling pace of 6.8 million units--only slightly above the September rate.

The recovery in housing activity continued in August. Total private housing starts rose 150,000 units to a 1.4 million unit annual rate--about one-third above the second quarter pace. Newly-issued permits for residential construction also increased in August, and preliminary readings suggest a further pickup in early September. However, interest rates on mortgages and construction loans have risen substantially since mid-August, and qualitative reports now suggest some subsequent damping of activity.

The index of industrial production rose 0.6 percent in August, and is estimated to have increased 1 percent further in September. However, the level of output over the last three months was still well below that of the second quarter. This lower rate of production enabled firms to cut back their inventories. In book-value terms manufacturing and trade inventories rose in August at a moderate rate, following large increases on average during the first seven months of the year. At the same time, shipments rose substantially, and the stock-sales ratio declined for the third consecutive month.

In contrast to the gains in spending for consumer goods and housing, outlays for business fixed investment continued to decline in August,

and data on commitments presage further reductions in capital spending. Shipments of nondefense capital goods edged down in August, and non-residential construction fell more than 3 percent in real terms after an even larger drop in July. New orders for nondefense capital goods were down substantially in August, reversing the gains of the preceding month, and the backlog of orders fell for the third time in the last four months. The dollar volume of commercial and industrial building contracts, which edged down slightly in August, has shown no discernible trend since mid-1978, suggesting continued lack of growth in this sector.

Producer prices of finished goods fell slightly in September, reflecting an interruption--probably temporary--of the rapid climb in food prices and the effects of year-end liquidation discounts on the prices of 1980-model motor vehicles; prices for most other finished goods increased at about the same pace as in recent months. In August, retail food prices accelerated to over a 20 percent annual rate, reflecting reduced grain and meat supplies. Energy prices rose only slightly at the retail level, and reductions in contract mortgage rates contributed to a further easing in homeownership costs. Excluding the food, energy, and homeownership categories, consumer prices rose at about the same 8 percent rate that has prevailed since April.

Outlook. Data now available for the third quarter indicate an earlier turn-around in overall economic activity than had been anticipated last month. Real GNP is now projected to rise at about a 1 percent annual rate in the fourth quarter, close to the gain estimated for the third quarter. The recent strength in consumer spending is

expected to wane over the coming months as weakening in housing and business fixed investment constrains the growth of income. During the fourth quarter we expect a reduced rate of inventory liquidation and some pickup in federal spending to offset this projected weakness.

The basic policy assumptions underlying the projection have been changed little from the last Greenbook. M-1A growth is assumed to lie near the midpoint of the Committee's range for 1980 and to average about 4-1/4 percent over 1981 (abstracting from the impact of the nationwide NOW accounts). Interest rates have risen more quickly than had been indicated in the September projection, and generally are expected to be somewhat higher throughout 1981 than previously forecast. The assumed personal and corporate tax reductions now are projected to occur early in the second quarter; however, this legislation is expected to be retroactive to January 1 and continues to reduce 1981 tax liabilities by \$28 billion. The budget deficit for fiscal year 1981 is now projected at \$56 billion, smaller than in the last Greenbook. The difference results primarily from the postponement of cash effects of the tax cut and the impact of the earlier-than-expected recovery on levels of personal and corporate income. We continue to assume an increase in the price of imported petroleum of about 13-1/2 percent over 1981.

Economic activity is expected to show little growth, on balance, during 1981. Real GNP is now projected to rise about one-half percent over the four quarters of next year, reflecting primarily the tighter credit conditions that have emerged recently. This compares with a 2

percent gain in the last Greenbook. In particular, financial conditions are likely to restrain activity in the housing sector, and starts of new units are expected to remain at a very low level throughout the year. Real business fixed investment is projected to continue declining, particularly given the expected low rates of capacity utilization. In addition, consumer spending is unlikely to provide much impetus to overall activity; the personal saving rate is already low, and the assumed tax cut only offsets the effects of "bracket creep" and the scheduled increase in payroll taxes. The sluggish real growth anticipated over the next five quarters precludes any significant gains in employment, and the unemployment rate is therefore expected to drift up to about 8-1/4 percent by the end of 1981.

Prices and wages continue to rise rapidly throughout the projection period. Increases in hourly compensation are expected to average 10 percent over 1980 and about 9-1/2 percent during 1981. A significant improvement in the inflation outlook is unlikely in light of these continued large increases in compensation as well as the anticipated tight supply conditions for food and the expected re-emergence of price pressures in the energy sector. Accordingly, the gross business product fixed-weighted price index is projected to increase about 9-1/2 percent over 1981, following a 10-1/2 percent advance during 1980.

Details of the staff projection are shown on the tables that follow.

STAFF GNP PROJECTIONS

Percent changes, annual rate										
Nominal GNP		Real GNP		Gross domestic business product fixed-weighted price index				Unemployment rate (percent)		
				Total		Excluding food and energy				
9/10/80	10/15/80	9/10/80	10/15/80	9/10/80	10/15/80	9/10/80	10/15/80	9/10/80	10/15/80	
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	9.5	9.5	8.1	8.1	5.8	5.8
1980	7.9	8.6	-1.2	-.8	10.1	10.1	8.3	8.4	7.4	7.2
1981	9.7	9.8	.1	-.1	9.7	10.0	8.2	8.6	8.3	8.1
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/}	10.8	10.8	1.2	1.2	11.2	11.2	8.5	8.5	6.1	6.1
1980-Q2 ^{1/}	.6	.1	-9.0	-9.6	10.4	10.4	9.8	9.8	7.5	7.5
1980-Q3	5.3	10.7	-2.9	1.1	9.7	9.7	8.9	9.6	7.8	7.6
1980-Q4	10.9	12.0	-.5	.9	10.3	10.4	8.2	8.6	8.1	7.6
1981-Q1	11.6	10.4	1.2	.0	10.3	10.5	8.4	8.8	8.4	7.8
1981-Q2	11.6	10.3	2.5	1.0	9.5	9.7	8.0	8.3	8.4	8.0
1981-Q3	9.9	8.9	2.0	.5	8.5	9.1	7.4	8.0	8.3	8.2
1981-Q4	10.9	9.4	1.9	.5	8.6	9.1	7.4	7.9	8.3	8.3
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 ^{1/}	5.6	5.3	-4.0	-4.4	10.9	10.9	9.2	9.1	1.6	1.6
1980-Q4	8.1	11.3	-1.7	1.0	10.0	10.0	8.5	9.1	.6	.1
1981-Q2	11.6	10.3	1.9	.5	9.9	10.1	8.2	8.6	.3	.4
1981-Q4	10.4	9.1	2.0	.5	8.5	9.1	7.4	7.9	-.1	.3
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	6.8	8.3	-2.9	-1.7	10.4	10.5	8.9	9.1	2.2	1.7
1981-Q4	11.0	9.7	1.9	.5	9.2	9.6	7.8	8.3	.2	.7

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

October 15, 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	Q1	Q2	Q3	Q4
Gross national product	2520.8	2521.3	2585.9	2660.2	2726.7	2794.3	2854.3	2919.2
Final purchases	2516.1	2509.9	2595.9	2664.3	2724.3	2786.1	2844.3	2913.0
Private	1998.9	1981.6	2059.9	2109.8	2158.3	2208.5	2254.5	2304.8
Excluding net exports	2012.5	1983.8	2041.5	2098.0	2144.3	2193.0	2239.4	2291.5
Personal consumption expenditures	1629.5	1626.6	1681.2	1727.4	1771.8	1818.2	1861.1	1905.0
Goods	872.2	849.8	879.3	900.9	921.6	946.1	968.5	992.0
Services	757.3	776.9	801.9	826.5	850.2	872.1	892.6	913.0
Gross private domestic investment	387.7	368.5	350.3	366.5	374.9	383.0	388.3	392.7
Residential construction	110.4	88.9	92.0	99.9	99.9	100.1	98.8	101.2
Business fixed investment	272.6	268.2	268.3	270.7	272.6	274.7	279.5	285.3
Change in business inventories	4.7	11.4	-10.0	-4.1	2.4	8.2	10.0	6.2
Nonfarm	4.4	12.3	-10.0	-4.1	2.4	8.2	10.0	6.2
Net exports of goods and services ^{1/}	-13.6	-2.2	18.4	11.8	14.0	15.5	15.1	13.3
Exports	308.1	307.0	313.7	317.7	332.7	344.7	355.1	353.4
Imports	321.7	309.2	295.3	305.9	318.7	329.2	340.0	350.1
Gov't. purchases of goods and services	517.2	528.3	536.0	554.5	566.0	577.6	589.8	608.2
Federal ^{2/}	186.2	193.3	195.0	206.9	211.7	216.2	220.5	230.3
State and local	331.0	335.0	341.0	347.6	354.3	361.4	369.3	377.9
Gross national product in constant (1972) dollars	1444.7	1408.6	1412.3	1415.5	1415.5	1419.2	1420.9	1422.6
Personal income	2057.4	2080.5	2143.2	2203.8	2246.8	2296.3	2356.9	2411.3
Wage and salary disbursements	1303.7	1310.4	1327.1	1368.3	1395.4	1421.3	1447.1	1479.0
Disposable personal income	1737.4	1755.9	1810.0	1857.8	1890.6	1948.0	1999.3	2040.9
Saving rate (percent)	3.7	4.9	4.6	4.5	3.8	4.1	4.4	4.1
Corporate profits with I.V.A. and C.C. Adj.	175.0	152.8	167.0	165.0	161.6	166.8	166.9	166.9
Corporate profits before tax	260.4	204.8	232.4	231.6	228.4	233.8	236.1	238.3
Federal government surplus or deficit (-) (N.I.A. basis)	-22.9	-49.2	-60.8	-59.3	-47.1	-58.4	-66.8	-66.4
High employment surplus or deficit (-)	3.4	6.1	5.6	15.2	38.5	30.5	30.1	38.5
State and local government surplus or deficit (-) (N.I.A. basis)	24.6	19.5	25.2	26.6	26.7	26.8	25.8	23.9
Excluding social insurance funds	-4.2	-10.4	-5.2	-4.4	-4.9	-5.4	-7.0	-9.5
Civilian labor force (millions)	104.2	104.7	105.1	105.5	105.8	106.1	106.5	106.8
Unemployment rate (percent)	6.1	7.5	7.6	7.6	7.8	8.0	8.2	8.3
Nonfarm payroll employment (millions)	91.1	90.5	90.1	90.5	90.6	90.7	90.8	90.9
Manufacturing	21.0	20.3	19.9	20.1	20.1	20.1	20.1	20.1
Industrial production (1967=100)	152.5	144.6	140.7	141.0	141.0	141.0	141.1	140.8
Capacity utilization: all mfg. (percent)	83.4	77.9	75.1	74.7	74.1	73.7	73.2	72.7
Materials (percent)	85.5	78.7	75.9	75.1	74.4	73.9	73.6	73.1
Housing starts, private (million units, A.R.)	1.26	1.05	1.35	1.25	1.20	1.15	1.15	1.15
New autos sales, (millions, A.R.)	10.65	7.68	8.79	8.90	9.00	9.20	9.20	9.20
Domestic models	7.87	5.53	6.51	6.55	6.60	6.70	6.80	6.80
Foreign models	2.77	2.14	2.28	2.35	2.40	2.50	2.40	2.40

^{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.

October 15, 1980

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

	1980				1981			
	Q1	Q2	Q3	Q4	Projection			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	1.2	-9.6	1.1	.9	.0	1.0	.5	.5
Final purchases	1.5	-10.2	3.3	.1	-.9	.2	.2	1.0
Private	.9	-12.8	4.7	-.1	-1.2	.1	.0	.8
Excluding net exports	-.8	-14.1	2.9	1.1	-1.1	-.1	-.3	.5
Personal consumption expenditures	.5	-10.6	4.8	1.0	.0	1.1	.5	.6
Goods	-1.8	-18.1	6.7	-.7	-1.5	1.1	.4	1.0
Services	3.2	-1.3	2.7	3.0	1.8	1.0	.6	.3
Gross private domestic investment	-8.3	-25.9	-20.6	8.5	.4	.3	-2.2	-4.1
Residential structures	-26.2	-61.8	4.7	27.0	-9.1	-8.4	-13.7	.1
Business fixed investment	1.7	-14.6	-9.1	-5.0	-5.6	-5.2	-1.1	.1
Gov't. purchases of goods and services	4.2	1.4	-2.4	.8	.2	.8	1.2	1.7
Federal	13.1	9.5	-3.8	3.4	1.5	2.0	2.0	2.0
State and local	-.7	-3.2	-1.5	-.8	-.5	.0	.8	1.5
Disposable personal income	.9	-6.0	3.7	.6	-3.1	2.8	1.6	-.5
<u>Current dollars</u>								
Gross national product	10.8	.1	10.7	12.0	10.4	10.3	8.9	9.4
Final purchases	11.0	-1.0	14.4	11.0	9.3	9.4	8.6	10.0
Private	10.4	-3.4	16.8	10.0	9.5	9.6	8.6	9.2
Excluding net exports	10.7	-5.6	12.2	11.5	9.1	9.4	8.7	9.6
Personal consumption expenditures	13.0	-.7	14.1	11.5	10.7	10.9	9.8	9.8
Goods	12.5	-9.9	14.6	10.2	9.5	11.1	9.8	10.1
Services	13.6	10.8	13.5	12.8	12.0	10.7	9.7	9.5
Gross private domestic investment	.5	-18.4	-18.3	19.8	9.5	8.9	5.7	4.6
Residential structures	-19.3	-57.8	14.7	39.0	.0	.8	-5.1	10.1
Business fixed investment	11.6	-6.3	.1	3.6	2.8	3.1	7.2	8.6
Gov't. purchases of goods and services	13.4	8.9	6.0	14.5	8.6	8.5	8.7	13.1
Federal	18.7	16.1	3.6	26.7	9.6	8.8	8.2	19.0
State and local	10.5	5.0	7.4	8.0	7.9	8.3	9.0	9.6
Disposable personal income	13.5	4.3	12.9	11.0	7.2	12.7	11.0	8.6
Personal income	10.9	4.6	12.6	11.8	8.0	9.1	11.0	9.6
Wage and salary disbursements	10.9	2.1	5.2	13.0	8.2	7.6	7.5	9.1
Corporate profits with IVA & C.C. Adj.	-3.1	-41.9	42.7	-4.7	-8.0	13.5	.2	.0
Corporate profits before tax	31.9	-61.7	65.5	-1.3	-5.4	9.7	4.0	3.8
Nonfarm payroll employment	2.5	-2.7	-1.8	1.8	.4	.5	.4	.4
Manufacturing	-.8	-11.7	-7.4	3.0	-.3	.6	.6	.5
Nonfarm business sector								
Output per hour	-1.1	-2.9	2.8	-2.9	-.8	.6	.0	.0
Compensation per hour	10.7	10.7	9.4	9.2	11.7	8.6	8.4	8.4
Unit labor costs	12.0	14.1	6.5	12.5	12.8	8.0	8.4	8.4
GNP implicit deflator ^{1/}	9.5	10.7	9.5	11.0	10.4	9.2	8.3	8.9
Gross domestic business product								
fixed-weighted price index ^{2/}	11.2	10.4	9.7	10.4	10.5	9.7	9.1	9.1
Excluding food and energy	8.8	8.7	9.6	8.6	8.8	8.3	8.0	7.9
Consumer price index (all urban)	17.2	13.8	7.0	11.1	13.4	11.9	9.8	9.5
Industrial production	.0	-19.2	-10.4	.8	.1	-.1	.2	-.8

^{1/} Excluding Federal pay increases, the rates of change are: 1980-Q1, 9.4 percent; 1980-Q4, 10.3 percent; 1981-Q1, 10.3 percent; 1981-Q4, 8.3 percent.

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

October 15, 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 (-)	-27.2	-10.6	-7.4	-8.3	-1.7	13.2	9.0	7.0
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)	85.0	86.4	87.2	88.2	89.1	89.7	90.2	90.6
Manufacturing	20.2	20.4	20.5	20.9	21.1	21.1	21.1	21.0
Industrial production (1967=100)	140.8	145.1	147.9	150.7	152.7	152.3	152.6	152.5
Capacity utilization: all mfg. (percent)	82.0	83.9	85.2	86.4	86.9	85.9	85.3	84.4
Materials (percent)	82.6	85.0	86.4	88.2	88.4	87.5	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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CONFIDENTIAL - FR
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	4.7	7.0	3.7	4.7	4.3	2.4	2.3	1.7
Manufacturing	5.4	3.5	2.6	6.3	4.6	.6	-.6	-1.7
Nonfarm business sector								
Output per hour	-.9	1.8	2.4	.7	-3.3	-3.9	-1.5	.8
Compensation per hour	11.4	7.3	8.5	8.7	10.2	8.1	8.5	9.5
Unit labor costs	12.4	5.4	5.9	7.9	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/	6.6	10.5	8.8	8.7	10.0	10.1	10.4	8.4
Excluding food and energy	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	5.4	-1.0	.8	-.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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CONFIDENTIAL - FR
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	2572.0	2823.6
Final purchases	1404.0	1539.6	1692.1	1877.6	2105.2	2350.6	2571.5	2816.9
Private	1101.3	1201.2	1330.8	1481.4	1669.6	1874.2	2037.5	2231.5
Excluding net exports	1095.3	1180.8	1322.8	1491.3	1679.9	1878.8	2033.9	2217.0
Personal consumption expenditures	889.6	979.1	1089.9	1210.0	1350.8	1509.8	1566.2	1839.0
Goods	498.3	541.5	601.3	660.1	730.9	809.9	875.5	957.0
Services	391.3	437.5	488.5	549.8	613.8	699.8	790.6	882.0
Gross private domestic investment	214.6	190.9	243.0	303.3	351.5	387.2	368.3	384.7
Residential construction	55.1	51.5	68.1	91.9	108.0	114.1	97.8	100.0
Business fixed investment	150.6	150.2	164.9	189.4	221.1	254.9	270.0	278.0
Change in business inventories	8.9	-10.7	10.0	21.9	22.3	18.2	.5	6.7
Nonfarm	10.8	-14.3	12.1	20.7	21.3	16.5	.6	6.7
Net exports of goods and services ^{1/}	6.0	20.4	8.0	-9.9	-10.3	-4.6	3.6	14.5
Exports	137.9	147.3	163.3	175.9	207.2	257.5	311.6	349.0
Imports	131.9	126.9	155.4	185.8	217.5	262.1	308.0	334.5
Gov't. purchases of goods and services	302.7	338.4	361.3	396.2	435.6	476.4	534.0	585.4
Federal ^{2/}	111.1	123.1	129.7	144.4	152.6	166.6	195.3	219.7
State and local	191.5	215.4	231.6	251.8	283.0	309.8	338.6	365.7
Gross national product in constant (1972) dollars	1217.8	1202.3	1273.0	1340.5	1399.2	1431.6	1420.3	1419.5
Personal income	1154.9	1255.5	1381.6	1531.6	1717.4	1924.2	2121.2	2327.8
Wage and salary disbursements	764.6	805.9	890.0	984.0	1103.3	1227.6	1327.4	1435.7
Disposable personal income	984.6	1086.7	1184.5	1305.1	1458.4	1624.3	1790.3	1969.7
Saving rate (percent)	7.3	7.7	5.8	5.0	4.9	4.5	4.4	4.1
Corporate profits with I.V.A. and C.C. Adj.	83.6	95.9	126.8	150.0	167.7	178.2	165.0	165.5
Corporate profits before tax	126.9	120.4	156.0	177.1	206.0	236.6	232.3	234.1
Federal government surplus or deficit (N.I.A. basis)	-10.7	-70.6	-53.6	-46.3	-27.7	-11.4	-48.1	-59.7
High employment surplus or deficit (-)	8.9	-21.5	-17.8	-22.1	-13.4	6.9	7.6	34.4
State and local government surplus or deficit (-) (N.I.A. basis)	7.6	6.2	17.9	26.8	27.4	24.6	24.0	25.8
Excluding social insurance funds	-2.9	-6.2	2.3	7.3	4.2	-1.9	-6.0	-6.7
Civilian labor force (millions)	91.0	92.6	94.8	97.4	100.4	102.9	104.9	106.3
Unemployment rate (percent)	5.6	8.5	7.7	7.0	6.0	5.8	7.2	8.1
Nonfarm payroll employment (millions)	78.3	77.0	79.4	82.5	86.7	89.9	90.5	90.7
Manufacturing	20.1	18.3	19.0	19.7	20.5	21.1	20.3	20.1
Industrial production (1967=100)	129.3	117.8	130.5	138.2	146.1	152.5	144.7	141.0
Capacity utilization: all manufacturing (percent)	83.8	72.9	79.5	81.9	84.4	85.6	77.8	73.4
Materials (percent)	87.1	73.4	81.1	82.7	85.6	87.4	78.8	73.7
Housing starts, private (million units, A.R.)	1.34	1.16	1.54	1.99	2.02	1.75	1.23	1.16
New auto sales, (millions, A.R.)	8.91	8.66	10.12	11.13	11.28	10.70	9.00	9.15
Domestic models	7.49	7.08	8.63	9.07	9.29	8.38	6.62	6.72
Foreign models	1.42	1.58	1.50	2.06	1.99	2.32	2.39	2.42

^{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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CONFIDENTIAL - FR
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	- .8	- .1
Final purchases	-.7	.2	4.5	4.8	4.4	2.7	.0	-.4
Private	-1.4	-.3	5.6	5.6	5.0	3.2	-.5	-.5
Excluding net exports	-2.3	-1.0	6.5	6.2	5.0	2.6	-1.6	-.7
Personal consumption expenditures	-.9	1.8	5.9	5.0	4.5	2.6	-.1	.4
Goods	-3.4	.7	6.9	5.1	4.1	1.3	-2.3	-.6
Services	2.3	3.2	4.8	4.9	5.1	4.3	2.3	1.5
Gross private domestic investment	-11.4	-22.3	21.6	15.4	7.1	.4	-12.7	-3.6
Residential structures	-24.6	-13.9	23.3	20.7	4.2	-5.7	-21.9	-7.0
Business fixed investment	-.3	-13.0	4.8	8.6	8.4	6.2	-2.8	-5.6
Gov't. purchases of goods and services	2.1	1.9	.2	2.0	1.8	.4	2.1	.4
Federal	-.8	.7	-.2	4.4	-2.0	.9	6.4	1.8
State and local	3.8	2.6	.5	.6	4.0	.2	-.4	-.5
Disposable personal income	-1.5	2.1	3.7	4.2	4.6	2.3	-.3	.1
<u>Current dollars</u>								
Gross national product	8.1	8.2	11.3	11.6	12.0	11.3	8.6	9.8
Final purchases	8.9	9.7	9.9	11.0	12.1	11.7	9.4	9.5
Private	8.1	9.1	10.8	11.3	12.7	12.3	8.7	9.5
Excluding net exports	8.2	7.8	12.0	12.7	12.6	11.8	8.3	9.0
Personal consumption expenditures	9.8	10.1	11.3	11.0	11.6	11.8	10.4	10.4
Goods	8.9	8.7	11.0	9.8	10.7	10.8	8.1	9.3
Services	11.1	11.8	11.7	12.5	12.7	12.9	13.0	11.6
Gross private domestic investment	-2.5	-11.0	27.3	24.8	15.9	10.2	-4.9	4.5
Residential structures	-16.7	-6.5	32.3	35.0	17.5	5.7	-14.3	2.2
Business fixed investment	10.8	-.3	9.8	14.9	16.7	15.2	5.9	3.0
Gov't. purchases of goods and services	12.3	11.8	6.8	9.7	9.9	9.4	12.1	9.6
Federal	8.7	10.7	5.4	11.3	5.7	9.2	17.2	12.5
State and local	14.5	12.5	7.5	8.7	12.4	9.5	9.3	8.0
Disposable personal income	9.2	10.4	9.0	10.2	11.7	11.4	10.2	10.0
Personal income	9.7	8.7	10.0	10.9	12.1	12.0	10.2	9.7
Wage and salary disbursements	9.0	5.4	10.4	10.6	12.1	11.3	8.1	8.2
Corporate profits with IVA & C.C. Adj.	-15.6	14.7	32.2	18.3	11.8	6.3	-7.4	.3
Corporate profits before tax	9.6	-5.1	29.6	13.5	16.3	14.9	-1.8	.8
Nonfarm payroll employment	2.0	-1.7	3.1	3.9	5.1	3.7	.7	.2
Manufacturing	-.4	-8.7	3.7	3.6	4.2	2.8	-3.6	-1.1
Nonfarm business sector								
Output per hour	-3.1	1.9	3.5	1.5	.5	-1.1	-.9	-.5
Compensation per hour	9.1	9.9	8.3	7.9	8.6	9.0	9.8	9.7
Unit labor costs	12.7	7.9	4.7	6.3	8.0	10.2	10.8	10.2
GNP implicit deflator	9.7	9.6	5.2	6.0	7.3	8.8	9.5	9.8
Gross domestic business product								
fixed-weighted price index 1/	10.4	9.4	5.3	6.2	7.6	9.5	10.1	10.0
Excluding food and energy	8.1	9.5	5.8	6.3	7.2	8.1	8.4	8.6
Consumer price index (all urban)	11.0	9.1	5.8	6.5	7.7	11.3	13.3	11.2
Industrial production	-.4	-8.9	10.8	5.9	5.7	4.4	-5.1	-2.6

1/ Uses expenditures in 1972 weights.

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

October 15, 1980

	Fiscal Year 1979	FY 1980 ^{a/}		FY 1981 ^{a/}		CY80 ^{e/} F.R. Board	CY81 ^{e/} F.R. Board	FRB Staff Estimates								
		Admin. 1/	F.R. Board	Admin. 2/	F.R. Board			Calendar quarters; unadjusted data				1981				
								1979		1980		1981		1981		
								IV*	I*	II*	III	IV	I	II	III	IV
Unified budget receipts	465.9	517.9	519.5	600.1	584.9	531.6	601.4	114.0	114.6	156.2	134.6	126.1	133.9	173.6	151.4	142.6
Unified budget outlays	493.7	578.8	578.5	636.5	640.9	593.6	658.6	138.6	141.8	148.1	149.9	153.8	157.8	163.0	166.3	171.5
Surplus(+)/deficit(-), unified budget	-27.7	-60.9	-59.0	-36.4	-56.0	-62.0	-57.2	-24.6	-27.2	8.2	-15.3	-27.7	-23.9	10.6	-14.9	-28.9
Surplus(+)/deficit(-), off-budget agencies ^{3/}	-12.4	-16.1	-14.1	-21.7	-21.8	-14.9	-22.4	-1.0	-3.8	-4.4	-4.8	-1.9	-6.0	-7.4	-6.5	-2.5
Combined deficit to be financed	-40.2	-77.0	-73.1	-58.1	-77.8	-76.9	-79.6	-25.6	-31.0	3.8	-20.1	-29.6	-29.9	3.2	-21.4	-31.4
Means of financing combined deficits:																
Net borrowing from public	33.7	69.7	70.5	52.4	69.5	77.6	77.9	18.9	19.1	5.4	27.1	26.0	18.9	2.8	21.8	34.4
Decrease in cash operating balance	-1.8	4.2	3.2	5.0	6.0	-0.1	0.0	8.3	7.7	-5.9	-6.9	5.0	8.0	-4.0	-3.0	-1.0
Other ^{4/}	8.3	3.1	-0.7	0.7	2.2	-0.3	1.5	-1.7	4.1	-3.1	0.0	-1.3	3.0	-2.0	2.5	-2.0
Cash operating balance, end of period	24.2	20.0	21.0	15.0	15.0	16.0	16.0	15.9	8.2	14.1	21.0	16.0	8.0	12.0	15.0	16.0
Memo: Sponsored agency borrowing ^{5/}	19.1	16.2	23.7	16.7	22.6	22.2	21.6	7.5	7.7	5.3	3.2	6.0	4.5	6.7	5.4	5.0
<u>NIA Budget</u>								Seasonally adjusted annual rates								
Receipts ^{6/}	483.7	532.1	532.0	605.0	590.8	547.4	605.0	324.7	338.4	329.9	351.3	369.9	395.2	393.0	608.2	623.5
Expenditures	493.6	572.9	573.2	647.1	649.4	595.4	664.5	540.4	561.3	579.1	612.0	629.2	642.3	651.3	674.7	689.6
Purchases (total)	162.4	188.4	188.2	211.3	213.8	195.4	219.7	178.4	186.2	193.3	195.0	206.9	211.7	216.2	220.5	230.3
Defense	105.9	121.6	121.8	143.1	144.0	127.7	148.7	114.6	119.6	124.1	129.0	138.2	142.1	146.0	149.6	156.9
Nondefense	56.5	66.8	66.4	68.2	69.8	67.6	71.0	63.8	66.6	69.2	66.0	68.7	69.6	70.2	70.9	73.4
All other expenditures	331.2	384.5	385.0	435.8	435.6	400.0	444.8	362.0	375.1	385.8	417.0	422.3	430.6	435.1	454.2	459.3
Surplus(+)/deficit(-) ^{6/}	-9.9	-40.8	-41.2	-42.1	-58.6	-48.0	-59.5	-15.7	-22.9	-49.2	-60.8	-59.3	-47.1	-58.3	-66.5	-66.1
High employment surplus(+)/deficit(-) (NIA basis)	3.0	n.a.	5.5	n.a.	28.6	7.6	34.4	7.0	3.4	6.1	5.6	15.2	38.5	30.5	30.1	38.5
		w--actual	a--estimated													

1. OMB Mid-Session Review of the 1981 Budget, July 1980 and BEA (NIPA) translations, July 1980.
2. OMB/BEA Mid-Session Review estimates adjusted by FRB staff for the effects of Administration's revitalization program. In its report on the Second Concurrent Resolution, the Senate Budget Committee recommended receipts of \$615.1 billion and outlays of \$633.0 billion.
3. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank, and Pension Benefit Guaranty Corporation.
4. Checks issued less checks paid, accrued items and other transactions.
5. FRB staff estimates include Federal Home Loan Banks, FNMA, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives marketable debt on an offerings basis.
6. BEA (NIPA) translations, July 1980. The fiscal year totals are based on unadjusted data and do not conform to the average of four seasonally adjusted quarters. The FRB staff estimates, therefore, have been adjusted in order to make the BEA and the staff estimates comparable.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. The narrow monetary aggregates and commercial bank credit continued to expand rapidly in September, and the new flow of funds to nonfinancial borrowers remained near the resurgent pace set earlier in the third quarter. In this environment, the money market tightened, as demands for required reserves pressed on available supplies and the discount rate was increased from 10 percent to 11 percent. In response, rates in short- and long-term markets moved up further in the latter part of September. Since early October, however, as participants apparently concluded that, in light of incoming monetary data, market conditions had tightened more than was warranted, rates have retraced part of these increases. On balance, short-term rates are up about 1/2 to 1-1/2 percentage points for the intermeeting period. Municipal and corporate yields show net gains of 20 basis points and 40 basis points, respectively, while long-term Treasury yields are down slightly. Over the same period, bank prime rates have risen 1-1/4 percentage points, conventional mortgage rates 5/8 percentage point.

M-1A and M-1B increased in September, at annual rates of 12-1/2 percent and 15-1/2 percent, respectively, in each case a markedly slower pace than in August. M-2 growth also dropped off in September, to an 8 percent annual rate. Savings deposit expansion at both commercial banks and thrift institutions weakened further, apparently the result of the rise in market rates over the summer. Also, money market mutual fund growth, after coming to a virtual standstill in August, turned negative in September; some growth occurred in early October. In contrast, small time deposit expansion, while remaining relatively moderate,

picked up as SSCs showed substantial continued growth and MMCs edged up for the first time in five months.

Commercial bank credit increased at nearly a 15 percent annual rate in September. Acquisitions of both Treasury and other securities slowed from the strong pace established earlier in the quarter, but growth in total loans picked up further, primarily reflecting a sharp advance in commercial and industrial loans.

Despite the strength in business loans at banks, total business borrowing in September appears to have slowed a bit. Commercial paper indebtedness continued to run off at a rapid pace, as firms apparently shifted their borrowing to commercial banks to take advantage of a narrowing in the spread between bank prime rates and commercial paper rates and of the increased willingness of large banks to lend at below prime rates. Also, public issues of bonds dropped off sharply, reflecting decisions to postpone or delay offerings in light of the runup in yields. However, new equities continued to be issued at the record pace of recent months, as stock prices remained high.

Borrowing by the household sector may have increased in September. Growth of real estate loans picked up slightly at commercial banks and possibly also at S&Ls, given the sharp buildup in outstanding commitments for conventional mortgages that occurred at these institutions in July and August. However, with rates on primary conventional mortgages advancing sharply further and discounts on FHA/VA loans remaining large—despite a recent increase in allowable ceiling rates on these loans—the volume of new commitments extended in September probably dropped off significantly. Total consumer installment borrowing also

appears likely to have increased in September as loans to individuals by large banks turned positive for the first time in six months. Consumer borrowing became progressively less weak during the third quarter, as lenders lowered finance rates and eased other lending terms.

Issuance of marketable debt by the U.S. Treasury in September was only slightly below the record pace established earlier in the third quarter. Borrowing by state and local governments increased, as a pick-up in public utility and general-purpose offerings more than offset sizable cancellations or postponements of housing revenue bonds.

Outlook. Although the public's cash balances expanded very sharply in the third quarter, the prospective rapid growth of nominal GNP suggests that transactions demands for money will continue to increase in the months ahead. The staff believes that credit market conditions will continue to be taut through the end of the year with interest rates remaining at current levels or edging higher.

Although consumer credit terms now seem to be tightening again, more normal patterns of credit use relative to spending appear to have reemerged, and installment credit is likely to rise during the current quarter. Household borrowings in the mortgage market may be sustained in the current quarter by closings associated with the higher level of home sales in the summer months. However, the continuing upward adjustment of mortgage lending rates should cause a significant slackening in new loan commitments in the near term.

Business borrowing in coming months may pick up a bit from the third quarter pace, reflecting an expected widening of the financing

gap, as spending on inventories and plant and equipment increases somewhat. Assuming bond yields remain around current levels, however, some firms may conclude that there is little advantage in delaying a restructuring of their balance sheets, in which case bond issuance could pick up somewhat.

State and local government borrowing will likely remain relatively strong in coming months, even though statutory ceilings on interest rates may continue to place constraints on issuance of housing revenue bonds. With a further large deficit in prospect, the Treasury will continue to raise an exceptionally large volume of funds through year-end.

International Developments

Summary. The dollar's trade-weighted average value has risen slightly over the interval since the last Greenbook; the dollar rose by about 2-1/2 percent against the German mark, by 1-3/4 percent against the French franc, and was about unchanged against sterling, but fell by 4-3/4 percent against the Japanese yen. Demand for the yen against other currencies was attributed mainly to capital inflows, including investment flows from Middle Eastern countries. At times during the period political events affected exchange markets -- hostilities between Iraq and Iran, the fall of the Italian Government and resignation of the Belgian Government -- but these effects were not significant. Stability of the dollar over the period was supported by a continuation of comparatively firm U.S. interest rates, with U.S. rates rising relative to foreign rates.

. U.S. intervention consisted of purchases of \$581 million equivalent of foreign currencies, primarily German marks.

Economic activity in major foreign countries declined in the second quarter, when real GNP fell in all countries except Japan. Monthly data for industrial production show continued weakness since June. Despite this slowdown, economic policy abroad remains firmly fixed on reducing inflation -- only in Japan has there been some limited movement toward an easing policy. The slowdown in activity

being achieved appears to be getting results as the CPI has continued to moderate in most of the larger countries, though some of the smaller countries have not been able to make much progress.

Large current-account deficits continue to be recorded by most of the industrial countries. In recent months trade balances have improved somewhat in Japan and France, but have worsened in Italy and Germany.

The U.S. trade deficit in July/August was only about \$8 billion at an annual rate, the lowest for a two-month period in several years, and a sharp reduction from the \$30 billion rate of the second quarter. Most of the change from the second quarter resulted from a drop in import volumes; oil imports were 20 percent lower at 6 million barrels per day, and there was a 7 percent decline in the volume of other imports. On the export side non-agricultural exports held steady despite the slowing of economic activity abroad. It is noteworthy that the volume of exports of machinery continued the upward trend that began last year.

The net outflow of funds from U.S. banking offices was sharply reduced in the third quarter from the hectic pace of the second quarter, reflecting the rebound of U.S. funding costs relative to costs abroad. However, there appears to have been some continued net outflow through September.

Data covering lending to foreigners by the head offices of U.S. banks and their foreign branches, combined, show a sizable pick-up in such lending in the first half of 1980 -- almost \$23 billion for the six-months compared with \$38 billion for all of 1979. Most

of the rise was registered in increased claims on the G-10 countries and Switzerland, primarily directed to non-bank borrowers in those countries. Outstanding banking claims on OPEC countries and Eastern Europe have been reduced somewhat, on balance, while among the non-OPEC developing countries there has been a step-up in the rate of lending to Mexico and Korea but a slowdown for a number of others.

Outlook. Although there have been some changes in details, the staff has not changed last month's estimate of almost a \$5 billion surplus for the U.S. current account in 1980. However, for next year the projected surplus has been raised from \$11 billion to about \$15 billion. Most of this change reflects experience over the past several months, which suggests that the effect of the sizable depreciation of the dollar in 1977-78 on the trade balance is working through with a longer lag than had been anticipated. No allowance can yet be made for the possible consequences of the Iraq-Iran conflict for oil supplies; so far there has been only slight upward pressure on prices.

Over the year ahead the staff continues to expect significant upward pressure on the weighted average foreign exchange value of the dollar. The main factors underlying this view are the projected strength of the U.S. trade and current account balances and the maintenance of relatively firm U.S. monetary conditions.

October 15, 1980

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

	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	3.6	14.5	-13.6	-2.2	18.4	11.8	14.0	15.5	15.1	13.3
EXPORTS OF G&S	257.5	311.6	349.0	308.1	307.0	313.7	317.7	332.7	344.7	355.1	363.4
IMPORTS OF G&S	262.1	308.0	334.5	321.7	309.2	295.3	305.9	318.7	329.2	340.0	350.1
CONSTANT 72 \$, NET	17.6	29.2	30.6	25.0	28.4	33.4	30.1	29.7	30.2	30.9	31.7
EXPORTS OF G&S	119.9	127.2	127.1	131.7	128.3	125.5	123.1	124.4	126.1	128.1	129.9
IMPORTS OF G&S	102.3	97.9	96.5	106.7	99.9	92.0	93.0	94.7	96.0	97.2	98.2
TERMS OF TRADE (1972=100) 1/	83.8	77.9	79.2	77.6	77.4	77.9	78.5	79.5	79.7	79.3	78.5
2. U.S. MERCHANDISE TRADE BALANCE 2/											
EXPORTS (EXCL. MILITARY)	182.1	224.2	251.0	218.8	218.8	228.3	231.0	240.3	248.6	255.3	260.1
AGRICULTURAL	35.4	41.8	48.0	41.5	38.9	43.8	43.1	46.5	48.2	48.9	48.3
NONAGRICULTURAL	146.6	182.4	203.1	177.3	179.9	184.5	187.9	193.8	200.3	206.4	211.8
IMPORTS	211.5	249.6	268.2	262.2	249.1	239.4	247.8	256.4	264.2	272.3	279.8
PETROLEUM AND PRODUCTS	60.0	82.5	97.9	86.4	84.0	73.6	85.8	92.4	96.0	99.4	103.8
NONPETROLEUM	151.5	167.2	170.3	175.8	165.1	165.8	162.0	164.0	168.1	172.9	176.0
3. U.S. CURRENT ACCOUNT BALANCE											
OF WHICH: NET INVESTMENT INCOME	-0.8	5.0	15.4	-10.4	-9.7	24.7	15.5	15.6	17.1	16.0	12.8
	32.5	35.7	37.5	40.4	25.4	39.7	37.4	37.1	37.3	37.5	37.9
4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/											
REAL GNP, % CHANGE, ANNUAL RATES	3.7	1.8	1.0	3.5	-2.6	0.1	0.5	1.3	1.8	2.3	2.7
CONSUMER PRICES, 4/, % CHANGE, ANNUAL RATES	7.8	11.5	8.4	14.5	12.6	8.1	8.6	8.6	7.9	7.2	7.2

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.